



EUROPEAN CENTRAL BANK

BANKING SUPERVISION

The risk outlook for euro area banks

Cumberland Lodge
Financial Services Summit

4 November 2022



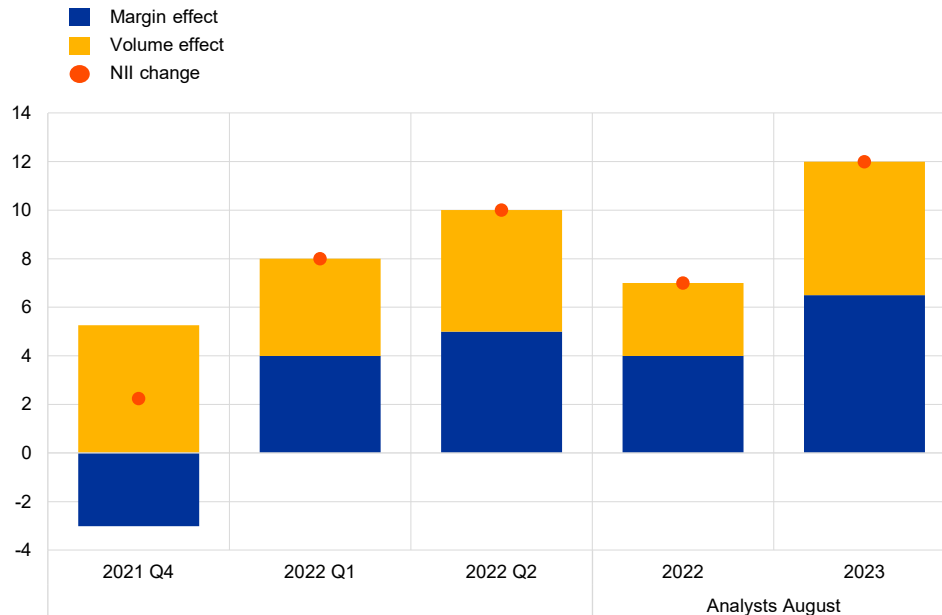
Andrea Enria
Chair of the Supervisory Board

Sound balance sheets and net interest income on upward trend; analysts expect gains to continue

Quarterly change in net interest income for listed banks

Q2-2022 prudential statistics

CET1 ratio	15.0%
LR	5.3%
LCR	164.4%
NSFR	127.0%
RoE	7.6%

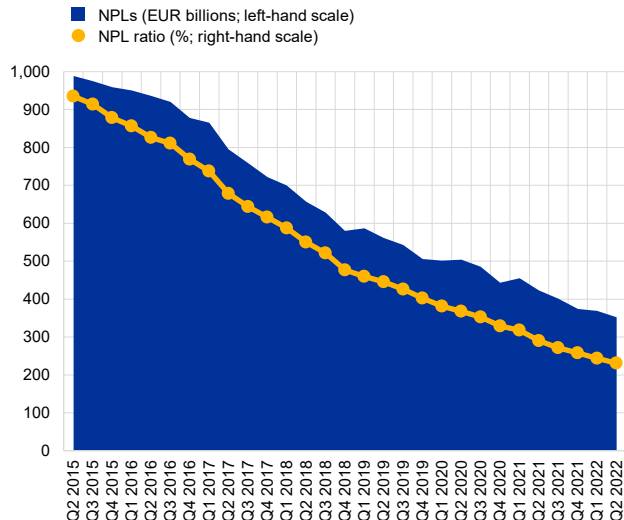


Source: Compiled from Refinitiv data.

