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Press and Communications

Press release

EU banks are robust, but signs of credit quality deterioration are becoming apparent, the EBA's Risk Dashboard shows

The European Banking Authority (EBA) today published its Q4 2023 quarterly Risk Dashboard (RDB), which discloses aggregated statistical information for the largest EU/EEA institutions. EU/EEA's banks capitalisation stands at record levels, liquidity has improved, while return on equity (RoE) stood at 10.3%. Yet, early signs of credit quality deterioration have become more apparent. The publication also includes information on minimum requirements for own funds and eligible liabilities (MREL).

- EU/EEA banks reached record high capitalisation levels, with the weighted average common equity tier 1 (CET1) ratio (fully loaded) at 15.9%, 50 bps higher than in December 2022.

- The liquidity coverage ratio (LCR) increased after several quarters of decline. The net stable funding ratio (NSFR) also slightly increased during the last quarter but remains close to levels reported during the last several quarters. The LCR and NSFR stand comfortably at 167% and 127%, respectively. Financial market conditions during the first months of 2024 were benign with high level of debt issuances from banks.

- Loan and asset growth remained subdued, still affected by banks' tightening of lending standards and lower demand. Risk weighted assets (RWAs) have increased slightly, driving RWA density higher mainly due to increased operational risk (from 9.6% to 10.1% of total RWA).

- While asset quality remains robust, the non-performing loans (NPL) ratio increased slightly from 1.8% to 1.9%. Stage 2 loans and average cost of risk also increased during the last quarter of the year. NPLs collateralised by commercial real estate (CRE) increased marginally and the NPL ratio of these exposures was 4.3%.

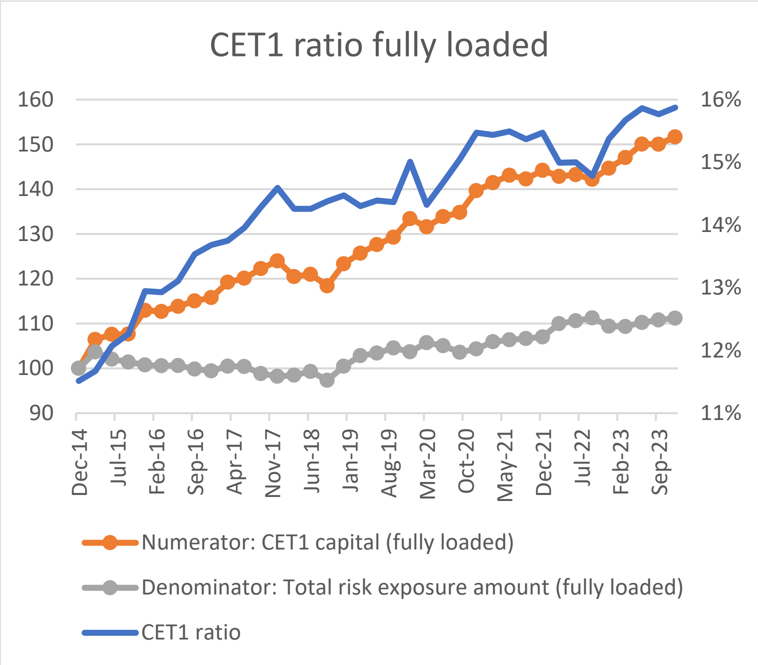
- EU/EEA banks' exposure to sovereigns increased slightly in 2023, after its decline in previous years.

- Profitability for 2023 remained high at 10.3%, albeit with wide dispersion. While all banks have benefited from rising interest rates, the share of banks with a RoE higher than 10% has decreased from 60% to 45%.

Capital position of EU/EEA banks remains strong

- Capital ratios of EU/EEA banks returned to the historical high of June 2023.

