Pills
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TOPICS:
CAPITAL, CREDIT RISK, PROFITABILITY, LIQUIDITY RISK, OPERATIONAL RISK

SOURCE:
European Banking Authority

EBA Risk Dashboard Points to Stabilising Return on Equity in EU Banks but Challenges Remain for those Banks with Exposures to the Sectors Most Affected by the Pandemic

EBA Published its Risk Dashboard for the Q2 of 2021

- The EBA published its Risk Dashboard for the Q2 of 2021. The data indicate that banks are benefitting from the economic recovery with **RoE** remaining broadly similar to the previous quarter. **Capital ratios** remained stable and there was a further decline in **NPL ratios**. Operational risks remain elevated mainly due to **cyber and ICT related risks**.

Main Evidences

- Banks maintained **strong capital levels**: the average CET1 ratio reached 15.5% on a fully loaded basis by end Q2. The **leverage ratio increased** (from 5.6% in Q1 2021 to 5.7% in Q2 2021) on a fully loaded basis.
- **Asset quality continued to improve**: the aggregate non-performing loan (NPL) ratio continued to decline, reaching 2.3% at end Q2. **Forborne loans kept on rising**, and were up by 3.7% in Q2, with the forbearance ratio increasing by 10 bps to 2.1% in Q2. **Visible signs of deterioration for loans under moratoria and exposures under public guarantee schemes (PGS)**. The NPL ratio increased from 3.9% to 4.5% for loans under current moratoria, from 4.5% to 4.7% for loans under expired moratoria and from 1.4% to 2.0% for PGS exposures.
- **Profitability remained stable**: Return on equity (RoE) decreased to 7.4% in Q2 2021 from 7.7% in the previous quarter. **The Liquidity Coverage Ratio (LCR) remained high**: the LCR declined from 173.6% in Q1 to 172.4% in Q2 2021.
- **Cyber and ICT related risks remain elevated** even though no major successful cyber-attack has been reported. Amid higher levels of online banking and remote working as well as increased reliance on third party providers, banks' ICT systems remain vulnerable to significant disruptions in their operations. **Conduct-related risks remain high** too, stemming from areas like COVID-19 support measures or the upcoming LIBOR and EONIA replacements. In addition, inadequately addressed environmental, social and governance (ESG) factors and considerations can impact institutions' counterparties or invested assets and increase conduct risk.