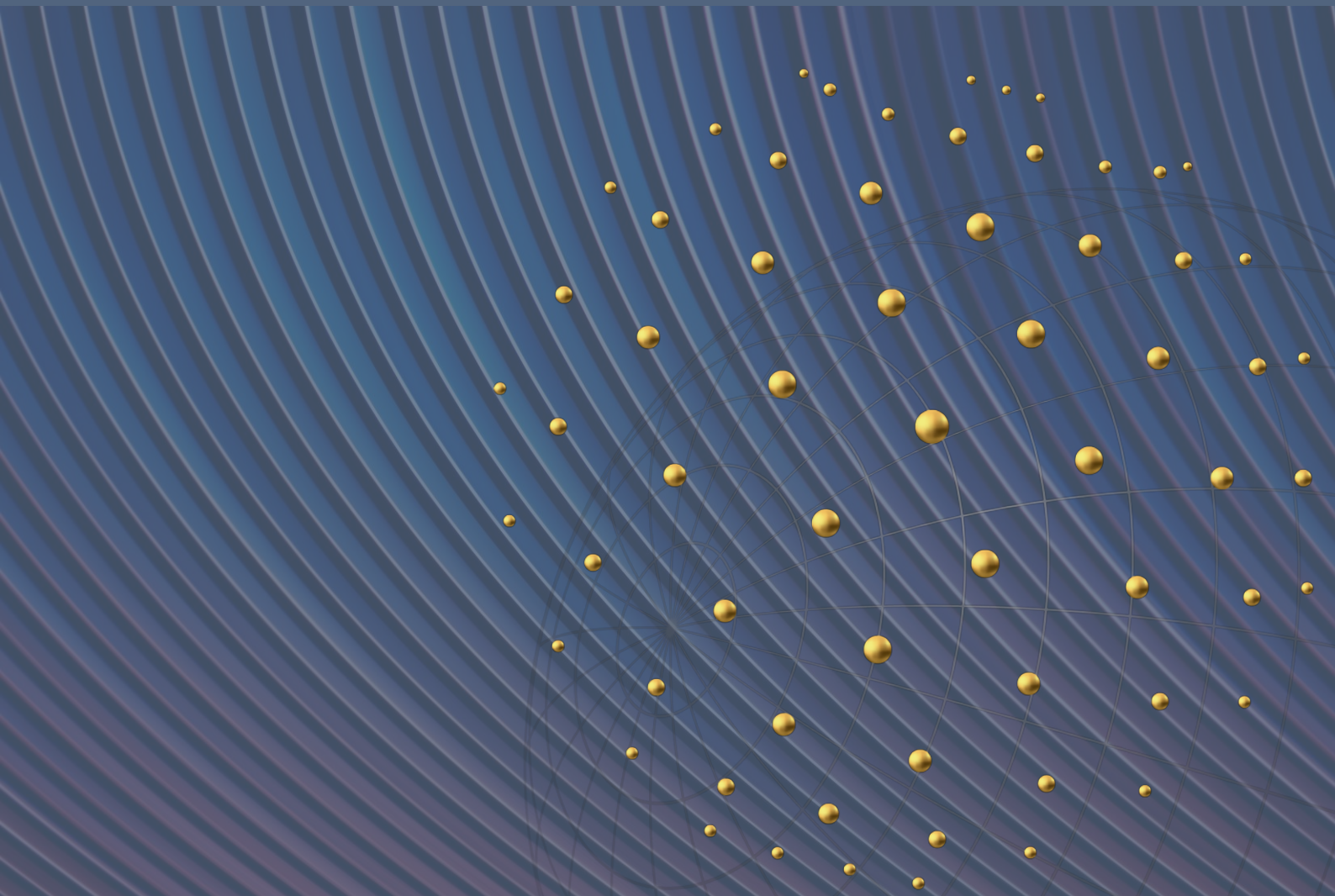
FINANCIAL SERVICES
INDUSTRY GROUP

BANK DEREGULATION PRIMER

Tracking US-led bank deregulation under the Trump administration

2nd EDITION – May 2026



ALVAREZ & MARSAL
LEADERSHIP. ACTION. RESULTS.℠

Table of Contents

01 Executive Summary

02 US Tracker

03 UK Tracker

04 EU Tracker

05 CH Tracker

06 Global Level Playing Field

07 Impact on Bank Competitiveness

08 Conclusions

Appendixes

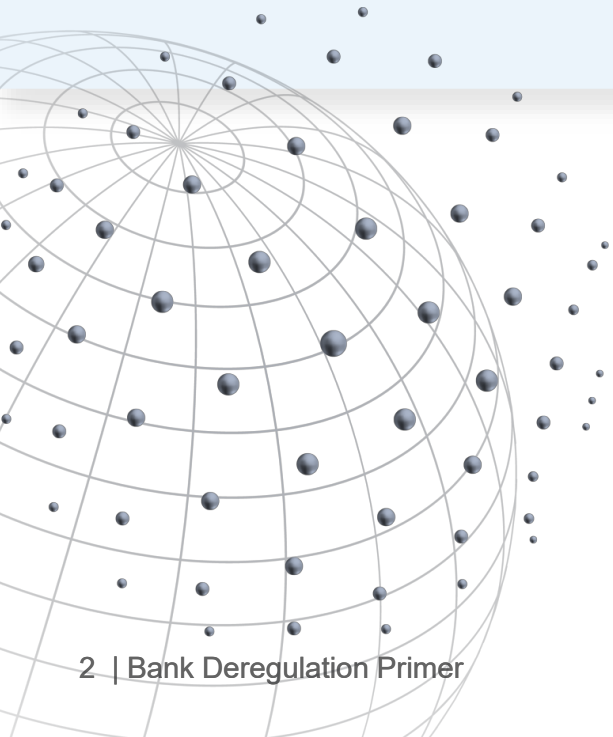
1. Differences in capital treatment between US and European Banks
2. How A&M can help
3. Acronyms

ALVAREZ & MARSAL
LEADERSHIP. ACTION. RESULTS.℠

Alvarez & Marsal (A&M) is pleased to publish the second edition of our report, *Bank Deregulation Primer*. In October 2025, we published our first edition focused on capital deregulation proposals for the top 19 global banks and their pro forma impact.[1] In this second edition, we provide an update on the regulatory proposals announced since October 2025. We also refresh impact estimates, assess implications for a level playing field (including a methodology to assess deregulation potential vs. US), and review evidence of capital deployment from recent bank earnings.

From our work in this space over the last six months, we have learned that:

- Regulators and market participants are increasingly focused on understanding the impact of deregulation as new initiatives to simplify and modernize capital frameworks take shape.
- Capital reductions provided to US banks, and to a lesser extent UK banks, are already shifting global banking competitive dynamics.
- US banks have begun deploying the additional capital headroom, as evidenced by increased organic asset growth, M&A activity, and capital distributions. Stock valuations have risen in parallel.



Important Note:

Unless otherwise stated, all figures and impact assessments in this document are based on Alvarez & Marsal's proprietary financial models, our interpretation of regulatory rules/proposals, and analysis of publicly available data as of May 2026. This report focuses on the capital and balance-sheet impact of regulatory change on individual banks; it does not address broader macroeconomic effects. Forward-looking estimates reflect assumptions and judgments as of the date of publication and may change as new information becomes available. This document is for informational purposes only and does not constitute investment advice, a recommendation, or an offer to buy or sell any security.

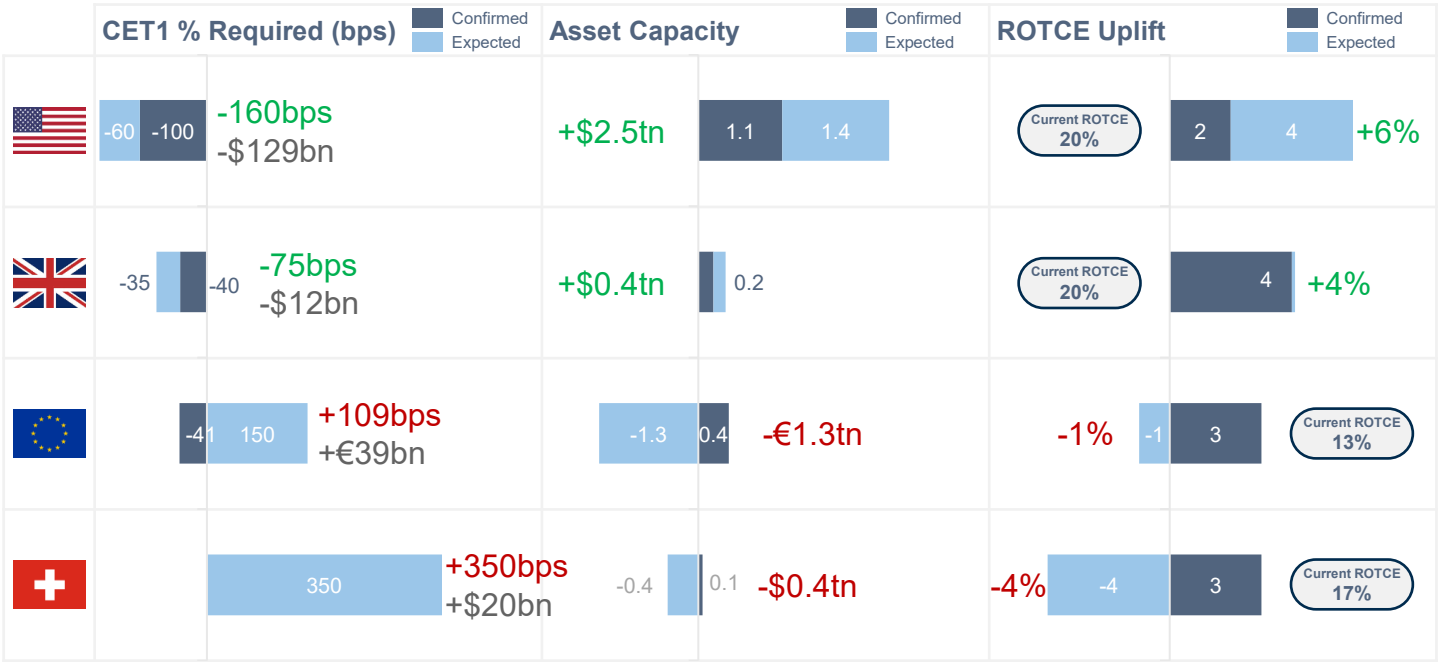
[1] https://www.alvarezandmarsal.com/thought-leadership/bank-deregulation-primer-2025

1 Executive Summary

What we said vs. where we are

In our first edition of the *Bank Deregulation Primer,* we made some forecasts on the size and impact of bank deregulation initiatives.

- We said that **US banks** would obtain a total CET1 release of -168bps, unlocking asset capacity for lending and capital markets of $2.6 trillion and driving ROTCE uplift of 6% by year-end 2027. Of the total CET1 release, -100bps was granted in October 2025 through the stress capital buffer reduction. The latest G-SIB surcharge, Basel III Endgame, and stress test transparency proposals will add another -60bps for a total CET1 release of -160bps or new asset capacity of $2.5 trillion. The latest Q1 2026 earnings show US banks are deploying their excess capital fast. They have deployed 68bps of the 100bps granted and increased their total assets by $1.1 trillion in the last two quarters, 45% of the unlocked asset capacity. During that period, the observed ROTCE uplift has been 2%, with five of the eight US G-SIBs reporting ROTCE above 20% in Q1 2026.
- We said that **UK** regulators were expected to follow the US with a CET1 release of -102bps. After the Bank of England's comprehensive capital review announced in December 2025, we now size the capital release at 75bps, equivalent to around $0.4 trillion of additional asset capacity.
- Although less than anticipated, UK banks are expected to benefit from leverage reform and buffer reduction proposals to be proposed in the July 2026 financial stability report. UK banks have deployed 44bps of CET1 and increased their total assets by $0.2 trillion in the last two quarters.
- In the **EU**, the current talk continues to be regulatory simplification but not capital reduction. Any proposed changes, particularly coming from ongoing European Commission's review of bank competitiveness are expected to significantly lag those of US and UK banks. Implementation of CRR3 drives +109bps CET1 higher requirements and reduced asset capacity of €1.3 trillion. Q1 2026 earnings show CET1 build of +20bps. We estimate deregulation potential vs US at +190bps.
- **Switzerland** plans to materially increase capital requirements for UBS (the only Swiss G-SIB), raising minimum CET1 by 350bps. We initially sized the impact at 769bps. However, the latest ordinance for DTA, software and PVA capital deductions demonstrates compromise from regulators relative to initial proposals. We also expect compromise in the foreign subsidiary deduction proposal, with impact estimated by UBS at $20 billion, and pending of parliament approval.



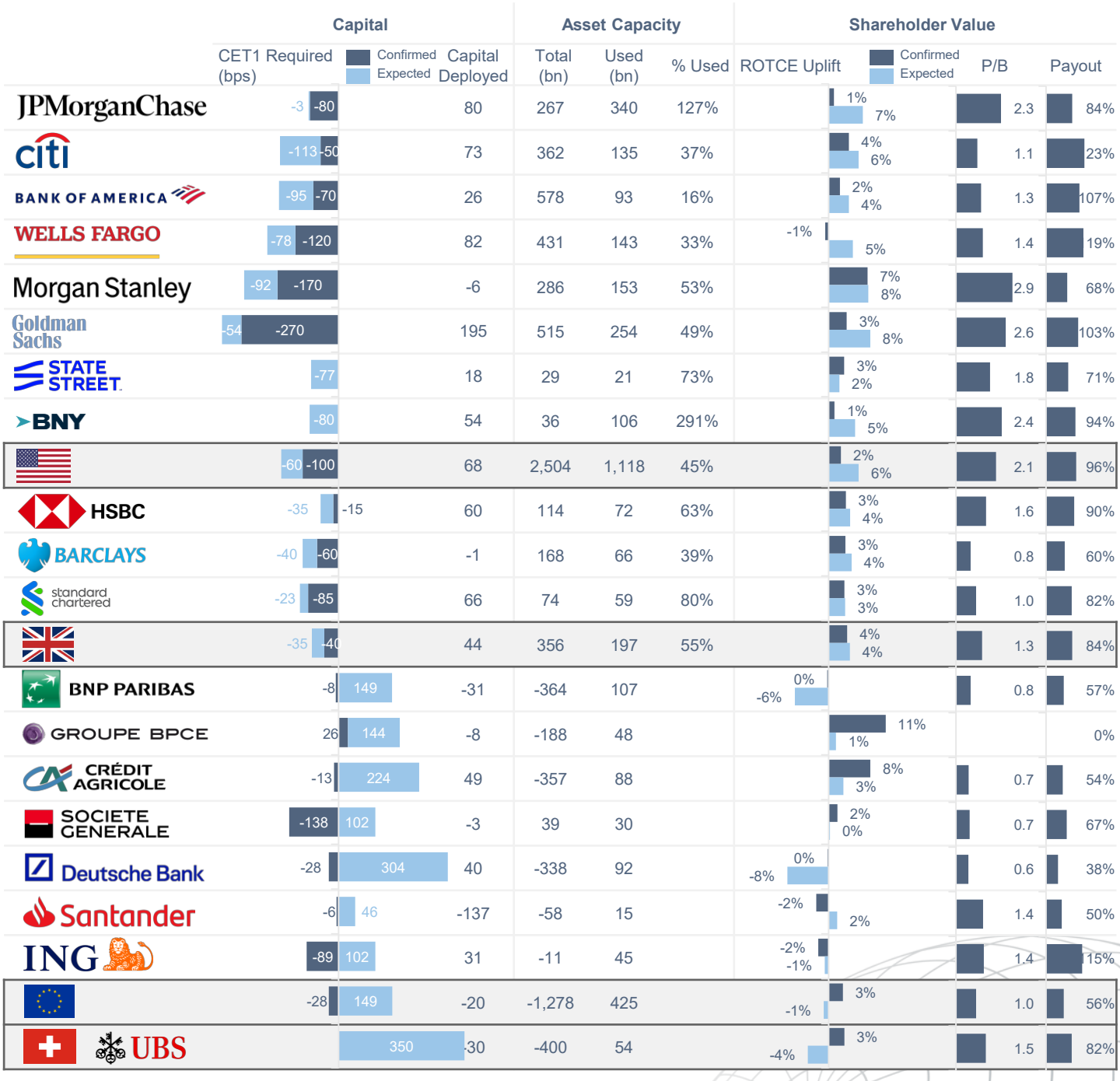
Confirmed: Observed in Q3 25 and Q1 26 | Expected: Additional Impact estimated beyond Q1 26

ALVAREZ & MARSAL
LEADERSHIP. ACTION. RESULTS.℠

1 Executive Summary

Bank Deregulation Scorecard

- US and UK banks are already benefiting from deregulation. Since October 2025, US banks have deployed 68bps of CET1 resulting in capital distribution of 96% of their earnings, asset growth of $1.1 trillion, ROTCE improvement of 2% and price to book of 2.1 times. UK banks have also deployed 44bps of CET1 with total payout of 84%, ROTCE improvement of 4% and asset growth of $0.2 trillion.
- On the other hand, EU and Swiss G-SIBs are impacted by higher capital requirements. During the last two quarters, CET1 build has amounted 20bps and 30bps, respectively.



