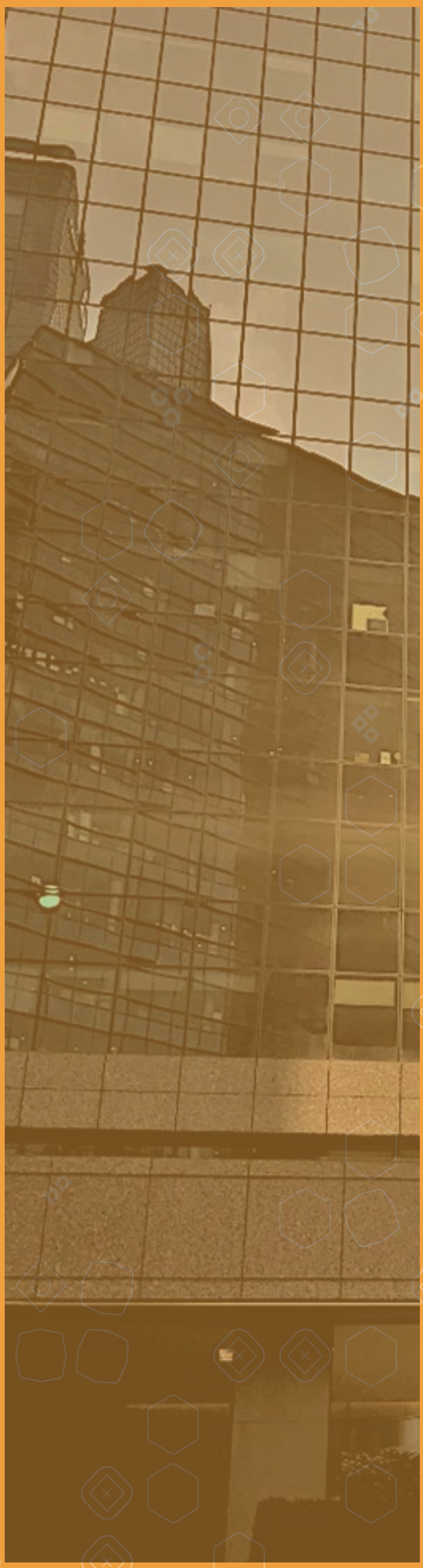
European Banking Authority

RISK ASSESSMENT REPORT OF THE EUROPEAN BANKING AUTHORITY

JUNE 2025



This Risk Assessment Report (RAR) was prepared by the Economic and Risk Analysis Department[1]. The report has benefited from input and comments from other Departments across the European Banking Authority (EBA), as well as from members of the EBA's Supervision, Risks and Innovation Standing Committee (SUPRISC), the Subgroup on Resolution Planning Preparedness (SGRPP), and the EBA's Board of Supervisors (BoS). Many thanks also to the editors of this version of the RAR.

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Abbreviations

ABS	Asset-backed securities
AI	Artificial Intelligence
AML	Anti-money laundering
APP	Authorised Push Payment
ART	Asset-reference token
ASF	Available Stable Funding
ASW	Asset swap
AT1	Additional Tier 1
bps	basis points
BRRD	Bank Recovery and Resolution Directive
CBDC	Central bank digital currencies
CBR	Combined buffer requirement
CCyB	Countercyclical capital buffer
CDD	Customer due diligence
CET1	Common Equity Tier 1
CFT	Countering the financing of terrorism
CIR	Cost-to-income ratio
CoE	Cost of equity
COREP	Common Reporting
CRE	Commercial real estate
CVA	Credit valuation adjustment
DDoS	Distributed denial of service
DGS	Deposit Guarantee Scheme
DGSD	Deposit Guarantee Scheme Directive
DLT	Distributed ledger technology
DORA	Digital Operational Resilience Act
EA	Euro area
EBA	European Banking Authority
ECB	European Central Bank
EEA	European Economic Area
EMT	Electronic money token
ENISA	European Union Agency for Cybersecurity
ESAs	European Supervisory Authorities
ESG	Environmental, Social and Governance
ESRB	European Systemic Risk Board
EU	European Union
EU-SCICF	EU systemic cyber incident coordination framework
LCR	Liquidity coverage ratio
LTRO	Long-term refinancing operations
M&A	Merges and acquisitions
MiCA	Markets in Crypto-assets Regulation
ML	Money laundering
MREL	Minimum requirement for own funds and eligible liabilities
MRR	Minimum reserve requirements
NATO	North Atlantic Treaty Organization
NBFI	Non-bank financial intermediaries
NCWO	No creditor worse off
NFC	Non-financial corporation
NFCI	Net fee and commission income
NII	Net interest income
NIM	Net interest margin
NPL	Non-performing loan
NSFR	Net stable funding ratio
OCR	Overall capital requirement
OTC	Over-the-Counter
PSD3	Payment Services and Electronic Money Services Directive
PSR	Payment Services Regulation
PtB	Price to book
P&L	Profit and loss
p.p.	Percentage points
P2G	Pillar 2 Guidance
QoQ	Quarter-on-quarter
R&D	Research and development
RAQ	Risk Assessment Questionnaire
RAR	Risk Assessment Report
RF	Resolution fund
RoE	Return on equity
RRE	Residential real estate
RSF	Required Stable Funding
RW	Risk-weighted
RWA	Risk-weighted asset
SME	Small and medium-sized enterprise
SRMR	Single Resolution Mechanism Regulation
STOXX	EuroStoxx Index

