



2021 EU-wide Transparency Exercise and Risk Assessment Report

Statistics & Risk Analysis and Stress Testing Units

Background briefing with analysts and journalists | 3 December 2021

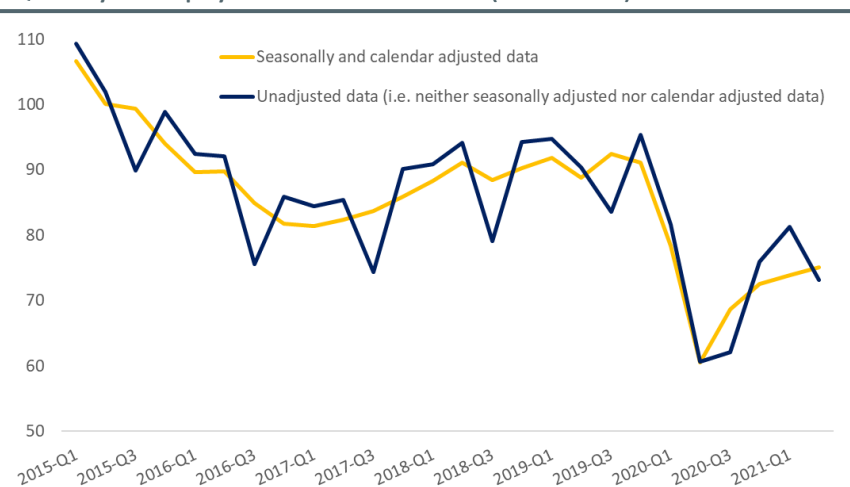
Outline of the presentation



- **Risk Assessment Report (RAR): main findings, outlook and policy implications**
- Transparency exercise – what we publish today

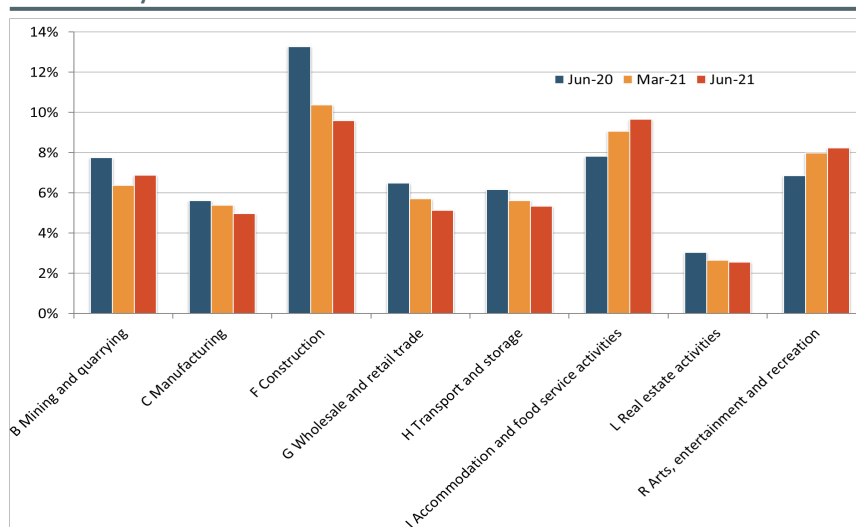
No major asset quality problems despite pandemic

Quarterly bankruptcy declarations in the EU-27 (YE 2015=100)