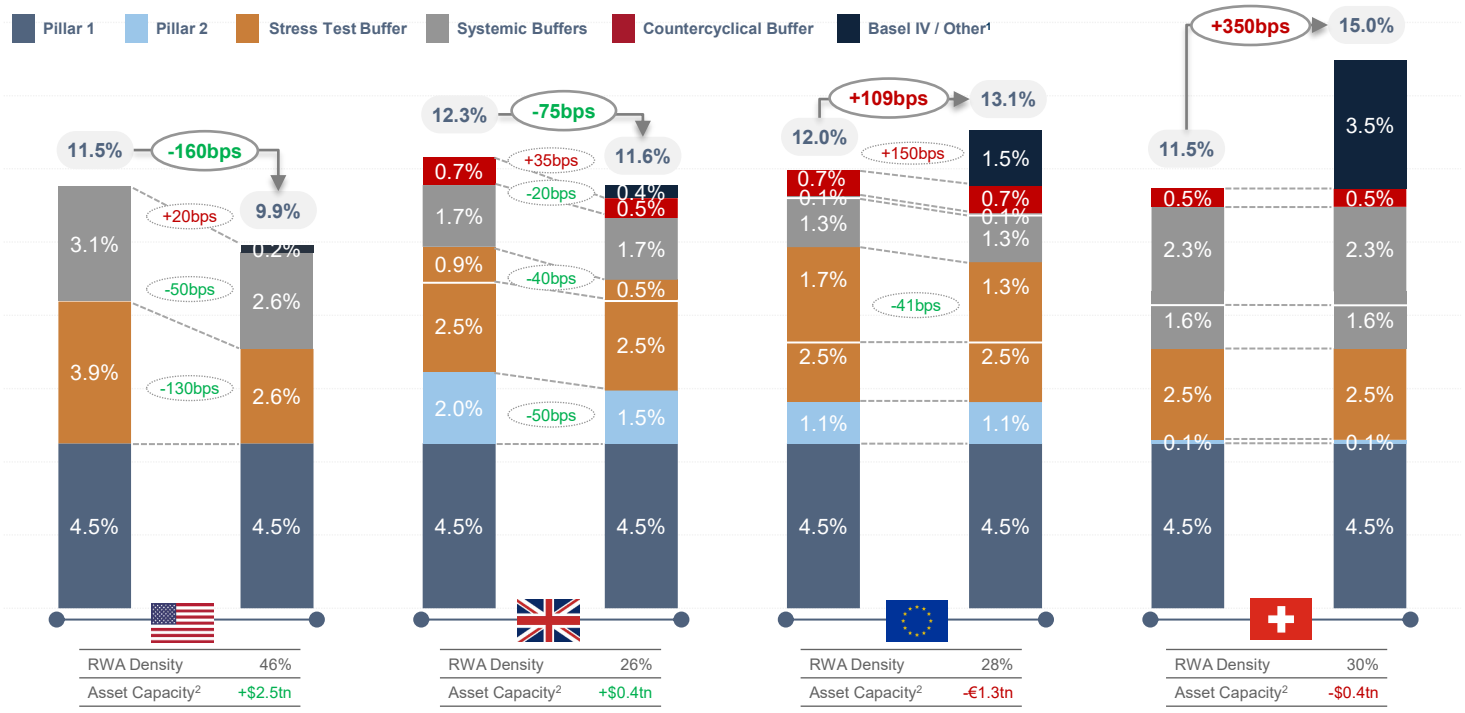
Confirmed: Observed in Q3 25 and Q1 26 | Expected: Additional Impact estimated beyond Q1 26 | Capital deployed: CET1 reduction in last 2 quarters
Source: A&M analysis, Reuters and G-SIB earnings reports.

ALVAREZ & MARSAL
LEADERSHIP. ACTION. RESULTS.

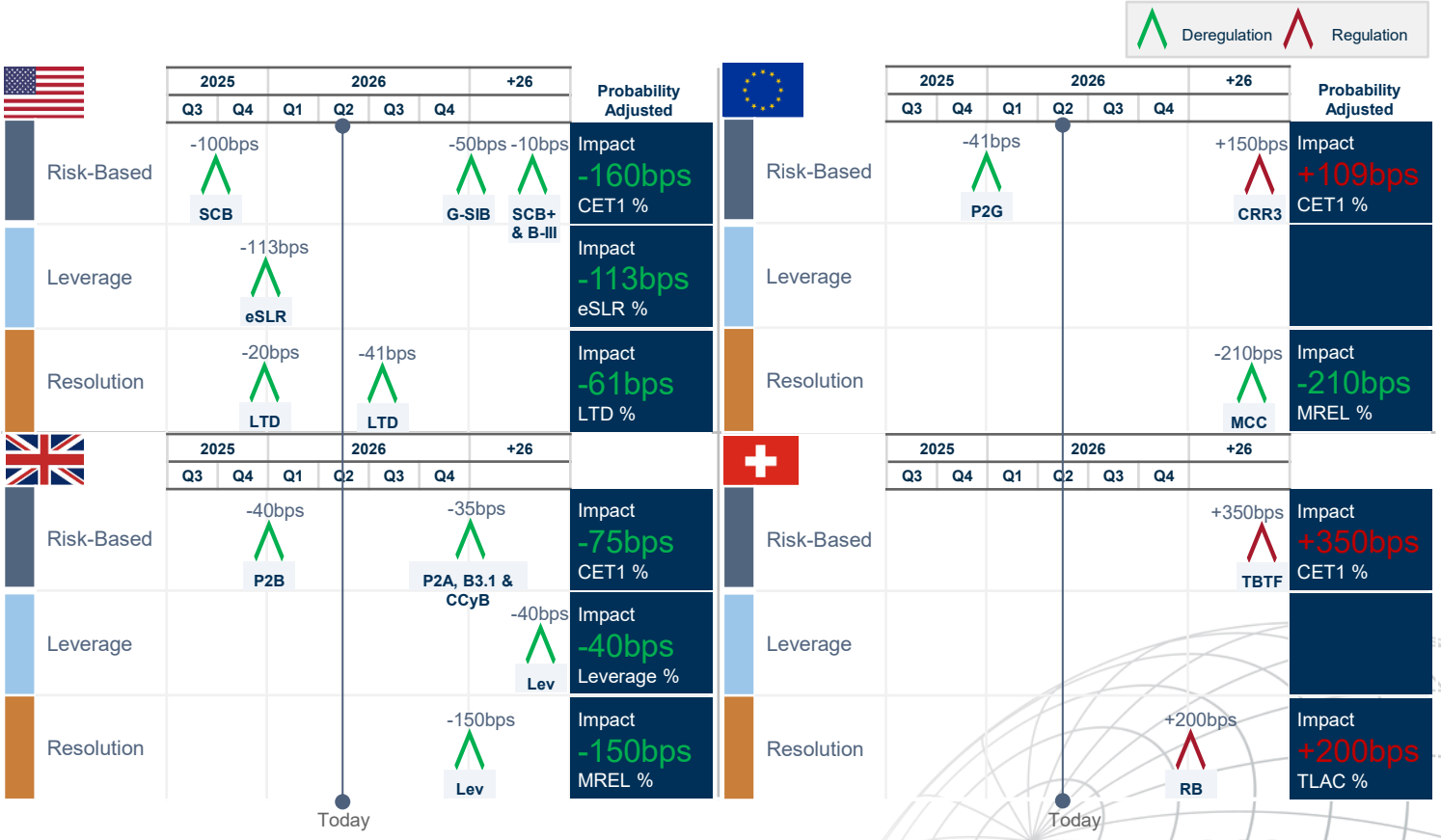
1 Executive Summary

Deregulation Drivers – How capital requirements are diverging across the globe

CET1 Requirement – 2025 vs Pro forma Post-deregulation



[1] Other corresponds to Swiss Proposal to deduct 100% of foreign equity participations. UBS impact of 400bps subject to parliament approval. +80bps capital deduction tied to other capital deductions effective in January 2027
[2] Asset capacity is calculated as additional RWA capacity coming from deregulation translated into asset lending capacity using current RWA density levels. It does not include use of management buffers.



ALVAREZ & MARSAL
LEADERSHIP. ACTION. RESULTS.

1 Executive Summary

Deregulation Drivers – How capital requirements are diverging across the globe

Capital requirements are diverging across the four jurisdictions: US and UK banks face significant CET1 releases (−160bps and −75bps respectively). Requirements in the EU and Switzerland are moving in the opposite direction (+109bps and +350bps respectively).

US

- Total CET1 release of -160bps is expected, of which -100bps has already been provided via reduction of the stress capital buffer as of October 2025.
- Reform proposals for G-SIB buffer and Basel III Endgame were published in March 2025. New calibration for G-SIB buffer is expected to reduce CET1 requirements by -50bps by January 2027. Basel III Endgame proposal is expected to add +20bps CET1 requirements with credit risk RWA reductions being offset by operational risk RWA increases, and implementation expected to come during 2027.
- Stress test transparency proposals are expected to further reduce CET1 by -30bps due to overlaps between stress tests and Pillar 1.
- In addition, leverage reform announced in 2025 has provided release of leverage by -113bps.
- Tone continues to be highly constructive towards deregulation with liquidity reform next expected to reduce liquidity requirements.

UK

- Total CET1 release of -75 bps is expected, of which -40bps has already been provided via reduction of Pillar 2B as a result of improved stress test results.
- As part of comprehensive capital review completed in December 2025, Bank of England reduced CET1 benchmark by -100bps including reduction of -50bps in Pillar 2A. Basel 3.1 implementation in January 2027 is expected to increase operational risk RWA by +50bps. FRTB implementation is expected in January 2028 with output floor to be phased in by 2030.
- CCyB requirements for UK banks are gold-plated at 2%. Reform did not come in 2025 but is expected in the upcoming buffer review.
- Leverage reform is also expected to eliminate leverage as a binding constraint.

EU

- Total CET1 is expected to increase by +109bps driven by CRR3 implementation impact. CRR3 impact of +150bps driven by the output floor is offset by -41bps P2G reduction gained through improved 2025 stress test results.
- ECB simplification proposals have failed so far to create actionable capital reduction measures.
- Responses to the European Commission's Bank Competitiveness consultation confirm divided views between regulators (capital neutral simplification) and industry (capital reducing).
- During the last 2 quarters, capital requirements increased for EU G-SIBs by +14bps due to Pillar 2R, SyRB and CCyB increases.
- Some reduction of MREL requirements via buffer reductions is expected due to resolvability improvements and combination of resolution tools.

Switzerland

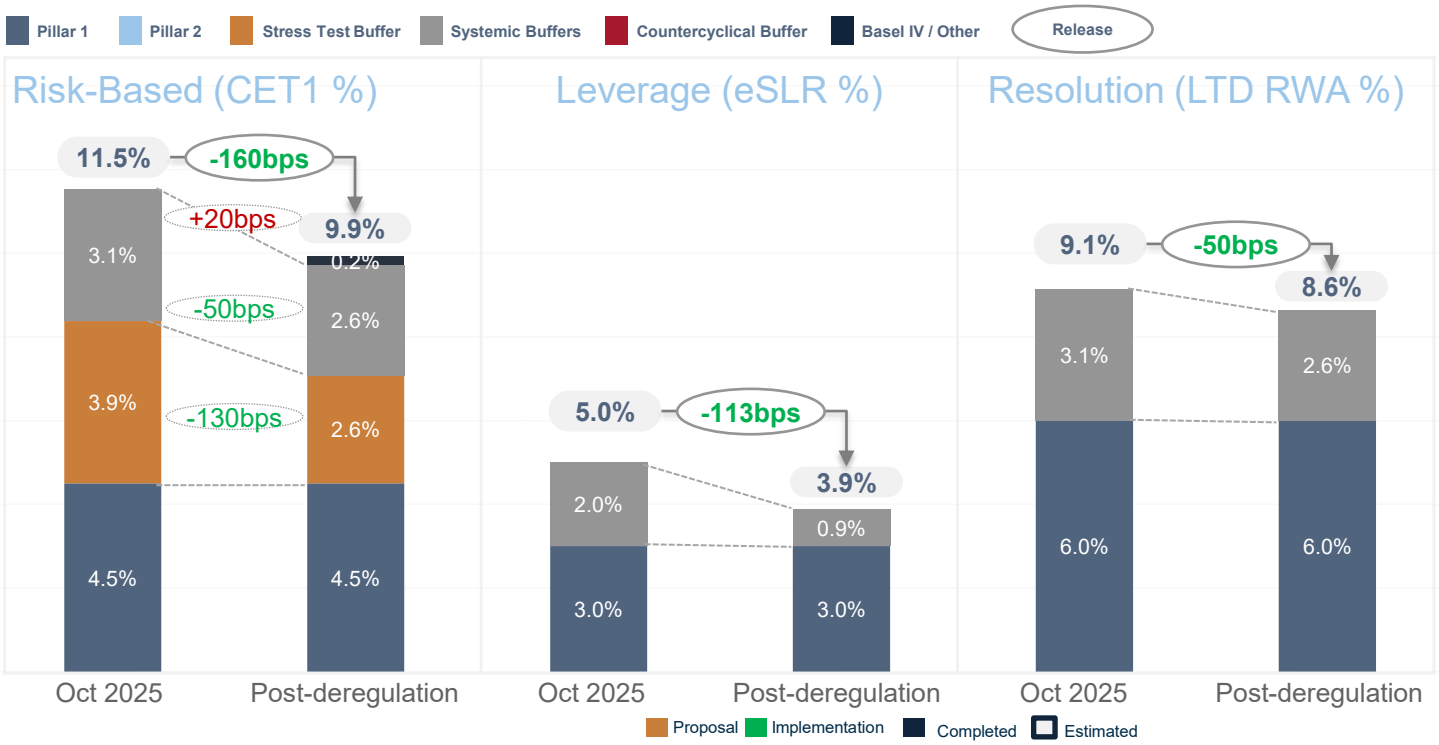
- Total CET1 is expected to increase by +350bps through the finalization of the too-big-to-fail capital proposals issued in April 2026.
- The largest impact comes from the full deduction of foreign participations, which UBS estimates would require approximately $20 billion in additional CET1, phased in over seven years. This new law requires the parliament's approval so implementation will take some time and we expect partial compromise from regulators.
- In April 2026, the ordinance for DTA, software and PVA capital deductions was also issued, reducing impact from +210bps to +83bps effective in January 2027 (two-year software transition).