EuReCA	European reporting System for material CFT/AML weaknesses
FINREP	Financial reporting
Fintech	financial technology
GDP	Gross domestic product
GFC	Global financial crisis
G-SIIs	Global Systemically Important Institutions
HoldCo	Holding company
HQLA	High-quality liquid assets
ICT	Information and communication technology
IFRS	International Financial Reporting Standard
IMF	International Monetary Fund
SX7E	EuroStoxx Banks Index
SRT	Significant Risk Transfer
S5Bankx	S&P US banks index
T2	Tier 2 capital
TF	Terrorist financing
TLAC	Total loss absorbing capacity
TLTRO	Targeted longer-term refinancing operation
US	United States
V2X	Eurostoxx volatility index
YE	Year-end
YoY	Year-on-year

Executive summary

Reduced interest rates have bolstered economic activity and supported the real estate markets. The European Union's (EU) unemployment rate has continued its downward trend, indicative of a robust labour market that has positively impacted consumer spending. Nevertheless, geopolitical tensions and policy uncertainties remain significant risks to economic and financial stability, including a slowdown in economic growth.

Geopolitical tensions are high. This development has triggered an increase in defence spending. While such fiscal expansion may bolster economic growth, it also elevates pressure on fiscal resources, especially in countries with already high debt levels. The nexus between sovereigns and banks has weakened compared to a decade ago, due to a diversification of assets, the increasing strength of the EU/European Economic Area's (EEA) banking sector, as well as broad fiscal discipline by EU/EEA countries. The growing financing requirements of sovereigns could potentially act as a trigger for the resurrection of this nexus. The feedback loop during times of financial stress can still be a source of risk for banks. Geopolitical risk has also been one of the major drivers of financial markets in recent quarters, inducing volatility.

In an environment of rising tariffs, EU economies might be particularly negatively affected due to their openness and dependence on international trade flows. The introduction of tariffs might particularly affect sectors with significant export flows to the United States (US). These sectors include manufacturing, such as automotive and pharmaceuticals, as well as industries related to steel and aluminium, mining and quarrying, as well as agriculture. Several banks have notable exposures to the manufacturing sectors, and exposures to US counterparties, including US sovereign debt, are not immaterial.

These developments might significantly affect financing needs and lending dynamics. This comes in addition to the rising financing needs to address technology and climate risk-related challenges. The plan to rearm Europe is expected to boost defence spending across the EU, channelling substantial investment towards various sectors, including manufacturing and technology.

EU/EEA banks' profits grew by approximately 9% in 2024, outpacing the rise in equity and resulting in return on equity (RoE) of 10.5% in 2024, slightly higher than in the previous year (10.4%). A key challenge has been rising pressure on net interest margins (NIMs) and accordingly on net interest income (NII). However, banks have managed to improve their fee and trading income to partially offset this impact. The cost of equity (CoE) has remained high, with around 60% of banks estimating it to exceed 10%, although the proportion of banks estimating a CoE above 12% has decreased.

Indications from banks' Q1 results are that EU/EEA banks' results have held up well, and with no major impact from geopolitical developments. EU/EEA banks' profitability remained roughly stable compared to end-of-year results, and there have not been signs of a significant deterioration in asset quality. However, there was an uptick in the cost of risk, which might signal that banks have

started to increase their provisioning amid the deterioration in the geopolitical situation. Anecdotal evidence suggests that this might also be supported by a further build-up of overlays.

The Common Equity Tier 1 (CET1) ratio stood at 16.1%, with CET1 capital matching the 5% increase in Risk-Weighted Asset (RWA) in 2024. The volume of CET1 capital rose by around EUR 70 bn, primarily due to rising retained earnings and other reserves, helping the banking sector to be better prepared to absorb shocks and continue operations during periods of financial distress, enhancing financial stability. Due to consistently robust capital buffers and high profitability, banks' dividend distributions and share repurchases continued to rise, reaching EUR 92 billion in 2024. This represents a payout ratio of 51% of year-end (YE) 2023 profits. Banks anticipate a further rise in the planned dividends for 2025. Significant Risk Transfers (SRTs) have an increasing use as a capital management instrument among EU/EEA banks, helping them to release capital and increase their lending capacity. More banks aim to make use of them going forward.