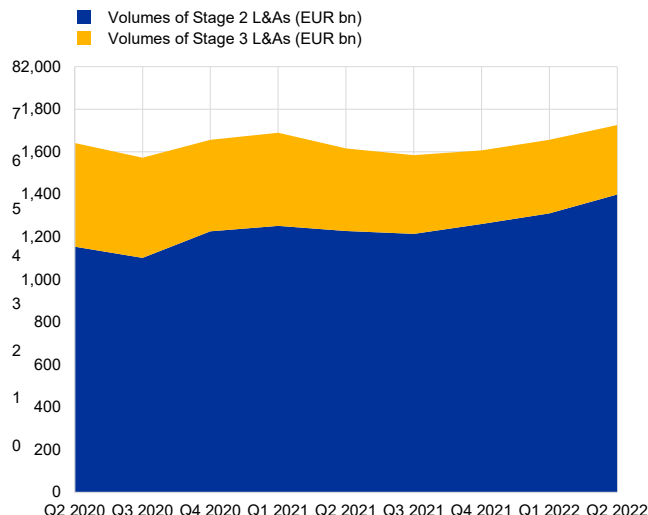
Note: The sample comprises 38 listed banks.

No asset quality deterioration yet, provisions on downward trend and expected to stay flat despite some latent risk

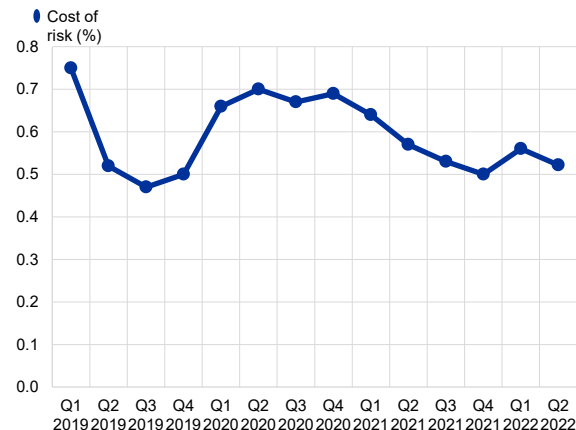
Non-performing loans volume & ratio



Volume of stage 2 and stage 3 loans

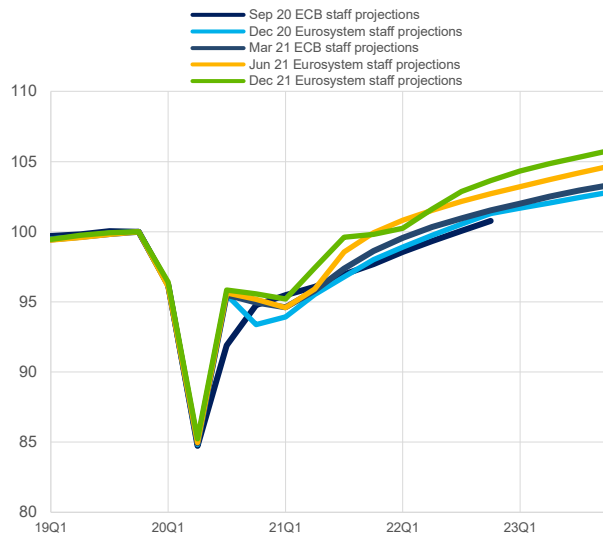


Cost of risk



A tale of two shocks: fast rebound after COVID-19, but gradual deterioration of outlook since Russian invasion

COVID-19

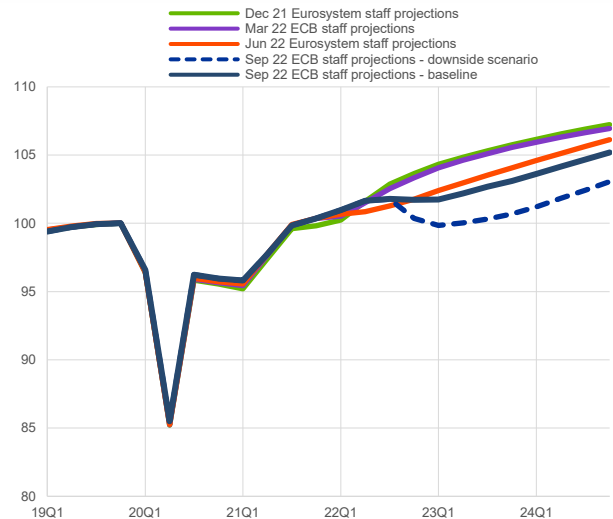


Source: ECB/Eurosystem staff macroeconomic projections.

