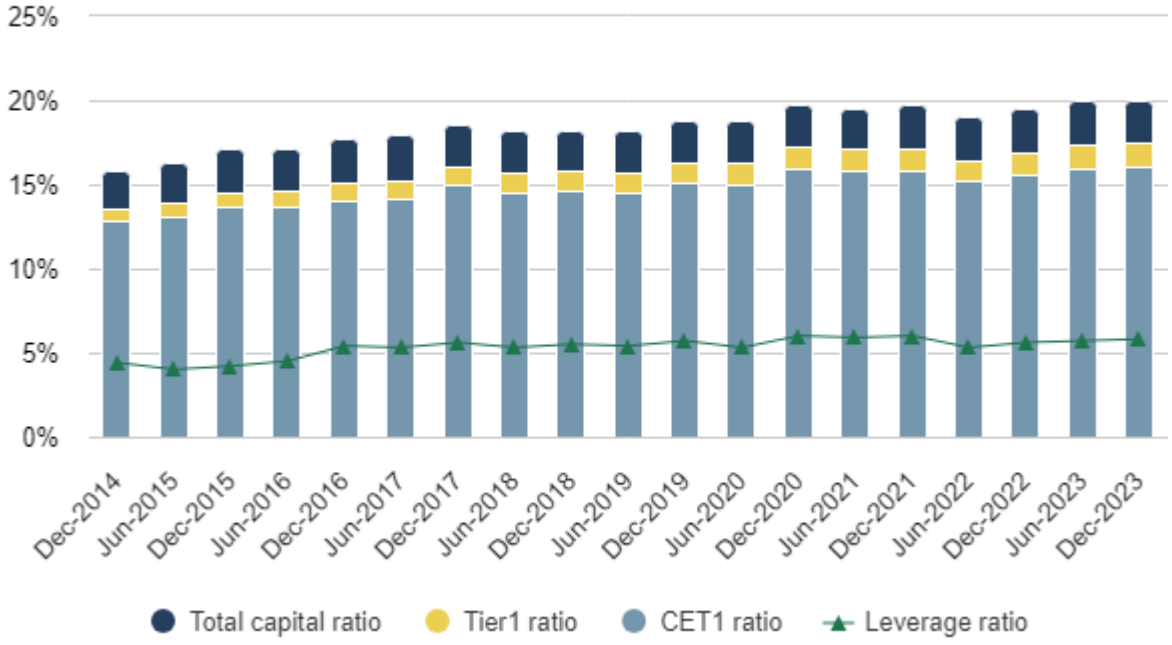
Capital and risk-weighted assets

Capital ratios have remained at record levels. The total capital ratio reached 20.0% as of year-end 2023, which is a YoY increase of around 45 bps. This was primarily driven by the CET1 component, which rose from 15.6% in Q4 2022 to 16.1% one year later. The latter is an all-time high (capital ratios transitional definition; the fully loaded CET1 ratio stood at 16.0% as of YE 2023; Figure 34). Overall, the volume of CET1 capital rose from around EUR 1.4tn in Q4 2022 to around EUR 1.5tn as of YE 2023. The increase in capital and respective ratios was supported by rising retained earnings and comparatively slower growth in RWA, and despite rising payouts.

