



2021 EU-wide stress test

Summary of results

EBA Stress Testing Team

30 July 2021

Agenda

- Introduction
- Overall results
- Deep dive into the main drivers
- Special focus on Covid-19
- Transparency, dissemination and wrap-up

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Introduction

- **Biennial exercise**, initially scheduled for 2020 but **postponed by 1 year as part of the temporary relief measures** decided by the EBA, due to the pandemic, for **allowing banks to concentrate on operations and funding the economy**.
- 2021 EU-wide stress test involves **50 banks from 15 EU and EEA countries, covering 70% of the EU banking sector assets**.
- **Main methodological changes** compared to the 2018 exercise: the treatment of sight deposits; changes in the minimum NPL coverage; new securitisation framework; P2R disclosure and enhancing transparency in credit risk area; after postponed 2020: moratoria and public guarantees*; enlarging the scope of FX treatment to NFCI and administrative expenses; changes in regulation (i.e. CRR “Quick Fix”).
- This year’s stress test is characterised by a **specific scenario that assumes a prolonged Covid-19 scenario in a “lower for longer” interest rate environment**:
 - **very severe** having in mind the weaker macroeconomic starting point in 2020;
 - **drop of GDP in three years by 3.6%** in the EU, while the **unemployment peaks in 2023 at 12.1%**.
- The individual bank results **promote transparency and market discipline**, and are **an input into the supervisory decision-making process**.

* Based on the stress test methodology, from 1 January 2021 onwards, moratoria is assumed to expire and its mitigating effect is disregarded. Exposures under PGS are assumed to keep their guarantee throughout the stress test horizon.

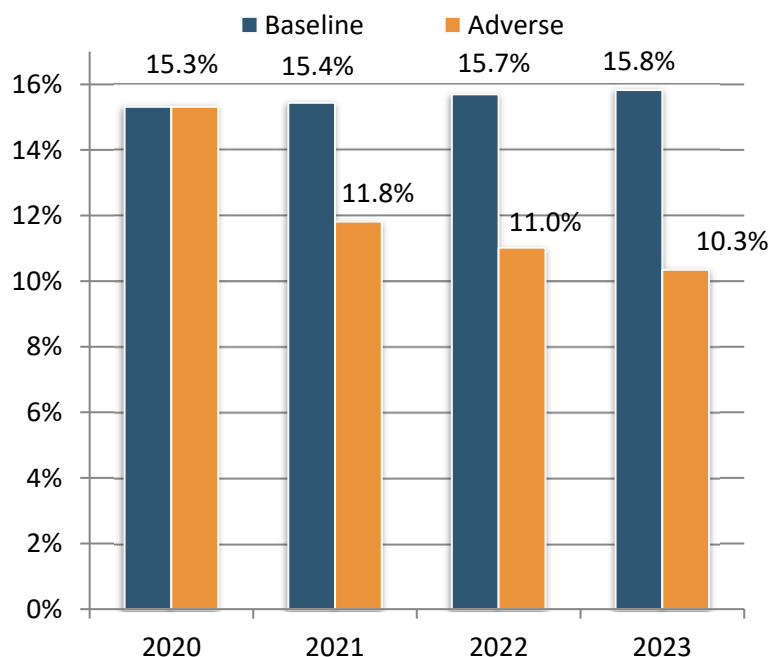
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2021 ST results – Impact on EU aggregate CET1 ratio

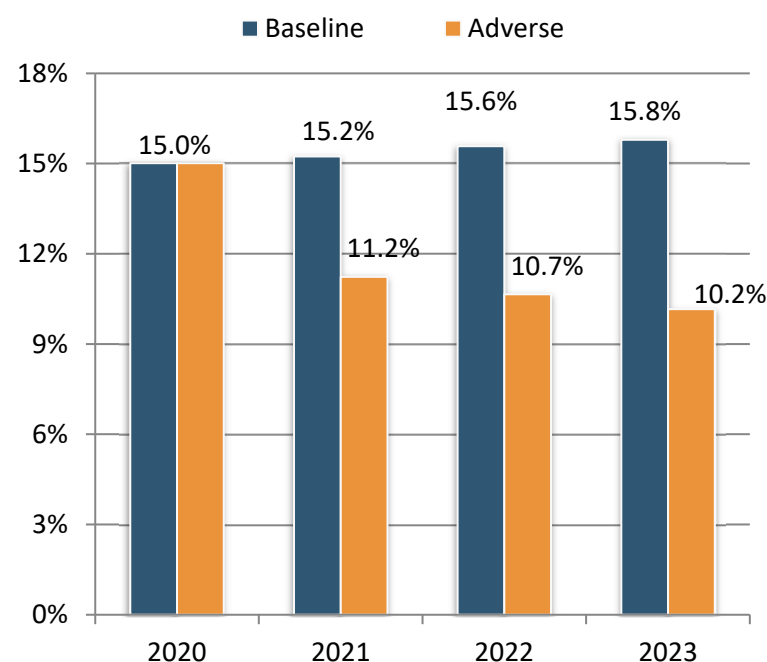
Transitional – starting point 15.3%

- Stress test impact: -497bps
- Capital depletion: €273bn
- Increase of total REA: €866bn



Fully loaded – starting point 15%

- Stress test impact: -485bps
- Capital depletion of €265bn
- Increase of total REA: €868bn



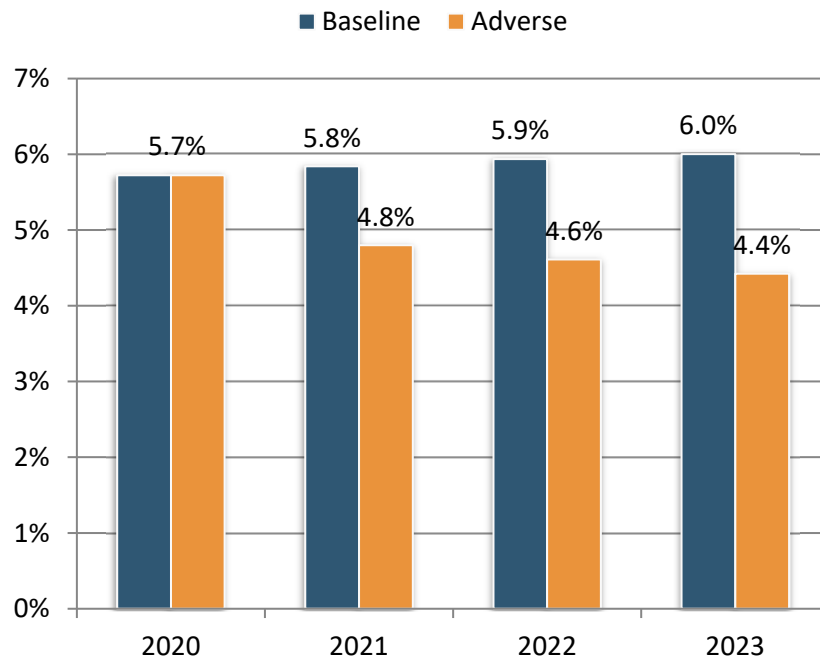
The impact (adverse) on CET1 capital ratio varies significantly across banks, ranging from a minimum decrease of -80 bps to a maximum decrease of -1,179 bps (transitional) or -80 bps to -996 bps (fully loaded).

The CET1 ratio impact in the 2018 EU-wide stress test amounted to 410bps transitional and 395bps fully-loaded.

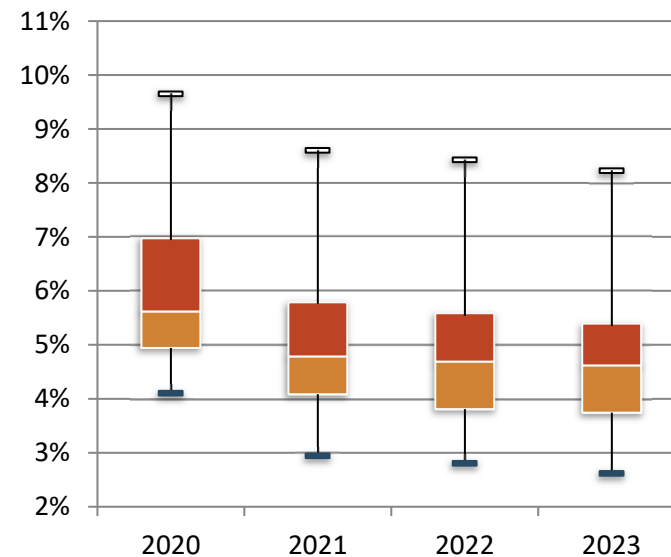
In the baseline scenario, banks' CET1 ratio increase by 51bps on transitional (78bps on fully-loaded) basis.

