European Banking Authority

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Press and Communications

Press release

Banks remain robust but higher interest rates could impact their asset quality, the EBA finds

The European Banking Authority (EBA) today published its Q3 2023 quarterly Risk Dashboard (RDB) together with the Risk Assessment Questionnaire (RAQ). The publication also includes information on minimum requirement for own funds and eligible liabilities (MREL). EU/EEA's banks remained highly profitable, well capitalised and maintained robust liquidity. Banks expect the asset quality to deteriorate as higher interest rates affect borrowers.

- The economic activity in Europe remains subdued and macroeconomic uncertainty is high as the monetary policy response to high inflation is still working its way through the economy, easing inflationary pressures materially during the last months of 2023.
- EU/EEA banks maintained robust capitalisation levels, with weighted average CET1 ratio (fully loaded) at 15.8%, 10bps lower than the historical high of 15.9% reported in the previous quarter and 100bps higher than September 2022. RWAs slightly increased, mainly driven by credit risk.
- MREL shortfall appeared marginal at 0.25% of RWAs on EU/EEA level as of Q2 2023, yet two countries reported a MREL shortfall between 5% and 7% of RWAs.
- Liquidity ratios remained at high levels, despite their slight decrease. Market funding conditions remained benign, as banks managed to issue more, by November 2023, across nearly all debt classes than in previous years.
- Tightened lending standards observed across the EU have so far not led to a decrease in outstanding loans to non-financial corporates (NFCs) and households. Yet, loan growth remained subdued. The autumn risk assessment questionnaire (RAQ) showed that banks were reluctant to increase their lending exposures.
- Asset quality remained robust. Real estate related exposures (both commercial and residential) appear more vulnerable, as a higher share of banks, compared to previous RAQ, expect a deterioration in the asset quality of these portfolios.
- Return on Equity (RoE) of EU/EEA banks was reported at 10.9%, supported by widening net interest margins (1.62% in Q3 2023) and net interest income generation.
- Operational risks remained elevated for EU/EEA banks driven by cyber and data security, followed by conduct and legal risks, similar to previous RAQs. An increasing share of banks, compared to previous RAQs, cites fraud as a main operational risk.

Title of slide 1 (capital ratios). **EU/EEA banks maintained high levels of capital**

- Bullets: Capital ratios of EU/EEA banks remained near their historic highs.

- EU/EEA banks CET1 (fully loaded) was reported at 15.8% and leverage ratio at 5.7% in Q3 2023.

Title of slide 2 (liquidity ratios). **Liquidity of EU/EEA banks remained high.**
- Despite the slight decrease in liquidity ratios, EU/EEA banks maintained plenty of available liquidity buffers.
- The LCR had declined faster in the previous quarter due to the repayment of the ECB's TLTRO III facility by Euro area banks.

Title of slide 3 (Deposit betas RAQ). Banks expect deposit betas to increase.
- Term retail and corporate deposits are expected to have the highest deposit betas.
- Most banks estimate their overall deposit betas to range between 30-50% in a six to twelve months horizon.

Title of slide 4 (asset quality). **Asset quality of EU/EEA banks remained robust**
- The NPL ratio of EU/EEA banks was stable at its lowest level (1.8%), while the allocation of stage 2 loans marginally increased to 9.2%.
- Cost of risk was reported 1bps lower than previous quarter at 44bps.

Title of slide 5 (asset quality RAQ). Banks expect deterioration in the asset quality
- Some early signs of asset quality deterioration are already visible, with higher inflows of NPLs over the beginning of 2023.
- These signs are more profound in segments more sensitive to economic downturn, such as consumer credit, and real estate related exposures.

Title of slide 6 (profitability). **Banks reported double digit return on equity**
- Although growth in net interest income was muted in the third quarter of 2023, it has been the main driver of the increase in profitability of EU/EEA banks in the last year.
- EU/EEA banks net interest margins continued widening during Q3 2023, albeit at slower pace.
- Most banks expect their profitability to further increase in the next quarters.

Title of slide 7 (MREL): **MREL shortfall of EU/EEA banks is small (0.25% of RWAs) but few banks still report considerable shortfalls**
- Outstanding MREL debt with residual maturity between one and two years – i.e. debt that needs to be replaced in due course to keep MREL eligibility – as of Q2 is around EUR 55bn (senior non-preferred bonds) and EUR 106bn (senior preferred debt).