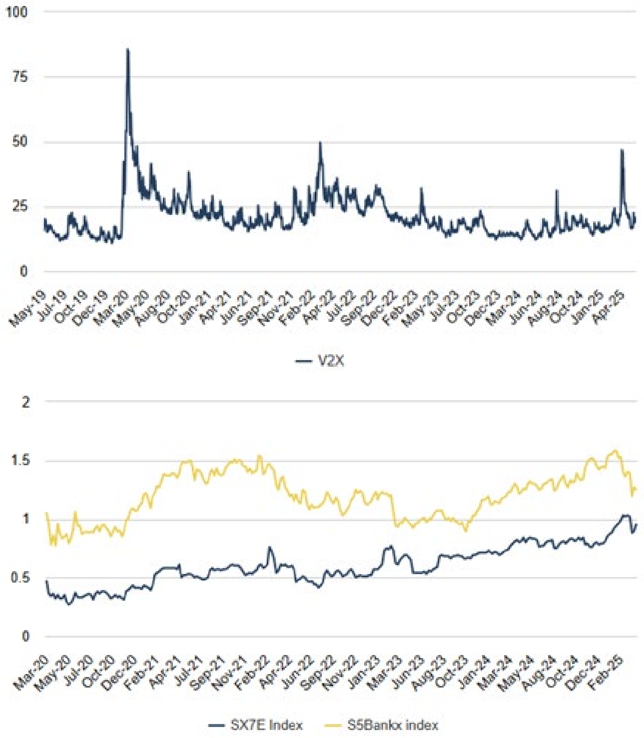
Spring 2025
EBA's Risk Assessment Report

EBA |June 2025

Geopolitical tensions are high

- Geopolitical tensions and policy uncertainties remain significant: geopolitical risk has been one of the major drivers of financial markets in recent quarters, inducing volatility.
- Downside risks are material related to economic and financial stability, including a slow-down in economic growth and inflation developments.
- Although the nexus between sovereigns and banks has weakened compared to a decade ago, growing financing requirements of sovereigns could potentially act as a trigger for the resurrection of this nexus.

Eurostoxx volatility index (V2X) (top) and price to book value of European (SX7E index) and US (S5Bankx index) banks (bottom)



Source: EBA Supervisory reporting data

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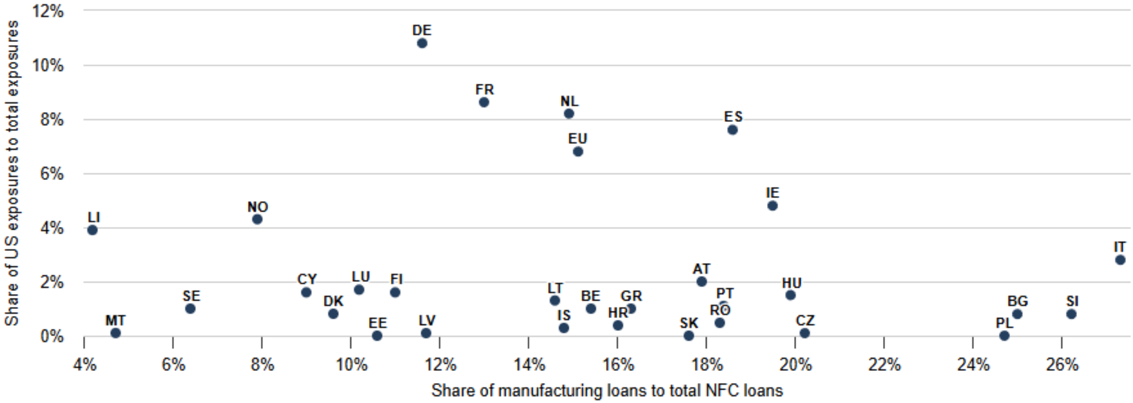
Geopolitical developments have widespread implications

- In an environment of rising tariffs, EU economies might be negatively affected.
- Tariffs may particularly affect sectors with significant export flows. For example, several EU/EEA banks have e.g. notable exposures to the manufacturing sectors.
- Geopolitical tensions may also affect financing needs and steer lending dynamics.
- The plan to re-arm Europe is expected to boost defence spending across the EU.
- Operational risks have increased drastically, not least related to rising geopolitical tensions, while policy changes may exacerbate climate risk-related challenges.