Banks boosted their assets by 3.2%, reaching a total of EUR 28.2 tn, primarily driven by a significant increase in outstanding loans and advances, debt securities and equity holdings. Despite a notable reduction in cash balances, banks maintained a substantial amount of cash reserves, accounting for around 11% of total assets. Lower interest rates supported client lending, with outstanding loans towards non-financial corporations (NFCs) and households growing by 1.8% to nearly EUR 13.5 tn. Related to climate risk, EU/EEA banks' disclosure data indicate that substantial shares of their exposures might face transitional and physical risks, even though there is wide dispersion among banks and countries. Furthermore, the interconnectedness of EU/EEA banks with non-bank financial intermediaries (NBFIs) remains a possible major channel of contagion during market turmoil, with exposures amounting to 10.1% of total consolidated bank assets.

EU/EEA banks' three-year funding plans project a 1.7% increase in total assets for 2025, with higher growth rates expected in 2026 and 2027. Lending to NFCs is anticipated to rebound, growing at 4.3% in 2025 and maintaining close to 4% yearly growth through 2027. Household loans are forecasted to increase more modestly by 2.0% in 2025, before picking up pace in the following years. Banks plan to increase their liquid assets, reversing the decline in cash balances, while the growth of debt securities is expected to slow down, due to the declining interest rate environment.

The materialisation of credit risk has been evidenced by a slight increase in non-performing loans (NPLs) and a significant rise in the allocation of loans under International Financial Reporting Standard (IFRS) 9 Stage 2. By the end of 2024, EU/EEA banks reported an increase in NPLs to EUR 375 billion, with the NPL ratio rising slightly to 1.88%. Loans classified under Stage 2 surged to historically high levels, making up 9.7% of total loans, primarily driven by an increase in Stage 2 household loans. Despite the deterioration in asset quality metrics, the outlook has improved due to a lower interest rate environment and the stabilisation of real estate markets. However, given the heightened geopolitical and macroeconomic uncertainty, particularly related to tariffs, downside credit risks remain elevated.

Key liquidity and funding indicators demonstrated a robust position among EU/EEA banks, with the Liquidity Coverage Ratio (LCR) at 163.4% and the Net Stable Funding Ratio (NSFR) at 127.1% as of December 2024. Banks' liquidity remained high, despite previous targeted long-term

refinancing operations (TLTRO) repayments and the drop in excess liquidity in the system. However, banks' LCR has shown a decreasing trend since December 2023, due to the drop in High-Quality Liquid Assets (HQLA). Changes in LCR were underscored by changes in the interest rate environment and deposit behaviour. During 2024, banks continued with the adjustments of their liquidity buffers by replacing central banks' reserves with sovereign debt, covered bonds and Level 2 assets. The asset encumbrance ratio further decreased by 60 basis points (bps) year-on-year (YoY) to 24.1% in December 2024.

EU/EEA banks grew their liabilities by around 3% in 2024, reaching EUR 26.2 tn as of YE 2024. Debt securities issued increased the most, reaching a share of 20.3% of total liabilities in Q4 2024. Household deposit volume reached nearly one third of total liabilities, increasing by 1.3% in 2024 to a share of 31.1%, while the share of NFC deposits increased to 17.2%. There is, however, strong heterogeneity in the liability mix across institutions. Market data indicate that EU/EEA banks remained active in primary funding markets in 2024, except for periods of significant volatility. Issuance data shows that volumes of bank debt instruments were lower in the first five months of 2025 compared to the same period in previous years. The importance and volume of central bank funding continued to decrease in 2024, driven by final repayments of TLTRO funding.

Looking forward, the fastest growing liability segments in EU/EEA banks' funding plans are repos, long-term unsecured debt securities and client deposits. EU/EEA banks' yearly issuance volumes are expected to rise significantly over the next three years. Banks also plan to increase secured debt issuances sharply this year after comparatively low volumes in 2024. However, rather optimistic plans for this year might face challenges amid elevated market volatility that could be seen during parts of the first half of the year, and which might also similarly happen during the remainder of the year.

The increasing complexity and systemic nature of operational risks in the banking sector, driven by digitalisation, technological advances, and heightened geopolitical tensions, have put these risks even further to the forefront. Digitalisation and technological advances, with related cyber risk, are a key driver of operational risk besides fraud, reputational challenges and the risk of financial crime, including anti-money laundering (AML) risk, and further conduct-related and legal risk. RWAs of operational risk have grown, reflecting its significance in the overall risk profile of banks.

Technological progress also relates to crypto assets and possible implications for the banking sector. The rapid evolution of the crypto-currency markets and the emergence of distributed ledger technology is a potential opportunity for financial institutions. Some banks in the EU/EEA have further progressed their engagement with digital assets, including direct exposures, as well as offering consumer-facing services, such as custodial wallets and facilitating transactions through blockchain platforms. This shift presents opportunities for banks to provide clients with access to the digital assets market, but it also entails risks, including infrastructure risks such as blockchain failures, and cybersecurity threats such as hacks and data breaches.

Introduction

This report describes the main developments and trends in the EU/EEA banking sector and provides the EBA outlook on the related main risks and vulnerabilities[2]. The Risk Assessment Report (RAR) is based on qualitative and quantitative information collected by the EBA. The report's key data sources are the following:

- EU/EEA supervisory reporting[3];
- the EBA Risk Assessment Questionnaire (RAQ) addressed to banks;
- market intelligence, as well as qualitative micro-prudential information.

