



# 2020 EU-wide Transparency Exercise and Risk Assessment Report

Directorate of Economic Analysis and Statistics

Background briefing with analysts and journalists | 11 December 2020

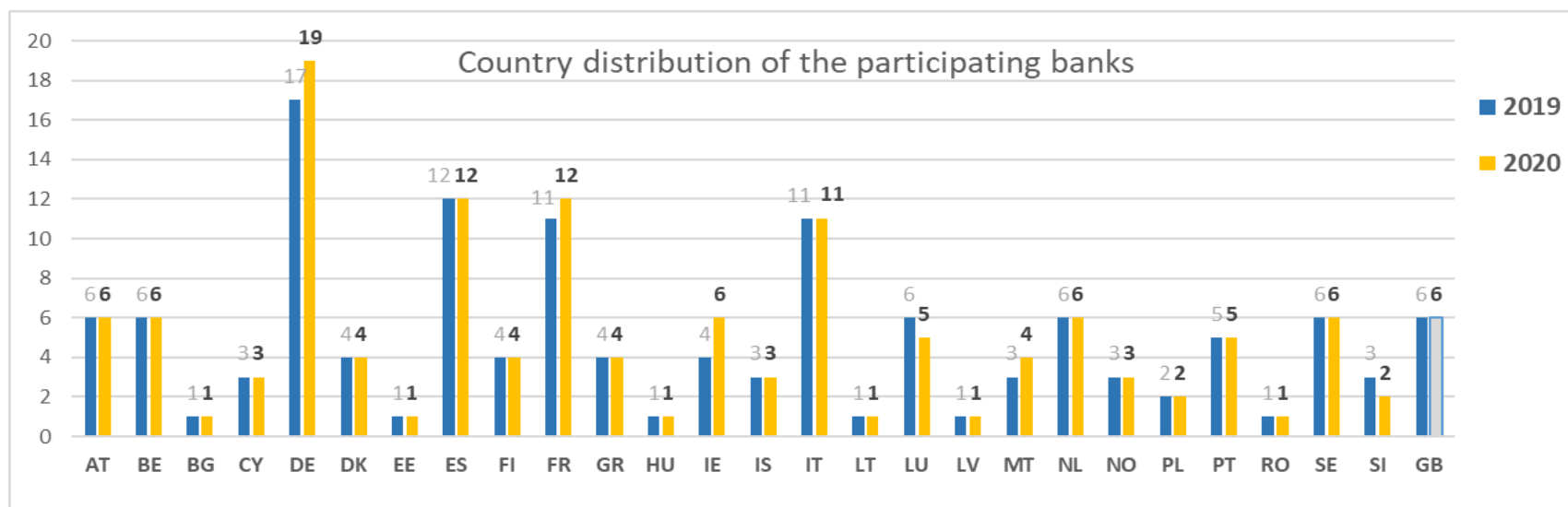
# Outline of the presentation









- **Transparency exercise – what we publish today**
- Risk Assessment Report (RAR): main findings, outlook and policy implications

# The 2020 EU-wide Transparency Exercise covers 135 banks

- On average more than 7,600 data points per bank; 129 banks from 26 countries at the highest consolidation in the EU-27/EEA plus 6 UK banks.
- Reference dates: **March 2020** and **June 2020**.
- Based on supervisory reporting data (FINREP, COREP). Information in line with previous exercises with two new templates:
  - Information on loans and advances subject to legislative and non-legislative moratoria,
  - Collateral valuation - loans and advances.



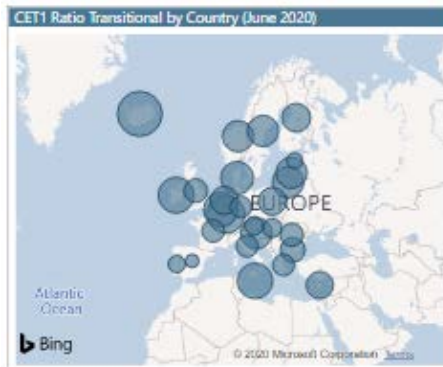
# What's on the website: the full package

- **Database:**
  - ✓ **CSV Data**  : Credit risk, Market risk, Sovereign debt exposures, Other templates
  - ✓ **Data dictionary** 
  - ✓ **Metadata** 
  - ✓ **Manual for using and managing data** 
  