Share of US exposures to total exposures vis-à-vis share of manufacturing loans to total non-financial corporates loans by country, December 2024

Exposures to US include also sovereign exposures which in several cases is a major driver of banks' exposures to this country.

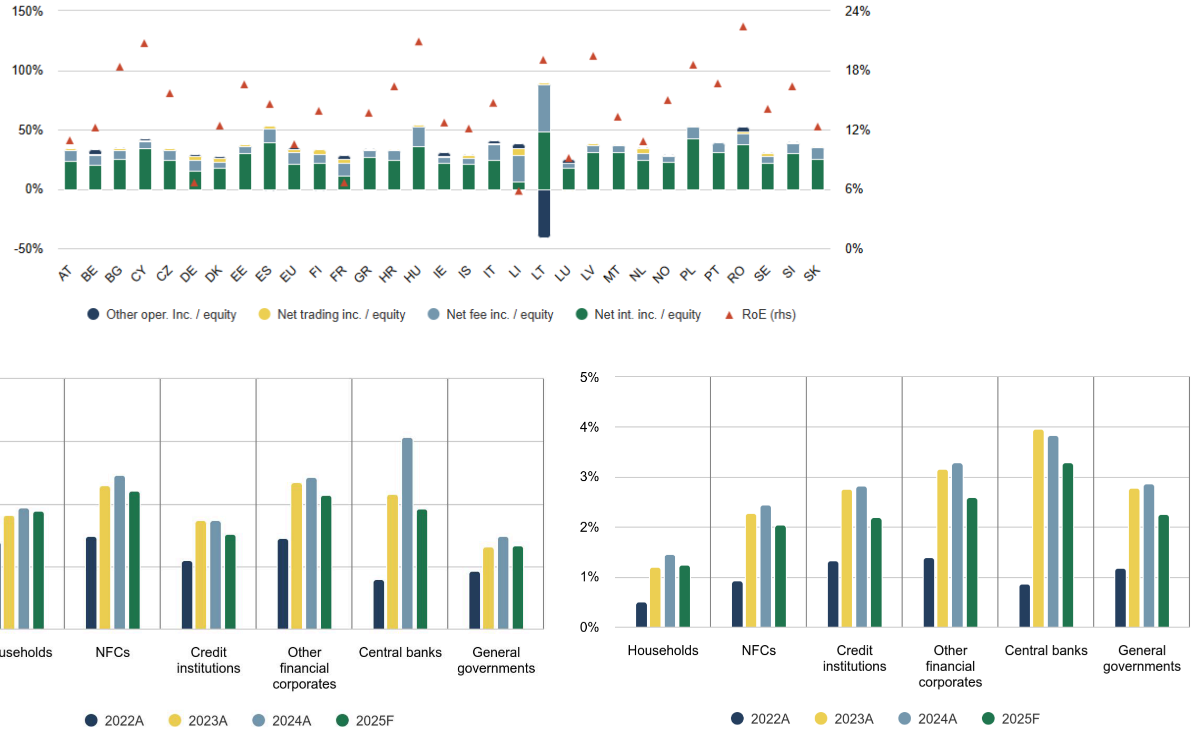


Source: EBA Supervisory reporting data

Robust profitability provides a cushion against downside risks

- EU/EEA banks' profits grew by approximately 9% in 2024, recording a RoE of 10.5% in 2024 (10.4% in 2023).
- Rising pressure on net interest income, as lower interest rates feed in banks' margins. Yet, banks have successfully managed to increase their fee and trading income.
- Costs increased by around 2% in 2024 while cost of risks remained stable.
- Looking forward, interest rates developments is an important factor, incl. their assumed rate curve steepening. Interest rates on loans and deposits are expected to decrease in this year based on funding plan data. However, amid a relatively parallel move, the client spreads are assumed to remain relatively stable.

