



# Sortie de crise, problématiques structurelles et nouveaux défis: principaux enjeux pour le secteur bancaire européen et priorités d'action de l'ABE

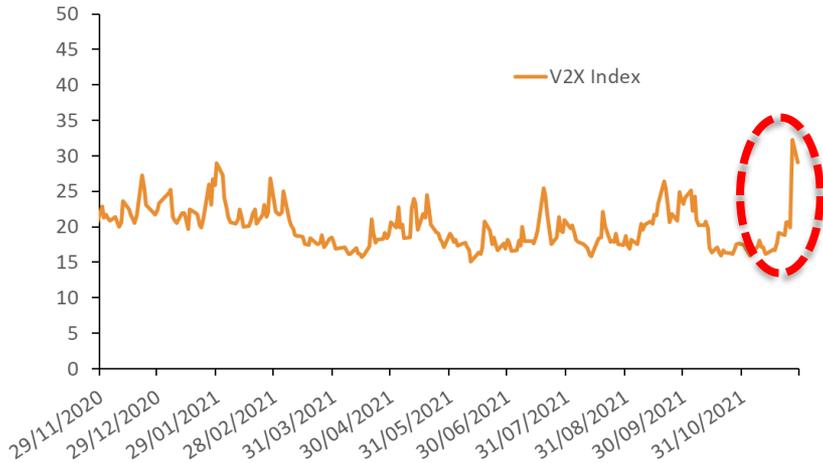
15 Décembre 2021

François-Louis Michaud, Directeur exécutif

- **1. Sortie de crise? Dans quel contexte?**
- 2. Priorités de l'ABE en 2022
- 3. Focus sur les risques environnementaux

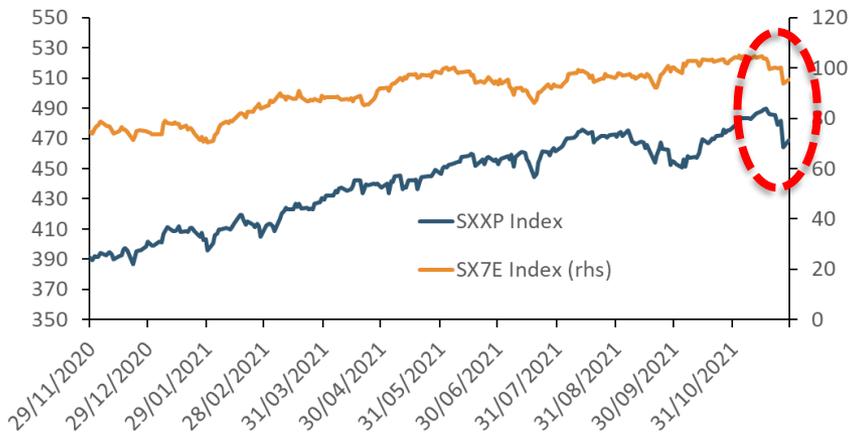
# 1. Sortie de crise?

European volatility index VSTOXX

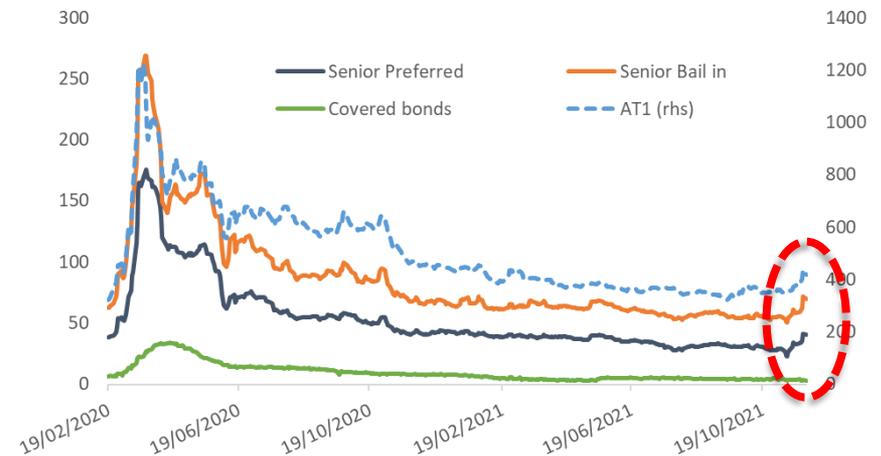


- Omicron variant related news resulted in a **jump in market volatility** (26 Nov).
- **European shares down** by around 5% (banks -6%) during that week.
- **Funding spreads widened** across the board.
- **Wake-up call:** materialisation of previously discussed vulnerabilities (re-pricing) amid high valuations, inflation, abundant liquidity.

