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

- 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

- 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

- 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

- 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

- **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.**

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

- 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**.
Outline of the presentation

- Risk Assessment Report (RAR): main findings, outlook and policy implications

- Transparency exercise – what we publish today
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.


- 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.

Country distribution of the participating banks
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

#### Key Metrics
- Leverage
- Capital
- RWA
- P&L
- Assets
- Liabilities

#### Capital: EU/EEA

<table>
<thead>
<tr>
<th>Item</th>
<th>September 2020</th>
<th>December 2020</th>
<th>March 2021</th>
<th>June 2021</th>
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<tbody>
<tr>
<td><strong>OWN FUNDS</strong></td>
<td>1,665,658</td>
<td>1,718,832</td>
<td>1,723,942</td>
<td>1,738,949</td>
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<tr>
<td><strong>COMMON EQUITY TIER 1 CAPITAL</strong> (net of deductions and after applying transitional adjustments)</td>
<td>1,330,146</td>
<td>1,382,102</td>
<td>1,385,993</td>
<td>1,402,996</td>
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<tr>
<td>Capital instruments eligible as CET1 Capital (including share premium and net own capital instruments)</td>
<td>671,574</td>
<td>667,837</td>
<td>669,299</td>
<td>667,120</td>
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</table>

2021 EU-wide Transparency Exercise and Risk Assessment Report
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.