2021 ST – Impact on leverage ratio (transitional)

Evolution of aggregate leverage ratio (%)



LR dispersion – 5th and 95th percentiles, interquartile range and median in the adverse scenario (%)

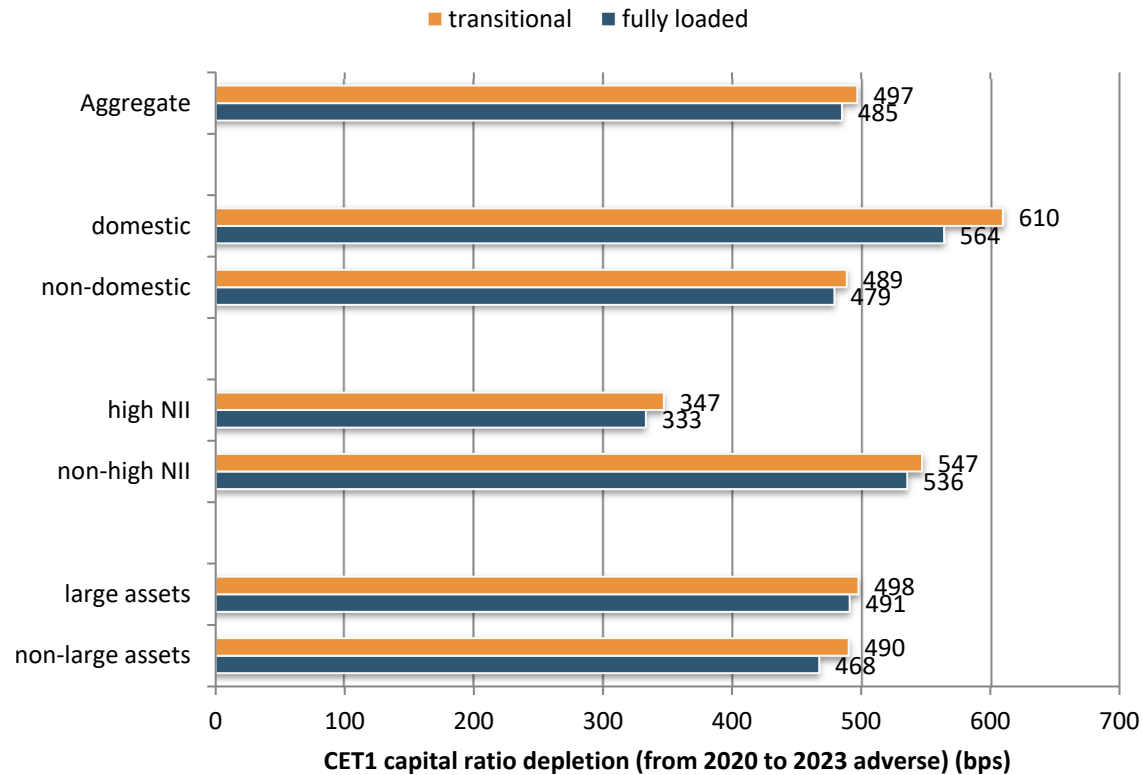


Transitional leverage ratio falls from 5.7% in 2020 to 4.4% in 2023 – adverse.

Drop solely due to decreasing T1 capital, as leverage exposure remain constant.

In the adverse scenario, four banks report a ratio below 3% for every year of the stress test horizon

Impact on EU aggregate CET1 ratio by bank cluster



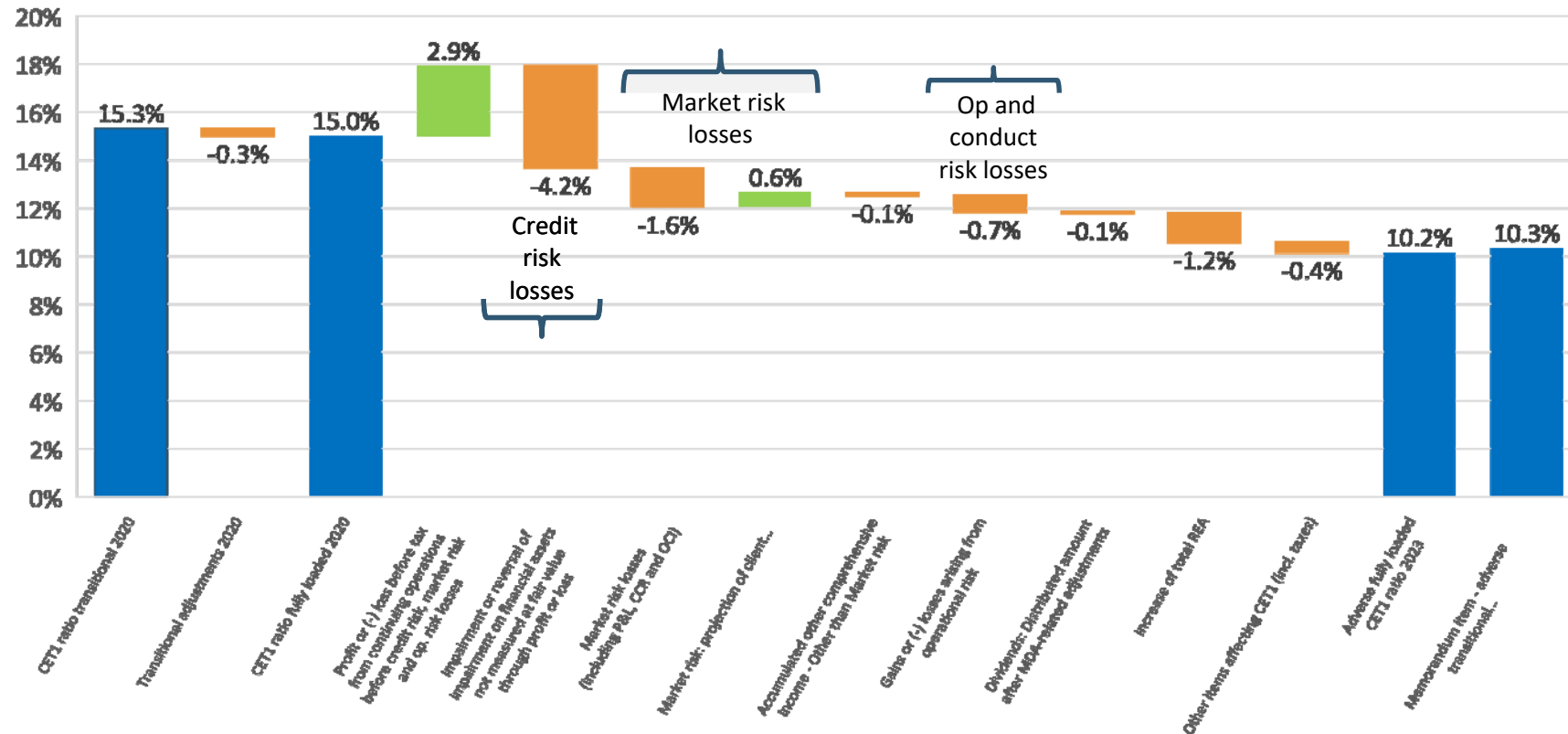
Cumulative capital depletion of 497 bps transitional (485 bps fully loaded)

Banks more focused on domestic market have higher depletion the banks more geographically diversified

Banks with higher Net Interest Income have lower capital depletion than other banks

The size of banks, in terms of total assets, is not a key driver for capital depletion

Aggregate waterfall



Contribution from P&L: 2.9pp (3.9pp in 2018). The main driver is NII for which the contribution is around 100bps lower.