Figure 34: Capital ratios (transitional definitions) and leverage ratio



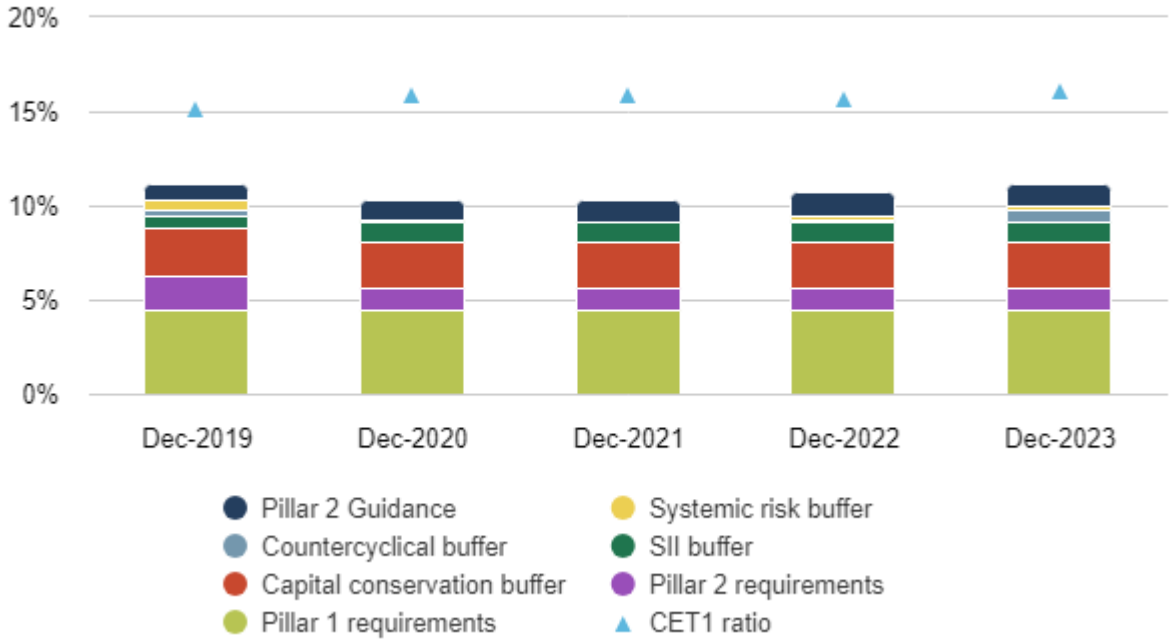
Source: EBA supervisory reporting data

High capital buffers and profits enable high payouts – but going forward caution might be needed

EU/EEA banks' CET1 headroom above OCR - which consist of Pillar 1, Pillar 2 and the combined buffer requirements - and P2G, have remained at comfortable levels. They rose

slightly YoY, reaching nearly 500 bps as of Q4 2023 (around 490bps in Q4 2022). Such a stable headroom is a result of a slightly stronger increase in CET1 ratios (transitional definition) than respective OCR plus P2G. The rise in the OCR was primarily due to an increase in the countercyclical buffer (CCyB) component, which rose from on average 20 bps in Q4 2022 to 56 bps in Q4 2023 (Figure 35). A country-by-country analysis shows a relatively big dispersion of the available headroom, but also confirms that there is in most cases comfortable headroom of CET1 ratios above capital requirements (Figure 36).

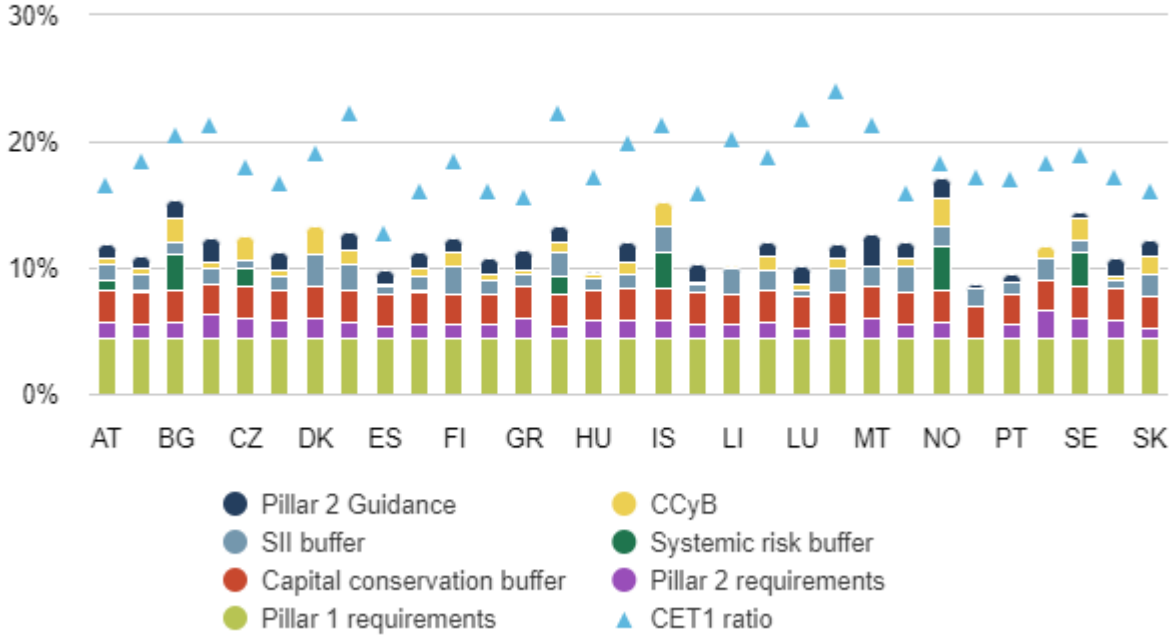
Figure 35: CET1 requirements and Pillar 2 Guidance vs CET1 ratio (transitional definition) *



Source: EBA supervisory reporting data

* SII buffer refers to G-SII and other systemically important institution (O-SII) buffers.