Return on Equity and Revenue composition by country, December 2024 (top) and Interest rates on loans (left) and deposits (right), by segment, actual and forecasts (bottom)



Source: EBA Supervisory reporting data (incl. Funding Plan data)

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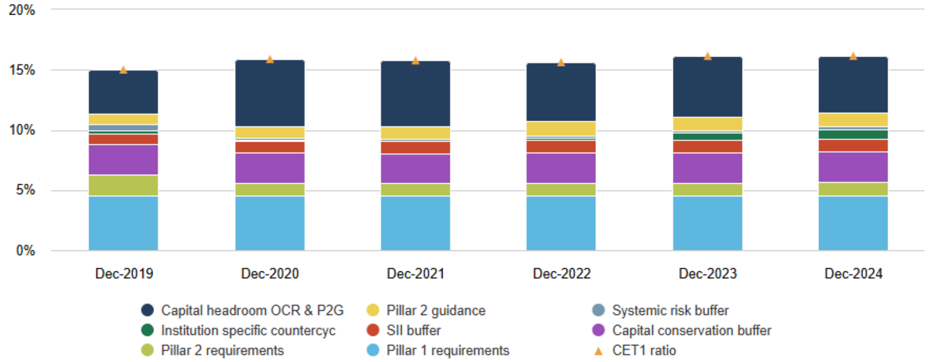
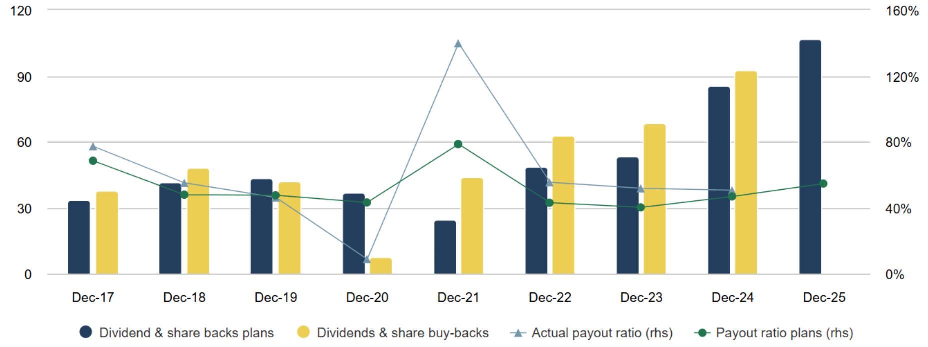
Capital buffers enhance resilience of the sector

- The CET1 ratio stood at 16.1%, with CET1 capital matching the 5% increase in RWA in 2024.
- The increase in capital was primarily due to rising retained earnings and other reserves.
- Robust capital buffers and high profitability helped banks to increase their payouts, reaching EUR 92bn in 2024 (payout ratio 51%).
- Banks anticipate a further rise in the planned dividends for 2025.

Evolution of EU banking sector's CET1 requirements and Pillar 2 Guidance vs CET1 ratio (top) and Dividends and share buy-backs (EUR bn, lhs) and payout ratio (%, rhs) (bottom)