Credit losses have the highest impact: -€308bn, -423bps (-425bps in 2018).

Market risk impact (including OCI): -€74bn, -102bps (-52bps in 2018).

Op. risk: -€49bn, -68bps (-100bps in 2018), mostly conduct risk, -37bps (-65bps in 2018).

REAs increase by 12% compared to 2020, with a negative impact on capital of 121bps (-160bps in 2018).

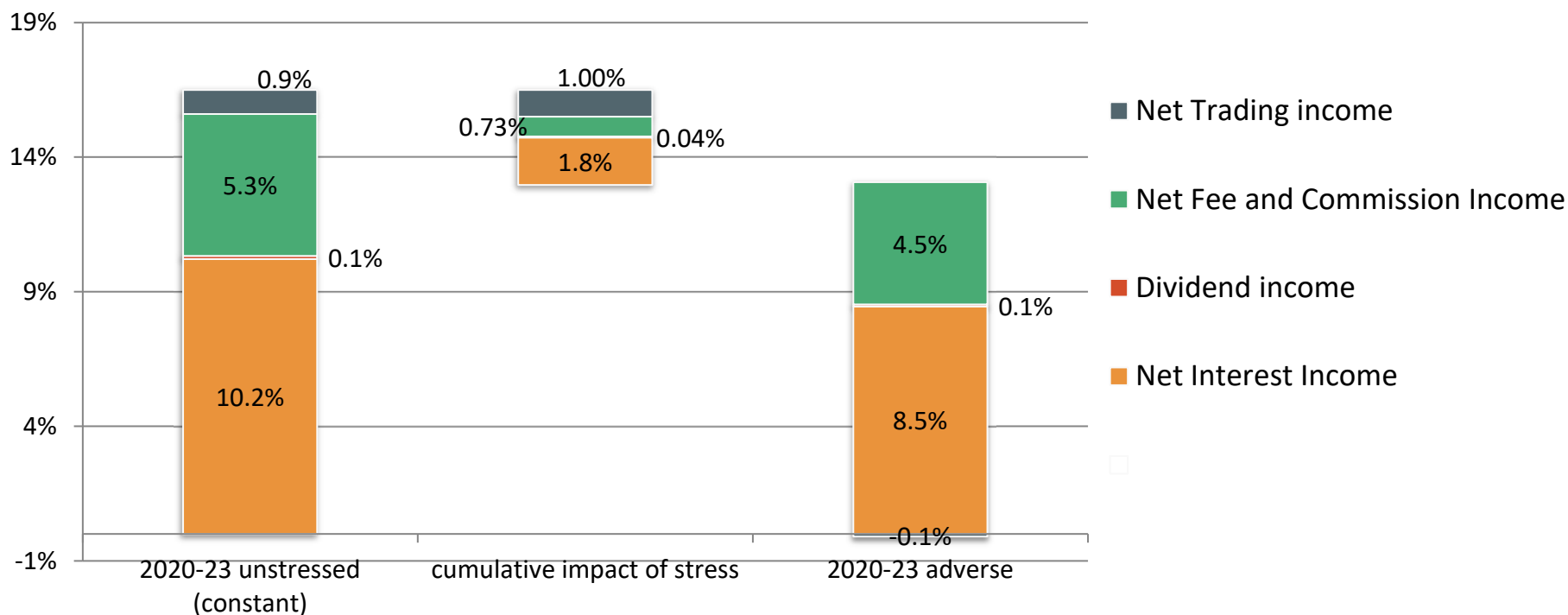
Summary of impacts - Key results, aggregate EU level

Metric	Starting 2020	Baseline 2023	Adverse 2023	Delta baseline 2023 - 2020	Delta adverse 2023 - 2020
Transitional CET1 capital ratio	15.3%	15.8%	10.3%	51 bps	-497 bps
Fully loaded CET1 capital ratio	15.0%	15.8%	10.2%	78 bps	-485 bps
Transitional leverage ratio	5.7%	6.0%	4.4%	28 bps	-130 bps
Fully loaded leverage ratio	5.6%	6.0%	4.3%	39 bps	-124 bps
Transitional CET1 capital	1,115 bn	1,180 bn	843 bn	65 bn	-273 bn
Transitional total REA	7,284 bn	7,455 bn	8,149 bn	172 bn	866 bn
Fully loaded CET1 capital	1,093 bn	1,176 bn	828 bn	84 bn	-265 bn
Fully loaded total REA	7,279 bn	7,451 bn	8,148 bn	172 bn	868 bn

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Impact on profitability, aggregate EU level



Cumulative net loss before tax as of end 2023 under the adverse scenario: -€140bn, -193bps.

Measured in terms of contribution to capital, if the P&L was assumed to be constant it would contribute 16.5pp; however, due to the application of stress it reduces by 3.5pp. In particular: -176bps from NII, -73bps from NFCl, and -100bps from NTI.

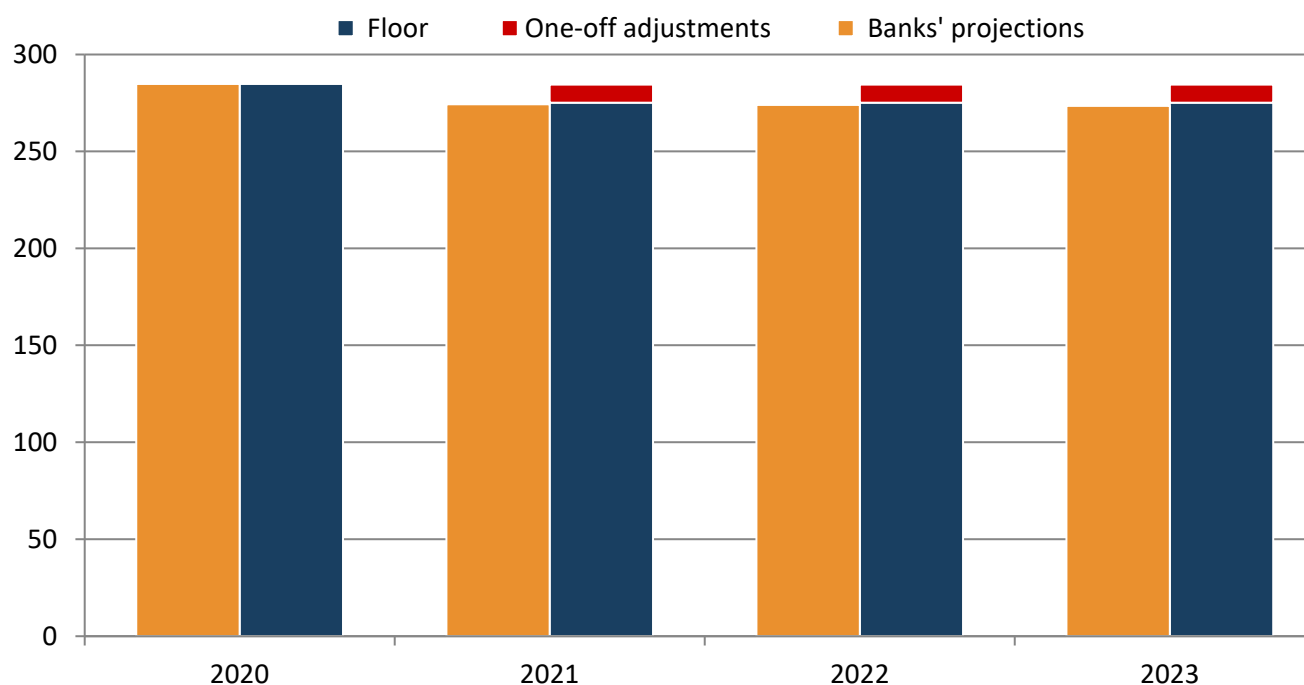
Contribution to capital from NII is 845bps, while from NFCl 454bps (compared to 2018: 939bps and 468bps).