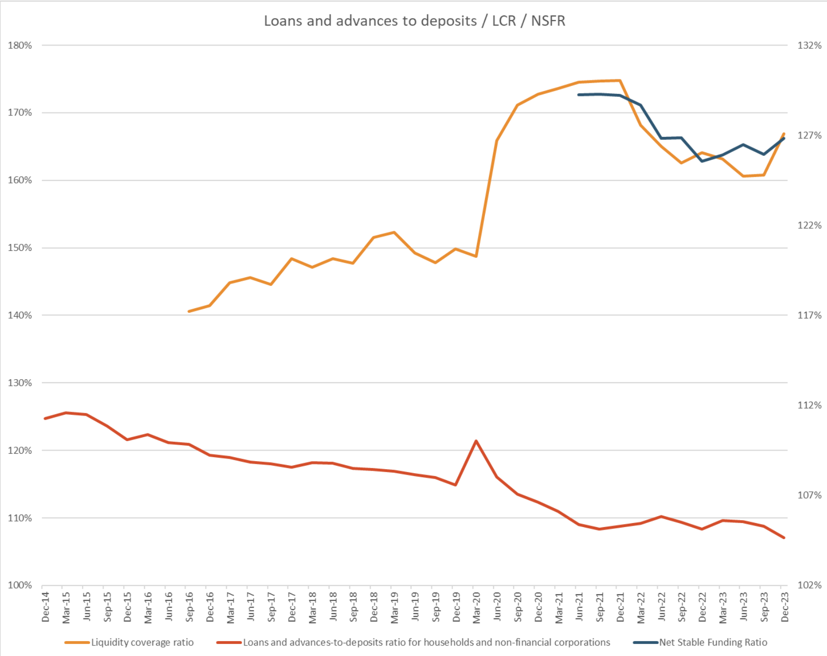
- EU/EEA banks' CET1 (fully loaded) was reported at 15.9% and the leverage ratio at 5.8% in Q4 2023.



EU/EEA banks liquidity situation further improved

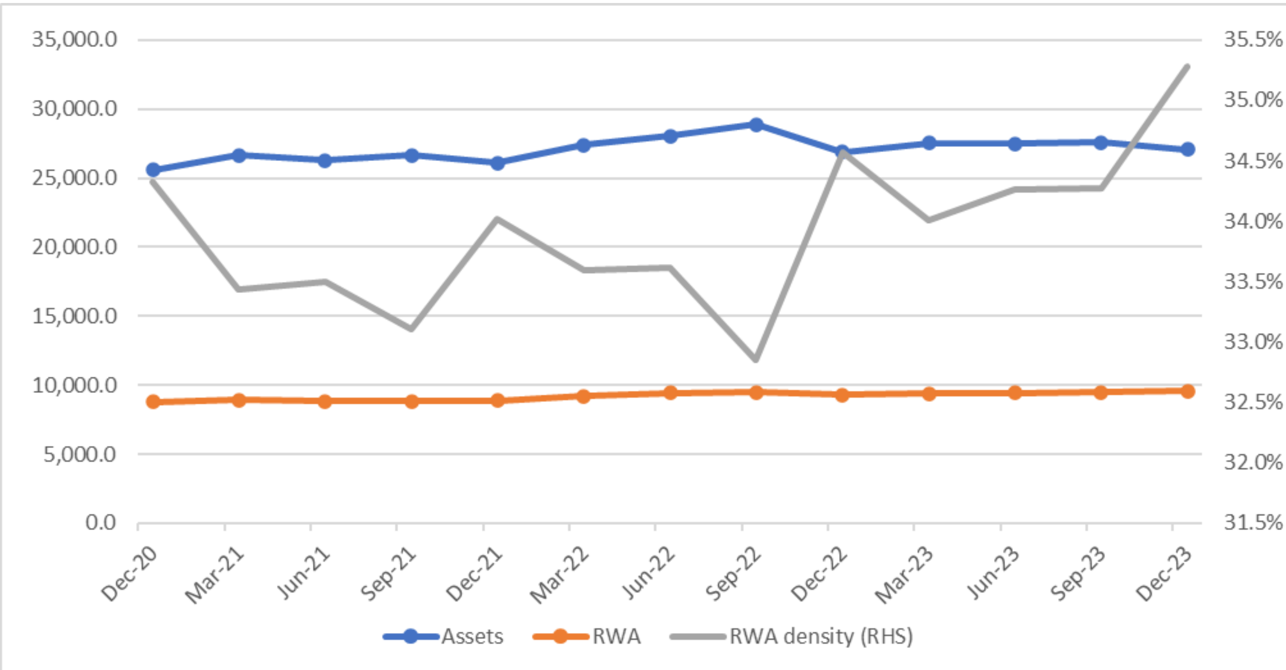
- Liquidity ratios increased in the last quarter of 2023 from 160.8% to 166.9% for the LCR and from 126% to 126.8% for the NSFR.