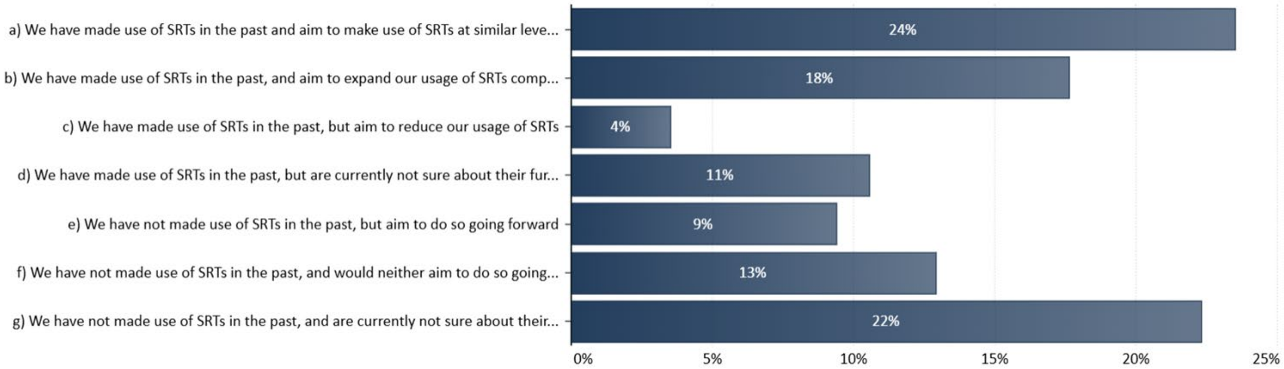


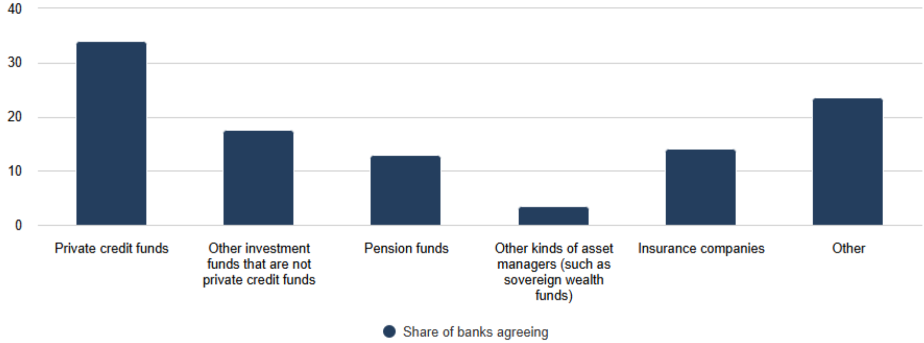
Source: EBA Supervisory reporting data

Elevated interest in Significant risks transfers (SRTs)

- More than half of the banks covered by the EBA's Risk Assessment Questionnaire have so far made use SRTs.
- Around ¾ of banks that used SRTs aim to continue doing so going forward, and ca 20% are not yet sure about future usage. (remainder does not want to make use of SRTs any longer).
- Finally, around 20% of banks that have never made use of an SRT, aim to issue one in the future.
- Private credit funds are the main investors in relative terms, followed by other investment funds, insurance companies and pension funds, which shows – also by nature – the interlinkages in the financial sector.

Banks' historical and planned (6-12 months) usage of SRTs (top) and main investor groups of banks' issuances so far (bottom)





Source: EBA Risk Assessment Questionnaire

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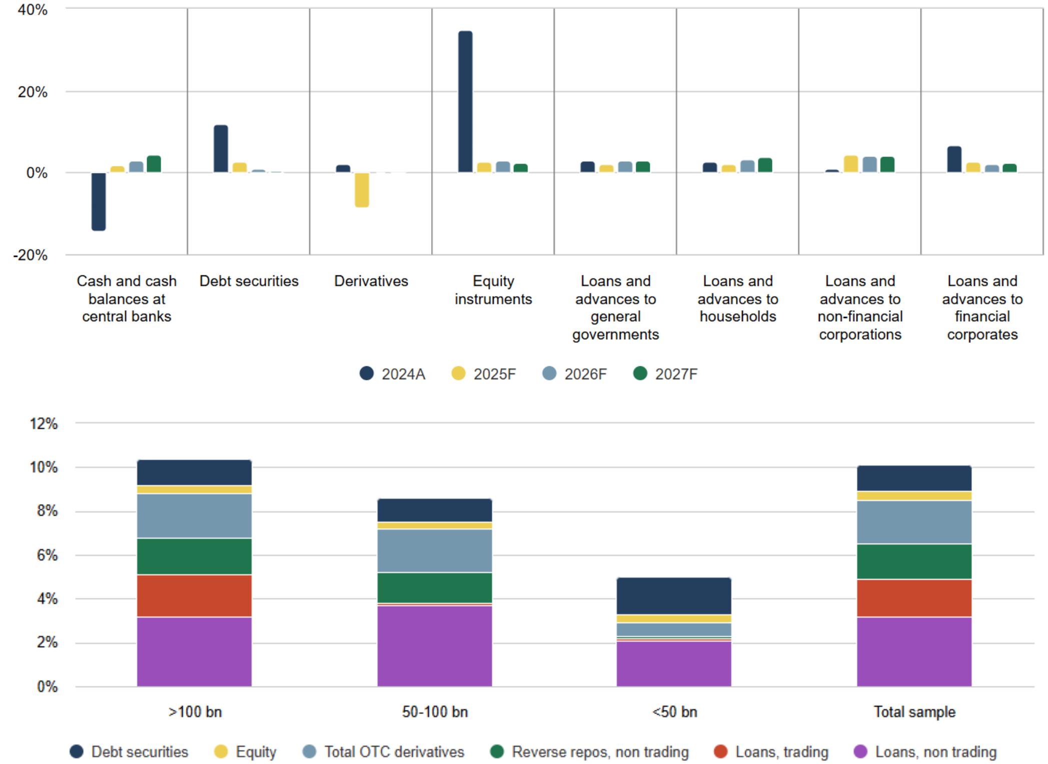
Asset growth expected to continue; Non-bank financial institution links remain strong

