EU banks' face a further contraction of profitability

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The European Banking Authority (EBA) published today its Risk Dashboard and the results of the Risk Assessment Questionnaire (RAQ). While the capital position of EU banks remained strong and asset quality improved further, profitability contracted in Q3 2019, with a negative outlook from both banks and analysts.

EU banks' capital ratios have remained stable for the third quarter in a row. The Common Equity Tier 1 (CET1) ratio remained at 14.4% on a fully loaded basis, with the increase in capital compensated by a parallel expansion of risk exposure amounts (REA). The latter came together with an increase in total assets and loans.

Asset quality kept on improving, even though at a slower pace. The ratio of non-performing loans (NPLs) declined from 3.0% to 2.9%. Similarly, the share of Stage 2 and Stage 3 loans contracted, both by 10bps quarter-on-quarter (QoQ) to 6.9% and 3.3%, respectively. The coverage ratio further declined, and stood at 44.6%, down from 44.9% in the quarter before. Looking forward, the percentage of banks expecting a deterioration in asset quality further increased, particularly for lending to small and medium enterprises (SME) and commercial real estate (CRE) financing. Notwithstanding this outlook, banks still plan to increase their SME financing as well as consumer lending.

Return on equity (RoE) declined in Q3 to 6.6%, down by 40bps from the quarter before. In line with the previous quarter trend, banks' cost to income ratio contracted and stood at 63.2% in September 2019, 90bps down from Q2. An increasing volume of interest bearing assets and unchanged net interest margin (1.43%) support the trend. The share of net interest income in total net operating income rose to 58.5%, 60bps higher than in the last quarter. The RAQ results show that banks and analysts are rather pessimistic in respect of profitability trends. Only 20% of banks and 10% of analysts expect an overall increase in profitability in the next near future, compared to 25% and 20% in the previous RAQ.

On the **liability side**, banks mainly intend to attain more bail in-able instruments (senior non-preferred and Holding Company bonds) as well as retail deposits. Analysts also expect more issuances of bail in-able debt. However, contrary to banks, the percentage of analysts expecting more preferred senior unsecured funding strongly increased. Positive expectations about the placement of MREL instruments come in parallel to decreasing concerns about MREL-eligible issuances. The percentage of banks pointing to pricing and uncertainty on required MREL amount as constraints for MREL-eligible issuance fell to 50% and 30% respectively (60% and 40% in the previous RAQ).

Notes to editors

The figures included in the Risk Dashboard are based on a sample of 147 banks, covering more than 80% of the EU 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).

DOCUMENTS

- Risk Assessment questionnaire – Autumn 2019
- EBA Dashboard - Q3 2019.pdf
- Risk Dashboard interactive tool
- Risk Parameters - Q3 2019
- Risk Parameters – Q3 2019

LINKS

- Risk Dashboard

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