- **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-27/EEA aggregates



### 2020 - EU Wide Transparency Exercise

**Main indicators: EU27/EEA (1 of 11)**

Indicator	Value
CET1 capital ratio (Transitional)	15.0%
CET1 capital (Fully loaded definition)	14.7%
Leverage ratio (Transitional definition)	5.3%
Leverage ratio (Fully phased-in definition)	5.2%
NPL - Ratio of non-performing loans	2.9%
Coverage ratio for non-performing loans	45.5%
Net interest income to total operating	60.3%
Cost to income ratio	66.6%

**Methodological Notes:** The 2020 EU-Wide Transparency Exercise provides detailed bank by bank data on capital positions, risk exposure amounts and asset quality on 136 banks from 27 countries of the European Union (EU27) and the European Economic Area (EEA). This exercise is part of the EBA's ongoing commitment to enhancing transparency in the EU banking sector. The data, that is exclusively based on supervisory reporting, is published at the highest level of consolidation for the reference dates of 31 March 2020 and 30 June 2020. Data is also disclosed for the bucket 'All other banks', which includes aggregated values at the highest level of consolidation in EU for the banks that are in the EBA's reporting sample, to enable reconciliation of the figures for the EU in EBA's Risk

**Banks' Specific Notes:**  
**Cyprus:** Bank of Cyprus Holdings Public Limited Company - Fully loaded Total Capital and fully loaded Total capital ratio estimations are based on the formulae stated in column "COREP CODE" please note that this might lead to differences to fully loaded Total capital and Total Capital ratio published by the participating bank e.g. in Pillar 3 disclosure.  
**Ireland:** Bank of America Europe Designated Activity Company. Please note that the bank changed

Disclaimer: This tool is provided for analytical and transparency purposes only. The official data is that coming from the original PDF files published by the EBA, which have been submitted and confirmed by the Competent Authorities.

Key Metrics	Leverage	Capital	RWA	P&L	Assets	Liabilities
March 2020		June 2020				
<b>Leverage: all countries</b>						
Country	Tier 1 capital - transitional definition	Tier 1 capital - fully phased-in definition	Total leverage ratio exposures - using a transitional definition of Tier 1 capital	Total leverage ratio exposures - using a fully phased-in definition of Tier 1 capital	Leverage ratio - using a transitional definition of Tier 1 capital	Leverage ratio - using a fully phased-in definition of Tier 1 capital
Austria	39.089	38.996	586.688	586.688	6.7%	6.6%
Belgium	39.861	39.719	653.741	653.741	6.1%	6.1%
Bulgaria	705	616	5.501	5.420	12.8%	11.4%
Cyprus	3.630	3.386	41.732	41.617	8.7%	8.1%
Denmark	37.582	37.295	803.952	803.680	4.7%	4.6%