- Banks boosted their assets by 3.2%, reaching a total of EUR 28.2tn, driven by a significant increase in outstanding loans and advances (supported by higher demand due to lower interest rates) and debt securities.
- EU/EEA banks' three-year funding plans project a 1.7% increase in total assets for 2025, and higher growth rates expected in 2026 and 2027.
- Interconnectedness of EU/EEA banks with NBFIs remains a possible major channel of contagion in market turmoil, with exposures amounting to 10.1% of total consolidated bank assets.

EU/EEA banks' growth expectations for selected asset classes (top) and EU/EEA banks' asset exposures to NBFIs, as share of total assets, December 2024 (bottom)

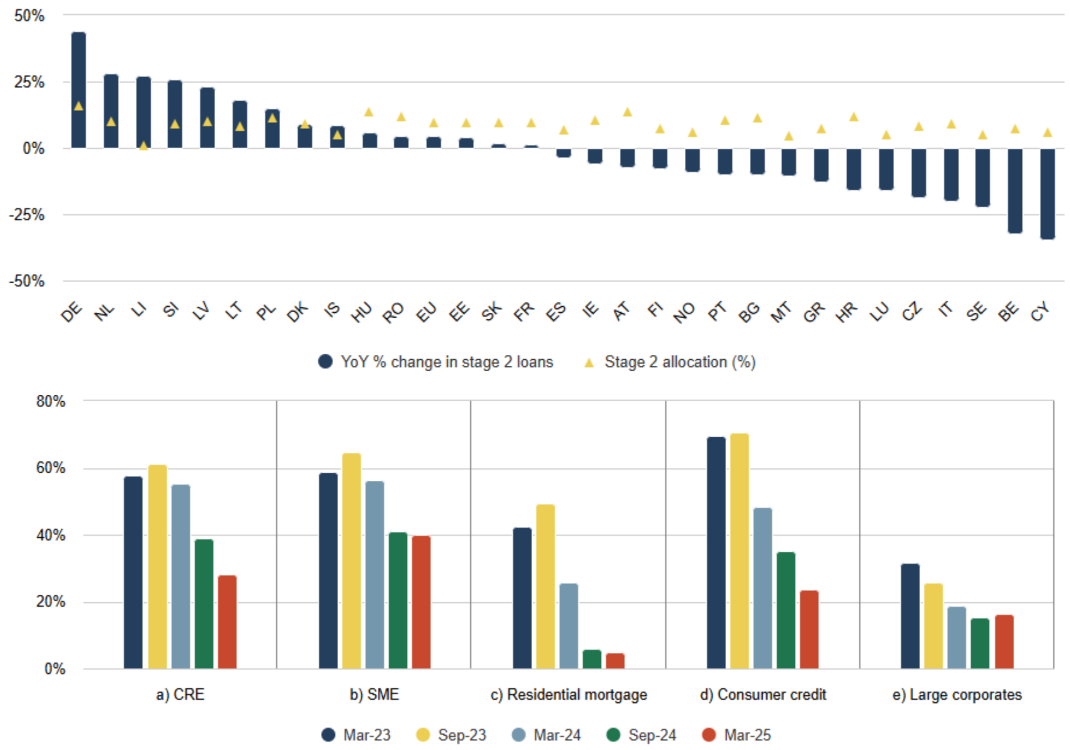


Source: EBA Supervisory reporting data (Funding Plan data)

Uncertainties lead to potentially rising credit risk

- NPLs had risen to EUR 375bn (EUR 365bn in 2023), with the NPL ratio slightly increasing to 1.88%.
- Stage 2 loans reached unprecedented levels (9.7% of total loans), largely due to a rise for household loans.
- Despite worsening asset quality indicators, overall outlook is more positive, supported by a lower interest rate environment and stabilisation of real estate markets.
- Nonetheless, given the intensified geopolitical and macroeconomic uncertainties, downside credit risks continue to be significant.