Notes: 2023 unstressed represents the cumulative contribution of NII, NTI, NFCl and dividend income as if the 2020 figures were kept unchanged.
2023 adverse represents the cumulative contribution of NII, NTI, NFCl and dividend income as of end 2023 under the adverse scenario.

Administrative expenses, other operating expenses , other provisions and depreciation

Evolution of admin expenses, other operating expenses, other provisions and depreciation

(EUR bn)



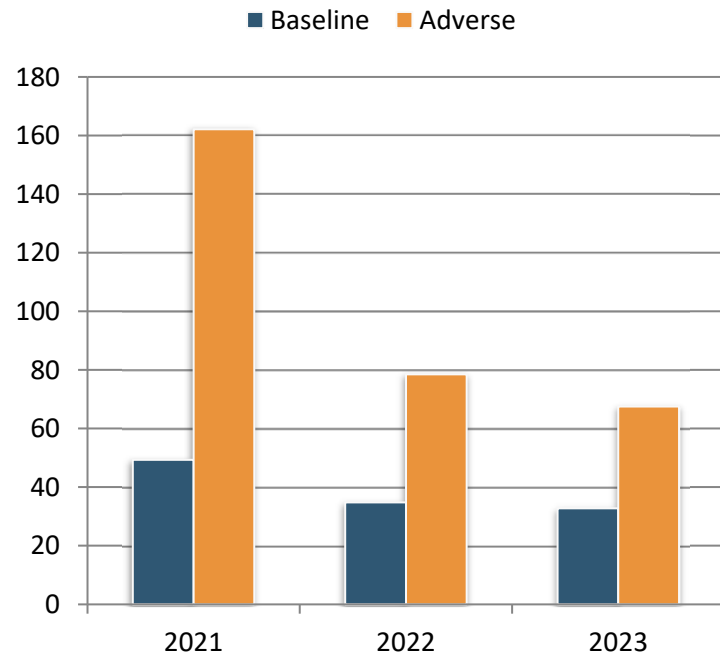
The methodology requires banks to project administrative expenses, other operating expenses, depreciation and other provisions or reversal of provisions floored at the starting level. Only adjustments coming from one-off costs approved by the EBA BoS can be applied.

23 banks were allowed to adjust their cost projections due to justified one-off events.

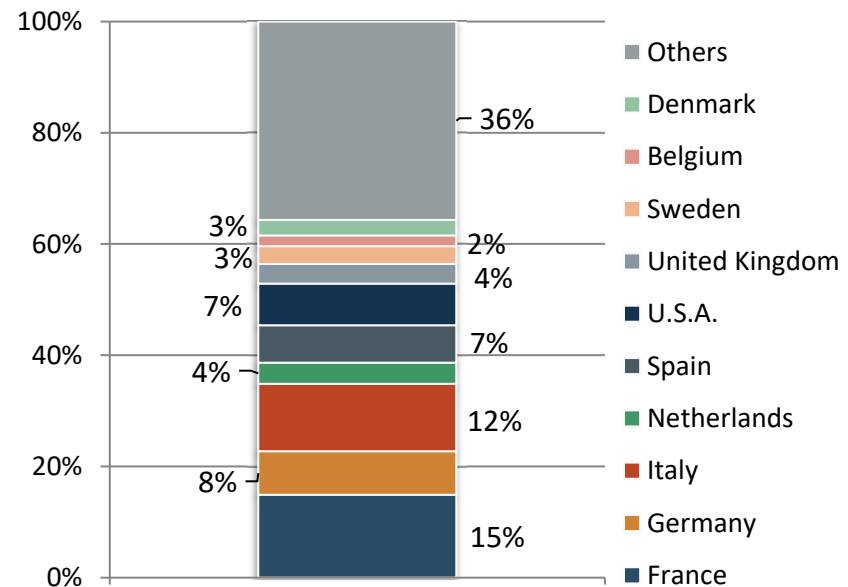
On a cumulative basis, the reduction over the three years due to one-offs was EUR 27.9bn with an impact on CET1 of 38bps. Banks projected expenses above the floor once this was adjusted with the one-offs.

Credit risk losses

Evolution of absolute credit losses (€ bn)



Distribution of impairments by country of the counterparty

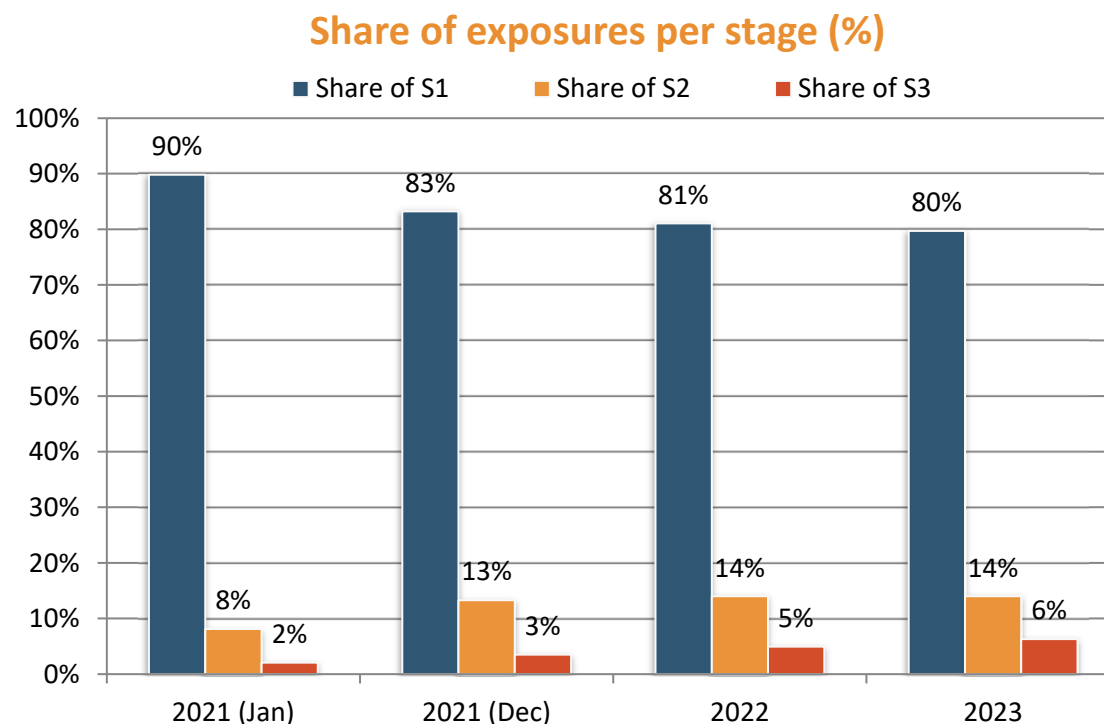


Cumulative credit risk losses over the three years of the exercise in the adverse scenario are 308bn EUR, - 423bps impact on the CET1 capital ratio.

The credit risk impact reflects the distribution of exposures across asset classes (higher losses to corporate and retail non-secured by real estate) as well as the severity of the scenario in the country of the counterparties.

Exposures towards counterparties in France, Italy, Germany, US, Spain and the Netherlands show the largest losses.