Eurostoxx and Eurostoxx banks



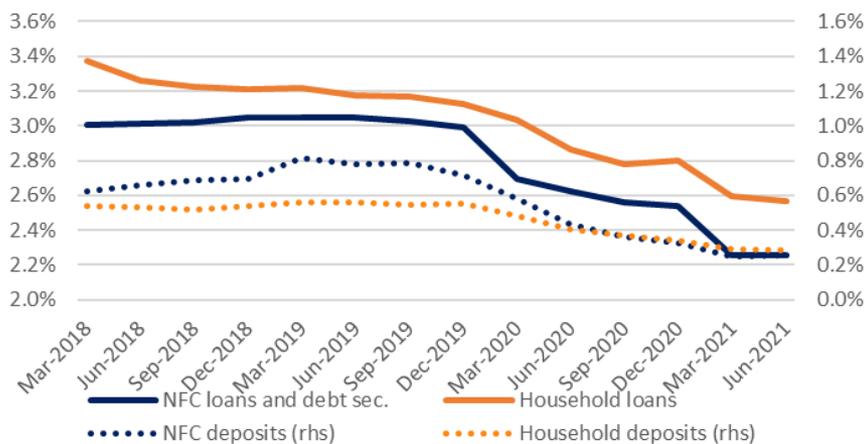
Selected EU banks' cash spreads (iBoxxes)



Source: Bloomberg, S&P Market Intelligence, HIS Markit iBoxxes (see disclaimer in the end)

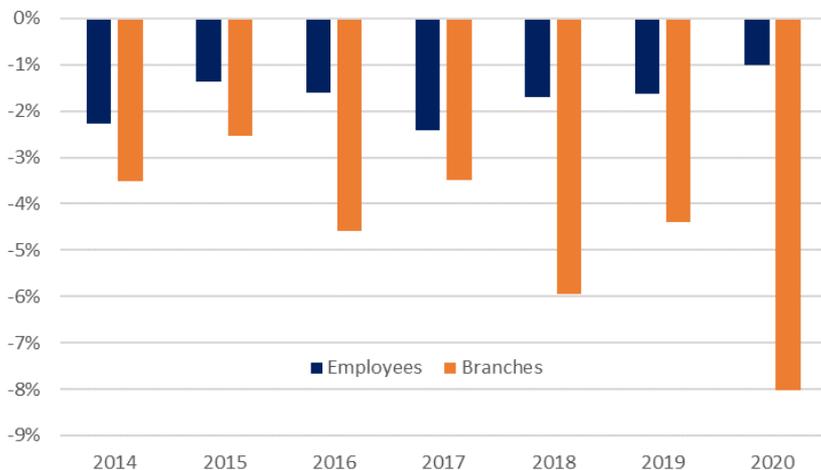
# 1. Un problème structurel de profitabilité