- The loan-to-deposit ratio continued to decline, stabilising at 107% in Q4 2023.



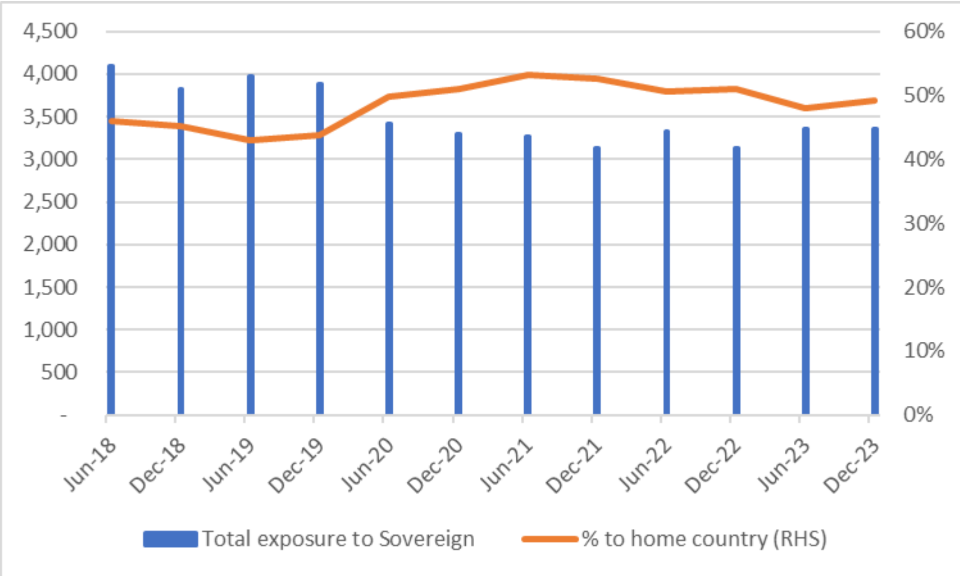
<u>Assets and loans remained stable, while RWAs increased slightly.</u>

- Asset growth remained subdued due to low loan generation. From Q3 to Q4 2023, loans to non-financial corporations (NFC) increased by 0.2% and loans to households (HHs) by 0.3%. On a year-on-year basis HHs increased by 0.8% and NFCs decreased by 0.2%.
- RWAs increased over the same period, resulting in an increasing RWA density since Q3 2022.



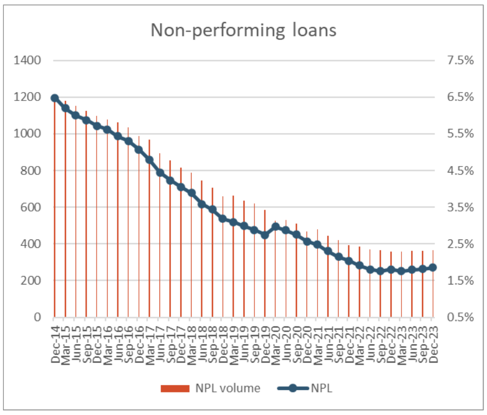
<u>EU/EEA banks' exposures to sovereigns increased</u>

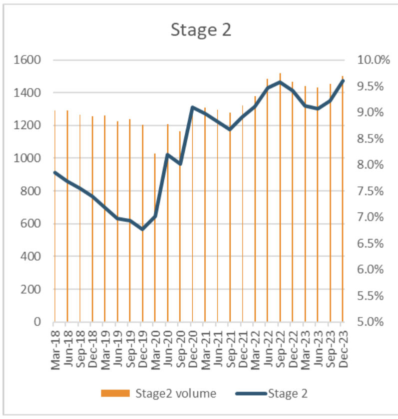
- While the EU/EEA bank's sovereign exposures had been decreasing in recent years, they increased again in 2023, presumably incentivised by higher remuneration.
- The proportion of sovereign exposures to the home country remains stable, at 49% in Q4 2023, a slightly lower level than during the period of declining sovereign exposures.