This report follows the common structure of the EBA's RARs. The RAR builds on the supervisory reporting data that competent authorities submit to the EBA on a quarterly basis, for a sample of 161 banks from 30 EEA countries (129 banks at the highest EU/EEA level of consolidation from 26 countries)[4]. Based on total assets, the sample covers more than 80% of the EU/EEA banking sector. In general, the risk indicators and other supervisory reporting-based charts and analysis are based on an unbalanced sample of banks, whereas charts related to the risk indicator numerator and denominator trends are based on a balanced sample[5]. When referring to countries in the following, the respective data are based on the sample of banks applicable for this jurisdiction (see Annex I), if not otherwise stated. The data related to the minimum requirement for own funds and eligible liabilities (MREL) in this report are based on reporting on MREL and total loss absorbing capacity (TLAC), which covers a sample of 339 resolution entities or groups[6]. The analysis in Chapters 3.4 and 7 replaces the qualitative and quantitative parts of the EBA's LCR and NSFR monitoring, which

[2] With this report, the EBA discharges its responsibility to monitor and assess market developments and provides information to other EU institutions and the general public, pursuant to Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority) and amended by Regulation (EU) No 1022/2013 of the European Parliament and of the Council of 22 October 2013. With the analysis in this report, the EBA discharges its responsibility to coordinate the assessment of funding plans at Union level, including credit institutions' plans to reduce reliance on public sector funding sources, and to assess the viability of such plans for the Union banking system, on an aggregated basis, set out in Recommendation A of the ESRB recommendation on funding of credit institutions from 20 December 2012 (ESRB/2012/2). With this analysis, the EBA also discharges its responsibility to closely monitor the level, evolution and types of asset encumbrance as well as unencumbered but encumberable assets at Union level, as described in Recommendation C of the European Systemic Risk Board (ESRB) recommendation on funding of credit institutions from 20 December 2012 (ESRB/2012/2).

[3] See the EBA's information on supervisory reporting.

[4] Data as of the reporting date 31 December 2024 if not otherwise indicated. Supervisory reporting includes, for instance, prudential reporting (common reporting – COREP), financial reporting (FINREP), as well as reporting on funding plan data. It must be noted that there are, partially, certain differences between reporting samples (on the sample of reporting banks, see Annex I) and reporting requirements, such as in the level of consolidation. The funding plan data are based on projections as of December 2024. See also the EBA's Guidelines on funding plan reporting. In funding plan data-based figures "A" stands for "actual" numbers, "F" for forecasted numbers. On the indicators used, see the EBA's methodological guide on EBA indicators for risk assessment and resolution.

[5] Being an unbalanced sample, the number of reporting banks per country may sometimes display certain variations between quarters, which might accordingly affect quarterly changes in absolute and relative figures and therefore changes in risk indicators for country-level aggregates must be read with caution.

[6] Number of banks for which the EBA has received both an MREL decision from resolution authorities and information on MREL/TLAC resources.

was previously published separately[7]. The text and figures in this report refer to weighted average ratios unless otherwise indicated[8]. In selected cases, some of the analysis covered in this RAR is based on data from other reporting and data submissions, such as the EBA's European reporting system for material CFT/AML weaknesses (EuReCA)[9].

The RAQ is conducted by the EBA on a semi-annual basis, with one questionnaire addressed to banks[10]. Answers to the questionnaires were provided by 85 European banks (Annex I) during February and March 2025. The report also analyses information gathered by the EBA from informal discussions as part of the regular risk assessments and ongoing dialogue on risks and vulnerabilities of the EU/EEA banking sector. The cut-off date for the market data presented in the RAR was 31 May 2025, unless otherwise indicated.

It must be noted that the forecasts based on funding plan data in this report – namely in the asset, liability and profitability chapters – are based on banks' expectations as of YE 2024. As such, they do not reflect the latest (geo)political and financial market developments. However, it is presumably safe to assume that they had nevertheless been drafted taking into account (geo)political and economic uncertainty at that time.

[7] The separately published 2025 edition of the EBA's LCR and NSFR monitoring report covers regulatory considerations. See also previously published monitoring reports in 2019, 2021 and 2023.

[8] There might be slight differences between some of the risk indicators covered in the Q4 2024 version of the EBA Risk Dashboard and this report, as a result of data resubmissions by banks. The Annex to the Risk Dashboard also includes a description of the risk indicators covered in this report and their calculations, and further descriptions are available in the EBA's guide to risk indicators.

[9] The EBA's EuReCA is a central database that puts together information submitted by competent authorities on serious deficiencies in individual financial institutions' systems and controls that expose these institutions to money laundering and terrorist financing (ML/TF) risk. Data refers to all sectors within the remit of the EBA's anti-money laundering/countering the financing of terrorism (AML/CFT) mandate, namely: credit institutions, payment institutions, e-money institutions, bureaux de change, investment firms, fund managers, credit providers (other than credit institutions), life insurance undertakings and life insurance intermediaries, and an additional category of 'others'.