IFRS9 stage 2 allocation and YoY change of loans and advances held at amortised cost by country, December 2024 (top) and EU/EEA banks' expectations on possible deterioration in asset quality in the next 12 months for selected segments (bottom)

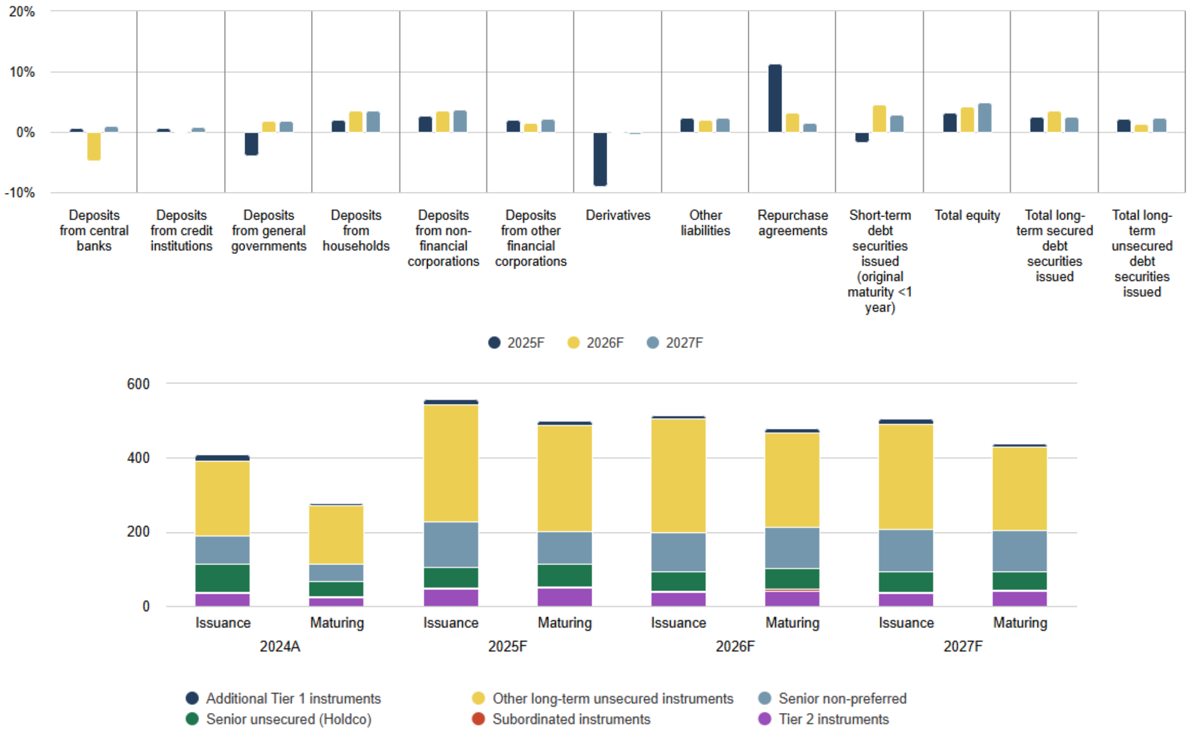


Source: EBA Supervisory reporting data and EBA Risk Assessment Questionnaires

Funding mix remains stable, banks target secured and client deposits to fund asset growth

- In 2024, EU/EEA banks' liabilities rose by about 3% to EUR 26.2tn, with debt securities making up 20.3% of total liabilities by Q4. Household and NFC deposits made 31.1% and 17.2%, of total liabilities, respectively.
- Yearly issuance volumes are projected to increase significantly over the next three years, with banks planning strong growth in secured debt issuances after low volumes in 2024 and reinforcing their client deposits.
- Nevertheless, these optimistic plans could face hurdles due to heightened market volatility.