Source: Eurostat

NPL ratios by sector

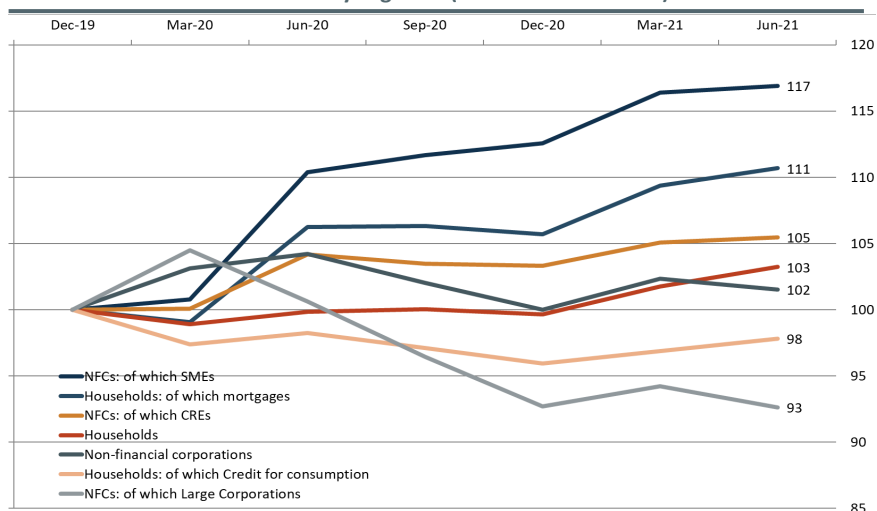


Source: EBA supervisory reporting data

- Support measures keep bankruptcy filings below the average of the last five years.
- The overall NPL ratio has continued to fall from 2.9% in Jun-20 to 2.3% in Jun-21, not least supported by some large NPL disposals through securitisations.
- The volume of **forborne loans** has seen an uninterrupted **upward trend** since the start of the pandemic.
- Although the rising trend in stage 2 loans **slightly reversed**, they are still above pre-pandemic levels (8.9% in Jun-2021 vs 6.8% in Dec-2019).
- The share of stage 2 loans that have benefited from moratoria and public guarantee schemes (PGS) is particularly high (25% and 18.5%, respectively). In addition, the NPL ratios for moratoria loans stand well above the average (around 4.7%).

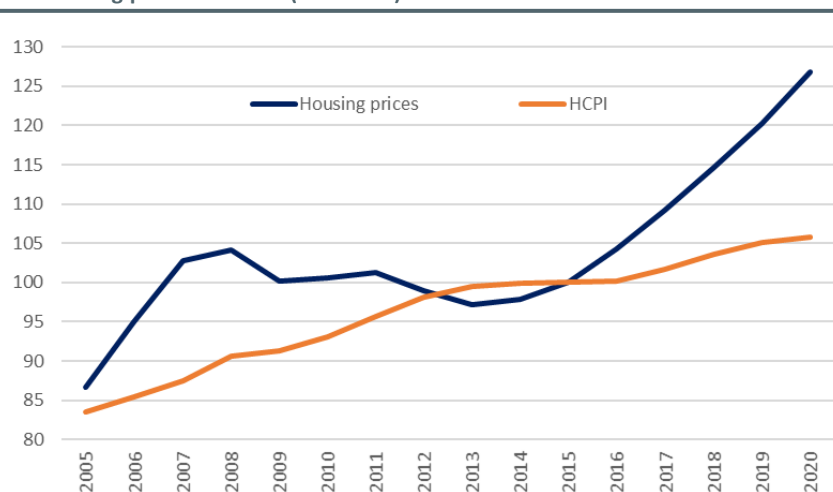
Mortgage lending expected to grow further

Growth in loans and advances by segment (December 2019=100)



Source: EBA supervisory reporting data

EU housing prices and HCPI (2015=100)