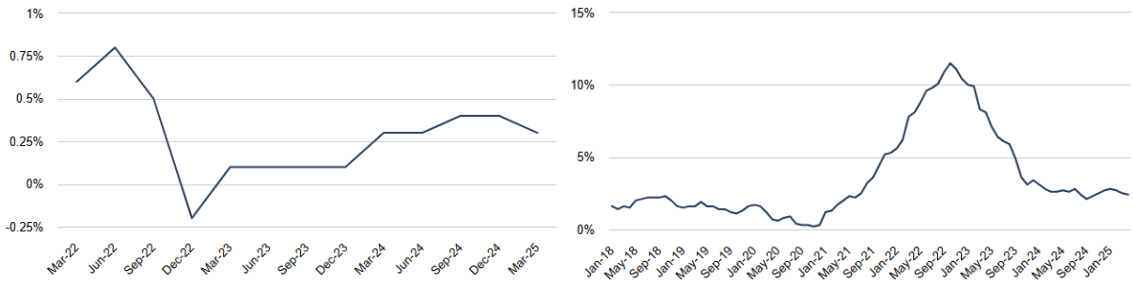
[10] The results of the RAQ are also published separately on a semi-annual basis. These published RAQ booklets (latest published version is from spring 2025) also include explanations of the questionnaire and the analysis of the RAQ responses.

1. Macroeconomic environment and market sentiment

Lower interest rates helped economic activity and supported real estate markets

The EU economy experienced moderate but consistent growth of 1% in 2024, with inflation declining from 5.4% in 2023 to 2.6% in 2024[11]. Lower inflation has enabled central banks to loosen their monetary policies. Since May 2024, the European Central Bank (ECB) has reduced its policy rate on eight separate occasions, and as of June 2025, the deposit facility rate stood at 2%. Additionally, numerous central banks in Member States outside the euro area have followed similar monetary policy paths, with Poland implementing particularly significant reductions, amounting to 100 bps in 2024. Besides central banks' rate cuts, the euro yield curve steepened, for instance, not least because of the adjustments in ECB rate policies, reduced expectations for further rate cuts, along with structural inflation risks and higher government bond supply[12].

Figure 1: EU GDP growth rate QoQ, seasonally adjusted (%) (left) and EU average inflation rate (right)



Source: Eurostat

Lower borrowing rates have benefited the economy by reducing the cost of loans, thereby encouraging corporate investments and consumer spending, which was additionally supported by a strong labour market. As of March 2025, the unemployment rate in the EU was 5.8%. In the euro area, the unemployment rate was slightly higher, at 6.2% in March 2025, a decrease from 6.5% in March 2024.

A robust labour market and lower interest rates have supported the real estate market, especially in the second half of 2024. The residential real estate (RRE) markets in Europe demonstrated a significant improvement in 2024, underscoring the resilience of the sector. The demand for housing not only reflected the lower interest rate environment, which reduced some financial pressure on buyers, but also the continued shortage of housing supply, particularly in urban centres[13].

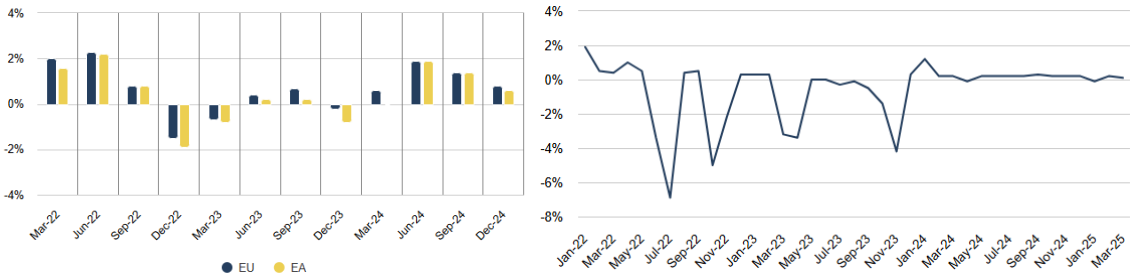
[11] See the European Commission's Spring 2025 Economic Forecast: Moderate growth amid global economic uncertainty.

[12] See, for instance, euro area yield curve data from the ECB.

[13] See, for instance, Eurostat Building permit statistics.

Cognisant of the low transactional activity, which may misrepresent prices, commercial real estate (CRE) prices stabilised in the course of 2024. In broad terms, market sentiment has improved due to lower interest rates, but the sector still faces broad structural and cyclical challenges, including lacklustre demand for certain sectors (e.g. offices), refinancing and debt management challenges, rising construction costs, as well as buildings' climate resilience, for example.