Environment

- Inflation rate well within target: gradual upward adjustment driven by supply chain bottlenecks

Russian invasion of Ukraine



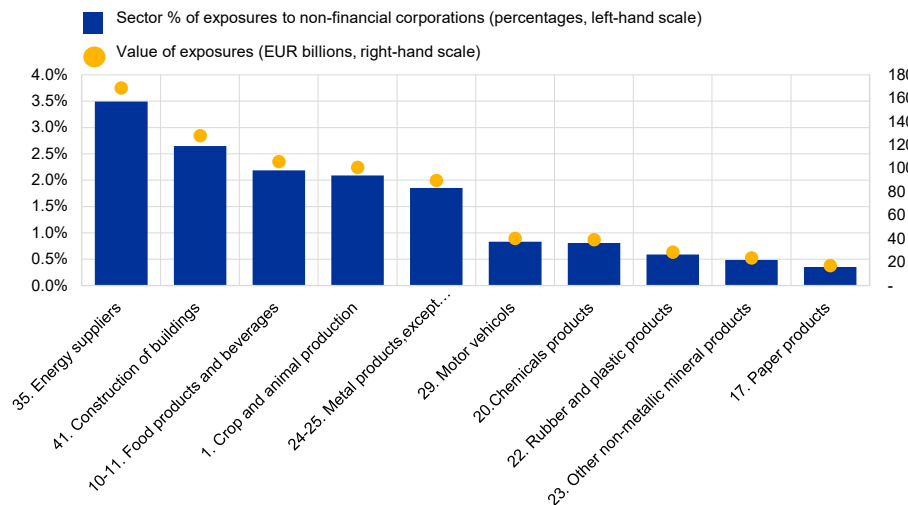
Source: ECB/Eurosystem staff macroeconomic projections.

Environment

- Inflation rate persistently above target at record high levels
- Fast normalisation of policy and market interest rates

Euro area banks have considerable exposures to sectors vulnerable to the energy crisis

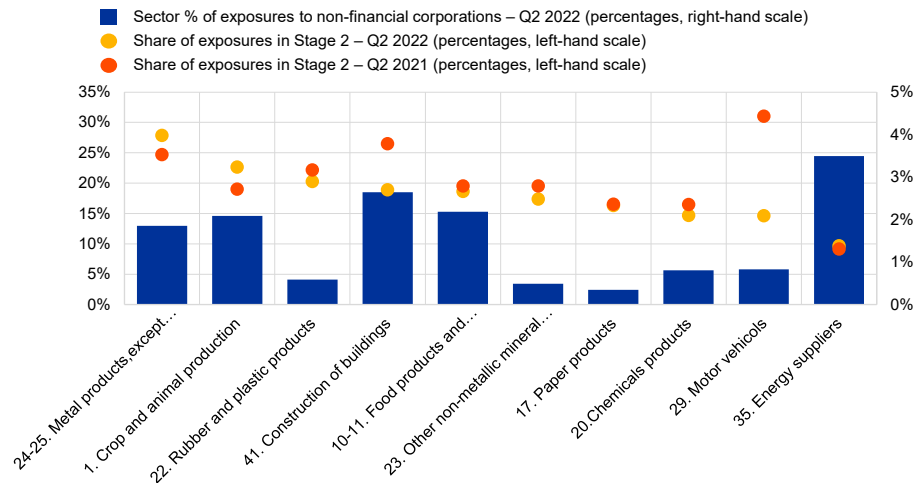
Exposures to vulnerable sectors in Q2 2022



Source: Anacredit.

Note: The sample comprises credit institutions reporting the selected data points to AnaCredit as at June 2022.