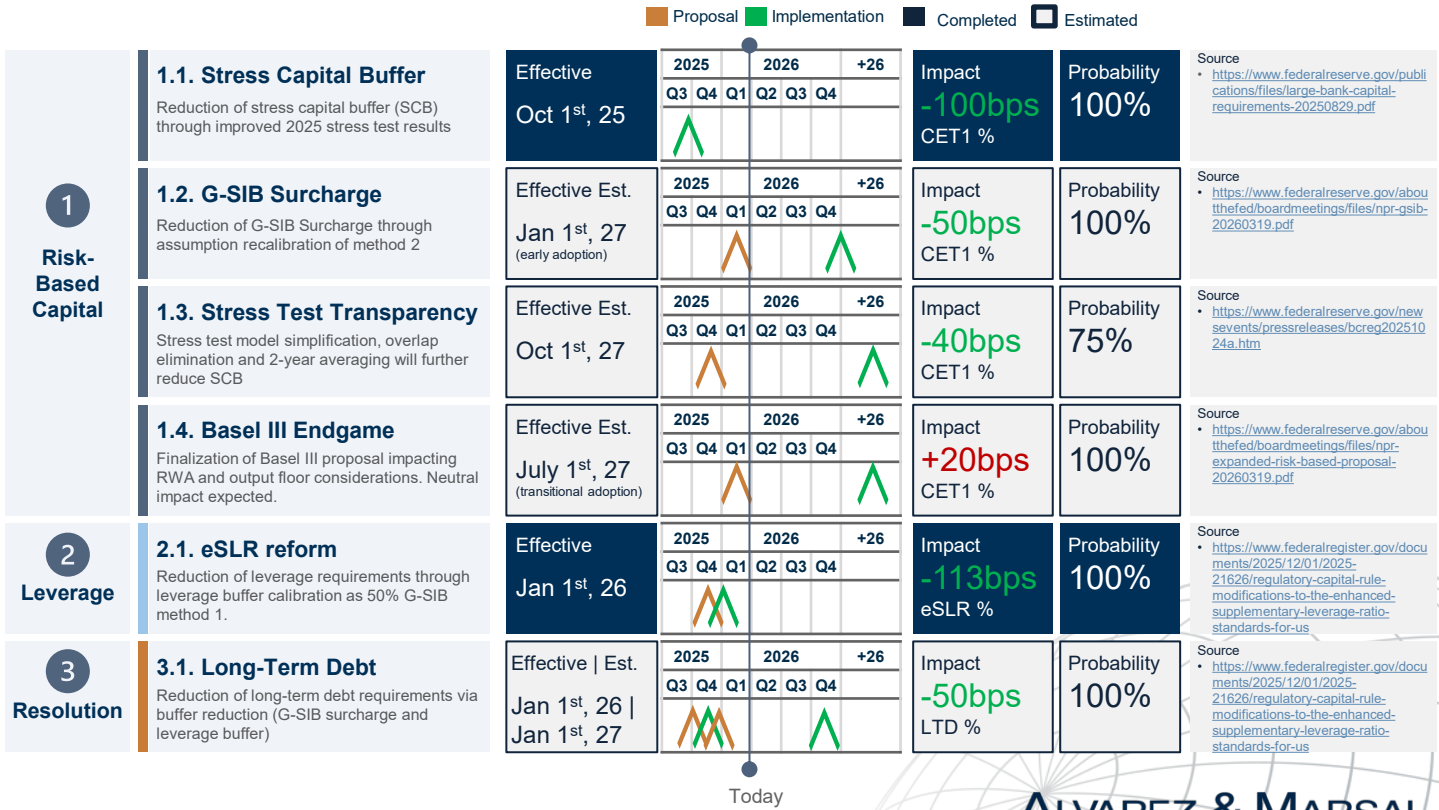
ALVAREZ & MARSAL
LEADERSHIP. ACTION. RESULTS.

2 US Tracker

Highlights of Requirement Changes

US regulators have moved decisively in the direction of capital release for G-SIBs over the past year. The changes in the stress test capital buffer (SCB) and leverage rules have already provided a release of -100bps and -113bps in risk-based and leverage requirements, respectively. Further changes during 2027 in stress test transparency, G-SIB surcharges and Basel III Endgame will result in an additional release of -60bps for risk-based and -50bps for long-term debt requirements.





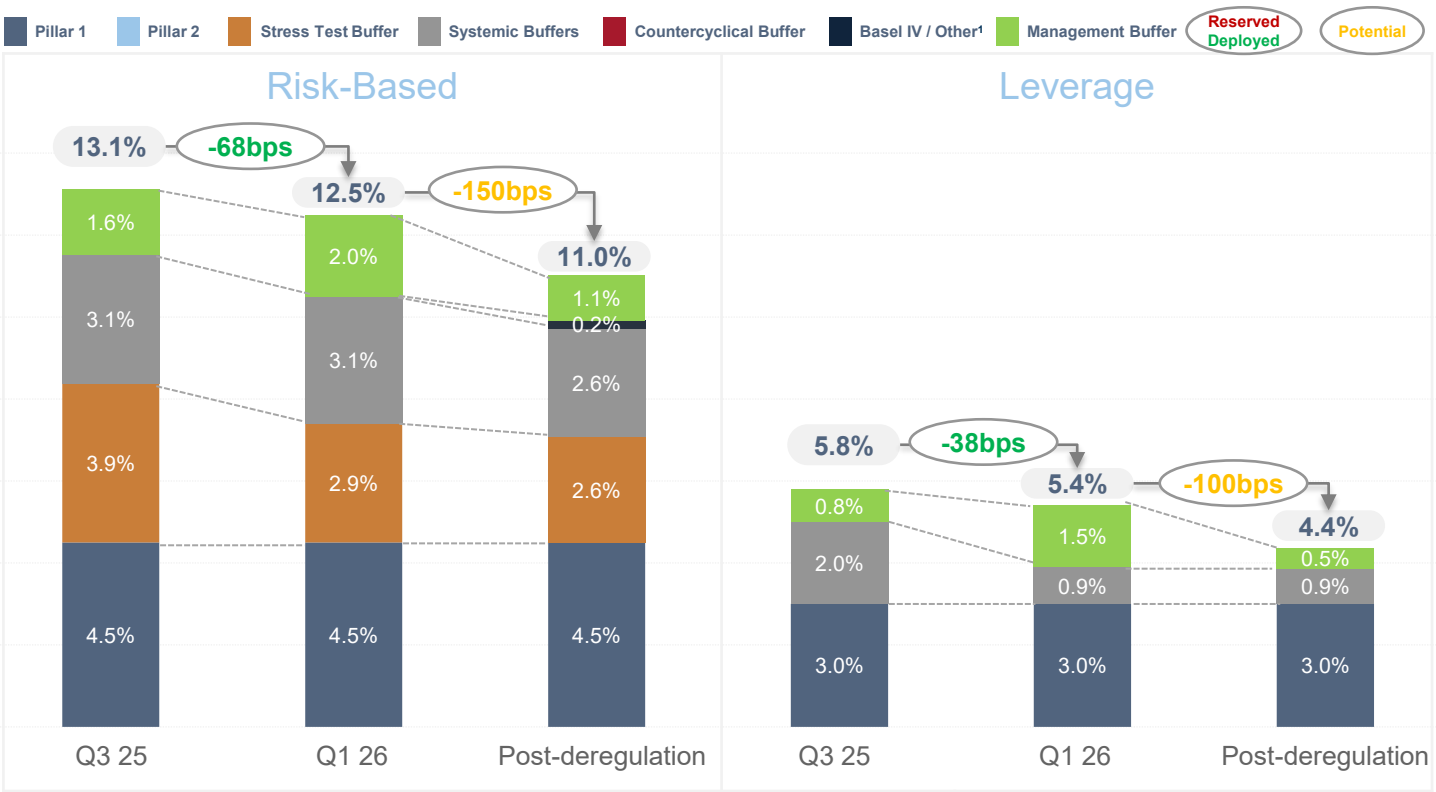
1 Risk-Based Capital	**1.1. Stress Capital Buffer** Reduction of stress capital buffer (SCB) through improved 2025 stress test results	Effective Oct 1st, 25	Impact -100bps CET1 %	Probability 100%	Source • https://www.federalreserve.gov/publications/files/large-bank-capital-requirements-20250829.pdf
	1.2. G-SIB Surcharge Reduction of G-SIB Surcharge through assumption recalibration of method 2	Effective Est. Jan 1st, 27 (early adoption)	Impact -50bps CET1 %	Probability 100%	Source • https://www.federalreserve.gov/aboutthefed/boardmeetings/files/npr-gsib-20260319.pdf
	1.3. Stress Test Transparency Stress test model simplification, overlap elimination and 2-year averaging will further reduce SCB	Effective Est. Oct 1st, 27	Impact -40bps CET1 %	Probability 75%	Source • https://www.federalreserve.gov/newsevents/pressreleases/bcreg20251024a.htm
	1.4. Basel III Endgame Finalization of Basel III proposal impacting RWA and output floor considerations. Neutral impact expected.	Effective Est. July 1st, 27 (transitional adoption)	Impact +20bps CET1 %	Probability 100%	Source • https://www.federalreserve.gov/aboutthefed/boardmeetings/files/npr-expanded-risk-based-proposal-20260319.pdf
2 Leverage	**2.1. eSLR reform** Reduction of leverage requirements through leverage buffer calibration as 50% G-SIB method 1.	Effective Jan 1st, 26	Impact -113bps eSLR %	Probability 100%	Source • https://www.federalregister.gov/documents/2025/12/01/2025-21626/regulatory-capital-rule-modifications-to-the-enhanced-supplementary-leverage-ratio-standards-for-us
3 Resolution	**3.1. Long-Term Debt** Reduction of long-term debt requirements via buffer reduction (G-SIB surcharge and leverage buffer)	Effective | Est. Jan 1st, 26 | Jan 1st, 27	Impact -50bps LTD %	Probability 100%	Source • https://www.federalregister.gov/documents/2025/12/01/2025-21626/regulatory-capital-rule-modifications-to-the-enhanced-supplementary-leverage-ratio-standards-for-us

ALVAREZ & MARSAL
LEADERSHIP. ACTION. RESULTS.

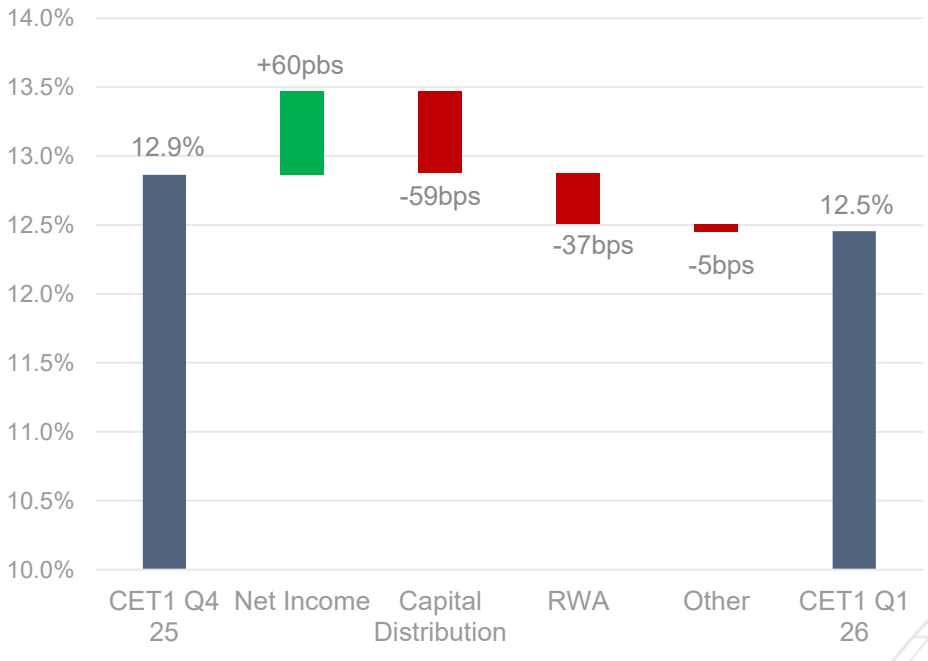
2 US Tracker

Earnings Evidence

As reported in Q1 26 earnings releases, US banks have deployed 68bps of the 100bps CET1 release and 38bps of the 113bps leverage release since Q3 25. In Q1 26, US banks distributed 100% of their earnings through dividends and buybacks and yet still deployed another 41bps towards asset growth, with total assets growing 7% in the quarter. Further potential for deployment of 150bps and 100bps exists for risk-based and leverage requirements, respectively.



Capital Deployment Evidence Q126



Asset Growth Evidence

	Q1 26	2025
Trading Assets	+15%	+20%
Loans	+2%	+10%
Total Assets	+7%	+10%
RWA	+3%	+8%

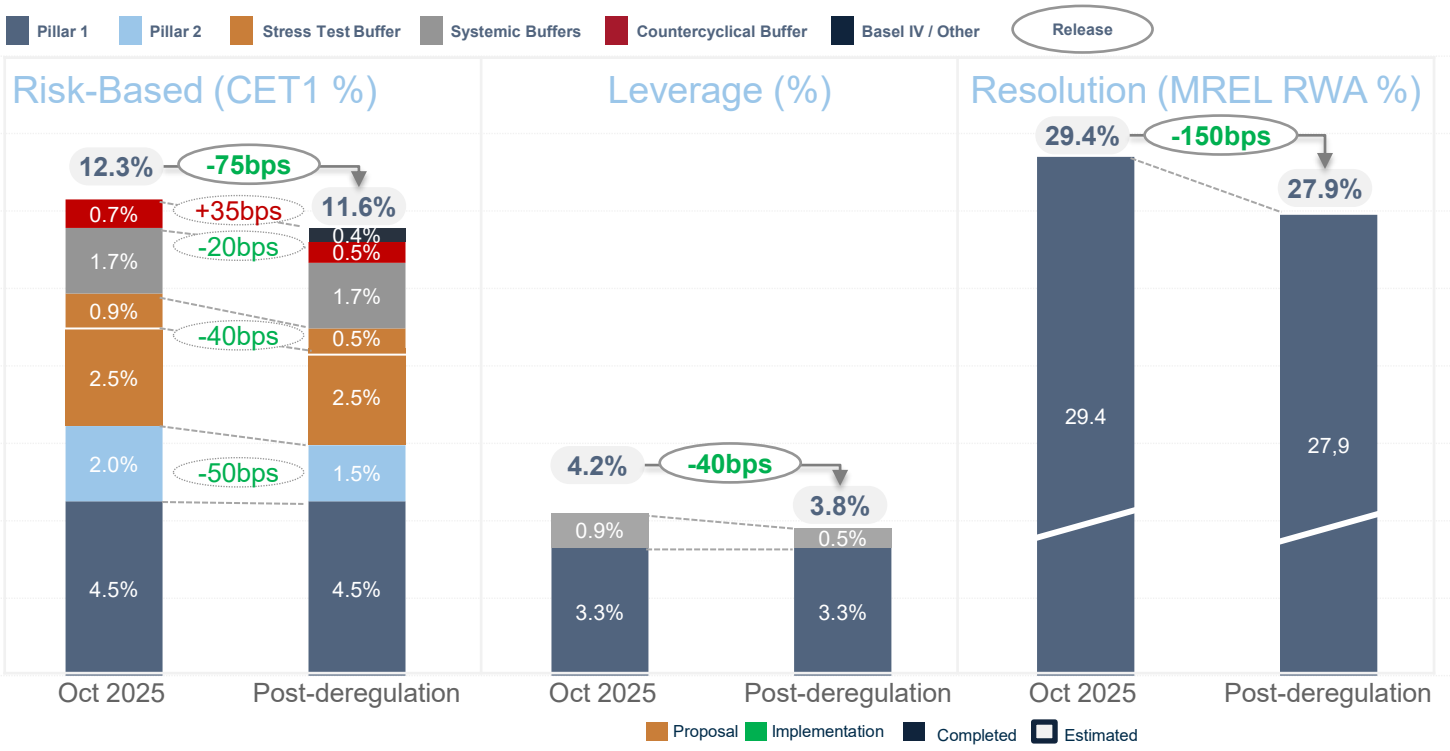
Source: A&M analysis and G-SIB earnings reports.