Evolution of NFC and household lending and deposit rates



Source: EBA supervisory reporting

Annual variation in the number of EU bank branches and employees

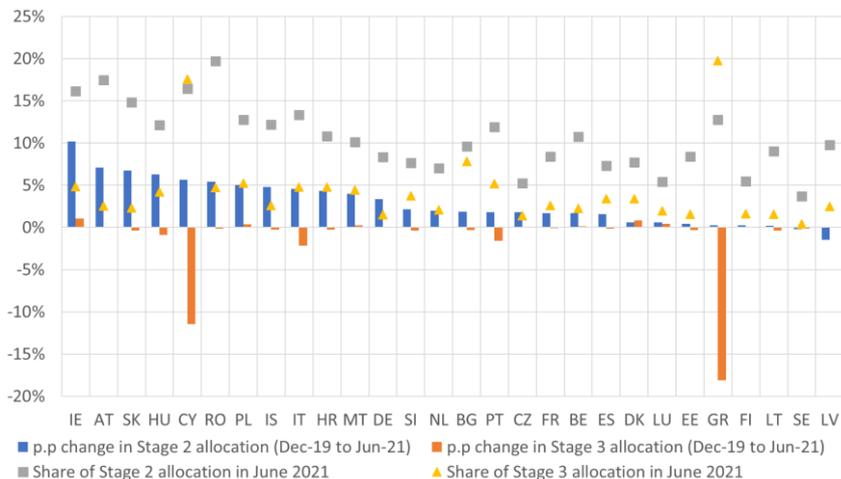


Source: ECB Statistical Data Warehouse

- **Net interest margin (NIM) has decreased further** (-10bps YoY to 1.24% in June 2021) driven by an increasing share of cash balances (most of it yielding 0% or negative rates).
- **The contraction of lending margins for NFC and household has accelerated during the pandemic and has also contributed to the decline in NIM.** E.g. NFC average deposit rate fell 18bps YoY to 0.26% while the average lending rate fell 36bps to 2.26%.
- **Operating expenses have increased** by 2.1% YoY but they remained constant as percentage of total assets (1.23%).
- **The pandemic has accelerated the closure of branches** (from 2014 to 2019 banks reduced branches by ca. 4% / year vs. 8% in 2020) **but slowed down staff reductions** (-1% in 2020 vs. -1.8% / year from 2014 to 2019).

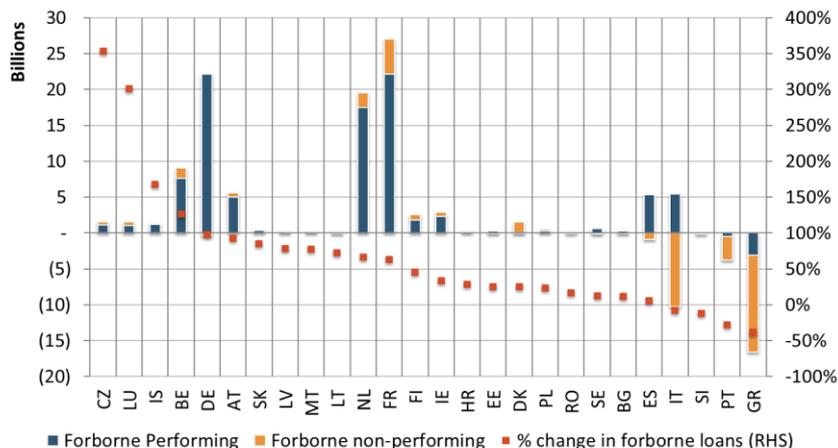
# 1. Une qualité des actifs variable (et incertaine)

Stage allocation changes between December 2019 to June 2021 and share of stage 2 and Stage 3 allocation (including purchased / originated impaired) in June 2021

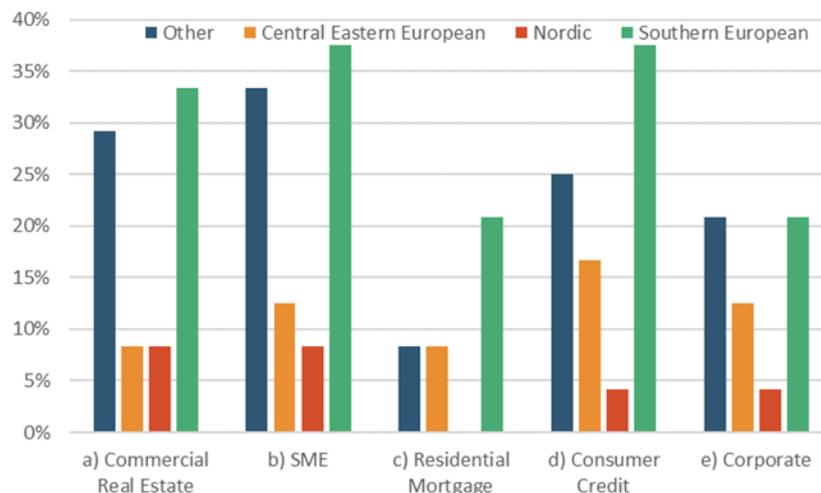


- **NPL ratios have decreased:** 2.3% (Jun 21) vs 3% (Mar 20), use of moratoria and public guarantee schemes have receded, but...
- **Forward-looking asset quality indicators show divergences:** higher Stage 2 allocation by CEE banks, lower share of Stage 3 for Southern banks (also due to securitisations); less forbore loans in GR, PT, SI, IT, partially double-digit rise in other jurisdictions.
- **Banks' expectations on asset quality improved but differ across regions (e.g. not a concern for Nordics)**
- **IFRS 9 practices warrant close scrutiny (EBA report)**

