Low profits and high costs remain a key challenge for the EU banking sector

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**The European Banking Authority (EBA) published today its quarterly Risk Dashboard covering Q2 data, which summarises the main risks and vulnerabilities in the EU banking sector. Capital ratios have remained broadly stable and banks' asset quality has further improved. However, low profitability keeps on being a key challenge for the sector.**

Fully loaded CET1 ratios remained at 14.4%, in line the previous quarters. The CET1 ratio on a transitional basis was 14.6%, 10bps below Q1, mainly as a result of one-off changes in the reporting sample. While the average capital ratios remained broadly unchanged, banks on the lower end of the distribution further increased capital ratios.

The ratio of non-performing loans (NPLs) further declined to 3.0% from 3.1% in the previous quarter. However, while the Q1 decrease of the NPL ratio was mainly supported by an increase of total loans, the contraction in Q2 was driven by declining NPLs. Similar to the NPL ratio, also the shares of Stage 2 and Stage 3 loans declined in Q2 2019.

Return on equity (RoE) stood at 7.0%, which is 20bps above Q1 this year, but lower than one year ago. Its dispersion narrowed, with Q2 2019 being the first quarter in which the 5th percentile was above zero. Total net operating income continued its rising trend in the second quarter, supported by net interest as well as net fee and commission income. The cost to income ratio (CIR) remained high at 64.1%.

Looking forward, rising economic and political uncertainty might negatively affect the EU banking sector. The challenge of low profitability might aggravate amid potentially increasing impairments and provisioning needs. Also new lending volumes might suffer from a worsening in the general economic conditions and from a deterioration of the asset quality.

**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 also include large subsidiaries (the list of banks can be found [here](https://eba.europa.eu/documents/10180/15926/2019+update+of+EBA+List+of+Institutions+for+Supervisory+Reporting.pdf/ba752405-9b8c-4d87-a3d4-0dc38830cd81)). Stage 2 loans as referred to above are exposures for which the credit risk has increased significantly after their initial recognition, and Stage 3 loans are those, which are credit impaired.