Evolution of credit risk exposures by stages



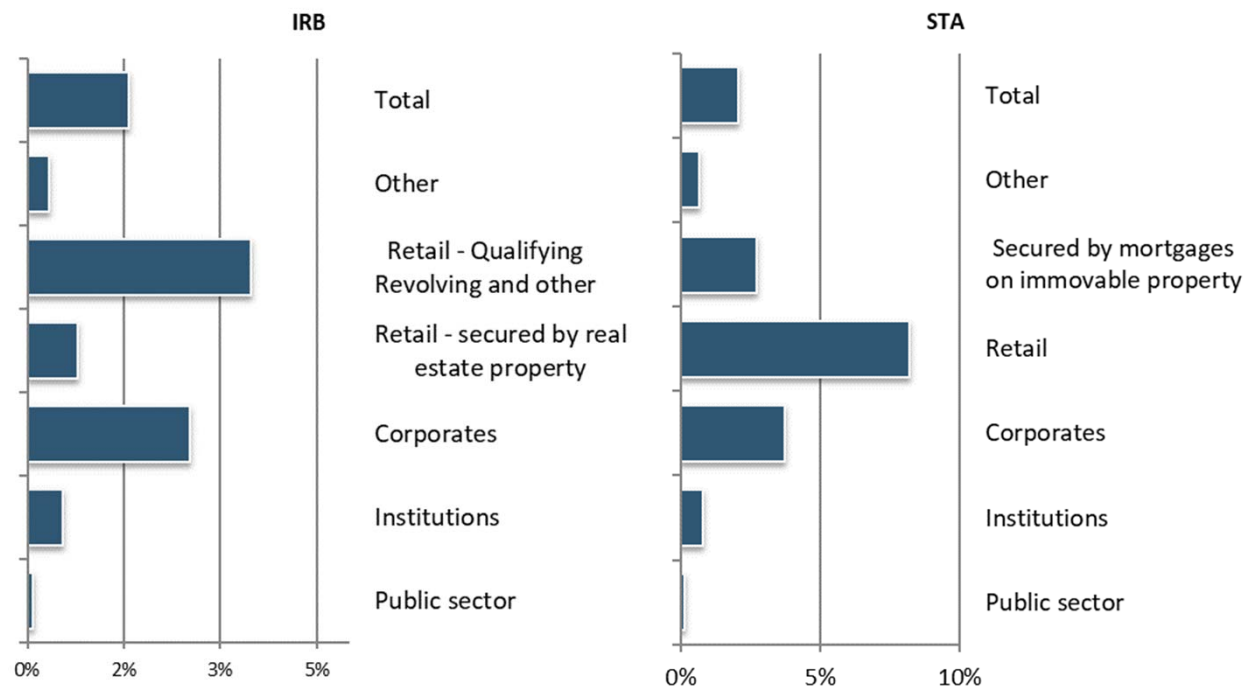
The share of stage 1 exposures decreased over the 3 years of the stress test horizon by 10pp, reflecting moves to stage 2 and stage 3. The share of stage 2 and stage 3 exposures increased by 6pp and 4pp respectively. In 2023, the share of stage 2 and stage 3 exposures stands at 14% and 6%, respectively.

Banks with high exposures towards the sectors most affected by COVID-19 show higher flows to stage 3 than the aggregate (above 2% per year vs. 1.5% per year for the aggregate). The share of stage 3 exposures for these banks increased from ca. 3% in 2020 to 9% in 2023.

For stage 1 and stage 2 exposures, the coverage ratio stays fairly stable over the stress test horizon. For stage 3 it steadily decreases. This is driven by the high increase in the share of stage 3 exposures and the lower loss rates being applied to new defaults in comparison to the loss rates of the initial defaults.

Credit risk losses by portfolio

Credit losses as a percentage of 2020 exposure (%)

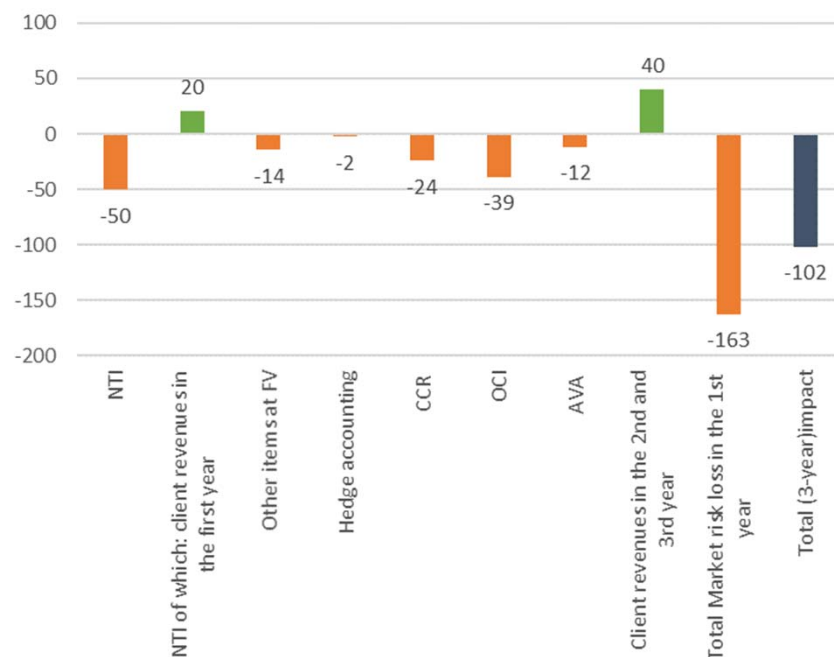


In relative terms, as a percentage of total exposures, retail exposures non-secured by real estate have the highest level of cumulative impairments under the adverse scenario compared to the volume of exposures.

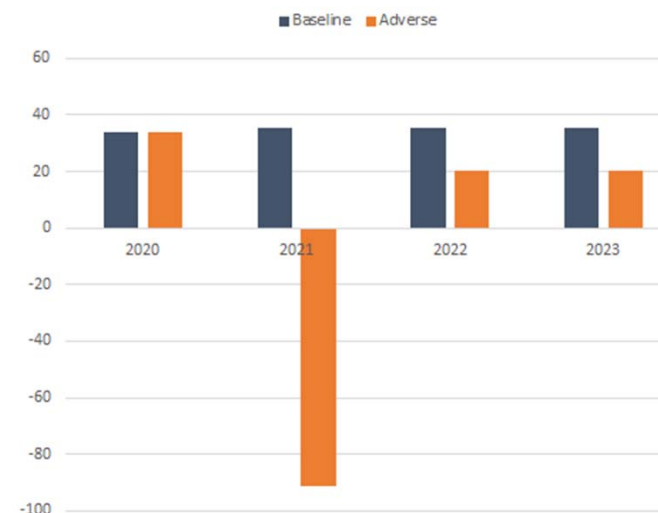
In absolute terms, corporate exposures contribute the most to total losses (46% of total losses), followed by retail exposures (34% of the total, excluding secured by real estate).

Market risk

Drivers of market risk losses in 2021



Evolution of market risk P&L impact (bps)



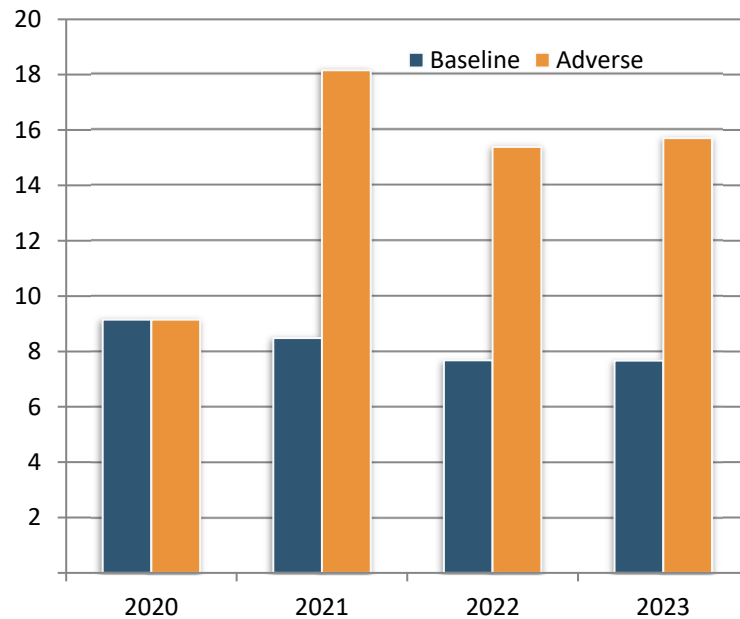
In the first year of the adverse scenario, market risk losses amount to 118bn EUR (163bps). The cumulative market risk impact, considering also the income generated by client revenues projections over the 3 years of the adverse scenario, is 102bps. The dispersion of the total 3-year cumulative impact coming from market risk is significant and ranges from -50 bps (10th percentile) to -183 bps (90th percentile)

The main drivers of the market risk impact in 2021 are NTI, OCI and CCR which represent 31%, 24% and 15% of total market losses, respectively.

