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Press and Communications

Press release

EBA sees a more resilient EU banking sector but challenges in NPLs, IT security and long-term profitability remain

The European Banking Authority (EBA) published today its tenth report on risks and vulnerabilities in the EU banking sector. The report is accompanied by the 2017 EU-wide transparency exercise, which provides key data in a comparable and accessible format for 132 banks across the EU. The data shows further resilience in the EU banking sector amid a benign macroeconomic and financial environment, with an additional strengthening of the capital position, an improvement of asset quality and a slight increase of profitability. However, further progress on NPLs is needed whilst the long-term sustainability of prevailing business models remains a challenge. The importance of robust data management and IT and operational resilience is also a priority.

	CET1 ratio (transitional)	CET1 ratio (fully loaded)	NPL ratio	Coverage ratio	RoE	Leverage ratio (fully phased-in)
Q2 2017	14.3%	14.0%	4.5%	45.0%	7.0%	5.1%
Q2 2016	13.6%	13.1%	5.4%	43.9%	5.7%	5.0%*

** As of 30th September 2016.*

EU banking sector solvency has continued to strengthen, albeit at a slower pace. **The CET1[1] ratio** stood at 14.3% as of June 2017, up by 70 bps with respect to June 2016 level. The trend is similar for the fully-loaded CET1 ratio, which reached 14%. The slight increase of capital ratios has been mainly driven by a reduction of the denominator, with banks decreasing their risk exposure amount, markedly for credit risk.

The **NPL ratio** of EU banks has decreased from 5.4% (as of June 2016) to 4.5%, due to the decline of NPLs, reflecting progress made by EU banks to clean-up their balance sheet. However, around one-third of EU jurisdictions have NPL ratios above 10% and the level of NPLs still remains at a very high historical level (EUR 893Bn). EU area **coverage ratio** increased to 45% with a high

[1] CET1 calculated taking in account the phasing in of CRR/CRD IV provisions during the transitional period

dispersion among countries. EU banks **total assets** decreased by 6.3% between June 2016 and June 2017. The decline has been driven by the reduction of derivatives exposures and debt securities, while banks have continued to increase loans volume.

Profitability has cautiously improved supported by the benign environment but still remains a key challenge for the EU banking sector. As of June 2017, **the average return on equity (RoE)** stood at 7.0%, up by 130 bps year on year, its highest level since 2014. This upward trend is mainly explained by a decrease in impairments, an increase of fees and commissions and an increase of trading profits. However, dispersion across countries is still high. The average RoE has remained below the cost of equity and many banks are still struggling to generate sufficient margins through their traditional lending activity in a context of low rate environment and flat yield curves.

Bank **funding markets** have been characterised by stable conditions in the first three quarters of 2017 amid low volatility. While accommodative monetary policy stances and central banks' asset purchase programmes have supported low funding costs, overall issuance volumes of unsecured and secured debt decreased in the first three quarters of 2017 compared to 2016.

In the fast-changing environment, new and high risks have emerged, which **cyber and data security** among the most challenging ones for the EU banking sector. In addition, risks posed by cyberattacks, their volume and sophistication are unabatedly high. While banking operations have become increasingly dependent on IT platforms, cost pressures and operational challenges have contributed to an increasing reliance on third party service providers that a range of IT services and data are outsourced to.

Notes to the editors

- The EBA has been conducting transparency exercises at EU-wide level on an annual basis since 2011. The transparency exercise is part of the EBA's ongoing efforts to foster transparency and market discipline in the EU financial market, and complements banks' own Pillar 3 disclosures, as laid down in the EU's capital requirements directive (CRD). Unlike stress tests, transparency exercises are purely disclosure exercises where only bank-by-bank data are published and no shocks are applied to the actual data.

- The 2017 transparency exercise covers 132 banks from 25 EEA countries, and data is disclosed at the highest level of consolidation as of December 2016 and June 2017. Similar to the Risk Assessment Report, the transparency exercise fully relies on supervisory reporting data.

- Along with the dataset, the EBA also provides a wide range of interactive tools that allow users to compare and visualise data by using maps and excel spreadsheets at a country and a bank-by-bank level.