Change in volume of forbore loans December 2019 to June 2021



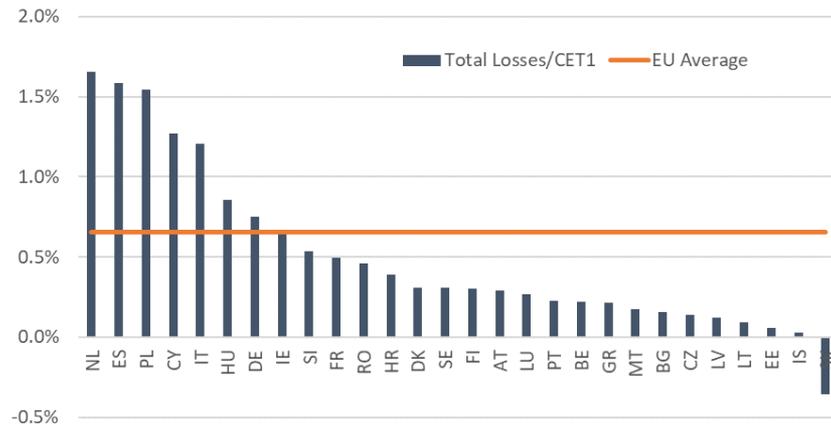
Share of banks expecting an asset quality deterioration by portfolio, by region (of the bank), autumn 2021



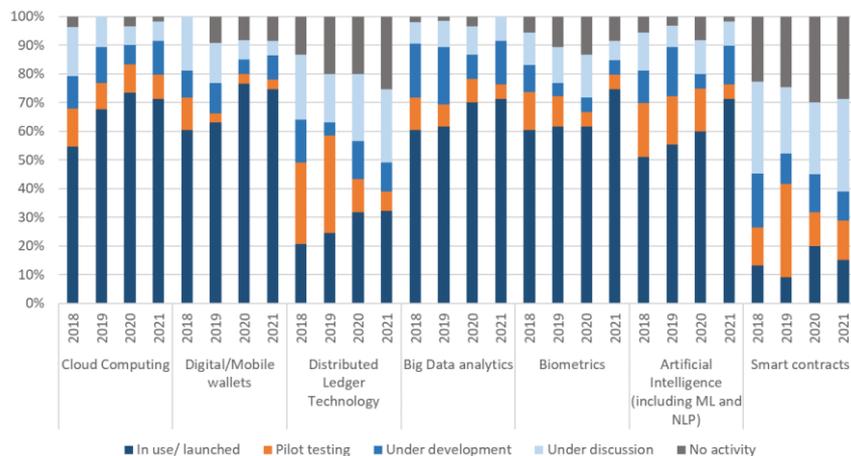
Source: EBA supervisory reporting and EBA Risk Assessment Questionnaire for banks

# 1. Des risques operationnels en hausse et un coeur de métier sous une double pression

Total losses in operational risk as a share of CET1, by country, December 2020



Status of adoption of financial technology at EU/EEA banks, 2018 - 2021

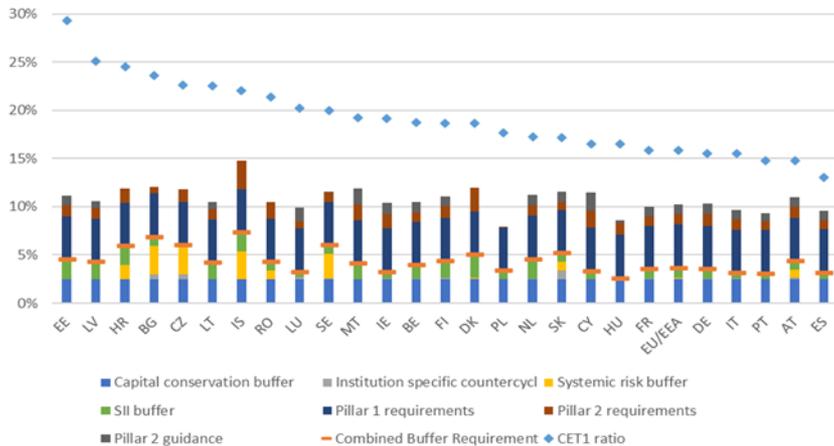


Source: EBA supervisory reporting and EBA Risk Assessment Questionnaire for banks