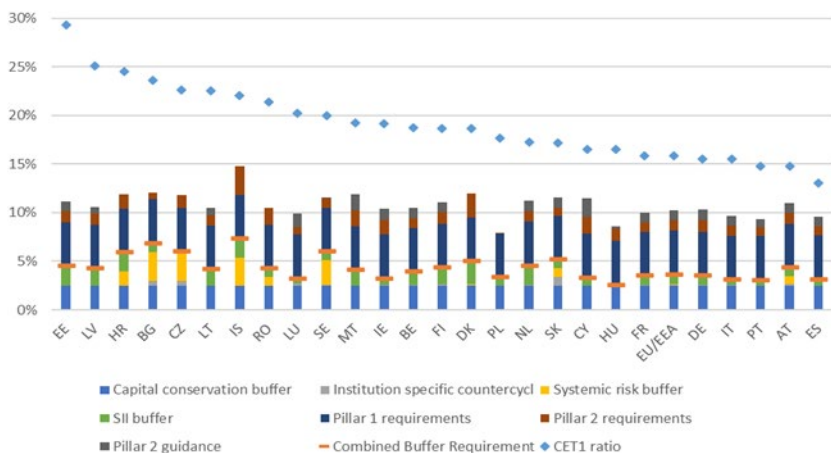
Source: Eurostat

- **Total assets have increased by 2% from Jun-20 to Jun-21 (12% from Dec-19) to EUR 26.4tn on the back of cash balances (+42% YoY).**
- **Loans and advances have declined by approx. 1% YoY driven by loans to large corporates.**
- **Nonetheless, SME and mortgage lending have risen substantially (+6% and +4% respectively).**
- **More than 75% of the banks suggest that they target further growth in mortgage lending (50% in spring 2020) going forward, despite signs of overvaluation in housing prices.**

Banks maintain comfortable capital and liquidity buffers

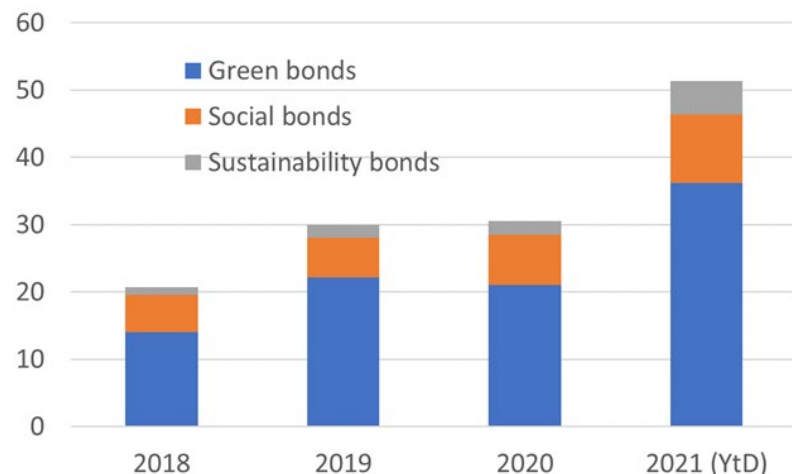


CET1 ratio vs CET1 capital requirements (OCR + P2G)



Source: EBA supervisory reporting data

EU banks, issuances of green, social and sustainability bonds (EUR bn)