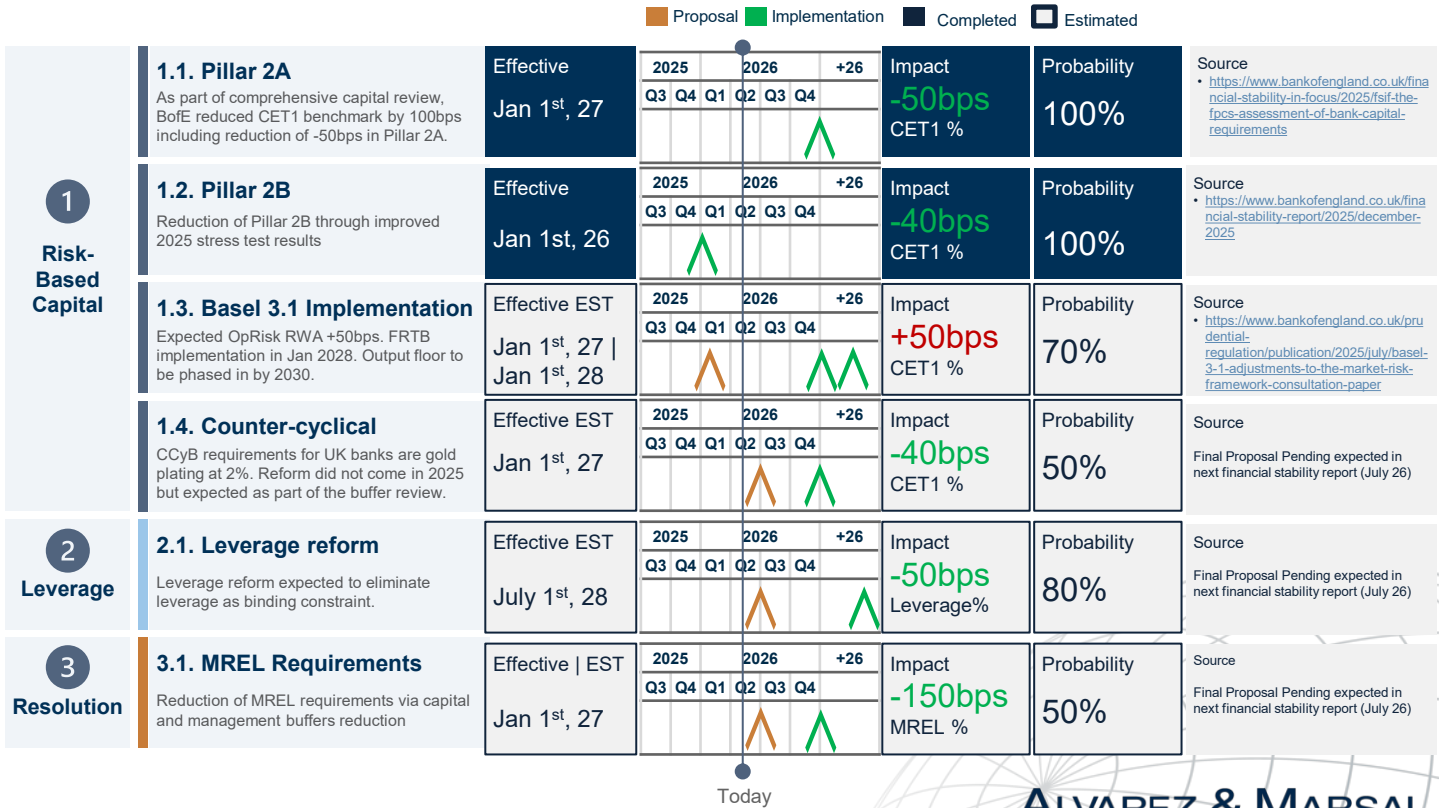
ALVAREZ & MARSAL
LEADERSHIP. ACTION. RESULTS.

3 UK Tracker

Highlights of Requirement Changes

UK regulators are following US deregulation wave at a lower intensity and pace. Changes in stress test requirements have already provided a release of -40bps. Further reduction in Pillar 2A of -50bps will offset Basel 3.1 implementation impact of +35bps. Countercyclical buffer reduction is also expected to yield a -20bps release. Total CET1 impact from deregulation is estimated at -75bps. Finally, leverage reform is expected to reduce leverage requirements by -40bps.





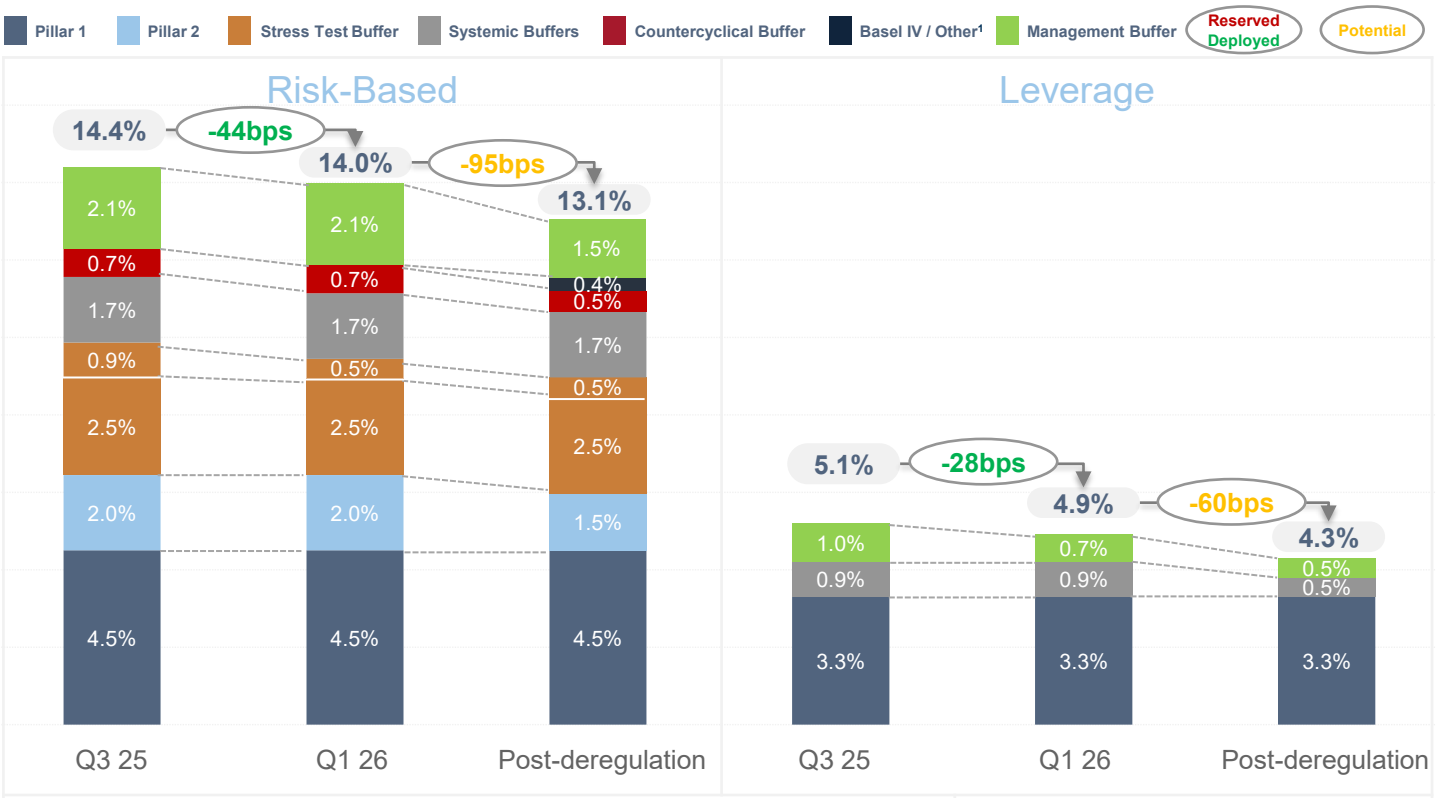
1 Risk-Based Capital	**1.1. Pillar 2A** As part of comprehensive capital review, BofE reduced CET1 benchmark by 100bps including reduction of -50bps in Pillar 2A.	Effective Jan 1st, 27		Impact -50bps CET1 %	Probability 100%	Source • https://www.bankofengland.co.uk/financial-stability-in-focus/2025/fsif-the-fpcs-assessment-of-bank-capital-requirements
	1.2. Pillar 2B Reduction of Pillar 2B through improved 2025 stress test results	Effective Jan 1st, 26		Impact -40bps CET1 %	Probability 100%	Source • https://www.bankofengland.co.uk/financial-stability-report/2025/december-2025
	1.3. Basel 3.1 Implementation Expected OpRisk RWA +50bps. FRTB implementation in Jan 2028. Output floor to be phased in by 2030.	Effective EST Jan 1st, 27 | Jan 1st, 28		Impact +50bps CET1 %	Probability 70%	Source • https://www.bankofengland.co.uk/prudential-regulation/publication/2025/july/basel-3-1-adjustments-to-the-market-risk-framework-consultation-paper
	1.4. Counter-cyclical CCyB requirements for UK banks are gold plating at 2%. Reform did not come in 2025 but expected as part of the buffer review.	Effective EST Jan 1st, 27		Impact -40bps CET1 %	Probability 50%	Source Final Proposal Pending expected in next financial stability report (July 26)
2 Leverage	**2.1. Leverage reform** Leverage reform expected to eliminate leverage as binding constraint.	Effective EST July 1st, 28		Impact -50bps Leverage%	Probability 80%	Source Final Proposal Pending expected in next financial stability report (July 26)
3 Resolution	**3.1. MREL Requirements** Reduction of MREL requirements via capital and management buffers reduction	Effective | EST Jan 1st, 27		Impact -150bps MREL %	Probability 50%	Source Final Proposal Pending expected in next financial stability report (July 26)

ALVAREZ & MARSAL
LEADERSHIP. ACTION. RESULTS.

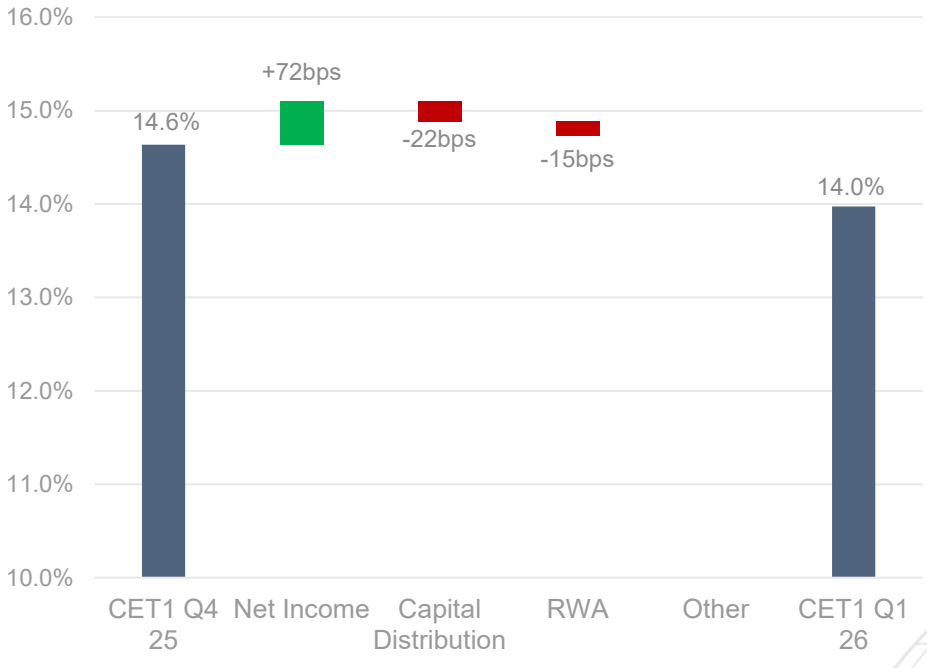
3 UK Tracker

Earnings Evidence

As reported in Q1 26 earnings releases, UK banks have deployed 44bps of CET1 and 28bps of leverage since Q3 25. In Q1 26, UK banks distributed 30% of their earnings through dividends and buybacks and deployed 22bps towards asset growth, with total assets growing 5% in the quarter. Other impact of -101bps is driven by HSBC M&A activity (acquisition of Hang Seng). Further potential for deployment of 95bps and 60bps exists for risk-based and leverage requirements, respectively.



Capital Deployment Evidence Q126



Asset Growth Evidence

	Q1 26	2025
Trading Assets	+2%	+14%
Loans	+1%	+5%
Total Assets	+5%	+6%
RWA	+1%	+4%

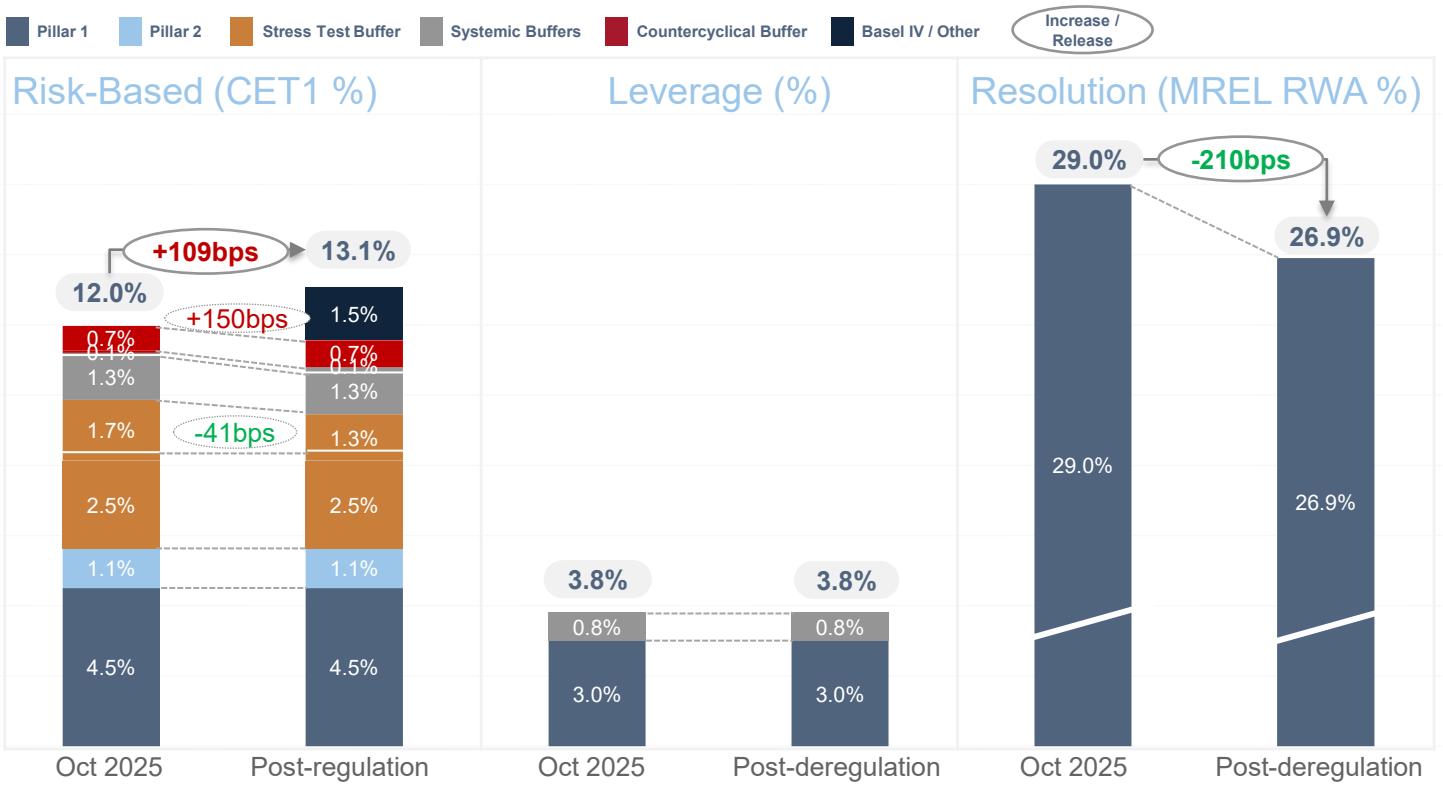
Source: A&M analysis and G-SIB earnings reports.