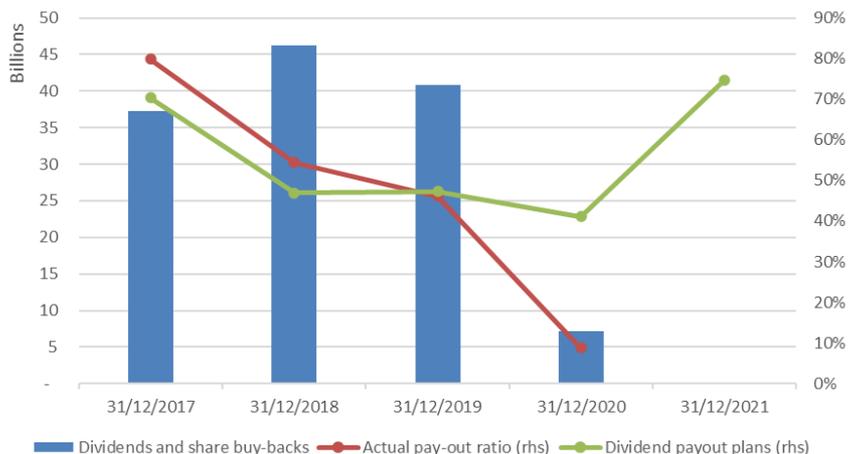
- **Operational risk is on the rise**
  - Accelerated digital transformation and reliance on technology: rising number of ICT and security-related incidents
  - Known operational risks remain elevated: AML, conduct, change, fraud etc.
- **Banks need to prioritise ICT security**, incl. at third-party service providers (DORA), not least since cybercriminals are increasingly turning their focus to supply chains. Cyber resilience testing is crucial.
- **As for the usage of advanced financial technology**, banks' responses to the EBA Risk Assessment Questionnaire point to:
  - Increased use of biometrics and artificial intelligence (incl. machine learning).
  - Stable use of cloud computing, digital/mobile wallets and big data analytics.
- **Is it enough** (given Fintech and BigTech pressure)? **Is it in line with risk appetite?**

# 1. Quel bon niveau de capitalisation?

CET1 ratio vs CET1 capital requirements (OCR + P2G)



Dividend payments and share buy-backs



Source: EBA supervisory reporting

- Efforts since the GFC have paid off
- **Stable capital ratios in June 2021** (CET1 ratio of 15.8%) compared with Dec 2020, and **comfortable buffers above capital requirements** (overall CET1 capital requirements (excl. AT1 and T2 shortfalls to be covered with CET1) at 9.2% of RWAs, + 1.0 % for Pillar 2 Guidance on top.
- EBA Stress-test (July 21): banks above 10 % in adverse scenario
- **Dividend payments and share buybacks plummeted in 2020** due to restrictions. 9% of 2019 profits were distributed by banks in 2020 (before restrictions were announced or due to contractual obligations).
- **In 2021, banks plan to distribute 75% of 2020 profits**, with exceptional payouts to make up for 2020.