Credit quality indicators are good, but show signs of potential deterioration

- Credit quality indicators point to some potential deterioration, albeit from still very low levels.
- The NPL ratio remained benign, below 2%, but increased from 1.8% to 1.9%, as well stage 2 loans grew from 9.2% to 9.6% from Q3 to Q4 2023. The cost of risk also rose by 4 bps over the same period.

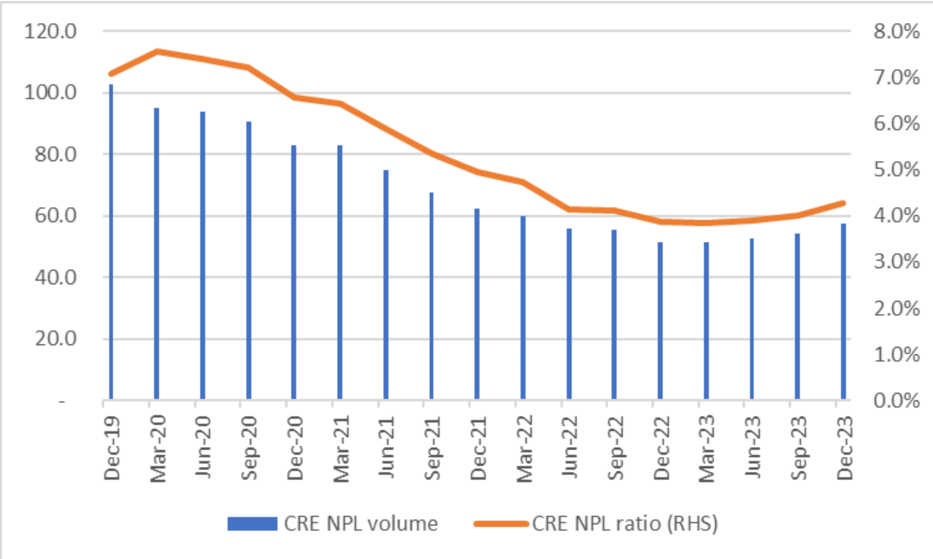




Exposure of EU/EEA banks to NPLs collateralised by commercial real estate (CRE) increased

- The volume of NPLs collateralised by CREs increased amid declining outflows and rising inflows.
- The NPL ratio of collateralised loans by CREs increased from 4% to 4.3% in the last quarter of the year, remaining well below historically high levels.

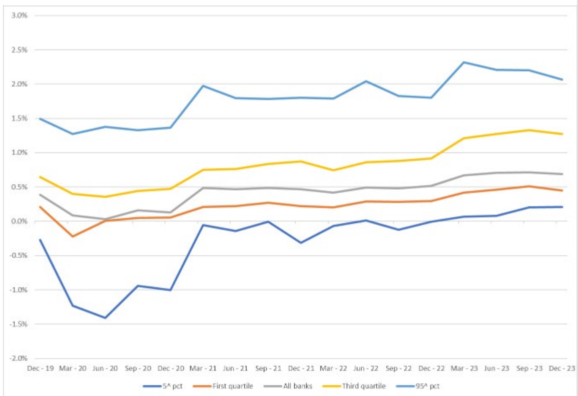
eba European Banking Authority

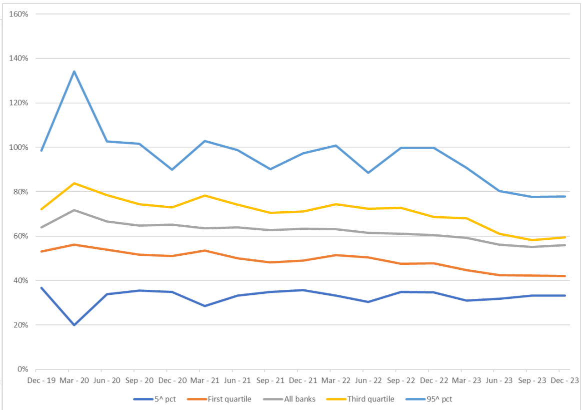


<u>Profitability gains have benefited all banks, although convergence is slowing</u>

- The dispersion of return on assets has narrowed over the recent period, indicating increased profitability for all banks.

- However, the cost-income ratio as of Q4 2023 shows that this convergence trend is slowing.





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