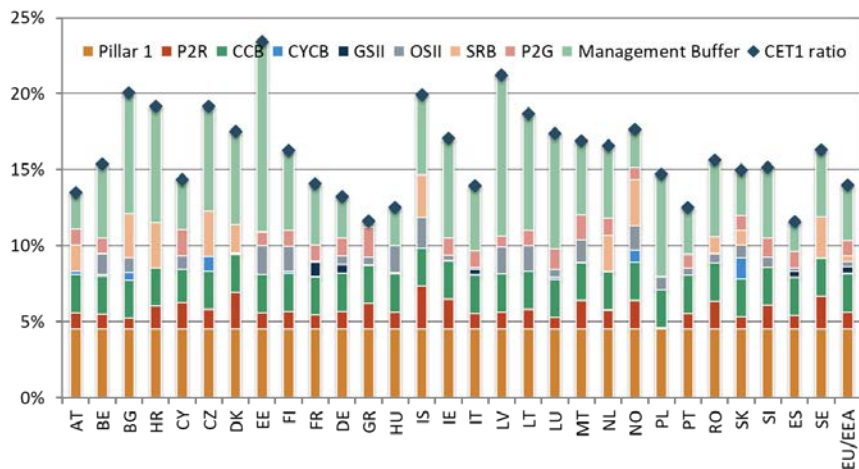
# Outline of the presentation



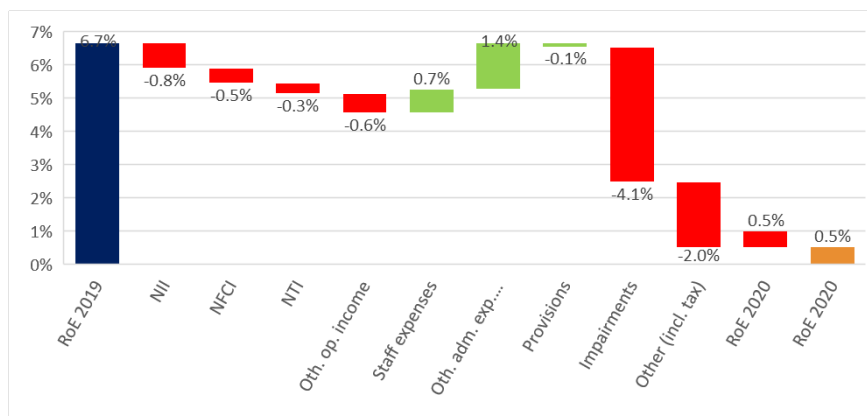
- Transparency exercise – what we publish today
- **Risk Assessment Report (RAR): main findings, outlook and policy implications**

# Solid capital positions, profitability at record low levels

Capital requirements and buffers, by country, June 2020



Contribution to the fall in RoE of the main profit and loss (P&L) items, calculated as a ratio to total equity (2019-2020)

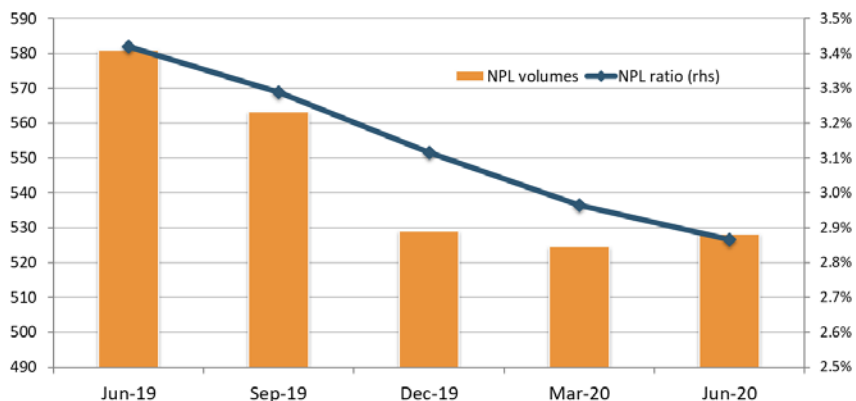


Source: Supervisory reporting data.

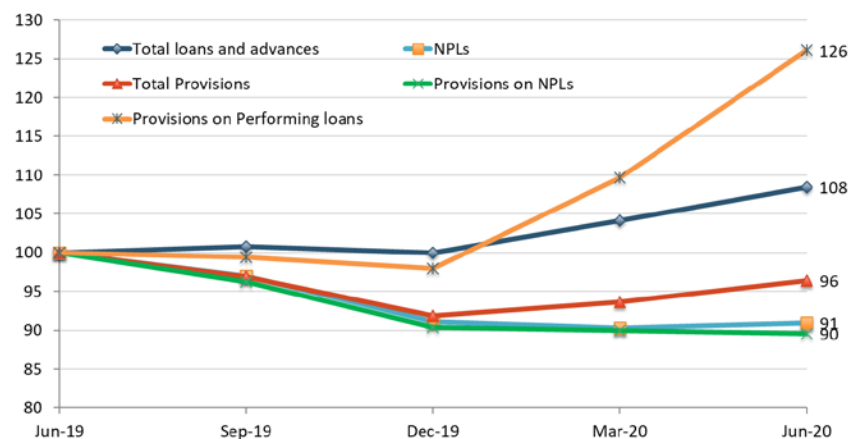
- European banks have increased their capital ratios due to a higher pick-up in eligible capital than in RWAs in the past year. In June 2020, the **CET1 ratio stood at 15.0% (+60 bps YoY)**.
- Banks hold additional capital above the overall capital requirement (OCR) and P2G of around EUR 318 billion (3.6% of RWAs).
- Profitability significantly contracted YoY.** In June 2020, the average return on equity (RoE) stood at 0.5%, down from 6.7% in June 2019.
- The **decline is largely explained by the surge in impairment costs and, to a lesser extent, by the contraction in revenues.**
- In contrast, operating expenses have registered a positive contribution to the RoE due to their contraction YoY.

