Updated EBA Risk Dashboard shows EU banks have further improved their resilience but profitability remains weak

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**The European Banking Authority (EBA) published today its Risk Dashboard, which summarises the main risks and vulnerabilities in the EU banking sector using quantitative risk indicators. Together with the Risk Dashboard, the EBA published the results of its Risk Assessment Questionnaire, which includes the opinions of banks and market analysts on the risk outlook collected in autumn 2018**. **In the third quarter (Q3) of 2018, the Dashboard confirms improvements in both asset quality and capital ratios, while profitability remains subdued.**

**European Banks' capital ratios remain high with a modest increase since Q2 2018.** The CET1 ratio on a transitional basis increased from 14.5% in the last quarter to 14.7% in Q3 2018 as the result of both an increase in CET1 capital and a decrease in total risk exposures. Banks representing 99.6% of total assets have a CET1 ratio above 11%. The fully loaded CET1 ratio increased to 14.5% in Q3 2018.

**The quality of the EU banks' loan portfolio has improved further.**In Q3 2018, the ratio of non-performing loans (NPLs) to total loans kept the downward trend and stood at 3.4%, its lowest level since the NPL definition was harmonised across European countries in 2014. The declining trend of the NPL ratio is due to the growth of total loans as well as due to the continuous decline of non-performing loans, which now stand at 714.3 EUR billion. Looking forward, banks expect further improvement in the quality of their portfolios, while market analysts seem to be more cautious on the asset quality outlook.

**Profitability in the EU banking sector needs to improve further.** The average return on equity (RoE) has been stable at 7.2%, with the share of banks with RoE above 6% decreasing from 67.1% in Q2 to 62.8%.  The answers to the Risk Assessment Questionnaire show that banks expect profitability to remain subdued, with only about 30% with a positive outlook in the next 6-12 months. In order to improve profitability, banks target increasing fees and commission income and decreasing operating expenses.

**The loan to deposit ratio has remained broadly stable.** In Q3 2018, the ratio increased marginally by 10bps to 118.4%, driven by a growing numerator as well as denominator. The leverage ratio (fully phased-in) remained stable at 5.1%. Asset encumbrance ratio increased slightly to 28.2% from 28% in Q2 2018. The liquidity coverage ratio (LCR) improved to 148.5% in Q3 2018, the highest value since Q3 2016 and well above the 100% requirement.

**Regarding funding, the Risk Assessment Questionnaire results show that two out of three responding banks plan to increase the issuance of MREL eligible instruments.** However, around 50% of the banks consider challenges around pricing as the main constraint for such issuances. Analysts are confident that banks will be able to issue BRRD / MREL / TLAC eligible instruments and also agree that the costs for such issuances will rise in the upcoming period.

**Notes to editors**

The figures included in the Risk Dashboard are based on a sample of 150 banks, covering more than 80% of the EU banking sector (by total assets), at the highest level of consolidation, while country aggregates may also include large subsidiaries (the list of banks can be found here <https://www.eba.europa.eu/risk-analysis-and-data>).