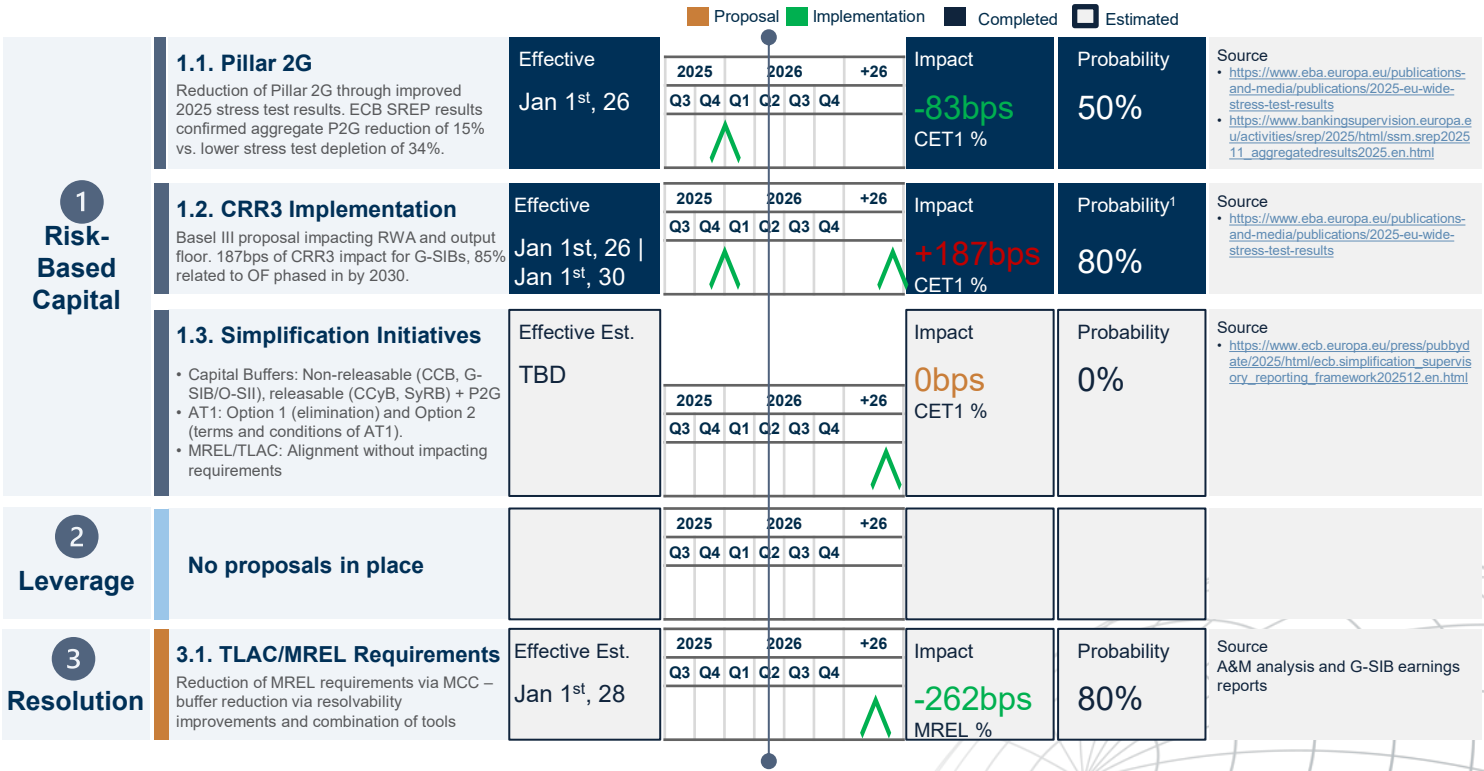
ALVAREZ & MARSAL
LEADERSHIP. ACTION. RESULTS.

4 EU Tracker

Highlights of Requirement Changes

In the EU, capital requirements are expected to remain stable to higher, with no reduction proposals currently advanced by the ECB. CRR3 implementation is expected to add 150bps, primarily driven by the output floor. No changes in leverage requirements are expected. MREL requirements are expected to fall by 262bps via buffer reductions.





1 Risk-Based Capital

1.1. Pillar 2G
Reduction of Pillar 2G through improved 2025 stress test results. ECB SREP results confirmed aggregate P2G reduction of 15% vs. lower stress test depletion of 34%.

Effective	Impact	Probability	Source
Jan 1st, 26	-83bps CET1 %	50%	• https://www.eba.europa.eu/publications-and-media/publications/2025-eu-wide-stress-test-results • https://www.bankingsupervision.europa.eu/activities/srep/2025/html/ssm.srep202511_aggregatedresults2025.en.html

1.2. CRR3 Implementation
Basel III proposal impacting RWA and output floor. 187bps of CRR3 impact for G-SIBs, 85% related to OF phased in by 2030.

Effective	Impact	Probability[1]	Source
Jan 1st, 26 | Jan 1st, 30	+187bps CET1 %	80%	• https://www.eba.europa.eu/publications-and-media/publications/2025-eu-wide-stress-test-results

1.3. Simplification Initiatives
- Capital Buffers: Non-releasable (CCB, G-SIB/O-SII), releasable (CCyB, SyRB) + P2G
- AT1: Option 1 (elimination) and Option 2 (terms and conditions of AT1).
- MREL/TLAC: Alignment without impacting requirements

Effective Est.	Impact	Probability	Source
TBD	0bps CET1 %	0%	• https://www.ecb.europa.eu/press/pubbydate/2025/html/ecb.simplification_supervisory_reporting_framework202512.en.html

2 Leverage

No proposals in place

3 Resolution

3.1. TLAC/MREL Requirements
Reduction of MREL requirements via MCC – buffer reduction via resolvability improvements and combination of tools

Effective Est.	Impact	Probability	Source
Jan 1st, 28	-262bps MREL %	80%	A&M analysis and G-SIB earnings reports

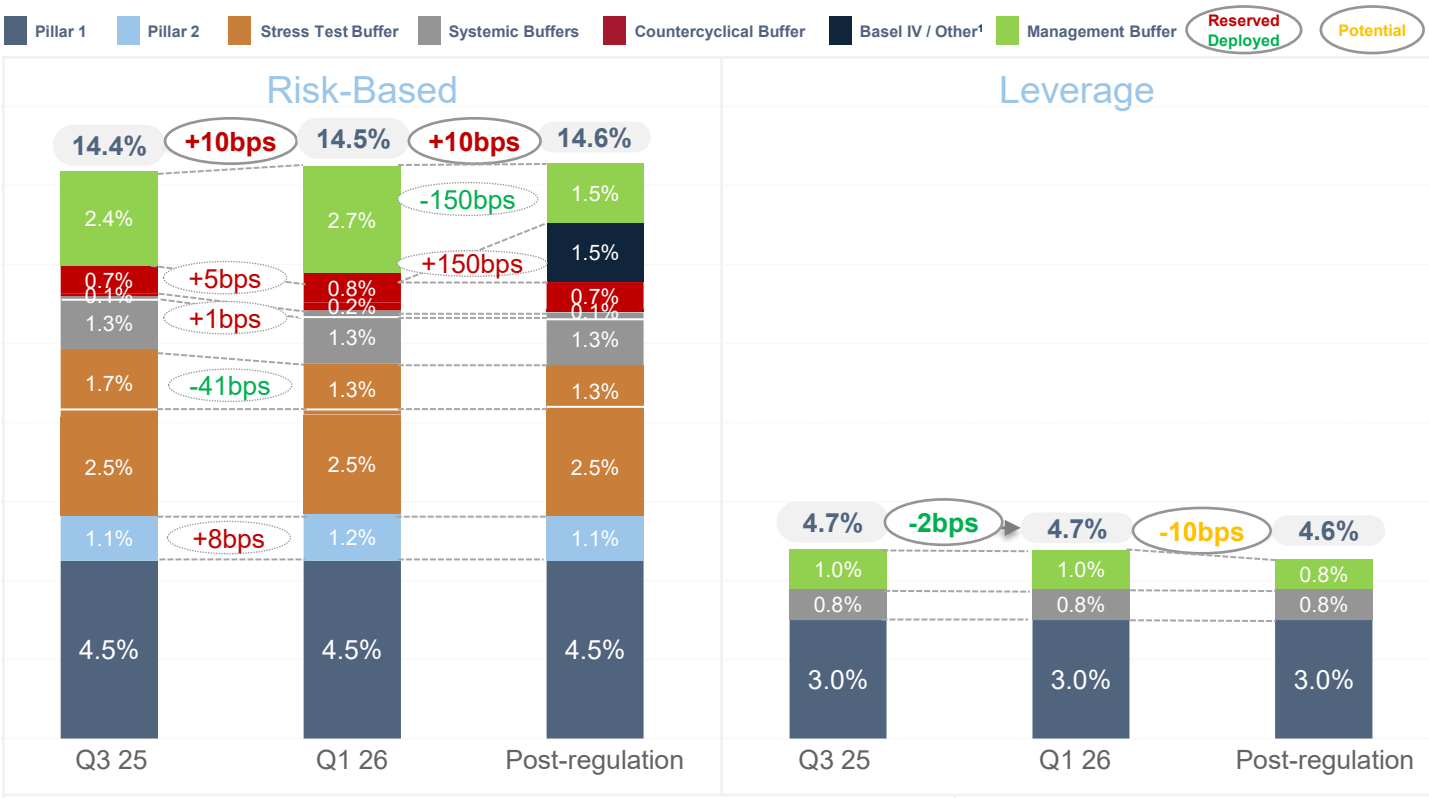
1 Probability adjusted based on expected optimization of standardized RWA calculations mitigating output floor impact.

ALVAREZ & MARSAL
LEADERSHIP. ACTION. RESULTS.

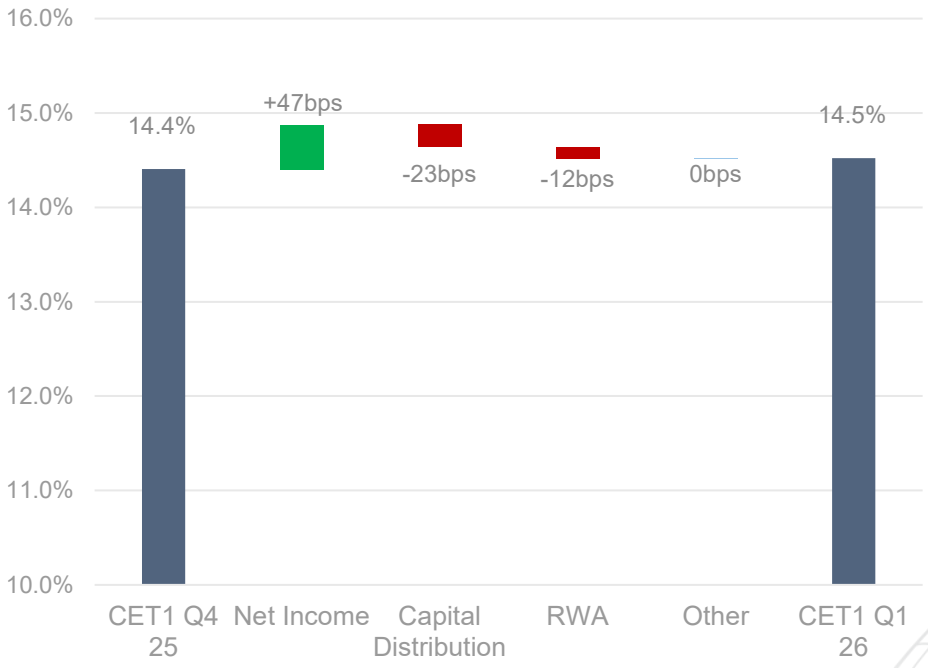
4 EU Tracker

Earnings Evidence

As reported in Q1 26 earnings releases, EU banks reserved +10bps of CET1 and deployed -2bps of leverage since Q3 25. P2G savings of -41bps were offset by +14bps MDA increase requirements (P2R, SyRB and CCyB). In Q1 26, EU banks distributed 50% of their earnings through dividends and buybacks and deployed 12bps towards RWA growth, with total assets growing 3%. Low deployment of capital and management buffer release are expected due to higher requirements from output floor.



Capital Deployment Evidence Q126



Asset Growth Evidence

	Q1 26	2025
Trading Assets	+8%	+4%
Loans	+2%	+1%
Total Assets	+3%	+2%
RWA	+1%	+1%

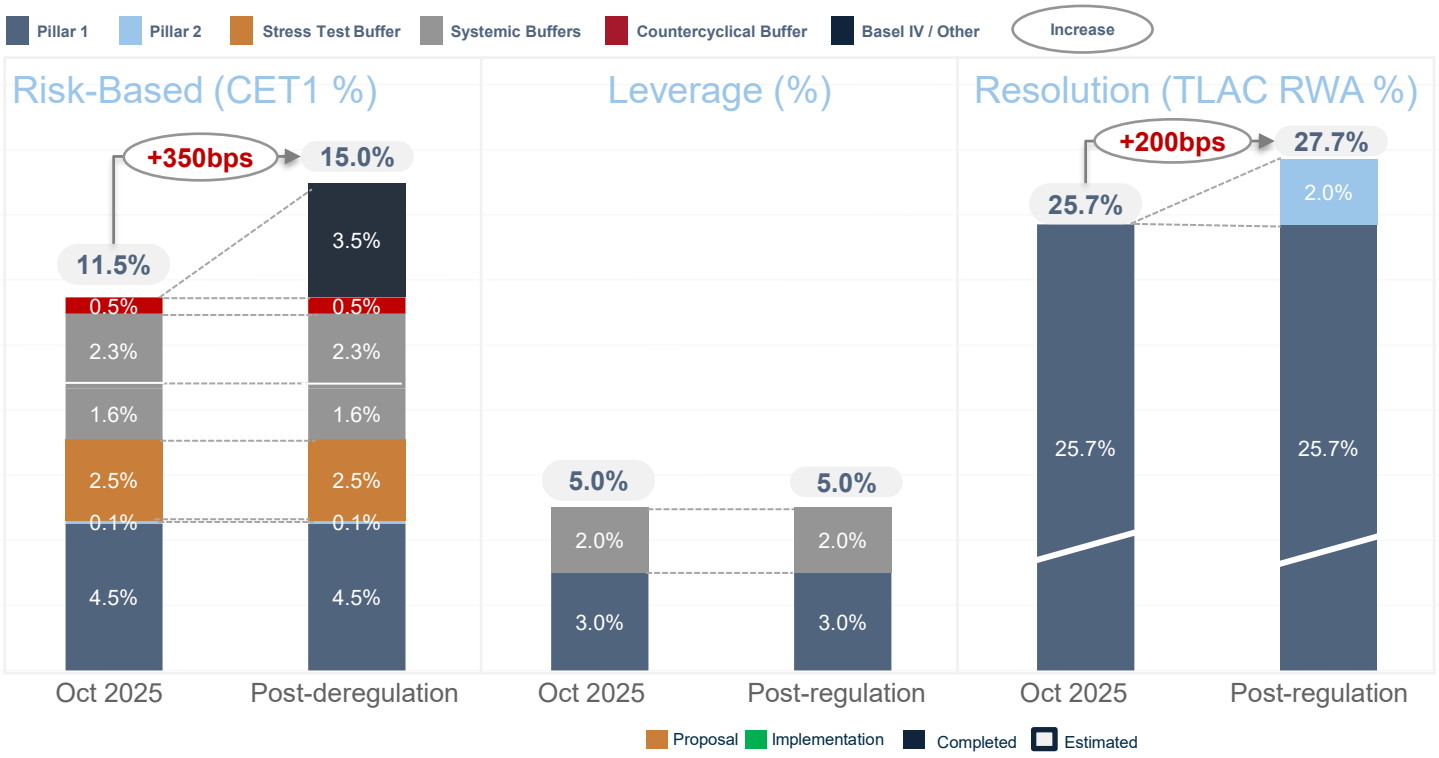
Source: A&M analysis and G-SIB earnings reports.