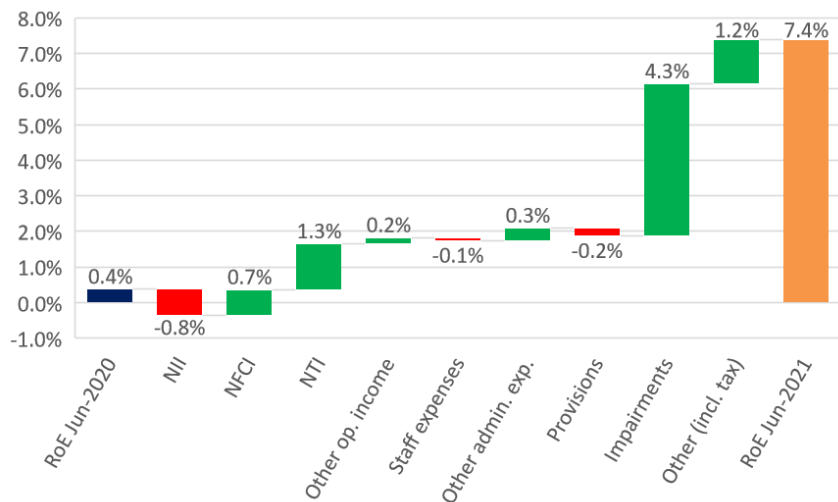


Source: Dealogic

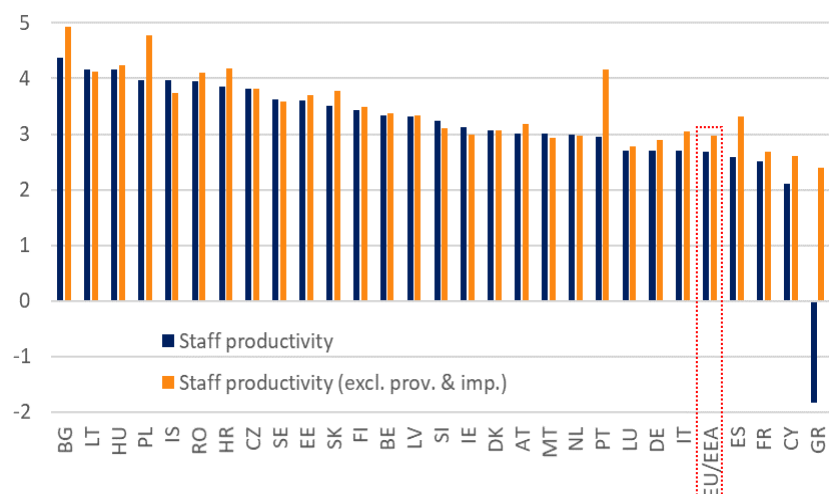
- Banks reported **stable capital ratios in June 2021 (CET1 ratio of 15.8%, unchanged since Dec 2020)** and hold **comfortable buffers above capital requirements**.
- In 2021, banks plan to make **exceptional dividend payments and share buy-backs** to make up for the lack of payments in 2020.
- **Despite favourable wholesale funding conditions and increasing deposits, banks have continued to make extensive use of central bank funding.** As a result, more than half of central bank-eligible assets are now encumbered (53.4%).
- **The share of ESG bonds over total bank issuances has increased substantially.** As of Sep-21, they accounted for around 20% of the total volumes issued in 2021 (10% in 2020).
- **Although the NSFR stands at 130%, assuming an exclusion of central bank funding from the numerator only, the average NSFR would be around 115%.**

Further profitability improvements might prove difficult

Contribution to the RoE of the main P&L items, calculated as a ratio to total equity (2020-2021)



Staff productivity by country (June 2021)



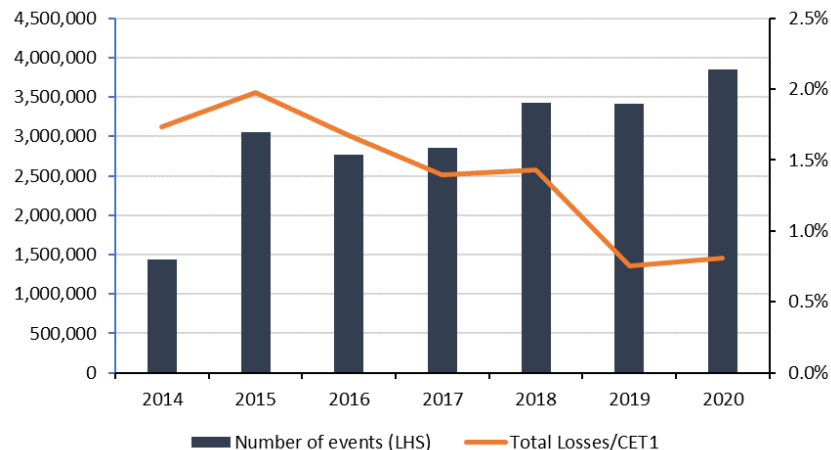
Source: EBA supervisory reporting data

- Profitability has improved on the back of lower impairments and higher net trading income (NTI). Other non-recurrent items like profit from negative goodwill (included under 'Other (incl. tax)' in the chart) also played an important role.
- Net interest income continues a downward trend dragged by declining margins. The average net interest margin (NIM) has fallen (-10bps YoY to 1.24% in Jun-2021) driven by an increasing share of cash balances.
- Operating expenses have increased by 2.1% YoY, but they remained constant as percentage of total assets (1.23%).
- Differences in staff productivity are driven by external factors such as higher official interest rates, but also by internal ones such as more extensive use of digital banking.