Stage 2 evolution for vulnerable sectors

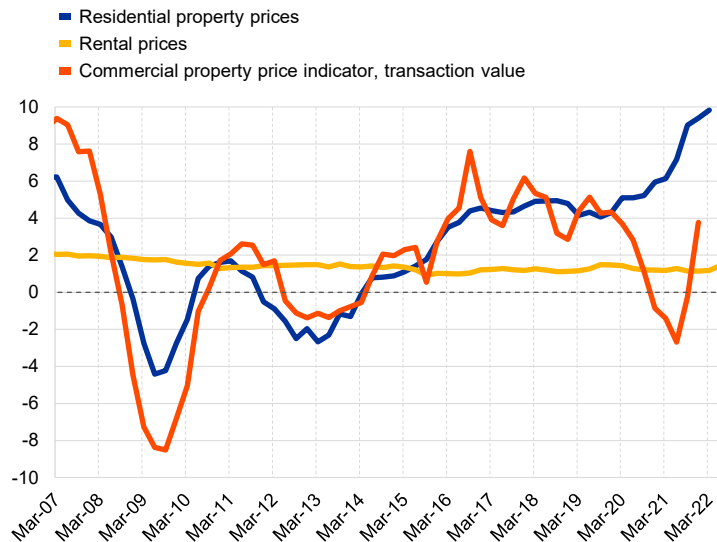


Source: Anacredit.

Note: The sample comprises credit institutions reporting the selected data points to AnaCredit as at June 2022.

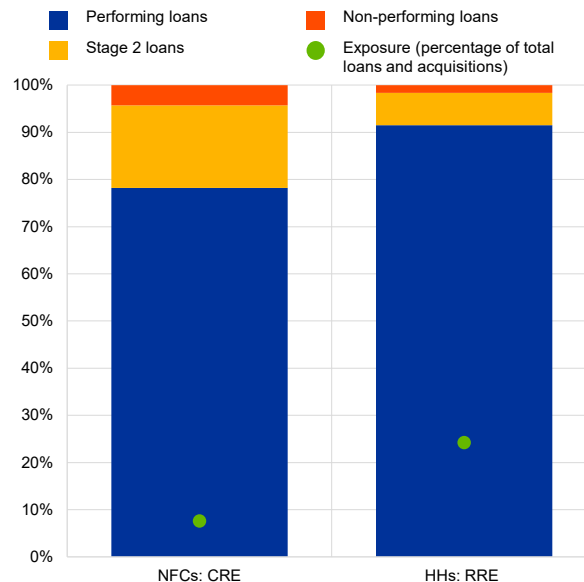
Residential real estate market at risk of abrupt correction as inflation and interest rates threaten affordability

Year-on-year growth rates in real estate market (percentages)



Source: ECB and supervisory reporting.

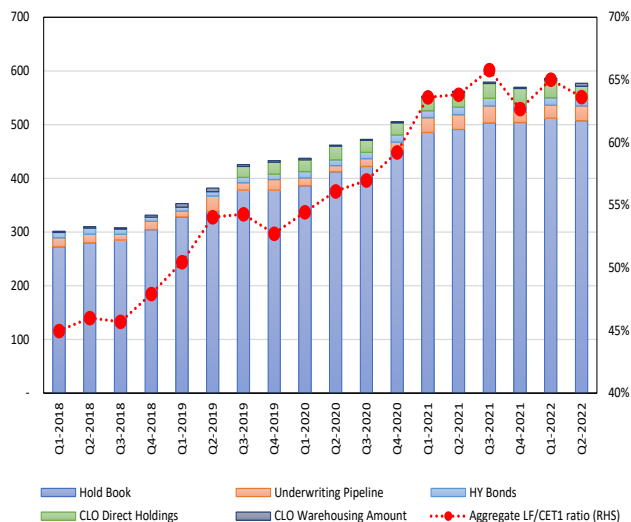
Residential real estate and commercial real estate performance in the second quarter of 2022



Source: ECB and supervisory reporting.