# NPLs have hardly risen (yet)...

Evolution of NPL ratios (%) and NPL volumes (EUR billion)



Evolution of total loans and advances, NPLs and provisioning levels for performing and non-performing loans



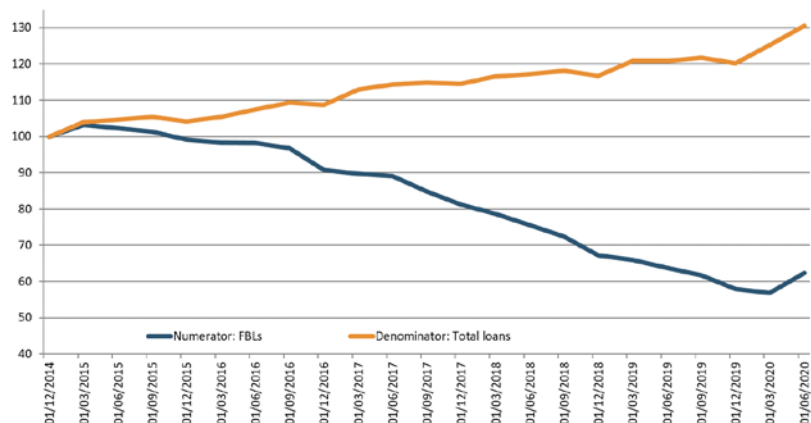
Source: Supervisory reporting data.

- The **deterioration in asset quality is not yet reflected in the NPL ratio**. In June 2020, the NPL ratio stood at 2.9% (-50 bps YoY).
- Following a multi-year period of decreasing volumes, the volume of **NPLs increased for the first time, albeit marginally, during the second quarter of 2020**.
- Despite the substantial progress that has in general been made, a **significant number of EU banks have not yet managed to complete the repair of their balance sheets**.
- **NPL vintage profiles also show that some banks still face challenges with older NPLs, which are in general more difficult to tackle.**
- **Accumulated impairments for performing loans increased by around 26% compared with 2019**. This was driven by the increase in provisions booked **during the first half of this year**.

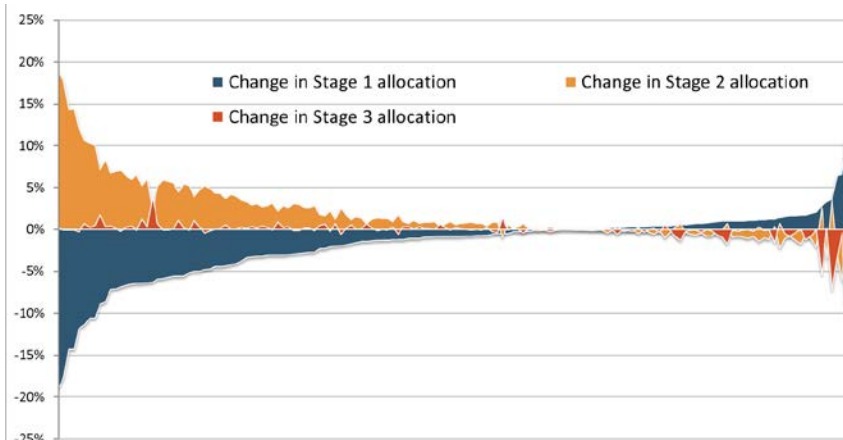


## ... but strong indications of a deterioration in asset quality

Forborne and total loans evolution (December 2014 = 100; December 2014 – June 2020)



Changes in the allocation of loans by stages by bank (in p.p.), between December 2019 and June 2020

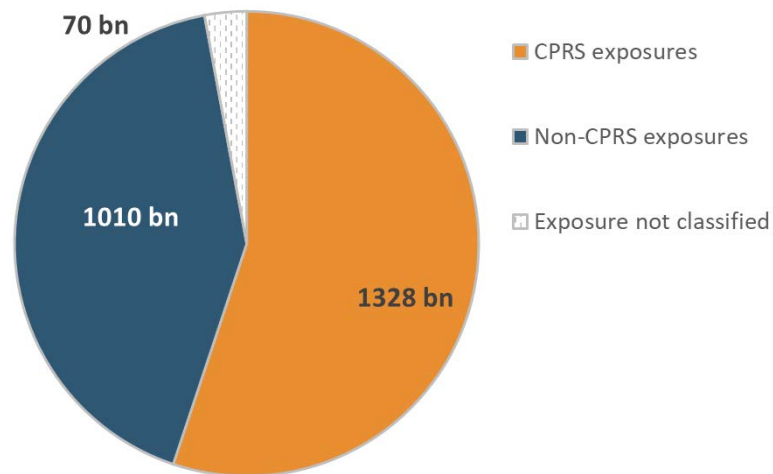


Source: Supervisory reporting data.