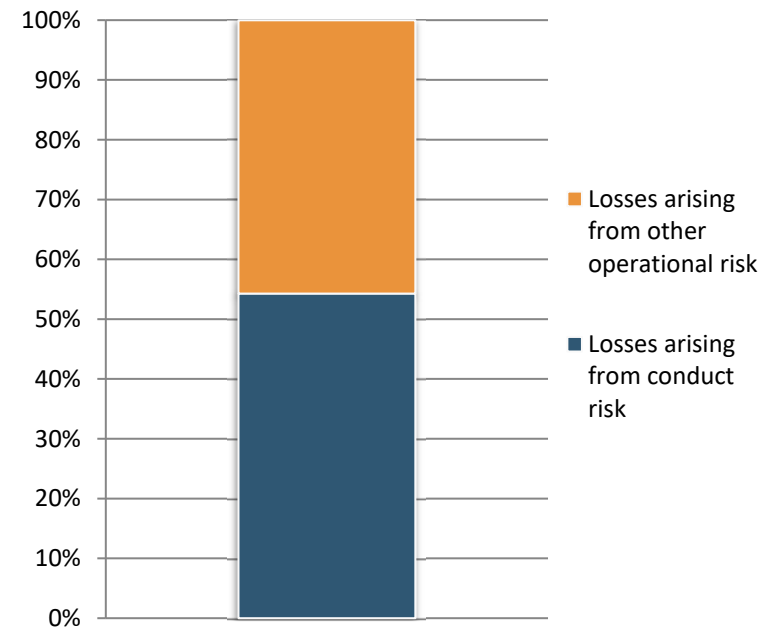
The losses in the first year of the adverse scenario are partially offset by the positive income in the next years resulting in a net cumulative P&L loss in the adverse scenario of -37bn EUR (51bps).

Conduct risk and other operational risk losses

Operational risk losses(€ bn)



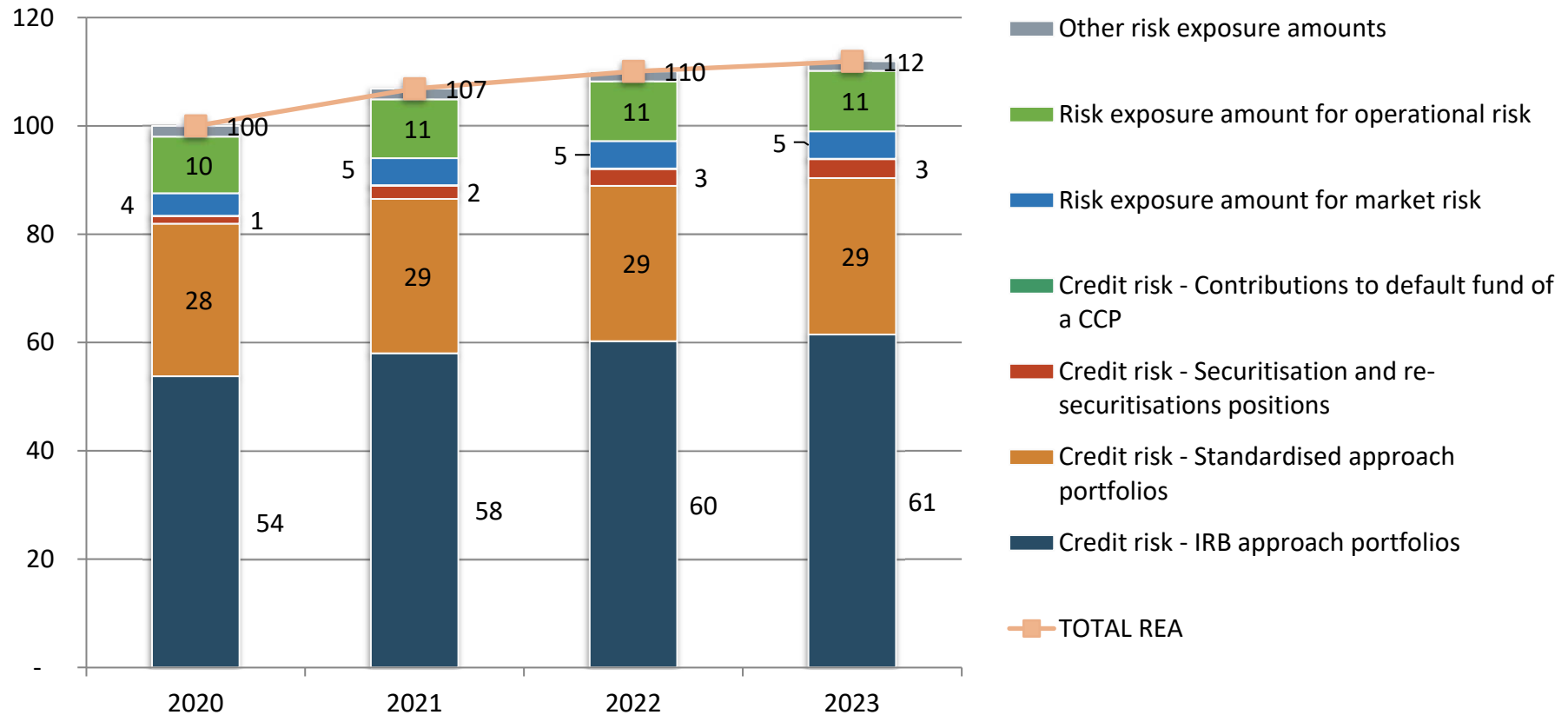
Breakdown conduct risk and other operational risk (%)



Aggregate cumulative operational risk losses in the adverse scenario are 49bn EUR. Conduct risk losses account for 26.7bn EUR, the remaining amount (22.5bn EUR) is composed of projected losses classified as other operational risk.

Banks projected the largest volumes of losses in 2021.

Total REA



Total REA increase by 12% as of end 2020, with a capital impact of 121bps.

The main driver of the increases come from credit risk IRB portfolios.

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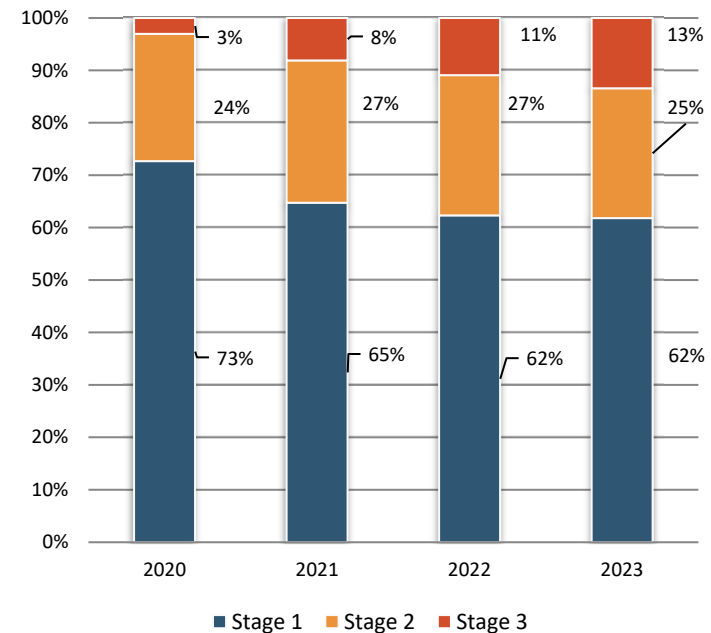
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Analysis of the impact of Covid-19



Metric	2020
Exposures under moratoria (% of total exposures)	4.2%
<i>of which expired</i>	2.8%
<i>of which non-expired</i>	1.4%
Newly originated loans and advances subject to COVID-19 public guarantee schemes (PGS) (% of total exposures)	1.6%

Loans under moratoria per stage (%)



From the total exposures at the end of 2020, about 4% had benefitted of moratoria measures (two thirds of which already expired by the end of 2020); less than 2% was subject to public guarantee schemes (PGS).