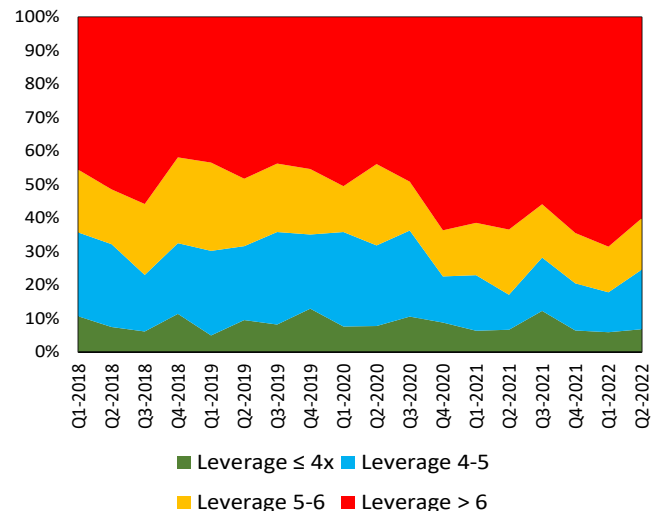
Sustained origination of riskier leveraged loans over last few years despite 2017 supervisory guidance

Leveraged finance exposures of euro area banks (EUR billions, left-hand scale) and share relative to CET1 capital (percentages, right-hand scale) – aggregate levels



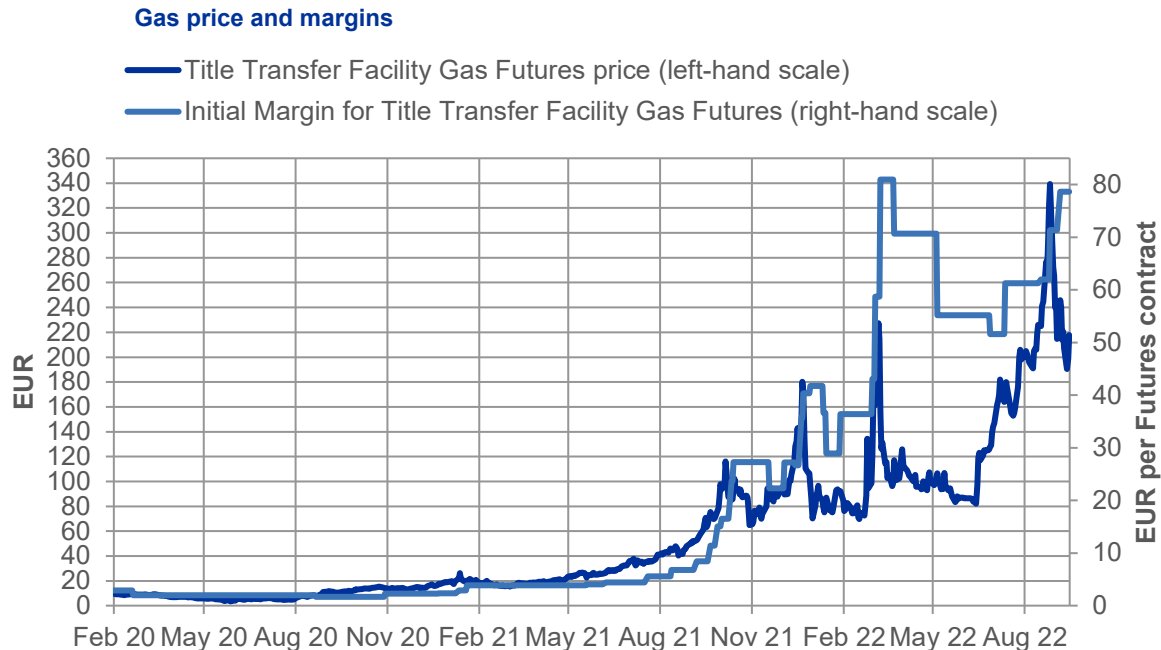
Source: Euro area banks under ECB supervision reporting supervisory data via ECB Banking Supervision's leveraged finance dashboard.
Note: Data as of the second quarter of 2022.

Origination volumes by leverage level (percentages)



Source: Euro area banks under ECB supervision reporting supervisory data via ECB Banking Supervision's leveraged finance dashboard.
Note: Data as of the second quarter of 2022.