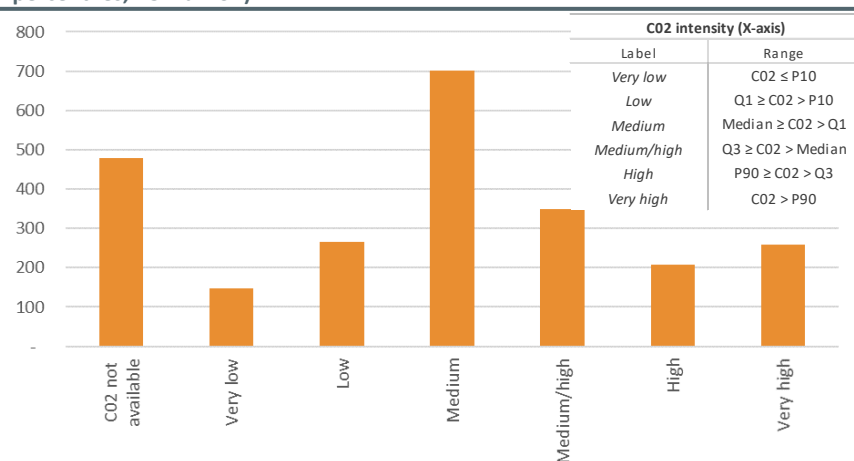
- The volume of forborne loans (FBLs) increased by around 10% in Q2 and stood at around EUR 360 billion, driven by forborne performing loans.
- Banks have also markedly increased the classification of loans in stage 2, with an equivalent decrease in the share of stage 1 loans.
- In June 2020, EU banks classified 88.4% of their loans and advances recognised at amortised cost into stage 1 (89.2% in June 2019), 8.2% into stage 2 (6.9%) and 3.4% into stage 3 (3.9%).
- In the second quarter of the year, the total volume of stage 3 loans at amortised cost reached EUR 0.5 trillion (-10% compared with June 2019), whereas stage 2 loans amounted to EUR 1.2 trillion (23% higher than in June 2019).

# About 50% of banks' large corporate exposures are towards climate policy-relevant sectors (CPRS)

Climate policy-relevant sectors (CPRS), classification at EU level



Original exposures to CO2 emission intensity ranges (ranges computed based on percentiles, EUR billion)

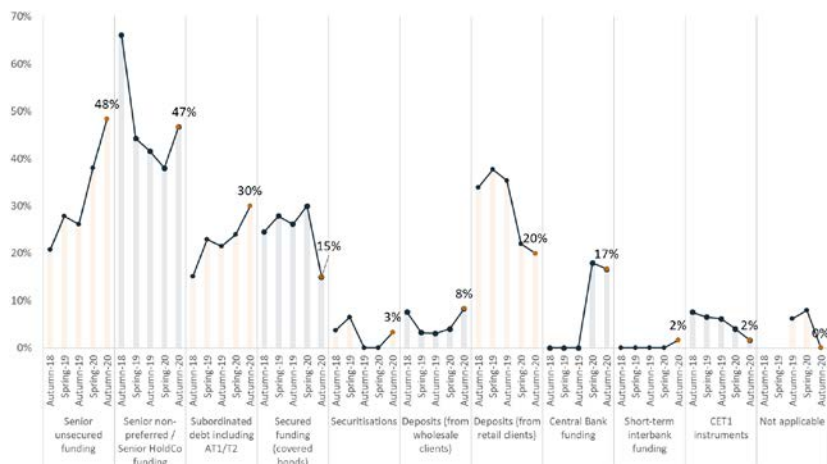


Source: 2020 EBA analysis of climate risk, Trucost, EBA calculations.