As of end 2020, stage 3 exposures represented 3% of exposures that benefitted of moratoria (2% for the whole portfolio; 1% for PGS); as of end 2023 the projected share of stage 3 exposures is 13% (6% for the entire portfolio, 7% for PGS).

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Transparency and disclosure

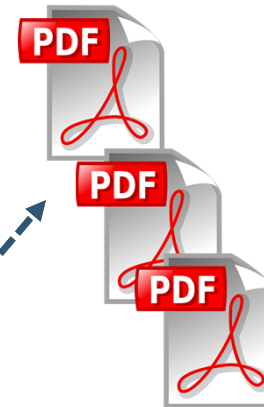
- EBA will publish on 30th July 2021, 18:00 CET the results of the 2021 EU-wide stress test. The disclosure will cover extensive amount of comparable **bank-by-bank actual and projected data**.
- **10 transparency templates** will be disclosed for each bank:
 - 8 templates which were available in previous years: TRA_SUM, TRA_CR_IRB, TRA_CR_SA, TRA_CR_SEC, TRA_REA, TRA_CAP, TRA_P&L and TRA_CAPMEAS
 - 2 new templates added: TRA_CR_COVID19_IRB and TRA_CR_COVID19_SA, which summarise credit risk results in the context of Covid-19 support measures
- **50 banks** participating from 15 EEA countries

SSM							No SSM		
DE, 7	FR, 7	IT, 5	NL, 5	ES, 4	AT, 2	FI, 2	IE, 2	DK, 3	PL, 2
					BE, 2				

Analysis, data and tools

Analysis of results

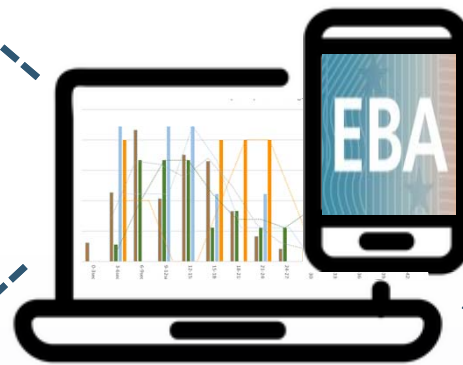
- Aggregate report
- Frequently Asked Questions



Individual Transparency templates
50 files – one for each bank (pdf)

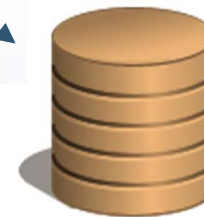
Visualization tools

- 4 tools with individual results and EU/country aggregates



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Press Release
30 July at 18:00 CET



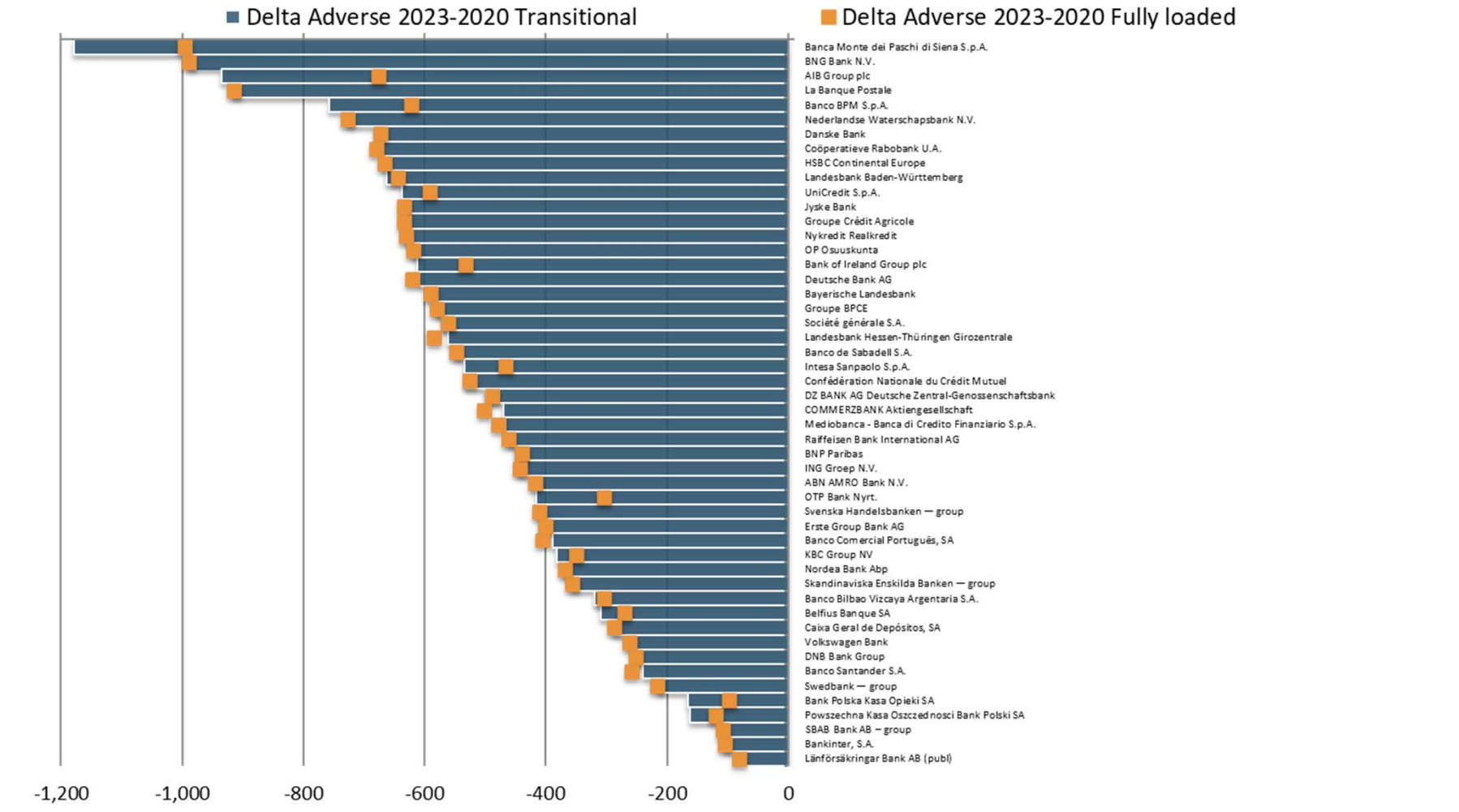
Entire dataset Transparency templates
4 CSV files plus metadata, data dictionary, manual

Conclusions

- Banks started the exercise with the highest CET1 ratios compared to the previous EU-wide stress tests.
- This year's scenario is very severe (more than the one in 2018), there is a different and very specific narrative.
- The results show a high depletion close to 500 bps, but banks finish the exercise above 10% CET1 ratio on average.
- Credit risk remains the main driver, but there is a higher impact on NII compared to previous stress tests.
- The results also show dispersion across banks. Banks more focused on domestic activities or with lower net interest income (NII), display a higher depletion.
- The baseline scenario results provide comparable information about individual banks in the context of a gradual exit from the pandemic.
- The results facilitate market discipline and will be used as an important input into the SREP.