EU/EEA banks' growth expectations for selected liability segments (top); unsecured debt issuance and maturing volume by year (EUR bn; bottom)

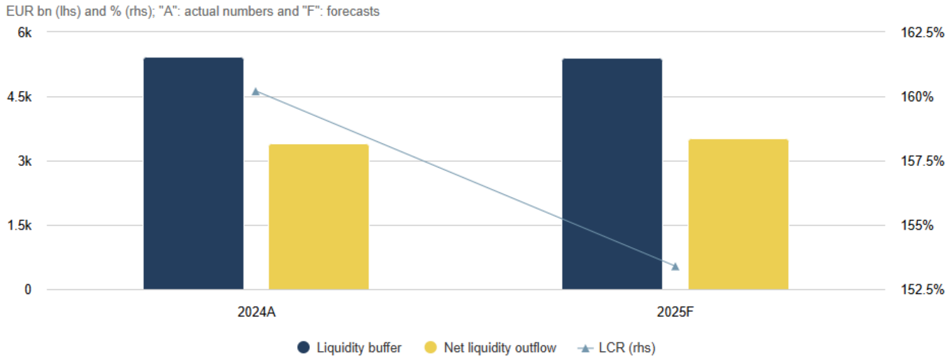


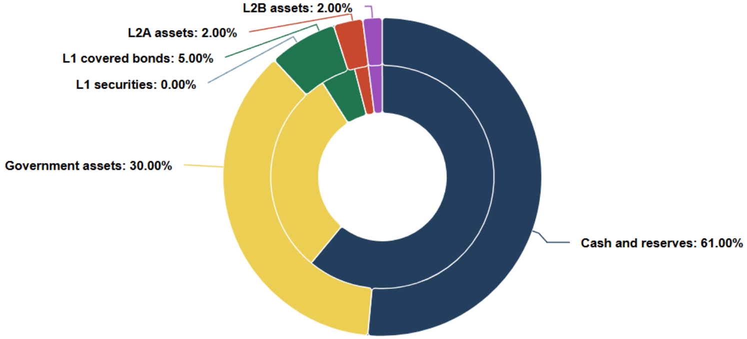
Source: EBA Supervisory reporting data (Funding Plan data)

Buffers on liquidity remain ample, yet with some idiosyncratic risks

- Key liquidity ratios reflected a strong position among EU/EEA banks, with the Liquidity Coverage Ratio standing at 163.4% and the Net Stable Funding Ratio at 127.1%
- The asset encumbrance ratio further declined by 50 basis points year-on-year, reaching 24.1%.
- Composition of liquidity buffers was adjusted, as banks substituted central bank reserves with sovereign debt, covered bonds, and Level 2 assets.
- Uncertain market environment and central banks' tightening of monetary policies may challenge some banks to maintain high liquidity positions, including in foreign currencies.

LCR projections (top) and composition of liquid assets as of December 2023 (inner circle) and December 2024 (outer circle) (bottom)



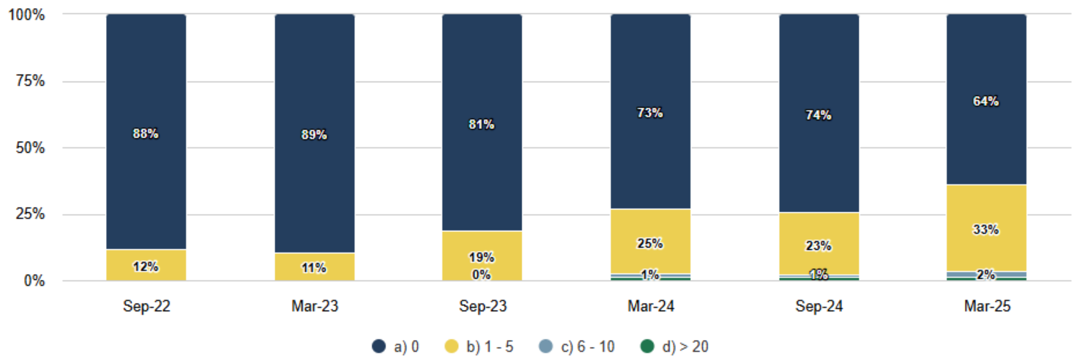


Source: EBA Supervisory reporting data (incl. Funding Plan data)

Operational risks pose challenges for the EU/EEA banking sector.

