EBA Chairperson José Mannuel Campa
at the Annual ECON Hearing

23 October 2023

# Introductory Statement

# José Manuel Campa, Chairperson
# European Banking Authority (EBA)

# ECON Committee, European Parliament
# 23 October 2023

Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort

Honourable Chairwoman, honourable Members of the European Parliament,

Let me continue as Chairperson of the European Banking Authority.

With the banking turmoil in March this year, we have witnessed events unseen for a long time.

I would like to take the opportunity today to share some thoughts on the resilience of banks, and what I see as some important risks and challenges ahead.

To start, let's check on bank fundamentals. European banks are resilient and stand at robust capitalisation levels. Average fully loaded CET1 ratios reached a historical high of 15.9%. The liquidity and funding profile of banks remains strong. Banks' return on equity increased to 10.8% in the second quarter of 2023, mainly driven by net interest margin increases.

The EBA EU-wide 2023 stress test confirmed this positive picture despite severe EU and global recessions built into our scenario. Higher earnings and better asset quality at the starting helped that capital depletion was only moderate in the exercise. So far, higher interest rates proved beneficial to European banks as margins rose and passthrough remained generally low.

So much for the good news. As I will discuss next, there are also risks and new challenges ahead.

**Geopolitical uncertainty**

For the last months, geopolitical uncertainty has remained high. The conflict in Ukraine, recessionary fears and lately the sad attacks in Israel darkened the economic outlook. Persistent high inflation has triggered increases in interest rates at speed and steepness unprecedented in the EU since the Great Financial Crisis. In these times, all banks, regardless of size and complexity, need to manage risks adequately to ensure resilience and stability.

**Interest rate risks**

Higher rates have been one driver of improved banks' profitability until now. But higher rates also bring challenges to banks' balance sheets. In the EU, solid regulatory work on interest rate risk in the banking book (IRRBB) have helped banks to navigate this new environment.

Looking at potential risks due to bond repricing, the EBA's analysis of net unrealised losses revealed that the overall amount in EU banks' portfolios seems contained. It amounted to 75bn EUR held at amortised cost in February 2023. However, as the pathway of future rates remains unclear, credit risks, especially in some sectors such as commercial real estate, as well as asset quality warrant our supervisory attention. More importantly, depositors' reaction to low rate passthrough may be amplified by social media communication.

**ESG and climate**

Another challenge is to fulfil our climate targets. On our way to a net zero economy, large banks began reporting on key ESG risks under the EBA Pillar 3 disclosures. Further EBA guidance on how to better identify, manage and report ESG risks will help banks address ESG risks. In addition, the EBA just released its report on the prudential treatment of ESG with concrete short-term and medium to long-term actions. At this point in time, we anticipate that unknowns relating to ESG data availability and methodologies will persist and work to enhance them will continue for years. However, 'not doing anything' and 'not reporting anything' is not an alternative. Instead, we need to continue the work and focus on the transition now.

**New technologies**

Cyber risks and DORA as EU response are a key part of our regulatory and supervisory efforts in the Joint Committee. Beyond DORA, the harmonised framework of MiCAR will give a strong push for digitalisation in the EU. The EBA issued or is about to issue the majority of consultation papers ranging from authorisation, over governance, to own funds and reserve assets for stakeholder input. Alongside our preparation for supervision of significant asset-reference tokens (ARTs) and electronic money tokens (EMTs) is progressing. Going forward, it will be important for all EU supervisors to continue our dialogue to mitigate risks arbitrage and forum shopping until MiCAR requirements apply.

**What's next**

Let me close my remarks with an outlook.

For the immediate future, I see three key areas for close cooperation.

First, the finalisation of the banking package with its 130 EBA mandates is an important step. But it is not sufficient. We need to repeat our ambition to build a robust and truly European single market for financial services. For that purpose, we need to complement the prudential framework with an adequate crisis management element and build the third pillar of the banking union.

Second, the EBA will continue to lead the work to coordinate and monitor the financial sector's anti-money laundering and counter-terrorist financing (AML/CFT) efforts across the EU until the new Anti-Money Laundering Authority (AMLA) starts to operate. But we need to establish a stronger AML/CFT framework in the EU. The proposals that you are currently discussing are fundamental to push that agenda and I will encourage you to bring them to a fruitful end. We are in a position to share our assessment of the AML/CFT landscape and the expertise we built over these years with the new authority. We will also establish a good cooperation and collaboration of the EBA and AMLA.

Third, looking ahead at the risk horizon we see that operational risks will remain a key concern for banks as much as for payment institutions. Key risk drivers include ICT and cyber related risks. In addition, as higher rates become more structural, regulators and supervisors need to focus on revaluation of banks' bond portfolios, rising funding costs and mounting credit loan losses

Let me conclude.

The mission of the EBA is expanding in line with its new mandates. These mandates are of the more traditional Single Rulebook category as well as relating to new areas such as digital and cyber. The EBA as organisation remained stable over time. Going forward, it is essential to match legislative ambition and tasks with adequate budget and resources.

As always, my staff and I stand ready to provide expertise on your legislative files and projects. We look forward to continuing our good exchanges and cooperation.

Thank you.