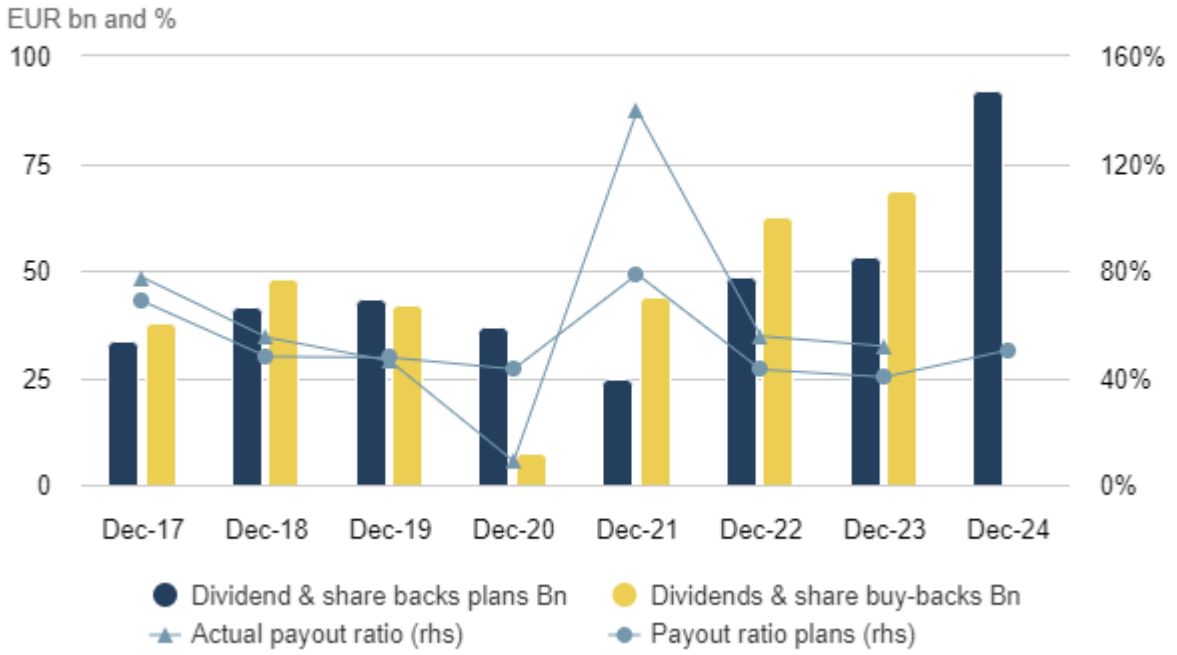
Figure 36: CET1 requirements and Pillar 2 Guidance vs CET1 ratio (transitional definition) by country



Source: EBA supervisory reporting data

Amid elevated capital buffers and high profitability compared to the past, banks' plans indicate a further rise in payouts for this year. Planned payouts in 2024 reach nearly EUR 100bn for the covered sample of banks, which is the highest volume for years. It is also more than 30% above last year's payouts, which is at the same time slightly higher than the YoY increase in net profits of around 32% (on the rise in net profits, see Chapter 5.1). The planned payouts in 2024 would correspond to a payout ratio of around 50% (Figure 37).

Figure 37: Dividends and share buy-backs (in EUR bn, lhs) and payout ratio (rhs)



Source: EBA supervisory reporting data

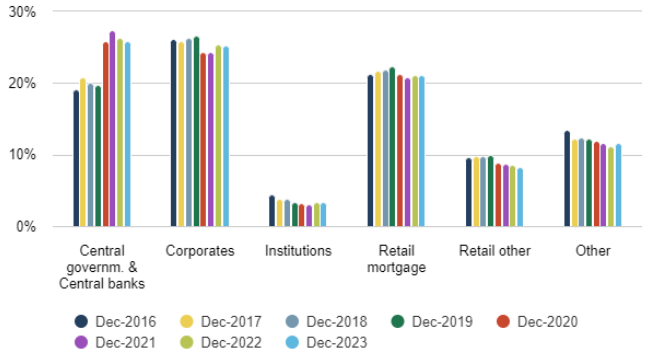
Looking forward, amid rising risks, a continuous cautious stance in respect of payouts is paramount. Banks need to be prepared to weather a range of events including deterioration in asset quality at least in some segments, with some of them more difficult to anticipate, such as any impact from geopolitical risks, which can materialise through many different channels in credit, market or operational risks. However, in any case and as in the past, also going forward, case-by-case assessment of payouts remains important for supervisors. Another forward-looking aspect is that, amid high capital ratios, only 2% of the banks participating in the RAQ aim to focus on CET1 instruments in their issuance plans for the next 12 months.