ALVAREZ & MARSAL
LEADERSHIP. ACTION. RESULTS.

5 CH Tracker

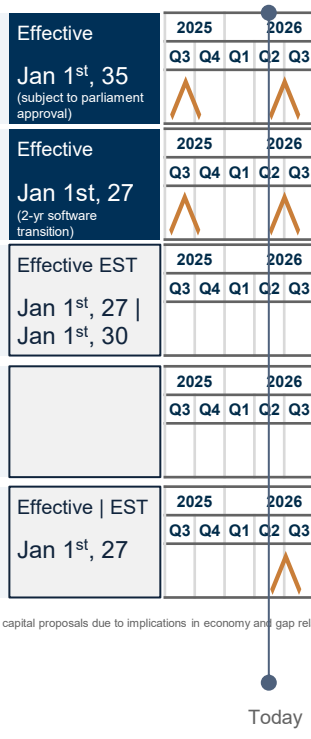
Highlights of Requirement Changes

The Swiss authorities are focused on finalizing too-big-to-fail proposals, which will materially increase UBS's capital requirements. Full deduction of foreign participations is expected to require an additional $20 billion in CET1 capital, based on UBS estimates (approximately 700bps in equivalent terms). Given the recent easing in software, DTA, and PVA rules, we have weighted the $20 billion requirement at 50% probability, for a final impact of +350bps. The DTA, software, and PVA capital deduction impacts have been reduced from +210bps to +83bps.



1 Risk-Based Capital	**1.1. Foreign Participations** 100% deductions of foreign equity requires $20bn CET1. Some compromise expected. Implementation through 2035.	Effective Jan 1st, 35 (subject to parliament approval)	Impact +700bps CET1 %	Probability[1] 50%	Source • https://www.efd.admin.ch/en/tbtf-en • https://www.efd.admin.ch/en/newnsb/_9e8qd5sXEzLww7dK3H_9
	1.2. Software, DTA and PVA Increased CET1 deductions for software and FVA with impact of +83bps. Impact in January 2027 with 2 years for software.	Effective Jan 1st, 27 (2-yr software transition)	Impact +83bps CET1 %	Probability 100%	
	1.3. Basel 3.1 Implementation Basel III implementation will increase capital requirements primarily through output floor.	Effective EST Jan 1st, 27 | Jan 1st, 30	Impact +110bps CET1 %	Probability 90%	Source A&M analysis and G-SIB earnings reports
2 Leverage	**No proposals in place**				
3 Resolution	**3.1. MREL Requirements** Higher requirements through increase of resolvability buffer (+500bps).	Effective | EST Jan 1st, 27	Impact +500bps TLAC %	Probability 40%	Source • https://www.efd.admin.ch/en/tbtf-en

[1] Swiss lawmaker discussions and UBS response influencing tone for reduction of initial impact of capital proposals due to implications in economy and gap relative to international peers. Ongoing debate includes scenario of AT1 instruments to be used to cover foreign participation capital deduction gap.

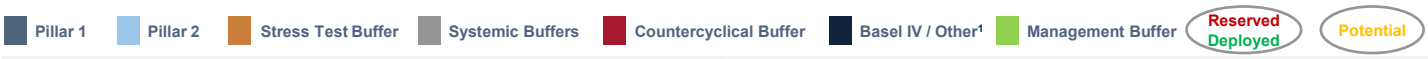


ALVAREZ & MARSAL
LEADERSHIP. ACTION. RESULTS.

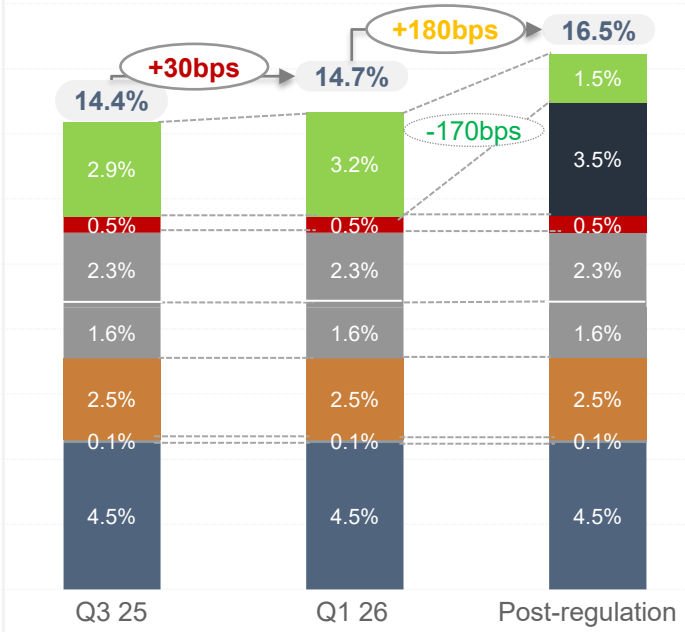
5 CH Tracker

Earnings Evidence

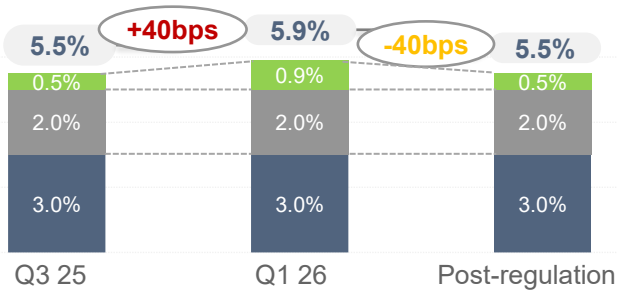
UBS has reserved 30bps of CET1 and 40bps of leverage since Q3 25 to meet future increase of capital requirements. In Q1 26, UBS distributed 60% of their earnings through dividends and buybacks and deployed another 20bps towards asset growth, with total assets growing 4% in the quarter. Further potential for increase of 180bps exists for risk-based capital requirements. As a result, we expect modest RWA growth until there is clearer visibility on meeting new requirements.



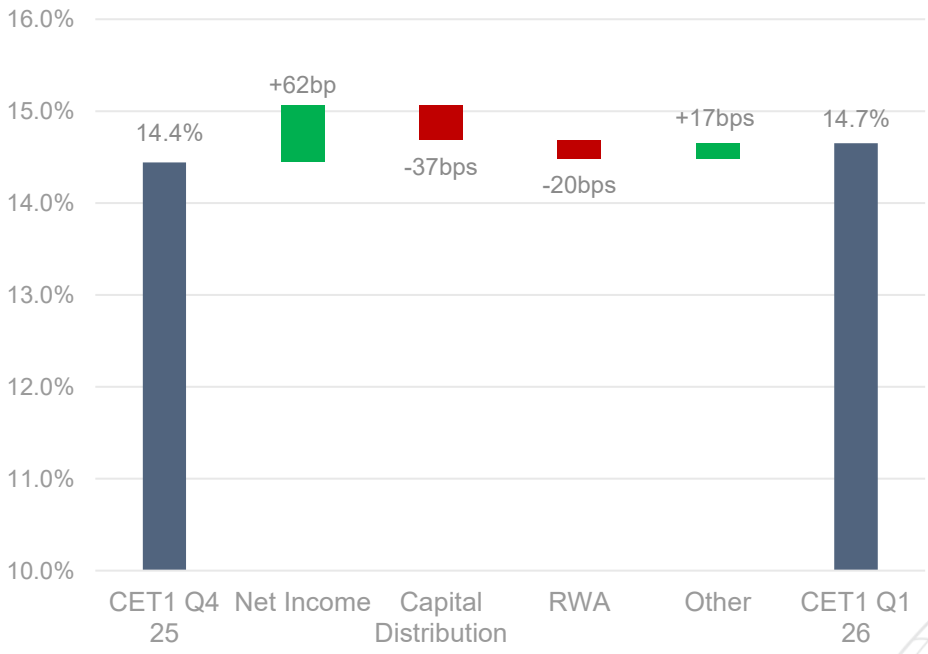
Risk-Based



Leverage



Capital Deployment Evidence Q126



Asset Growth Evidence

Source: A&M analysis and G-SIB earnings reports.

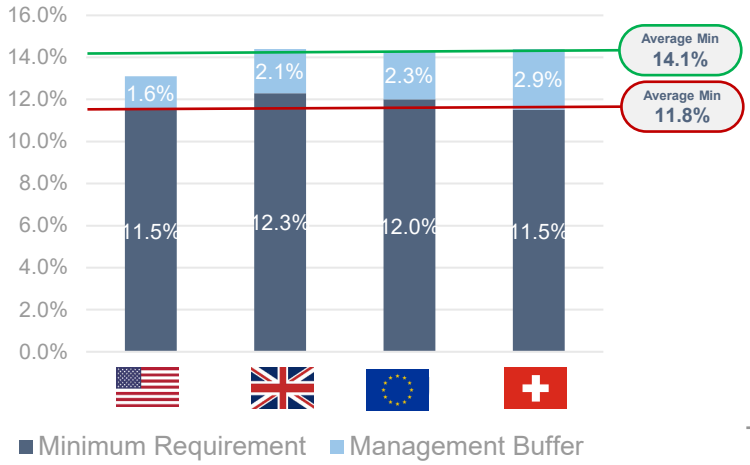
ALVAREZ & MARSAL
LEADERSHIP. ACTION. RESULTS.

6 Global Level Playing Field

Methodology

As deregulation takes place in certain jurisdictions, global level playing field for banking might be altered. Pre-deregulation initiatives, capital requirements appear to be consistent across geographies as evidenced by the graph below.

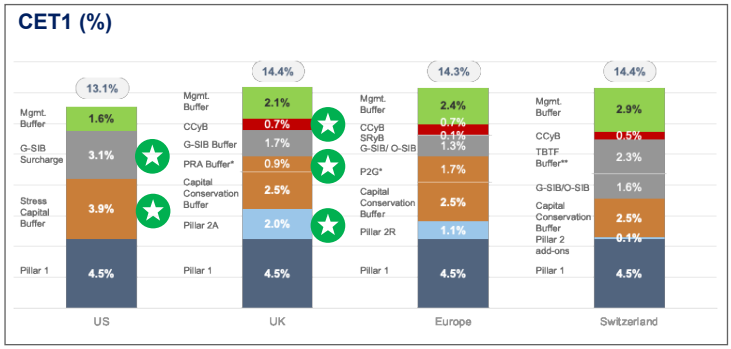
CET1 % Pre-deregulation (Sept 2025)



However, this apparent consistency in the output of capital regimes is underpinned by complex rules differently applied to capital stack, numerator and denominator calculations. When changes are made the apparent consistent level playing field falls apart.

Deregulation

Regulation



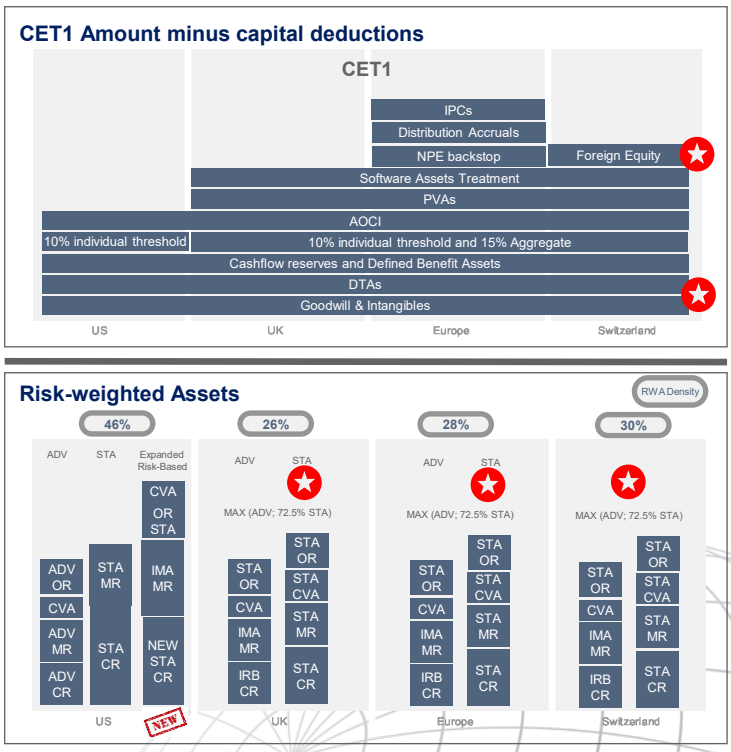
We have developed two methods to assess global level playing field differences. We conclude that EU banks would have a deregulation potential of at least 190bps if US pro forma rules and levels are applied. Furthermore, we provide potential areas of opportunity for deregulation.

METHOD 1 - Calculate numerator and denominator of CET1 under new US standards.

1. Estimate US pro forma capital level post-deregulation
2. Estimate UK/EU pro forma capital level post-deregulation measures
3. Calculate UK/EU bank CET1 ratio applying US regulatory rules post-deregulation
4. Identify potential areas of gold-plating or overlaps to address deregulation potential in EU

METHOD 2 - Calculate numerator, denominator and minimum level under US standards

1. Calculate UK/EU bank CET1 ratio applying US regulatory rules post deregulation
2. Estimate US pro forma minimum capital level post-deregulation measures for UK/EU banks
3. Compare obtained minimum levels vs current UK/EU minimum



See Appendix 1 - Further differences in capital treatment between US and European Banks

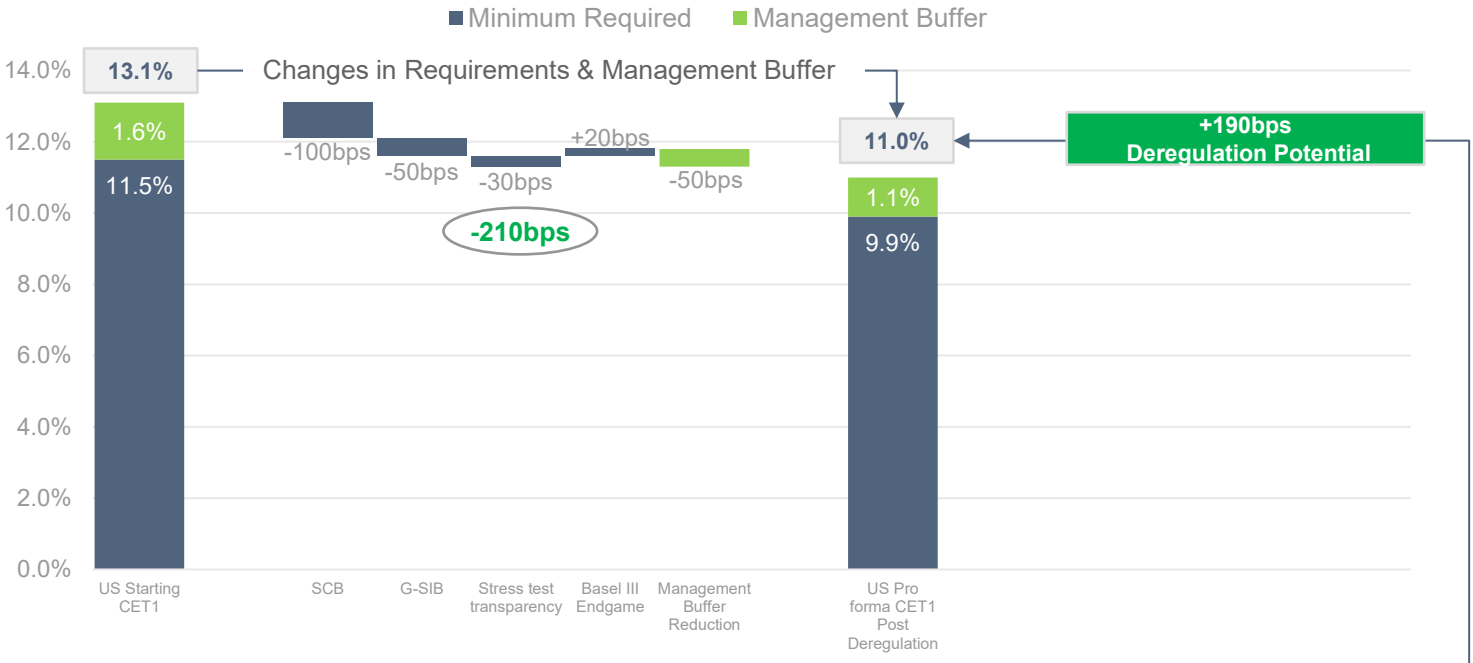
ALVAREZ & MARSAL
LEADERSHIP. ACTION. RESULTS.