Figure 2: Quarterly growth rates in RRE prices index (left) and monthly growth rates in euro area CRE price index (right)



Source: Eurostat, Green Street Pan-European commercial price index

Geopolitical developments weigh on macroeconomic projections

Heightened geopolitical tensions, including war and political tensions in Europe and other parts of the world, and the related domestic and global policy uncertainties, contribute to macroeconomic instability[14]. This is perhaps even more pronounced in regions with critical energy resources or significant trade routes, further aggravating the downside risks to economic growth. Conflicts and political instability can lead to abrupt disruptions in energy supplies, causing spikes in energy prices. Such volatility can not only affect the cost of living but also the overall stability of markets. For instance, the conflict in the Middle East has led to elevated freight costs and energy prices, which, in turn, contributed to inflationary pressures. Furthermore, policy changes announced by the new US administration have created additional uncertainty regarding future trade directions. An increase in trade frictions may negatively impact global growth by increasing costs, disrupting production, and forcing adjustments to supply chains. Moreover, retaliatory measures may further diminish the benefits of free trade and exacerbate these dynamics. Consequently, the risks to economic growth and inflation are closely tied to escalating geopolitical developments and potential trade disruptions.

Although current forecasts from the European Commission and the ECB indicate that the EU economy and the euro area will see a slight acceleration in economic growth in 2025, with further reductions in inflation, these forecasts are coupled with high uncertainty, as future geopolitical developments may have a major impact on them[15].

[14] See for instance, Economic Policy Uncertainty index.

[15] The European Commission Spring 2025 Economic projects EU GDP growth of 1.1% in 2025 and 1.5% in 2026, and projects that inflation will further decelerate from 2.6% to 2.3% and 1.9% in 2025 and 2026.

These combined factors, trade frictions and geopolitical tensions, create an environment of uncertainty that erodes business and consumer confidence[16]. When confidence is diminished, investment and consumption both tend to decline, thereby slowing down economic growth further. Firms may delay or reduce capital expenditures, and households might reduce spending, anticipating more challenging economic conditions.

Geopolitical tensions have also increased the need for additional defence spending within the EU. This is due to various factors, such as addressing security threats, enhancing collective defence capabilities, strengthening the North Atlantic Treaty Organization's (NATO) deterrence and response strategies, and keeping pace with technological advancements in warfare, including cyber-attacks and hybrid tactics (i.e. a combination of political, economic and informational tools), which necessitate the modernisation of defence forces. Increased defence spending, however, may also prove beneficial for economic growth as it benefits the EU's defence industry, promoting innovation and job creation. Such additional investment can facilitate the development of advanced technologies that serve not only military but also civilian applications. It can also foster the EU's technological and industrial capacity, further contributing to overall economic growth. Furthermore, it partially also comes in parallel with further infrastructure spending.

However, some nations may face challenges in accommodating higher defence budgets without encountering fiscal strain. The EU's average debt-to-GDP ratio reached 82% in late 2024, showing a further year-on-year increase of 0.1 percentage points (p.p.). However, there are significant differences between individual countries. EU countries with high public indebtedness may manage increased defence expenditures by improving fiscal discipline, reducing spending in other areas, and implementing measures to ensure debt sustainability. There may be a need for gradual budget adjustments and resource reallocation.

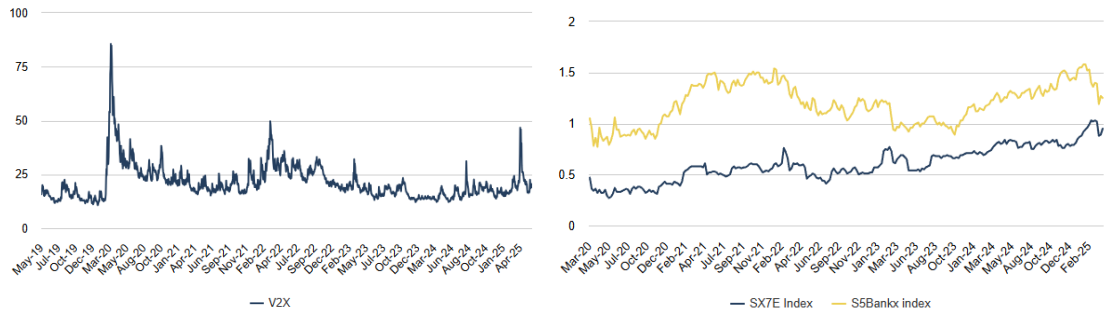
European bank stocks demonstrate resilience during heightened market volatility

Announcements about geopolitical developments, tariffs and fiscal policies prompted strong market reactions and increased volatility on financial markets. Following the announcement of the imposition of additional US tariffs in April 2025, market volatility increased considerably, to levels not seen since the outbreak of the pandemic, and only comparable to events like the Global Financial Crisis (GFC, 2008), and the European sovereign debt crisis (2011). While uncertainty remains heightened and downside tail risks elevated, the announcement of moratoria on the imposition of US tariffs and the commencement of talks between the US and China on trade calmed the markets and normalised volatility.

The market sell-off in April 2025 also impacted European bank equity prices, which have been outperforming other European sectors and their global peers since the beginning of the year. In March 2025, the price-to-book (PtB) index of European banks was reported to be higher than 1, a level not seen for many years, closing the gap with their US peers (Figure 3).