Rising risk in asset quality not (yet?) reflected in capital parameters

RWAs showed an increase of around 2.4% YoY. Credit RWAs as its main component rose by 2.0%, which compares with total asset growth of 1.1% during the same period (see Chapter 2.1 on asset volumes and composition). Whereas market RWAs have remained flat, operational RWAs increased by around 7%. However, they are less relevant as drivers for overall RWA developments (credit RWAs with a share of 81.8% in total RWAs, 3.7% for

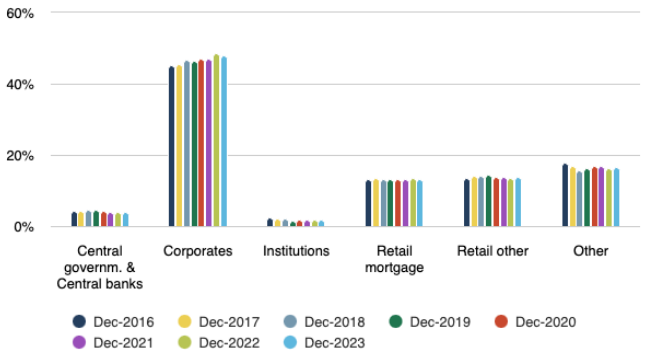
market and 10.2% for operational RWAs, as of YE 2023). Within credit RWAs, other retail exposures (i.e. those that are not retail mortgage exposures) rose the most (+3.0%). This rise is in contrast to a decline in exposure amounts, which went down by nearly 1.5% YoY (Figure 38).[1]

Figure 38a: Credit risk – share of different components in exposure amounts over time



Source: EBA supervisory reporting data

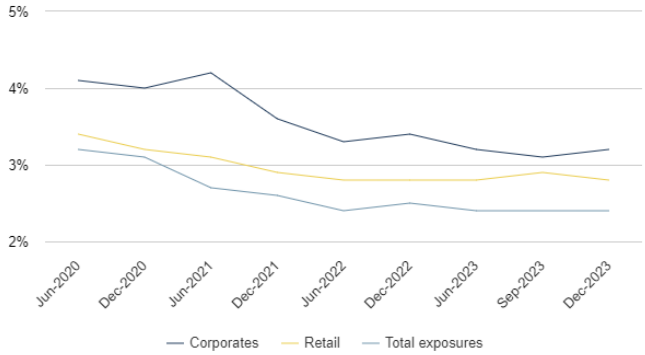
Figure 38b: Credit risk – share of different components in RWAs over time



Source: EBA supervisory reporting data

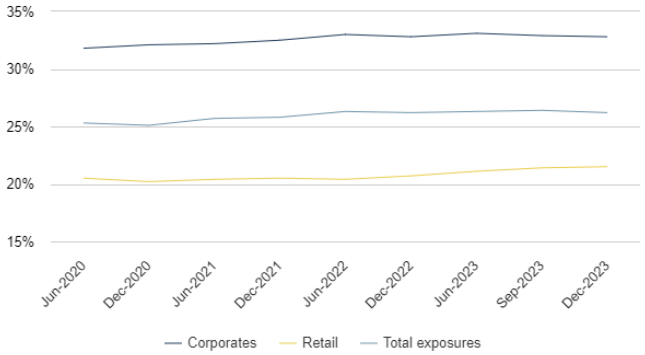
Besides trends in exposure amounts, credit RWAs also depend on other parameters, such as probability of default (PD) and loss given default (LGD) when the internal ratings based (IRB) approach is applied. At banks using internal credit risk models, total average PDs declined on a YoY basis, continuing a trend of previous years. However, they recently showed some diverging trends. Corporate PDs increased slightly in Q4 last year, whereas retail PDs declined again in the last quarter, after having increased in the previous ones. These developments reflect the overall limited asset quality deterioration during 2023. They also reflect that comparatively, for corporate exposures the deterioration in asset quality has been worse, as also seen in stage 2 ratios. RAQ results also point into this direction, according to which banks' views are more negative for NFC than for household exposures (on asset quality see Chapter 2.3).[2] LGDs remained stable on a YoY basis for corporates but rose slightly for retail exposures. The increase in LGDs of retail exposures might not least explain the diverging trends in other retail RWAs versus respective exposure amounts (Figure 39). Going forward, amid expectations of a further deterioration in asset quality, including potential further declines in real estate prices, PDs and LGDs might be accordingly affected (on asset quality expectations see Chapter 2.3 and on real estate prices see Chapters 1 and 7).

Figure 39a: IRB parameter PD for selected exposures classes



Source: EBA supervisory reporting data

Figure 39b: IRB parameter LGD for selected exposures classes



Source: EBA supervisory reporting data

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[1] It needs to be noted that portfolios/segments are differently defined in financial reporting (FINREP), which forms the basis for the analysis in Chapter 2.1, and in common prudential reporting (COREP), which forms the basis for the analysis in this chapter. These different definitions of portfolios/segments are the reason that the respective data cannot be fully reconciled with each other. Furthermore, the concept of the carrying amount of loans differs from the concept of exposure amount. The latter, for instance, also includes loan commitments after a certain weighting etc.

[2] See also the EBA's report on the 2023 credit risk benchmarking exercise from April 2024, e.g. paragraphs 10ff..