# 1. L'ABE recommande 6 axes d'attention aux banques et à leurs superviseurs



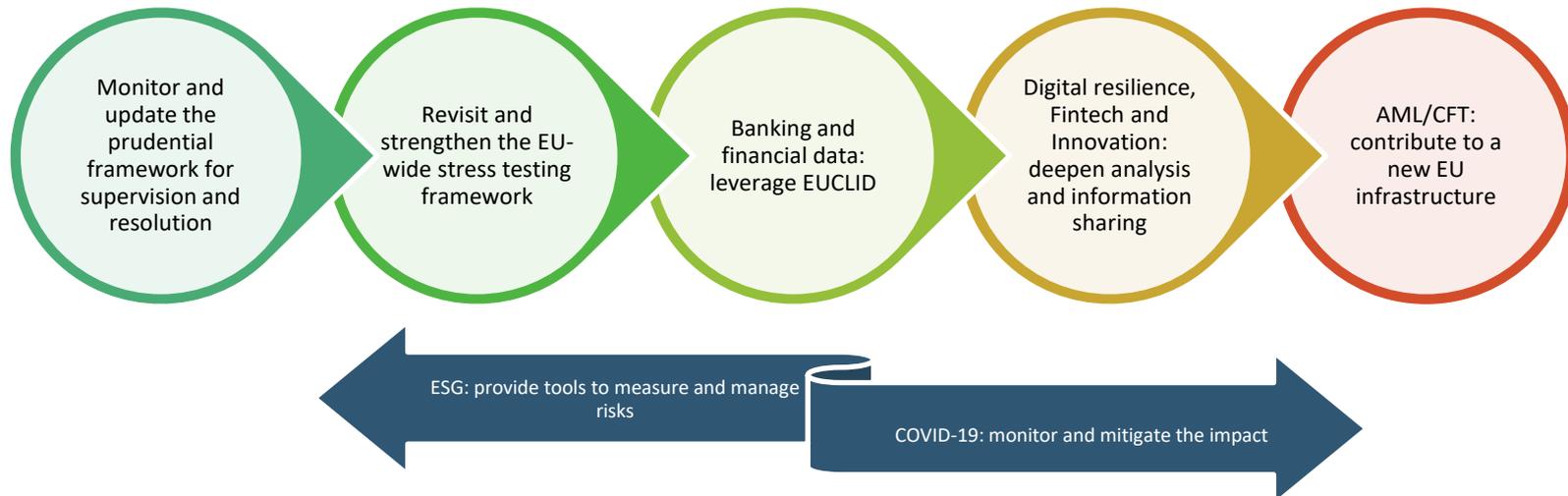
(Rapport EBA Evaluation des risques, publié le 3 décembre 2021)

- Politiques d'origination de crédit (sélection et tarification des risques)
- Prise en compte des facteurs ESG dans le modèle d'affaire et la gouvernance
- Modes de financement de l'activité (diversification hors banques centrales)
- Stratégies de distribution des profits
- Sécurité opérationnelle (en particulier vis-à-vis des fournisseurs de services externes)
- Coopération entre autorités (prudentielles, LAB-FT, résolution, macro/micro)

- 1. Sortie de crise? Dans quel contexte?
- **2. Priorités de l'ABE en 2022**
- 3. Focus sur les risques environnementaux

## 2. Work Programme 2022: Priorities

*Which areas that will drive the work in 2022?*



- 1. Sortie de crise? Dans quel contexte?
- 2. Priorités de l'ABE en 2022
- **3. Focus sur les risques environnementaux**

### 3. ESG: Trois grands axes pour l'ABE

#### 1. Adjusting the 3 (Basel) prudential pillars *(with fellow regulators)*

- Disclosures (Pillar 3)
- Risk management (Pillar 2)
- Prudential capital requirements (Pillar 1)

#### 2. Stress-testing climate risk *(with supervisors and banks)*

#### 3. Complementing tools *(with the industry)*

- EC taxonomy (Standards)
- Green bonds & Green securitisations (Labels)

### 3. ESG: 2020 EBA pilot on climate risk was foundational



- **First EU-wide exercise** : paving the way for other ST work on climate risk, by the EBA and other authorities.
- **Moving away from the “unknown”**: learning by doing project for analyzing key challenges to address before moving forward. No focus on capital implications.
- **Experience gained in mapping exposures was key:**
  - Exploring data limitations was the main goal. Starting point for future work.
  - Estimates regarding the level of sustainability of banks’ exposures to be considered as preliminary. **Testing banks’ readiness to apply the EU taxonomy**: raising awareness and understanding banks’ level of development. Still some way to go!
- **Close interaction between the EBA team and banks**: high level of cooperation and dialogue with volunteering banks before, during, and after the exercise.

### 3. ESG: Le Pillier 3, la source de tout le reste

First disclosures by banks expected in **early 2023 (based on 2022 data)**.