6 Global Level Playing Field

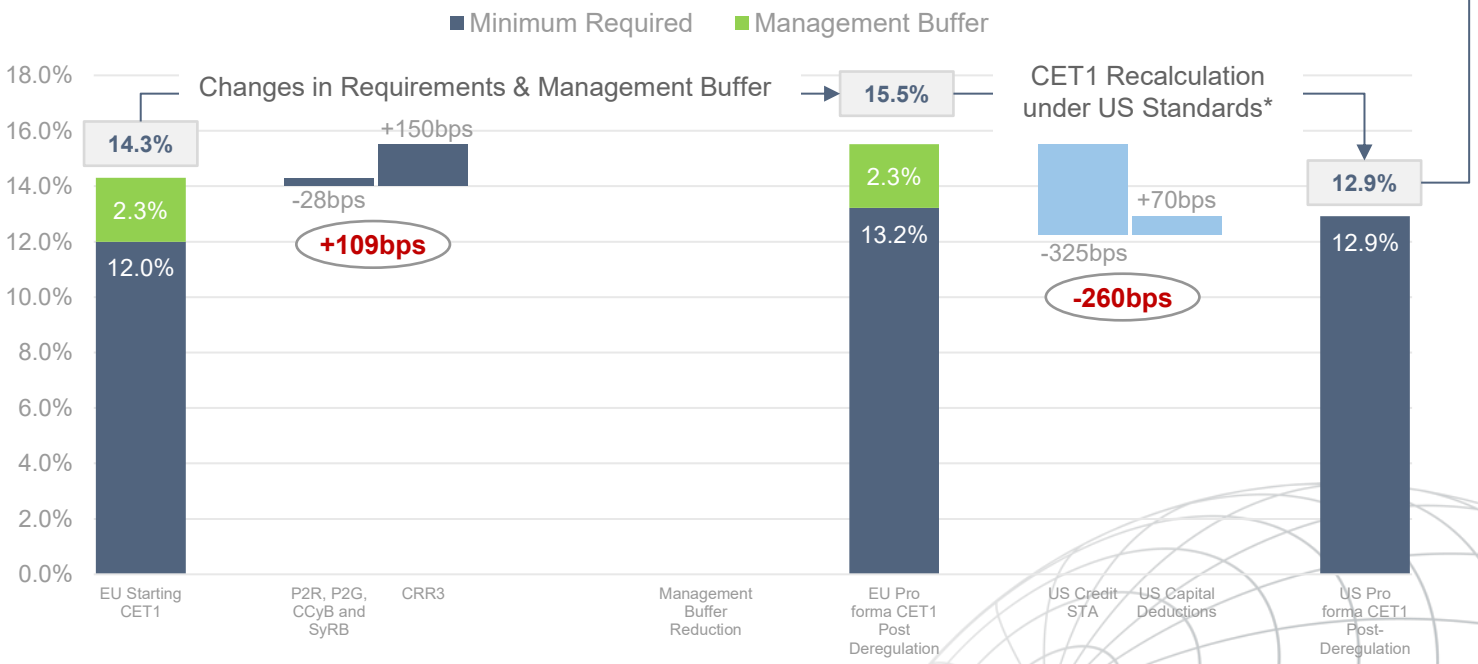
Method 1 – EU Banks Pro forma US Standards

As indicated in the US tracker section, we estimate US banks' pro forma CET1 post-deregulation at 11%. EU pro forma post-deregulation is at 15.5%. After applying US standards to EU banks, EU CET1 pro forma declines to 12.9%, leaving a deregulation potential of at least 190bps vs.11% CET1 pro forma of US banks. Such deregulation potential could be covered through reductions in P2R, P2G, CCyB, O-SII and SyRB buffers.

US Pro forma CET1 Post-Deregulation



EU Pro forma CET1 Post Deregulation



*Does include capital deduction adjustments for PVA, NPE backstop, Software and IRB shortfall. Does not include IPC, distribution accruals, SME supporting factor or Danish Compromise. Does not include operational risk differences in the Non-Interest Component of the BI with 0.7 scalar and expense netting for investment management, investment services and non-lending treasury services

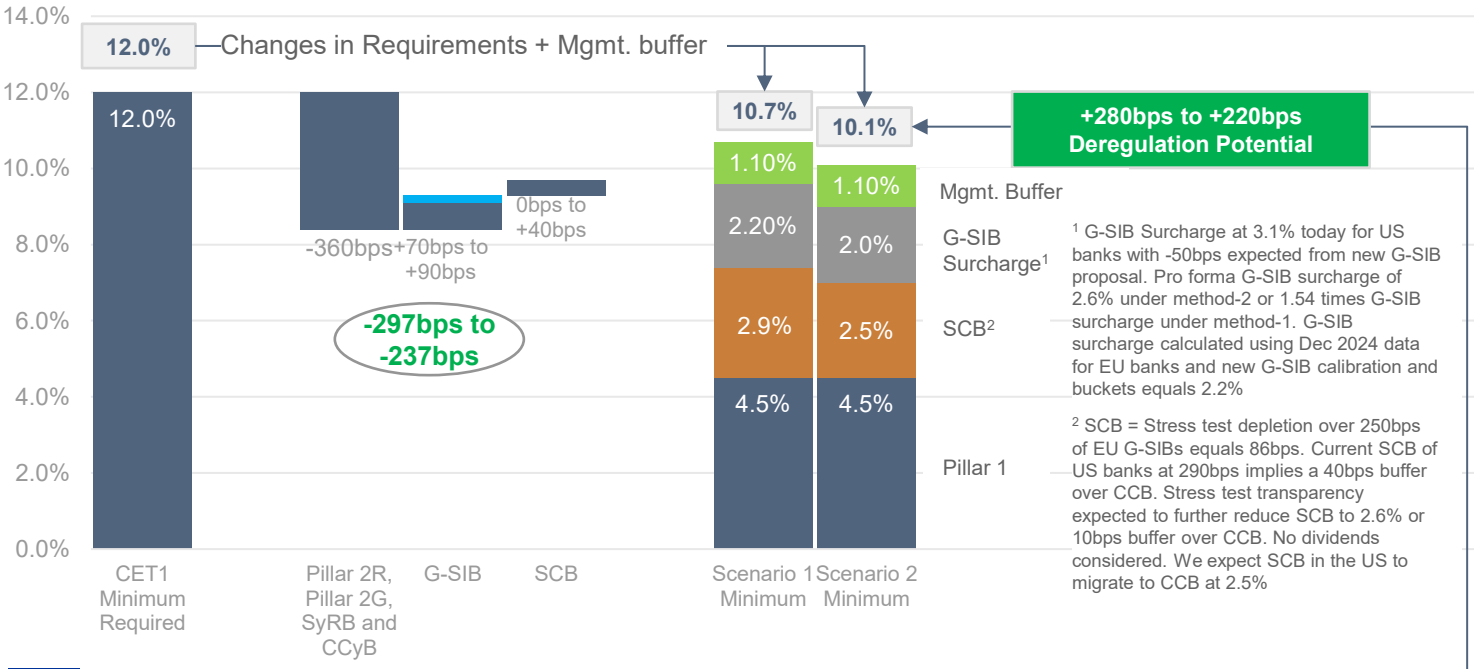
ALVAREZ & MARSAL
LEADERSHIP. ACTION. RESULTS.

6 Global Level Playing Field

Method 2 – EU Banks Pro forma US Standards

In method 2, we estimate EU banks' minimum requirements ranging from 9% to 9.6% if the US capital stack were applied, compared to the current minimum of 12%. If a US management buffer of 1.1% is added, the CET1 target for EU banks under US standards would range from 10.1% to 10.7%. After applying US standards to EU banks, there is a deregulation potential range of 220bps to 280bps.

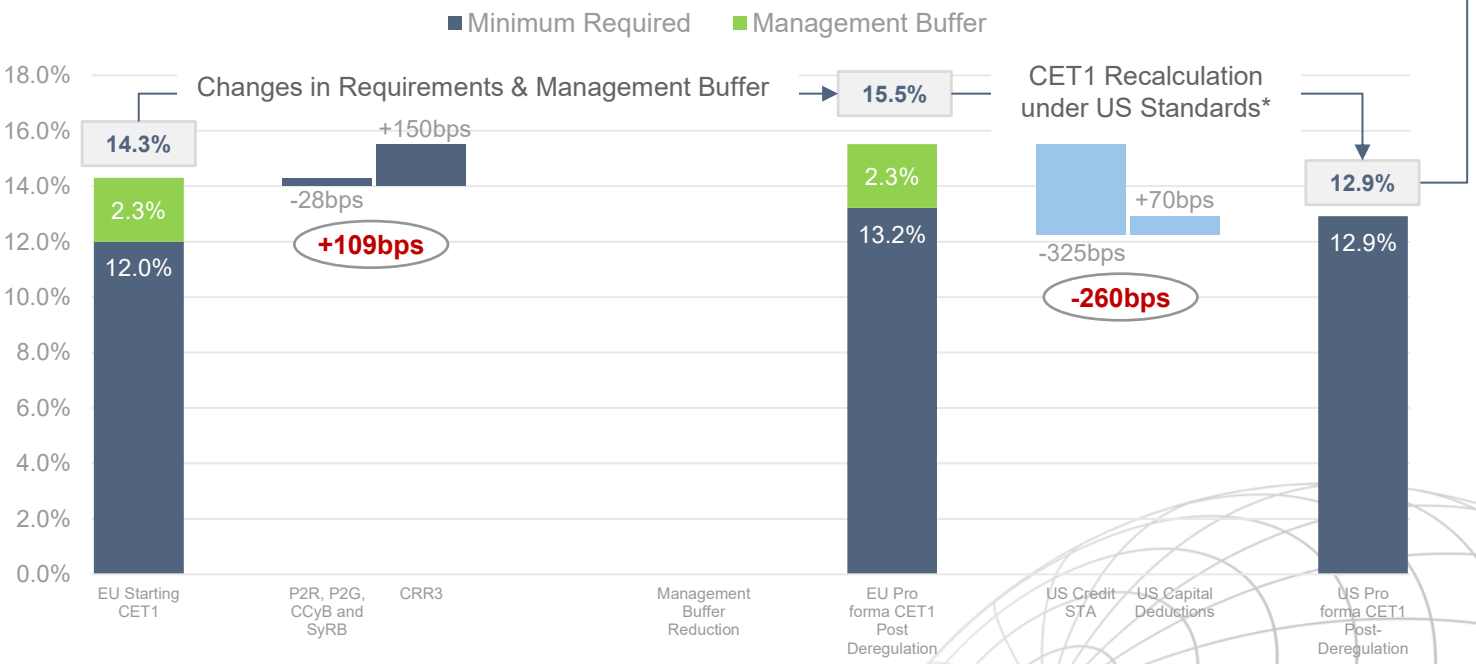
EU Bank Minimum Requirements in the US



[1] G-SIB Surcharge at 3.1% today for US banks with -50bps expected from new G-SIB proposal. Pro forma G-SIB surcharge of 2.6% under method-2 or 1.54 times G-SIB surcharge under method-1. G-SIB surcharge calculated using Dec 2024 data for EU banks and new G-SIB calibration and buckets equals 2.2%

[2] SCB = Stress test depletion over 250bps of EU G-SIBs equals 86bps. Current SCB of US banks at 290bps implies a 40bps buffer over CCB. Stress test transparency expected to further reduce SCB to 2.6% or 10bps buffer over CCB. No dividends considered. We expect SCB in the US to migrate to CCB at 2.5%

EU Pro forma CET1 Post Deregulation



*Does include capital deduction adjustments for PVA, NPE backstop, Software and IRB shortfall. Does not include IPC, distribution accruals, SME supporting factor or Danish Compromise. Does not include operational risk differences in the Non-Interest Component of the BI with 0.7 scalar and expense netting for investment management, investment services and non-lending treasury services

ALVAREZ & MARSAL
LEADERSHIP. ACTION. RESULTS.

7 Impact on Bank Competitiveness

How deregulation impacts bank competitiveness

In our view, bank deregulation initiatives across markets can shift bank competitive dynamics, particularly in global businesses where G-SIBs compete, such as wholesale banking, payments or wealth.

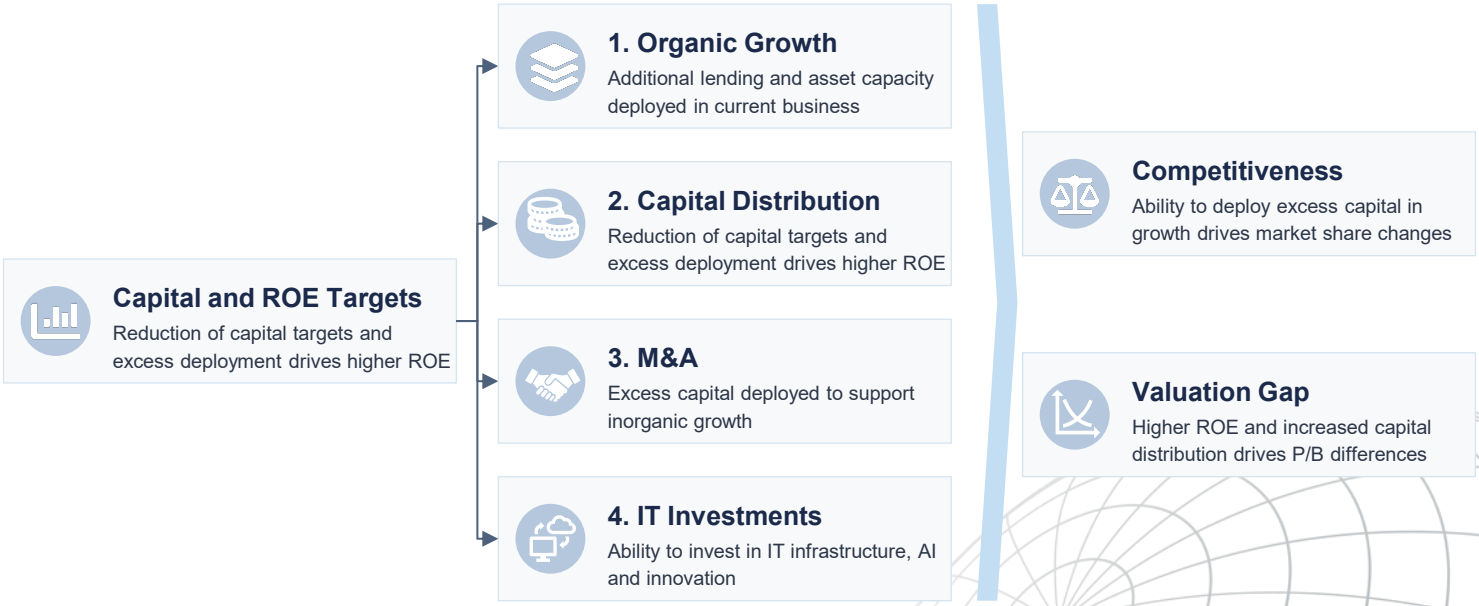
- The reduction of capital requirements produced by deregulation drives higher ROE through the deployment of capital excess in bank profitable strategic alternatives. Banks can as a result reduce their **capital targets** and increase their **ROE commitments** to investors.

