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EUROPEAN BANKING AUTHORITY

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Press and Communications

Press release

EU/EEA banking sector shows rising profitability, but asset quality and profitability related risks are looming

The European Banking Authority (EBA) today published its Q1 2023 quarterly Risk Dashboard (RDB). The publication presents the results of the EBA's latest risk assessment questionnaire (RAQ), which was conducted among 85 banks in spring this year. It also includes information on minimum requirement for own funds and eligible liabilities (MREL). Banks' profitability continued to increase, and their capital, funding and liquidity ratios remain strong. Bank debt issuance has resumed after a temporary halt due to the Silicon Valley Bank (SVB) and Credit Suisse (CS) induced turmoil. A downward trend in liquidity and funding ratios is expected due to repayments of the ECB's targeted longer-term refinancing operations (TLTRO).

- *The uncertain economic outlook has resulted in lower consumer and business confidence as well as reduced risk appetite among banks. More banks expect asset quality deterioration going forward.*
- *To deal with the uncertain outlook, many banks have already provision overlays in place. The share of overlays in total expected credit losses is 20% and higher for around 40% of the banks, according to the RAQ.*
- *Higher interest rates helped increase banks' profitability with average return on equity (RoE) reaching 10.4%. Going forward, net interest income might decline due to repricing of deposits.*
- *EU/EEA banks' capital ratios continued to increase. The fully loaded common equity tier 1 (CET1) ratio reached 15.7% in Q1 2023, a 30bps increase over the quarter.*
- *The liquidity coverage ratio (LCR) declined from 164.6% in Q4 2022 to 163.7% in Q1 2023. The net stable funding ratio (NSFR) rose from 125.6% to 126%.*
- *The EBA MREL information shows that the overall MREL shortfall is EUR 29.1bn, corresponding to 1.2% of required issuance. Resolution authorities are carefully monitoring the situation and are in some instances granting longer transition periods to individual banks.*
- *EBA EuReCa data shows that EU competent authorities reported nearly 500 serious deficiencies, or 'material weaknesses' related to money laundering / financing of terrorism (ML/FT) between 31 January 2022 and 31 May 2023.*

You can access the data visualisation here.

Notes to editors

Key indicators have been visualised in a dynamic way. To facilitate the navigation, here is the full list of key indicators that you can find in the graphs:

- Slide 1: CET1 ratio (fully loaded) increased [DOWNLOAD DATA]
- Slide 2: Liquid assets growth was supported by rising cash and reserves [DOWNLOAD DATA]
- Slide 3: MREL shortfalls are further declining [DOWNLOAD DATA]
- Slide 4: Loan repricing periods: big divergence between corporate and mortgage [DOWNLOAD DATA]
- Slide 5: Stable asset quality [DOWNLOAD DATA]
- Slide 6: Expectations of asset quality deterioration [DOWNLOAD DATA]
- Slide 7: Banks expect stable cost of risk stable despite worsening asset quality outlook [DOWNLOAD DATA]
- Slide 8: Green loans are offered widely [DOWNLOAD DATA]
- Slide 9: Banks’ RoE increased, but some risks to profitability remain going forward [DOWNLOAD DATA]
- Slide 10: Money laundering and financing terrorism risks a key driver for OpRisk [DOWNLOAD DATA]

The figures included in the Risk Dashboard are based on a sample of 164 banks, covering more than 80% of the EU/EEA banking sector (by total assets), at the highest level of consolidation, while country aggregates also include large subsidiaries (the list of banks can be found here).