Qualitative information on all three aspects of ESG, quantitative information on E

**Other mitigating actions** (beyond taxonomy-aligned), e.g. instruments with proceeds dedicated towards sustainable activities

**Climate transition risk:** Banks' exposures to high carbon sectors and their counterparties' scope 1, 2 and 3 emissions

**Climate transition risk:**  
Loans collateralised by immovable property (RRE and CRE) and their energy efficiency

Templates propose banks' disclosure on inter alia:

**Mitigating actions:**  
**Green Asset Ratio** (climate risk adaptation and climate risk mitigation)

**Metrics on banks' alignment** towards international sustainability goals, e.g. IEA NZE2050 scenario

**Climate physical risk:** banks' exposures (and their maturity) that are subject to physical risk

### 3. ESG: Le Pillier 2, pour accompagner le changement

#### Banks reduce information asymmetries, need to act now

##### Business strategy

ESG-related considerations, e.g. longer time horizon

Setting out ESG-risk related objectives and limits

Engagement with counterparties and clients

Assessing the need to develop sustainable products

##### Risk management

Introducing ESG risks in RAF; incorporation in ICAAP and ILAAP

Identifying data gaps and adequate methodologies

Setting out policies covering ESG risks

Establishing risk monitoring metrics

##### Governance

ESG risks in arrangements for business lines, control functions, management body

Ensuring 'tone from the top' and risk culture

Internal capabilities (e.g. awareness, training)

ESG risks taken into account when setting remuneration policy

### 3. ESG: Le Pillier 1 pour tarifer le risque

- Initial focus on the environmental objectives (in particular climate risk)
- Looking at both sides of the coin: **green** and **environmentally harmful** exposures
- A prudential evidence – and **risk-based approach** is key

Discussion paper under Phase 1\* of EBA's work plan will focus on:

Challenges and  
data gaps

Qualitative analysis  
on capturing of  
environmental risk  
drivers

Risk differential  
analysis

Seeking input from  
stakeholders

\* Phase 2 will be Final Report, after feedback on DP

### 3. ESG: Les scénarios de stress environnementaux



- **Forthcoming EC mandates on climate risk stress test:**
  - Develop methods and scenarios for supervisors firms in the 3 sectors
  - Run regular climate risk ST
  - Run a one-off system wide ST with other ESAs
  - Draft guidelines for banks on climate risk ST
  
- **EBA's preparatory work for climate risk stress test**
  - Learn from EBA's pilot and others' (i.e. ECB/SSM, local authorities).
  - Explore data challenges and methodological issues.
  - Define and shape the framework along with EU supervisors.
  - Format and approach still being considered.
  - Feedback from the industry will be key.

### 3. ESG: Des standards et labels complémentaires



#### 1. Developing a framework for sustainable securitisation

- Securitisation can help, to finance sustainable projects (esp. during transition) but the EU sustainable securitisation market is currently lacking standards to foster transparency, credibility, and trust in the market.
- EBA is assessing (2021) how
  - To integrate sustainability-related transparency into the EU securitisation regulation
  - To establish a specific framework for sustainable securitisation products drawing upon the SFDR and EU Taxonomy regulation
  - Such framework may impact financial stability, the EU securitisation market and banks' lending capacity.
- Based on EBA's report, the EU Commission will decide in 2022 whether to put forward a legislative proposal to create a framework for sustainable securitisation.

#### 2. Other mandates

- EBA opinion on how banks and financial markets can draw upon the EU Taxonomy for green retail loans and mortgages (2022).
- Commission and ESAs to develop sustainable loans and bonds standards (2022)?

Merci pour votre attention!



# Links to selected EBA's recent publications

<https://www.eba.europa.eu/all-news-and-press-releases>

[2020-10-15 BoS - ESG report MASTER FILEcl.docx \(europa.eu\)](#)

[Consultation paper on draft ITS on Pillar 3 disclosures on ESG risks.pdf \(europa.eu\)](#)

[JC 2021 50 - Final report on taxonomy-related product disclosure RTS.pdf \(europa.eu\)](#)

[JC 2021 03 - Joint ESAs Final Report on RTS under SFDR.pdf \(europa.eu\)](#)

[Report on the monitoring of Additional Tier 1 instruments of EU institutions.pdf \(europa.eu\)](#)

[EBA Action plan on sustainable finance.pdf \(europa.eu\)](#)

[EU-wide pilot exercise on climate risk](#)

<https://www.eba.europa.eu/eba-risk-assessment-shows-improvements-eu-banks-solvency-profitability-and-liquidity-asset-price>

<https://www.eba.europa.eu/eba-notes-significant-efforts-ifs-9-implementation-eu-institutions-cautions-some-observed>