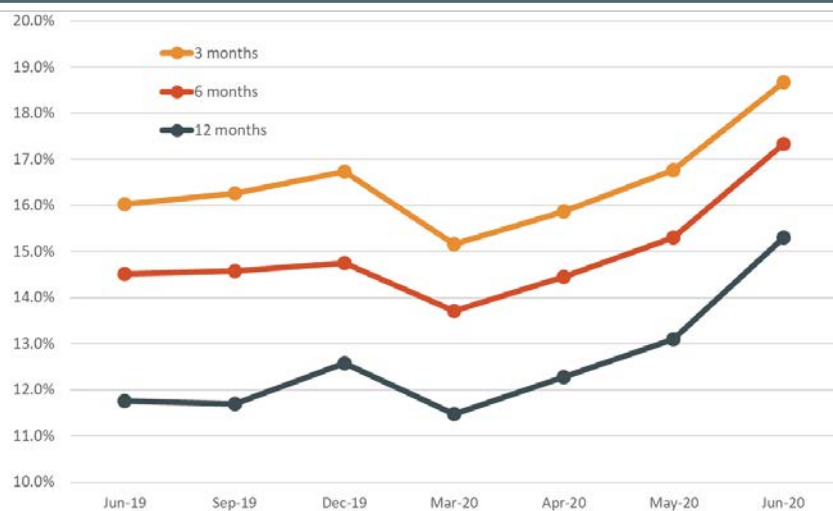
- In 2020 the EBA launched an exercise on climate risk with a sample of 29 volunteer banks. The exercise focuses on transition risk.
- An analysis of banks' corporate (excl. SME) exposures shows that 55% of these are allocated to climate policy-relevant sectors (CPRS).
- A second analysis is based on greenhouse gas (GHG) emissions. Corporate exposures are classified in relation to GHG emission intensity, based on the distribution of individual companies' GHG emission data.
- According to this analysis, almost 34% of the original exposures are assigned to obligors with CO2 emission intensity above the median of the distribution.
- The EBA is further assessing the risks of these exposures and possible implications for banks' business models.

# Abundant central bank funding drives banks' liquidity

Intentions to attain more funding via different funding instruments



Banks' liquidity position with a time horizon of 3, 6 and 12 months (as share of total assets)



Source: Risk Assessment Questionnaire (RAQ) for banks; supervisory reporting data and EBA calculations.

2020 EU-wide Transparency Exercise and Risk Assessment Report

- Strong liquidity position at the start of the crisis: in June 2019, the **LCR** was 147.7% and **increased to 166% in June this year.**
- The **importance of central bank funding has materially increased.** Customer deposits also grew, whereas market-based funding was broadly resilient to the crisis after the initial turmoil subsided.
- Risk Assessment Questionnaire (RAQ) results indicate that **senior non-preferred and subordinated debt instruments are in banks' focus in the next 12 months.**
- An additional analysis shows that **banks have sufficient liquidity resources to meet their expected payments in different timeframes (3, 6 and 12 months).**
- The results also show that the **liquidity position of banks was somewhat affected by the COVID-19 outbreak, but then strongly recovered, not least reflecting central bank measures.**

- **The new wave of COVID-19 infections is increasing uncertainty.** A continued coordinated fiscal, monetary and regulatory response is essential to minimise the impact of COVID-19 on the real economy.
- **Banks need to keep supporting the real economy.** Banks should avoid restricting lending to viable borrowers to prevent the failure of NFCs due to cash flow shortfalls that might trigger further defaults and banks' losses. At the same time banks should increasingly pay attention to ESG risks of their counterparties.
- **Banks should brace themselves for a deterioration in asset quality.** Banks should engage, as soon as possible, with struggling borrowers in order to find solutions through forbearance or similar measures.
- **Banks should take advantage of favourable liquidity windows to advance in their MREL build-up.** Although central bank support has dissipated short-term liquidity concerns, and debt spreads have returned to pre-COVID levels, a lot of uncertainty remains.
- **COVID-19 has aggravated the need for cost reduction measures.** COVID-19 might be the catalyst for many clients to become digital customers. Banks might opt for M&A deals to exploit potential cost synergies.
- **Banks will need to make further progress in adapting their systems to a challenging technological environment and increasing AML/CFT risks.** During the pandemic, cybercrime and phishing attacks have accelerated in parallel with digitalisation and the usage of information and communication technology. Furthermore, banks' preparedness for the replacements of benchmark rates remains a key risk.



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