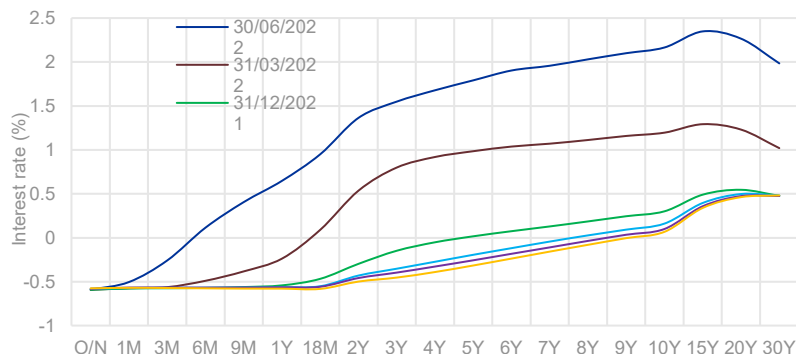
Companies hedging against gas price face high margin calls due to volatility: exposures to banks may increase



Source: ICE Futures Europe and ICE Clear Europe.

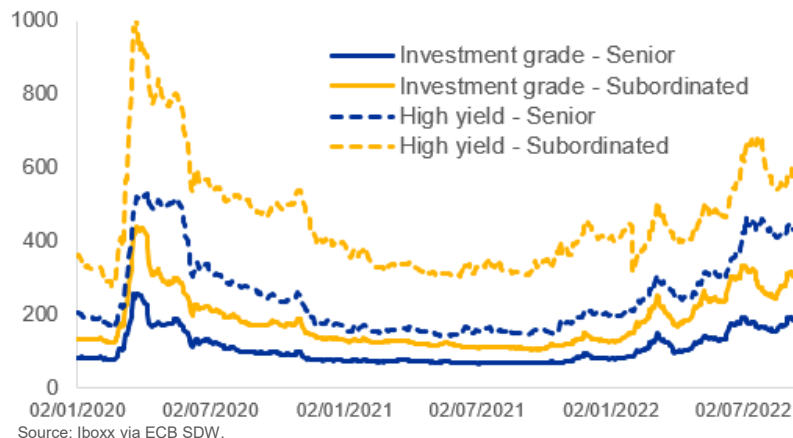
As interest rates normalise and funding costs increase, some business models may see income and economic value of equity eroded

Yield curve dynamics (2Q2021 – 2Q2022)



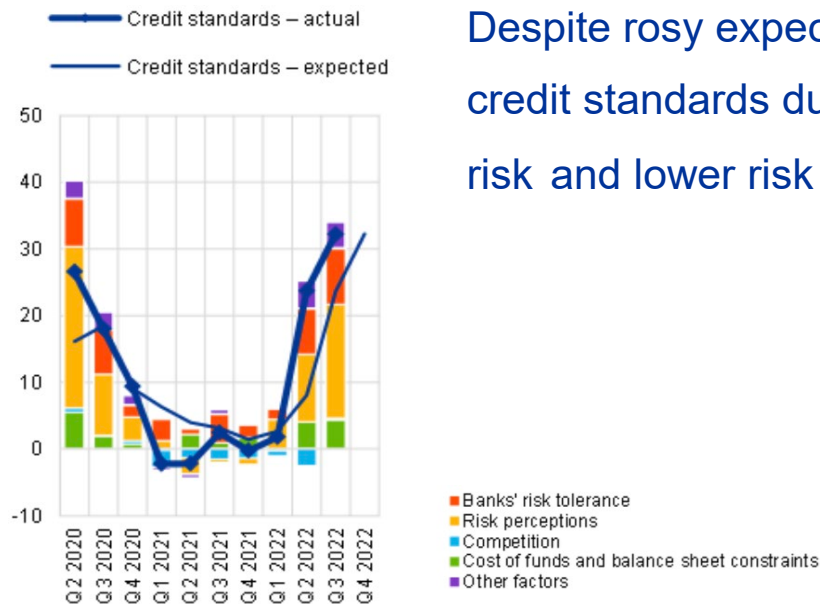
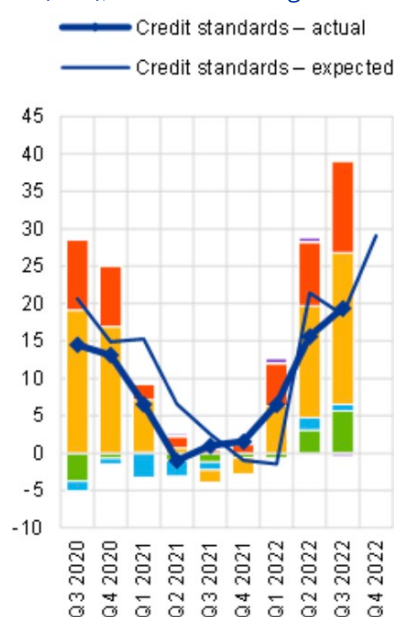
Evolution of banks' funding spreads