[16] See, for instance, business and consumer surveys from European Commission.

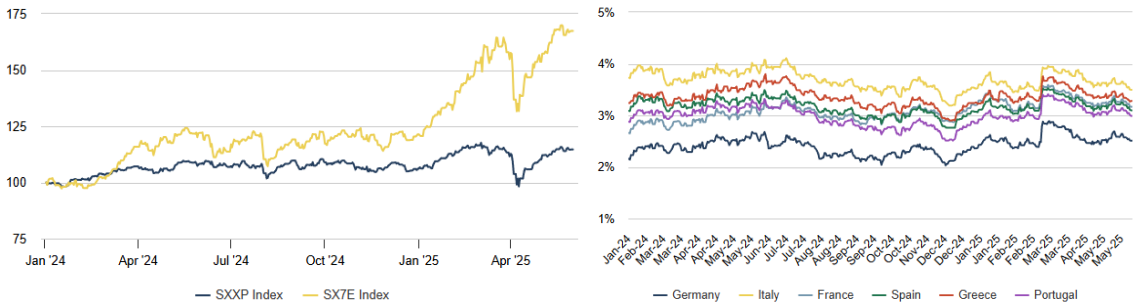
Figure 3: Eurostoxx volatility index (V2X) (left) and price to book value of European (SX7E index) and US (S5Bankx index) banks (right)



Source: Refinitiv (left), and Bloomberg (right)

Geopolitical developments have also affected sovereign debt yields. Several EU countries have seen their cost of funding rising, also driven by the need for increased spending on defence. For example, in early March 2025, the yields for German 10-year sovereign bonds increased by close to 25 bps on the announcement that Germany will significantly increase defence and infrastructure spending. Borrowing costs of other European countries increased, too, yet the yields of EU sovereign bonds remain considerably lower than their 2023 peak levels. The rather contained risk premium adjustments, however, indicate that investors broadly see increased defence spending as driver for technological advancement and contributor to economic growth and stability.

Figure 4: Euro Stoxx index versus Euro Stoxx Banks index (January 2024=100) (left), yields of selected European 10-year bonds (right)



Source: Refinitiv

Geopolitical developments have also influenced various other assets, affecting overall market sentiment. In cryptocurrency markets, for example, there were significant price fluctuations for major cryptocurrencies such as Bitcoin and Ethereum. Despite some digital currencies recording material gains in 2024, this was followed by sharp declines and a correction in prices, further feeding volatility. Key factors include ongoing concerns about regulatory developments in major markets like the US and the EU. While oil and gas prices were also negatively impacted by geopolitical developments, gold seemed to be again favoured as a safe haven asset.

2. Asset side

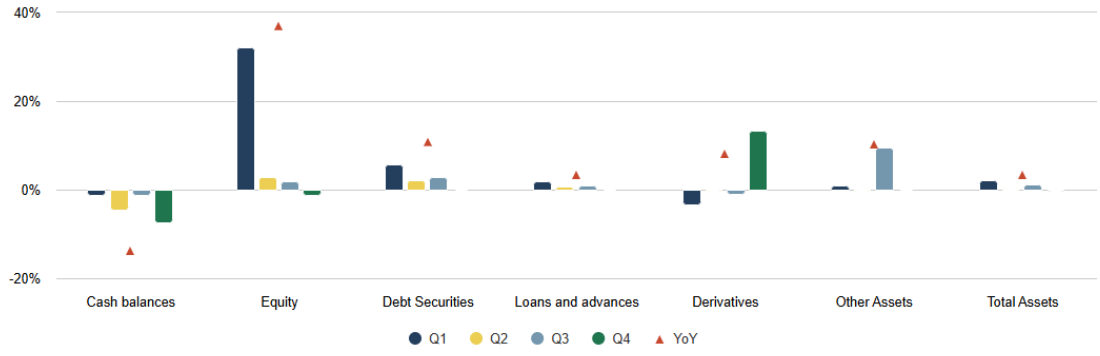
2.1 Assets: volume and composition

Banks boost loans and investments while reducing cash reserves

The uncertain macroeconomic environment and increasing geopolitical tensions have not weighed materially on banks' risk appetite, as these grew their assets quicker than in earlier years. In December 2024, EU/EEA banks reported total assets of almost EUR 28.2 tn, which reflected an increase of EUR 885 bn, or 3.2%, since December 2023. This surge, which was mainly concentrated in the first half of the year, compares with a smaller YoY increase of 1.1% (or EUR 308 bn) observed in 2023.

The growth in assets was primarily attributed to an increase of approximately EUR 580 bn (+3.4%) in outstanding loans and advances, which totalled EUR 17.7 tn in December 2024. At the same time, banks reported a notable increase in debt securities (EUR 375 bn, +10.8%) and equity holdings (EUR 150 bn, +37.0%)[17]. EU/EEA banks reported total exposures to debt securities of EUR 3.9 tn, while total equity holdings were reported at EUR 560 bn. The asset growth was partly offset by the constant and continuing declining cash balances (decrease of EUR 480 bn, -13.7% YoY). Despite the significant reduction, banks still reported EUR 3.0 tn of cash balances in their books (around 11% of total assets) (Figure 5).