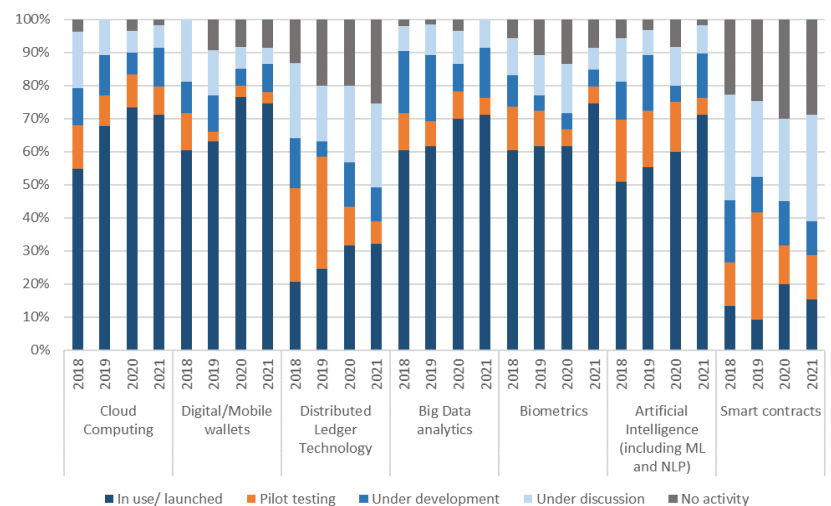
IT and cyber security incidents have risen substantially



Total losses in operational risk as a share of CET1 and number of loss events, by country, December 2020



Status of adoption of financial technology at EU banks, 2018 - 2021



Source: EBA supervisory reporting and EBA RAQ for banks

2021 EU-wide Transparency Exercise and Risk Assessment Report

- Operational risk is on the rise. Accelerated digital transformation and reliance on technology has been accompanied by a rising number of ICT and security-related incidents.
- Known operational risks remain, including related to AML, business conduct, organisational change, and fraud.
- Banks need to **prioritise ICT security**, including at third-party service providers, not least since cybercriminals are increasingly turning their focus to supply chains. **Cyber resilience testing is crucial.**
- Looking forward at the usage of financial technology, banks' responses to the EBA Risk Assessment Questionnaire point to
 - Increased use of **biometrics and artificial intelligence solutions** (including machine learning).
 - Stable use of cloud computing, digital/mobile wallets and big data analytics.

Policy implications



- Banks should ensure that **newly originated loans** are of appropriate credit quality and are adequately priced.
- Banks need to **incorporate ESG risk-related considerations** into their business strategies and governance structures.
- Banks should ensure that they are able to **substitute current central bank funding** with other sources.
- Given the COVID-19-related uncertainties, banks should **maintain prudent capital distribution policies**.
- Banks should also ensure that **effective IT security arrangements** are in place at their third-party service providers.
- Prudential supervisors, **AML/CFT** supervisors, and financial intelligence units should **cooperate closely**.