(OAS; 02/Jan/2020 – 14/Sept/2022; LHS: bps)



Supervisory focus on provisions

Changes in credit standards applied to the approval of loans or credit lines to enterprises (LHS) and loans to households for house purchase (RHS), and contributing factors

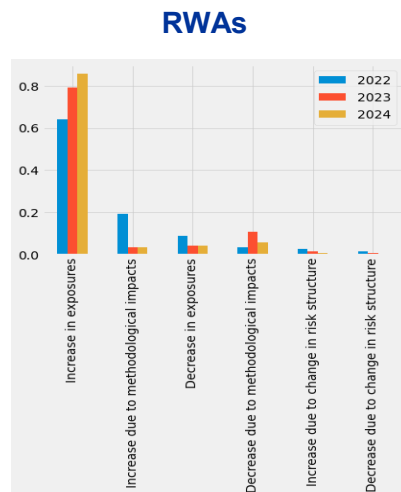
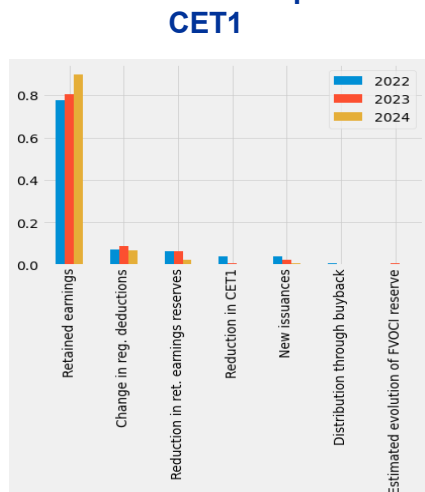


Despite rosy expectations, banks tighten credit standards due to higher perceived risk and lower risk appetite

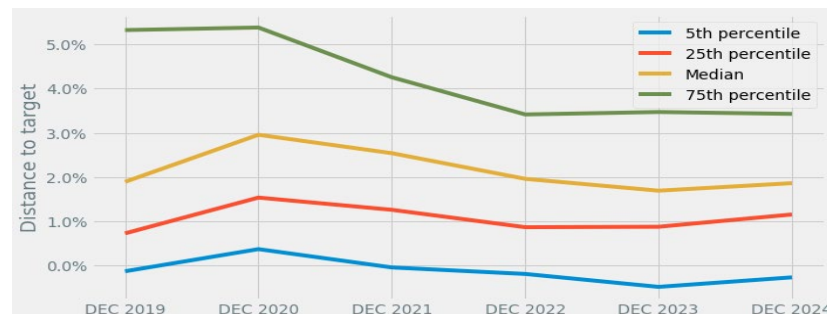
Supervisory focus on capital trajectories

Capital trajectories submitted in April are outdated, banks have been requested to send new estimates factoring in the energy shock and a recessionary scenario

Bank self-identified drivers for 3-year projection in funding plans April 2022 submission



April 2022 capital trajectories: evolution of the distribution of banks' distance of their capital position vs own capital targets (2019-2024)



Capital target can be defined as the strategical capital position the bank intends to converge to over the medium term, set sufficiently above all requirements, guidance and management buffer, while properly accounting for the risk appetite framework of the institution. Source: [HA on SI's projections](#) (DG-HOL/BCC), using STEs, COREP. Notes: Balanced sample of 77 SIs.