- Banks use a disciplined **capital allocation hierarchy** to choose from multiple available options to deploy excess capital
  1. **Organic growth** in core businesses is the first option as long as there are available options to deploy excess capital at commensurate returns in line with ROE targets
  2. **Capital distributions** through a combination of dividends and buybacks are another option to deploy excess capital so attractive investor returns can be delivered
  3. **M&A activity** can also be an option as long there is strategic fit and deliver adequate returns
  4. Banks can also opt to spend their excess capital in new **technology investments** to drive customer growth and productivity, particularly relevant in the current AI led revolution of banking.

The result of increased options for organic growth, M&A activity, distributions or IT investments can change bank competitive dynamics. Evidence can be found in two ways:

1. **Market share changes** in businesses where there is global competition driven by more favorable conditions for certain banks to compete
2. **Valuation gaps** evidenced by different price-to-book multiples paid by investors based on ROE and capital distribution results delivered by banks

Framework to Assess Impact of Deregulation in Bank Competitiveness



ALVAREZ & MARSAL
LEADERSHIP. ACTION. RESULTS.

7 Impact on Bank Competitiveness

Evidence from US Banks

US banks are benefiting rapidly from lower capital requirements

Capital and ROE targets

- Five out of the eight US bank G-SIBs delivered ROTCE levels above 20% during Q1 2026
- Some banks have announced increased ROTCE targets (e.g., Wells Fargo has increased its ROTCE target from 15% to 17-18% and Bank of New York Mellon from 22% to 28%)
- Other banks have reduced their capital targets (e.g., Bank of America announced a reduction of its capital management buffer to 0.5%)

Organic Growth

- As reported in Q1 26 earning releases, US banks have deployed 68bps of CET1 in the last two quarters towards organic growth. In Q1 26, banks distributed 100% of their earnings through dividends and buybacks and yet still deployed another 41bps towards asset growth. Total assets grew at 7% in Q126.
- Goldman Sachs deployed 182bps of CET1 in Q1 26 of which 150bps was devoted to organic growth in just one quarter
- JPMorgan Chase launched in 2025 its $1.5 trillion Security and Resilience Initiative with $0.5 trillion new loans and $10 billion in equity dedicated to strategic and critical industries. In April 2026, the Bank announced the expansion of its initiative across Europe.

Capital Distribution

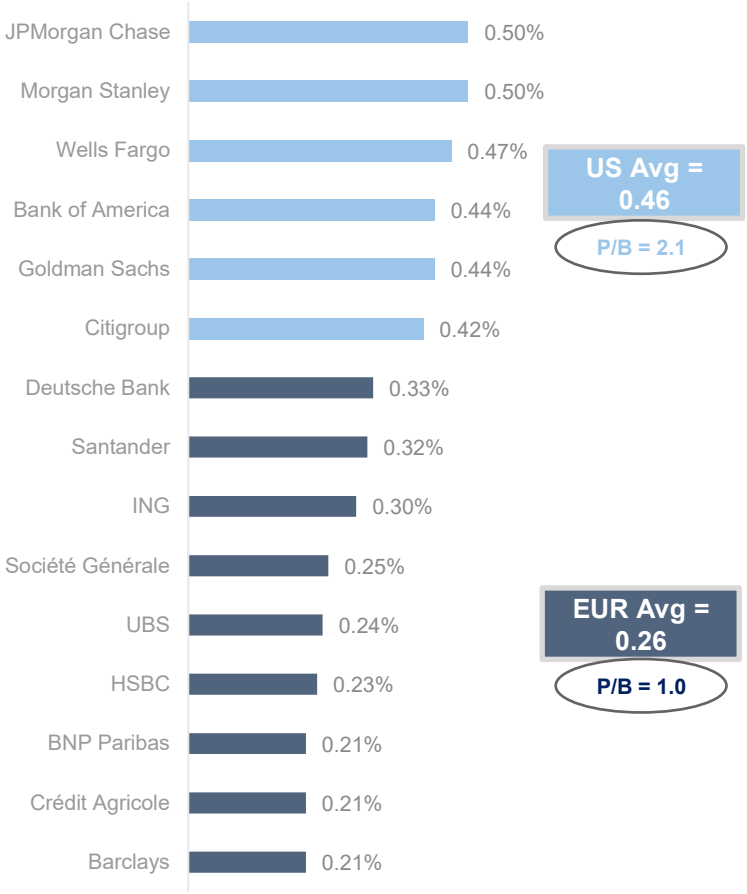
- US banks increased dividends and buybacks in Q1 26 to 100% earnings from 96% in 2025, which compares to 56% payout for EU banks

M&A Activity

- Goldman Sachs has recently acquired wealth manager Industry Ventures for $1bn and Innovator for $2bn
- JPMorgan Chase acquired Apple's $20 billion credit card portfolio from Goldman Sachs

IT investments

US banks invest almost twice in technology versus its European peers as a percent of total assets (0.46 vs 0.26 in average).



Competitiveness

- US banks have continued to gain market share in wholesale banking during 2025 and Q1 26 vs European banks. US banks have delivered total revenue delta growth of +5% vs. their European peers (+4% in Fixed Income and +7% in Equities).

Valuation Gap

- US bank trades at a price-to-book ratio of 2.1 vs 1.0 for EU banks and 1.3 times for UK banks

ALVAREZ & MARSAL
LEADERSHIP. ACTION. RESULTS.

8 Conclusions

There is no single story when it comes to bank deregulation. Different jurisdictions are moving in different directions for different reasons.

United States – Trump administration highly supportive of bank deregulation

The Federal Reserve has issued a wide array of capital "modernization" initiatives aimed at addressing the historical 'gold-plating' stance of US G-SIBs and overlaps between capital rules. Risk-based capital and leverage requirements will come down by -160bps and -113bps respectively. These represent a material reduction in capital requirements for the largest banks, which are already fueling economic growth through enhanced bank lending capacity. Total assets have grown $1.1tn in the last 2 quarters since deregulation started, approximately 45% of the $2.5tn asset capacity added. ROTCE and capital distributions have increased driving higher bank valuations.

UK – Push for UK bank deregulation to help competitiveness post-Brexit

The UK has also adopted a pro-deregulation stance as evidenced by the Bank of England's reduction of capital benchmark for UK banks. 2025 stress test results provided a release of 40bps which is expected to be followed by reductions of Pillar 2A and CCyB levels. In addition, the Bank of England is planning to announce a review of leverage requirements. Overall, we believe the UK is taking a follower stance given US developments. We expect risk-based capital requirements will be reduced by 75bps.

EU – Focus on supervisory simplification but not capital reduction (yet)

The EU is still in the process of implementing CRR3, which will negatively impact G-SIBs (+150bps). Although P2G requirements are declining through improved 2025 stress test results, capital requirements continue to increase. The ECB's stance is one of simplification but no capital reduction. The European Commission is expected to challenge the ECB through its review of European bank competitiveness. In the meantime, EU banks will be competitively challenged by US and UK banks.

Switzerland – Still focused on increased requirements but with a compromise

Switzerland has moved decisively the other way. After the Credit Suisse collapse, the government and FINMA are pushing higher capital, stronger "too-big-to-fail" rules and more supervisory powers. The tightening is substantial and has even prompted public debate about the competitiveness of UBS and of the Swiss financial system, especially given the opposite direction taken by the US and UK.

Our report highlights:

- **No single trend** – Deregulation is divergent, with the US taking the lead and the UK following. The rest will come at a later point
- **Regulatory fragmentation and unleveled playing field** – Our report shows that requirements are un-even and differences are to be exacerbated by deregulatory waves. We remain skeptical that international coordination will take place to address the current inconsistencies.
- **Deregulation benefits are already being felt**. Our earnings evidence analysis illustrates the quick deployment of excess capital into organic growth opportunities, particularly in the US.

ALVAREZ & MARSAL
LEADERSHIP. ACTION. RESULTS.℠

Appendix 1: Further differences in capital treatment between US and European Banks

Our bank deregulation primer places emphasis on assessing differences in capital stack minimum requirements, what we call the Global Bufferati. Furthermore, there are important differences in other capital treatment aspects related to the calculation of risk-weighted assets (RWAs) and the definition of eligible capital (numerator) and the applicable deductions. These factors contribute further to the structural divergence in capital requirements between US and European banks.

RWA Density: Structural Differences in the Denominator

One of the most visible differences between US and European banks lies in the risk-weighted assets (RWAs) density, defined as RWAs as a percentage of total assets. Based on Q2 2025 data, average RWA density stands at approximately 46% for US G-SIBs, compared to 26% for UK banks, 28% for EU banks and 30% for UBS. The divergence is explained by the US Standardized Approach, which is the binding constraint for US banks. The differences are explained by one key driver.

- **Use of Standardized Approach vs. Internal Models**:

  US G-SIBs apply the Standardized Approach for credit risk, assigning fixed risk weights to exposures regardless of internal risk profiles. In contrast, European G-SIBs frequently apply internal ratings-based (IRB) models, resulting in significantly lower risk weights for well-rated counterparties and collateralized exposures. Applying the Standardized Approach to these European banks would imply a CET1 ratio impact of -439bps on average, due to the increase in RWAs. The Standardized Approach does not use an output floor but is calculated as 100% of credit and market RWAs.

It is worth noting that, in prior iterations of this analysis, the exclusion of operational risk capital requirements in the US represented a second source of structural divergence, contributing approximately +110bps to the CET1 gap. As US regulators are set to introduce Pillar 1 operational risk capital charges under the revised framework, this differential is expected to narrow materially and has been excluded from the current comparison.

		RWAs adjustment		
CET1 %				
Institutions		CET 1 Ratio UTREA	CET1 Ratio STREA	STA Effect (bps)
BNP PARIBAS	BNP Paribas	12.18%	7.98%	(420)
GROUPE BPCE	BPCE	16.78%	11.00%	(578)
CRÉDIT AGRICOLE	Crédit Agricole	17.48%	10.36%	(712)
SOCIETE GENERALE	Société Générale	12.45%	8.70%	(376)
Deutsche Bank	Deutsche Bank	13.52%	7.04%	(648)
Santander	Banco Santander	12.19%	9.90%	(228)
ING	ING	13.47%	8.91%	(456)
	EUR	13.95%	9.13%	**(482)**
HSBC	HSBC	14.90%	10.93%	(397)
standard chartered	SCB	14.24%	9.16%	(508)
BARCLAYS	Barclays	12.07%	13.29%	121
	UK	14.30%	10.81%	**(348)**
UBS	UBS	14.32%	11.45%	(287)
	TOTAL	14.06%	9.68%	**(439)**

These differences imply a structurally higher denominator for US banks, despite broadly comparable asset bases, leading to an overall net CET1 ratio impact of -439 basis points for European banks relative to their US peers. This has direct implications for key regulatory metrics such as the CET1 and TLAC ratios. Application of the US Standardized Approach would result in RWA density of 32% for UK banks, 41% for EU banks and 35% for UBS.

ALVAREZ & MARSAL
LEADERSHIP. ACTION. RESULTS.

Appendix 1: Differences in capital treatment between US and European Banks

CET1 Capital: Differences in Deductions and Adjustments

CET1 deduction rules vary meaningfully across jurisdictions, creating structural differences in reported capital ratios that go beyond RWA density. The European prudential framework (which also applies in the UK and Switzerland) requires a broader set of deductions from eligible capital than the US Basel implementation, reducing the numerator of the CET1 ratio for European and UK banks relative to their US peers. We have quantified four key deductions in our analysis, which together represent an average CET1 impact of 91 bps across the institutions in our sample.

- **Regulatory backstops on non-performing exposures (NPEs):** EU banks are subject to prudential backstops requiring full CET1 deduction for under-provisioned NPEs, based on vintage and collateral. This currently reduces CET1 by around 5 bps on average for affected G-SIBs, with a growing impact expected until full implementation in 2033. This backstop is unique to the EU, and therefore no impact is estimated for CH, UK or US banks.
- **Prudent Valuation Adjustments (PVAs):** Under the EU and UK framework, fair-valued positions are subject to PVAs to adjust CET1 for model risk, concentrated positions, and valuation uncertainty. These adjustments range from 9 bps to over 60 bps, with an average impact of 24-32 bps. In the US, there is no equivalent deduction, whereas in Switzerland current rules do not yet apply PVAs as in the EU, however the regulatory proposal under discussion foresees aligning Swiss standards with those of the EU and UK.
- **Software assets deduction**: While the EU allows a partial exemption for software assets under CRR2, applying a gradual amortization approach that significantly reduces the capital impact, the UK PRA maintained a stricter stance requiring full deduction of all software from CET1. The US does not deduct software from regulatory capital. This explains the stark divergence in our data: EU banks average just 16 bps, versus 143 bps for UK banks under the PRA's full deduction requirement, and 14 bps for UBS (46 bps overall average).
- **IRB Shortfall** (Negative amounts resulting from the calculation of expected loss amounts): Under CRR Article 36(1)(d), UK CRR and Swiss FINMA regulations, when regulatory expected losses under IRB models exceed accounting provisions (IFRS 9), the shortfall must be deducted from CET1. No equivalent deduction exists in the US framework, where the Standardized Approach is the binding constraint. The average impact amounts to 18 bps for EUR banks, 31 bps for UK banks and 11 bps for UBS (21 bps overall average).

		CET1 Capital adj				
CET1 %						
Institutions		Software Effect (bps)	Backstop Effect (bps)	PVAs Effect (bps)	IRB Shortfall (bps)	Total CET1 Effect
BNP PARIBAS	BNP Paribas	9	5	25	8	48
GROUPE BPCE	BPCE	7	8	25	-	40
CRÉDIT AGRICOLE	Crédit Agricole	9	5	42	-	56
SOCIETE GENERALE	Société Générale	20	5	21	13	59
Deutsche Bank	Deutsche Bank	43	7	51	87	187
Santander	Banco Santander	20	3	9	13	46
ING	ING	16	0	21	40	77
	EUR	**16**	**5**	**27**	**18**	**65**
HSBC	HSBC	154		14	37	205
standard chartered	SCB	231		25	28	284
BARCLAYS	Barclays	5		63	13	81
	UK	**143**		**24**	**31**	**199**
UBS	UBS	14		3	11	29
	TOTAL	**46**		**24**	**21**	**91**

Additional items could affect comparability; given data limitations and heterogeneity, we have not applied discrete estimates:

- **Irrevocable payment commitments (IPCs):** These are not deducted under IFRS but are treated as CET1 deductions under ECB SREP guidance.
- **Distribution accruals:** Under ECB expectations, dividends and coupons are removed from CET1 at the point of accrual (i.e. before payment), whereas no equivalent deduction exists in the US.

ALVAREZ & MARSAL
LEADERSHIP. ACTION. RESULTS.