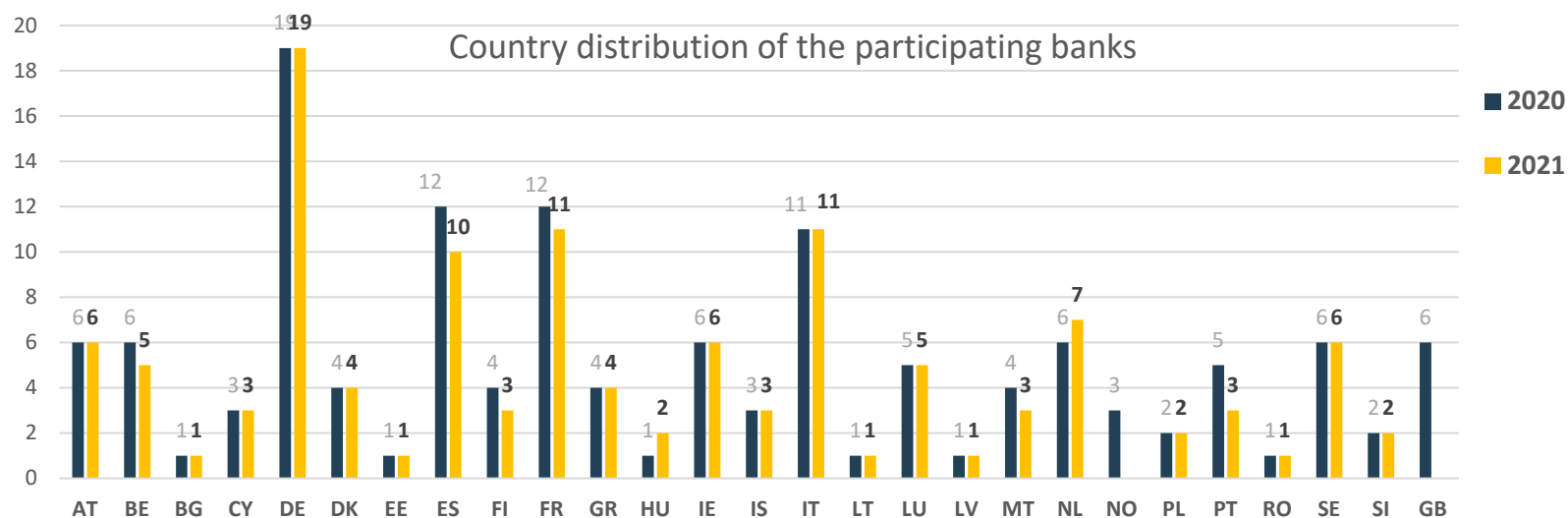
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2021 EU-wide Transparency Exercise

- On average more than 10,000 data points per bank; 120 banks from 25 countries at the highest level of consolidation in the EU/EEA.
- Reference dates: **September 2020, December 2020, March 2021** and **June 2021**.
- Exclusively based on supervisory reporting data (FINREP, COREP, COVID19). Information mostly in line with previous exercises to ensure continuity in the time series. Main difference in the template related to information on loans and advances subject to legislative and non-legislative moratoria, enriched with expired moratoria and PSG positions.



What's on the website: the full package

■ Database:

- ✓ **CSV Data**  : Credit risk, Market risk, Sovereign debt exposures, Other templates
- ✓ **Data dictionary** 
- ✓ **Metadata** 
- ✓ **Manual for using and managing data and tools** 
- ✓ **Template mapped to supervisory reporting items** 