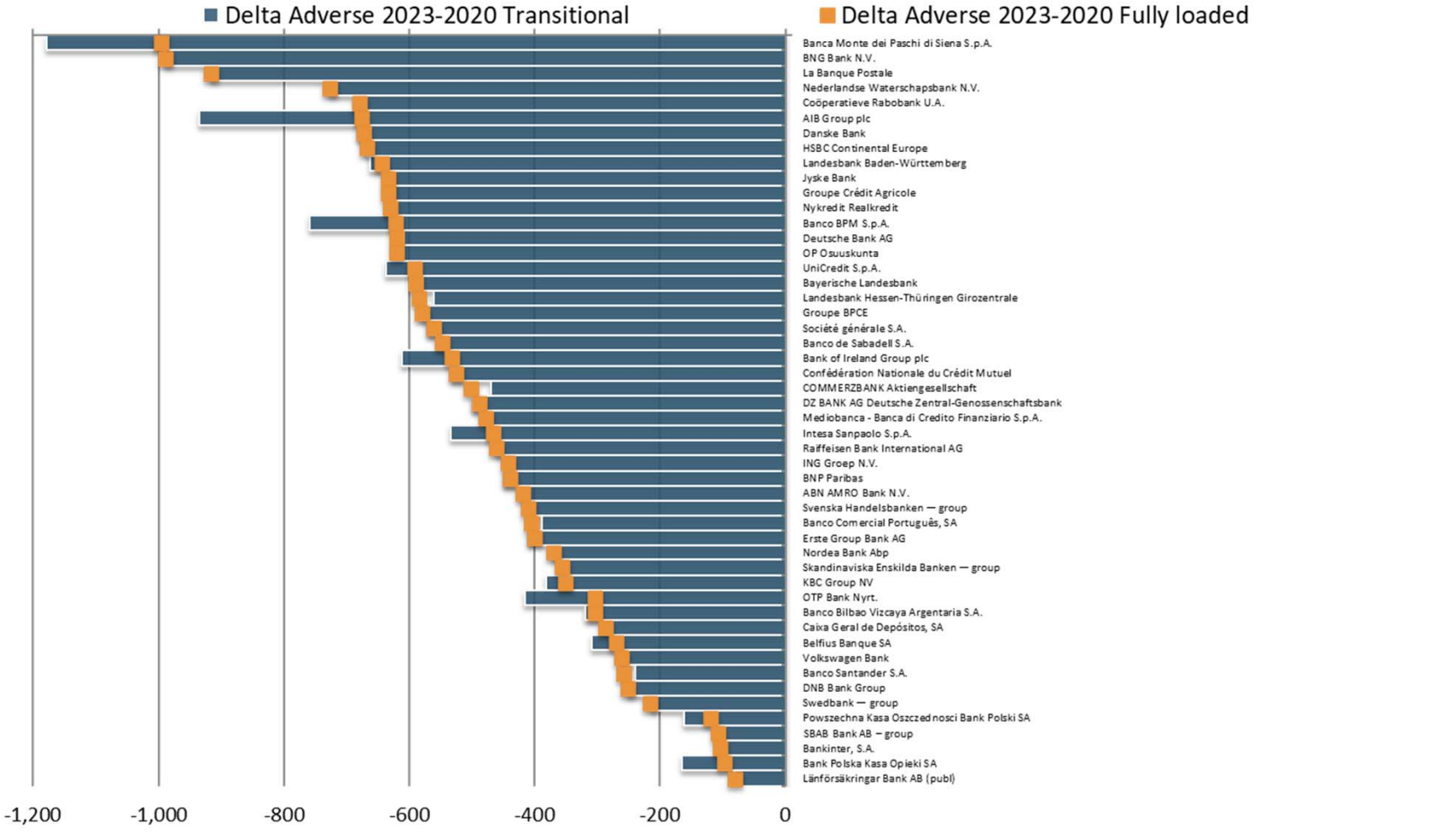
ANNEX: Bank-by-bank results

Bank-by-bank impact, order by size of transitional impact



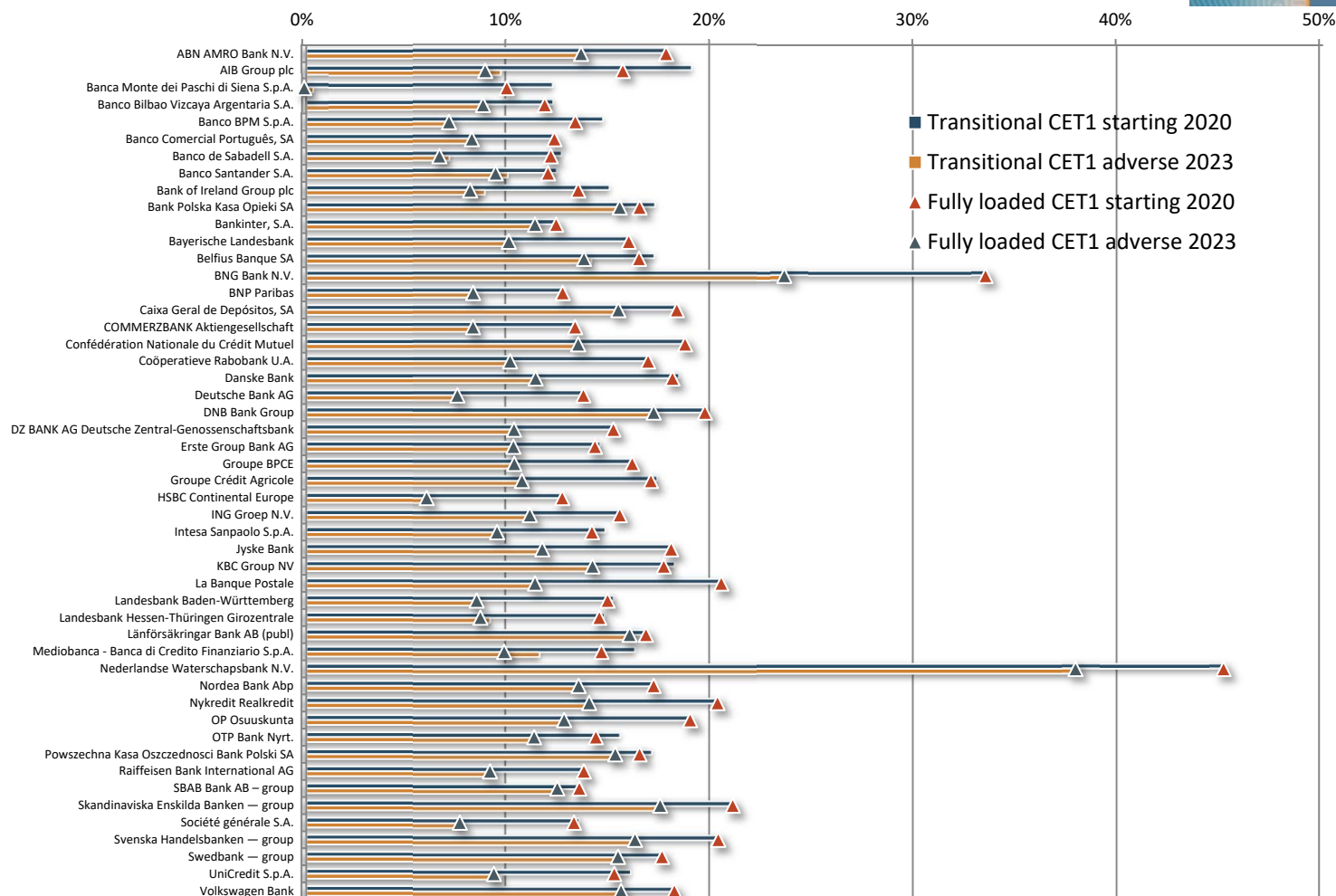
25% of the banks report a decrease above 631bps, with another 25% of banks reporting a decrease below 360bps.

Bank-by-bank impact, order by size of FL impact



25% of the banks report a decrease above 621bps, with another 25% of banks reporting a decrease below 315bps.

Bank-by-bank CET1 ratio, starting and end point (%)



Large dispersion also of banks' capital position at the starting and end-point. CET1 ratios range from 12.1% to 45.1% on a transitional basis (from 9.9% to 45.1% on a fully loaded basis) at the end of 2020 and from 0.3% to 37.8% on a transitional basis (from -0.1% to 37.8% on a fully loaded basis) at the end-2023 adverse scenario.

All banks have a CET1 capital ratio in excess to the overall capital requirement (OCR), with a median excess capital of 704 bps; 90% of the sample (45 banks) has an excess capital above 391 bps. Under the adverse scenario, in 2023 the median excess capital is 528 bps with respect to the relevant total SREP capital requirement (TSCR); 90% of the banks of the sample is above 219 bps; and two banks are below the TSCR. 22 trigger MDA rules during the projection years of the stress test.



EUROPEAN BANKING AUTHORITY

Floors 24-27, 20 Av André Prothin, 92927 Paris La Défense

Tel: +33 1 86 52 7000

E-mail: info@eba.europa.eu

<http://www.eba.europa.eu>