- Operational risks remain high on the agenda. They are affected by digitalisation, technological progress, and increased geopolitical tensions.
- Fraud, reputational issues, and risks associated with financial crime (including AML concerns), digitalisation and technological advancements, along with related cyber risks, are significant contributors to operational risk.
- The number of successful cyber attacks has further increased.
- The risk-weighted assets associated with operational risk have increased, highlighting its importance in the overall risk landscape of banks.

Number of successful cyber-attacks resulting in 'major ICT-related incidents' in the last semi-annual assessment period



Source: EBA Supervisory reporting data and EBA Risk Assessment Questionnaires

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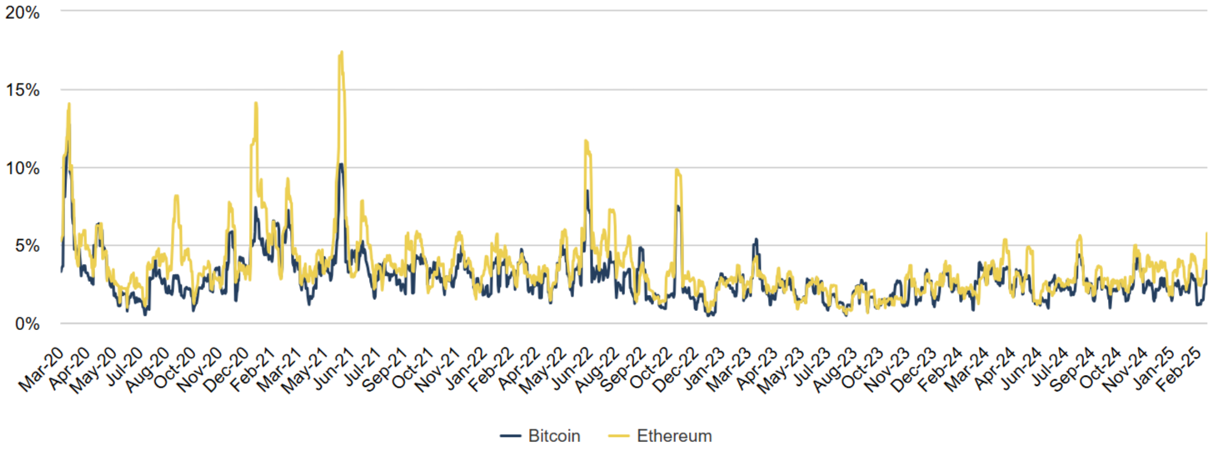
Links between EU/EEA banks and digital assets

- Technological progress is closely tied to crypto-assets and their potential effects on banking.
- The rapid growth of cryptocurrency markets and distributed ledger technology provides opportunities for financial institutions.
- Some banks in the EU/EEA have engaged with digital assets through offering consumer services / products, but also already with direct and derivative investments.
- This shift allows banks to offer clients access to digital assets while posing risks, including blockchain vulnerabilities and cybersecurity threats.

Bitcoin and Ethereum 10 days rolling volatility



Source: Refinitiv

Policy Conclusions of EBA's RAR

- EU/EEA banks need to incorporate geopolitical risk considerations into business processes and risk assessments. Banks need to manage effectively exposures to vulnerable sectors.
- Maintain operational resilience in a fast changing and uncertain geopolitical and technological environment is a key challenge. Needs for continuing investment in cybersecurity.
- As banks may be called to support new financing needs related to the defence sector, robust and prudential underwriting practices are key to ensure adequate lending terms.
- Banks need to seize favourable moments to issue bonds, especially given the possibility of ongoing market volatility.
- Capital buffers need to be managed cautiously going forward. Banks should ensure they maintain a healthy and sustainable revenue mix while managing costs and provisions effectively.
- M&A should help to achieve more integration at EU/EEA level if prudential, economic and competition considerations are fulfilled.
- It is essential for institutions to integrate ESG risks into their regular risk management and strategic processes to properly capture these risks as part of an integrated approach.

Thank you!

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