■ Single bank PDFs

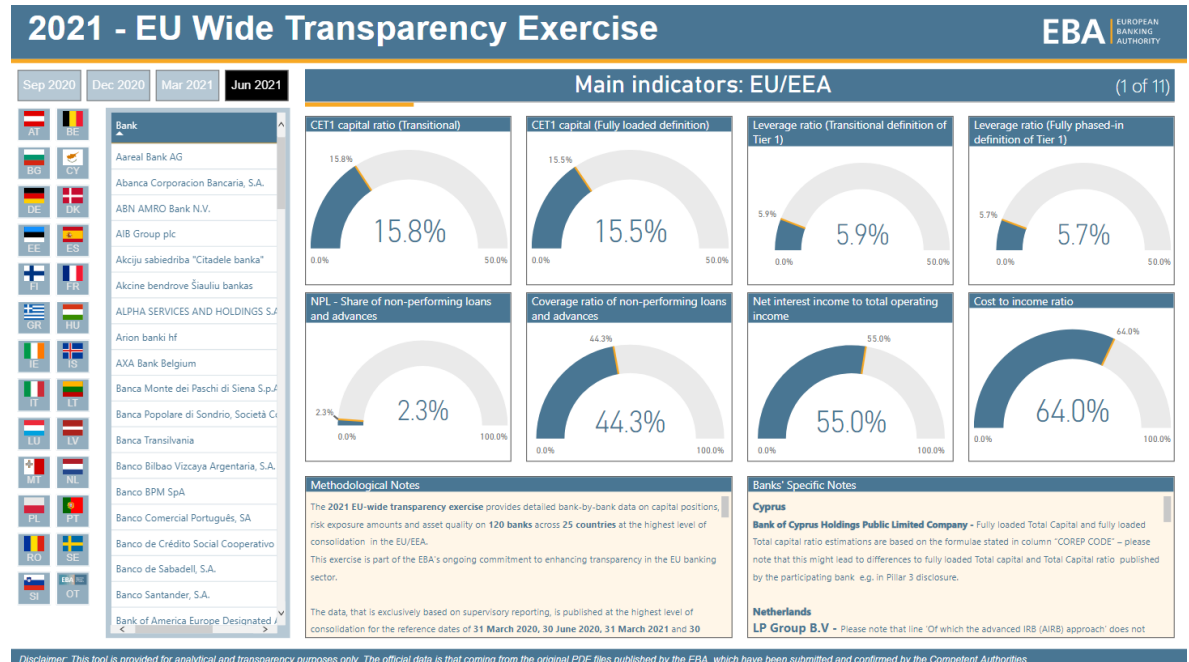
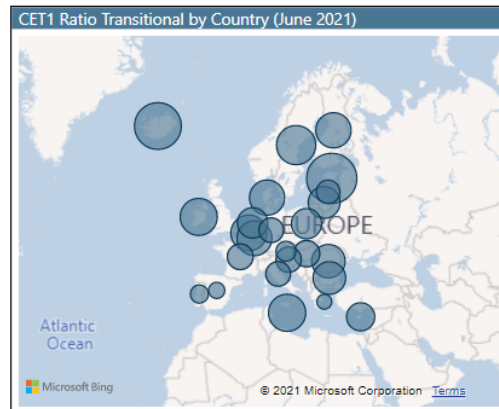
■ Online interactive dashboards:

- ✓ **Main indicators – visual exploration tool**
- ✓ **Key Metrics, Capital, Leverage, P&L, RWAs, Assets and Liabilities**
- ✓ **NPE and forborne exposures**
- ✓ **NACE**
- ✓ **Sovereign**
- ✓ **Covid-19**

Exploiting data via interactive dashboards

Online data exploration tools: allowing country/banks comparison through transparency template based tables, maps and advanced charts.

- ✓ Banks data
- ✓ Country aggregates
- ✓ EU/EEA aggregates



2021 - EU Wide Transparency Exercise

Navigation: Key Metrics | Leverage | **Capital** | RWA | P&L | Assets | Liabilities

Capital: EU/EEA

Item	September 2020	December 2020	March 2021	June 2021
OWN FUNDS	1,660,658	1,718,832	1,723,962	1,738,949
COMMON EQUITY TIER 1 CAPITAL (net of deductions and after applying transitional adjustments)	1,330,146	1,382,102	1,385,993	1,402,996
Capital instruments eligible as CET1 Capital (including share premium and net own capital instruments)	671,574	667,837	669,929	667,120
Retained earnings	584,207	490,759	420,005	444,130

New: enriched information on COVID-19 measures

Banks' figures on loans and advances with current EBA-compliant moratoria integrated with expired positions and newly originated loans and advances subject to public guarantee schemes (PGS).

Allows to replicate Risk Indicators as disclosed at country aggregated level in the EBA's Risk Dashboard.

2021 - EU Wide Transparency Exercise

NPL ratio: subject to active -moratoria, expired moratoria and to PGS

Gross carrying amount on Loans and advances subject to active EBA-compliant moratoria

Gross carrying amount on Loans and advances with expired EBA-compliant moratoria

Gross carrying amount on Newly originated loans and advances subject to public guarantee schemes

Select type of exposure:

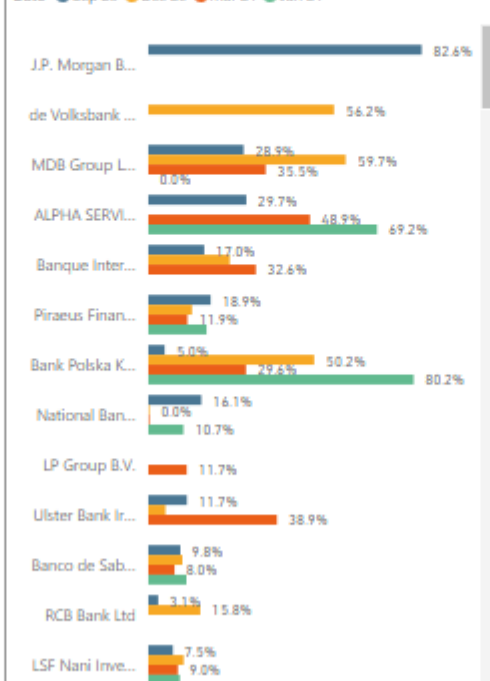
Total / No breakdown

Ratio by Country

Country	Sep 20	Dec 20	Mar 21	Jun 21
Austria	2.8%	3.8%	4.6%	10.2%
Belgium	1.6%	2.9%	4.6%	4.9%
Bulgaria	0.5%	1.0%	0.8%	0.8%
Cyprus	6.0%	6.5%	7.8%	6.6%
Estonia	0.8%	2.8%	0.0%	0.0%
Finland	0.1%	0.2%	0.2%	0.2%
France	1.7%	2.4%	3.5%	4.6%
Germany	2.1%	6.5%	5.0%	9.9%
Greece	17.5%	7.0%	14.1%	15.6%
Hungary	2.7%	4.1%	5.3%	6.4%
Iceland	1.1%	5.9%	14.4%	0.0%
Ireland	7.8%	6.1%	6.1%	3.7%
Italy	1.1%	1.5%	2.3%	3.1%
Latvia	0.2%	0.0%	0.0%	0.0%
Lithuania	0.0%	0.0%	0.0%	0.0%
Luxembourg	15.9%	22.5%	32.3%	
Malta	1.0%	6.2%	7.3%	27.5%
Netherlands	2.6%	4.6%	13.2%	3.2%
Other	3.5%	4.9%	1.1%	1.1%

Ratio by Bank

Date: Sep 20, Dec 20, Mar 21, Jun 21



EU/EEA March 2021

4.0%

EU/EEA June 2021

4.5%

Date	Sep 20	Jun 21
Country	Gross carrying amount total	Gross carrying amount, non-perfor...
Austria	22,344	
BAWAG Group AG	362	
Erste Group Bank AG	11,833	
Raiffeisen Bank Internatio...	6,180	
Raiffeisenbankengruppe ...	483	
Sberbank Europe AG	1,712	
Volksbanken Verbund	1,773	
Belgium	19,531	
AXA Bank Belgium	1,107	
Belfius Bank	5,136	
Investeringsmaatschappij ...	579	
KBC Groep	12,710	
The Bank of New York Me...	0	
Bulgaria	232	
First Investment Bank AD	232	
Cyprus	9,291	
Bank of Cyprus Holdings ...	5,846	
Total	575,025	

10 years



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