Figure 5: Quarterly and yearly growth rates in asset components, from December 2023 to December 2024



Source: EBA supervisory reporting data

Lower interest rates support household lending

In 2024, outstanding loans to NFCs and households grew by 1.8%, reaching almost EUR 13.5 tn, mainly supported by decreasing interest rates and expectations for further monetary easing, but also loosening credit standards for some segments. Total loans to households exceeded EUR 7.1 tn (+2.2% YoY), primarily driven by a surge in mortgage loans (+1.8% YoY), reaching EUR 4.5 tn.

[17] The increase was driven by a small number of institutions.

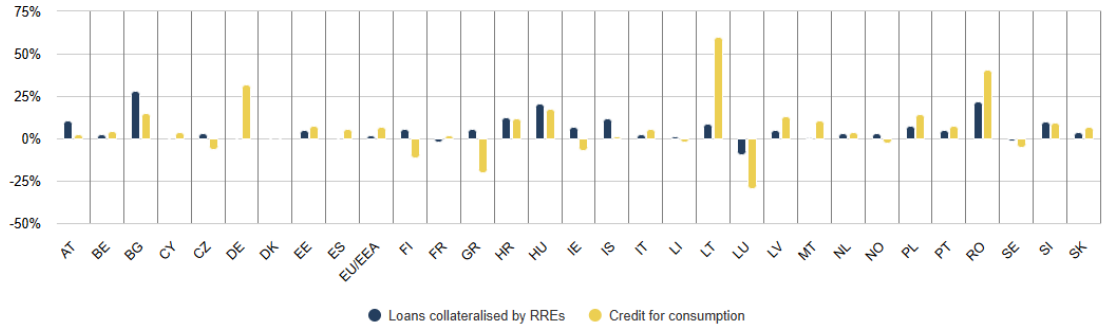
Consumer credit increased much more sharply over the year (+6.6% YoY), yet its share in total household lending is much smaller (EUR 1.1 tn).

Based on lending surveys, in most euro area (EA) countries there was a moderate increase in the net demand for house purchase loans during the first half of the year, followed by a significant rise in the second half. The net increase in housing loan demand was largely attributable to developments in interest rates and, to a lesser extent, to the improvement in the housing market conditions for buyers. At the same time, credit standards for housing loans eased significantly during 2024 and continued to show moderate easing in the first quarter of 2025, mainly driven by competitive forces from other banks. The favourable interest rate environment also contributed to the net increase in demand for consumer credit. This rise occurred despite adverse impacts from low consumer confidence, affecting durable goods spending, and alternative financing options provided by non-bank institutions[18].

Outside the EA, there has similarly been some relaxation in credit standards towards household lending, especially since early 2025, while demand increased somewhat. For instance, Polish banks changed the lending policy for households in H2 2024, from previously tightening to easing standards, especially on consumer credit, primarily due to increased competitive pressure. The change in lending policy was generally accompanied by growing demand[19]. In Norway, household loan demand hardly grew in 2024, but improved slightly in Q1 2025. Overall, credit standards for households remained largely unchanged during 2024, but started easing in Q1 2025[20].

The diverse macroeconomic conditions across countries in the EU/EEA and the unique market dynamics in each country resulted in varied growth trends in loan volumes by segment at national level. However, despite differences in magnitude, the positive dynamics in mortgage lending were broad-based, with only a handful of countries reporting a decrease in outstanding mortgages or consumer credit (Figure 6).

Figure 6: Growth in loans collateralised by RREs and consumer credit by country from December 2023 to December 2024



Source: EBA supervisory reporting data

[18] In relation to the considerations on the development of loan demand and credit standards in the euro area in this and the following paragraphs, see the ECB's euro area bank lending survey (europa.eu), January 2025 and April 2025 editions.

[19] See Senior loan officer opinion survey | NBP.

[20] See Norges Bank's Survey of Bank Lending.

Box 1: EU/EEA banks' interconnections with NBFIs

The significant links between EU/EEA banks with different types of NBFIs (through both their assets and their liability structures) might constitute a major channel of contagion in times of market turmoil. As of December 2024, EU/EEA banks' exposures to NBFIs amounted to 10.1% of their total consolidated bank assets (Figure 7). These are mostly concentrated in larger banks, while smaller banks have fewer interconnections with NBFIs. Large banks have exposures amounting to 10.4% (or EUR 2.64 tn) of total consolidated bank assets, followed by medium-sized banks at 8.5% and small banks at 5.0%. Non-trading loans are the primary type of these exposures, followed by over-the-counter (OTC) derivatives and trading loans.

Interconnectedness of the banking sector with NBFIs is exacerbated by their importance as a source of funding for EU/EEA banks. On the liabilities side, NBFI funding from EU/EEA banks – excluding market-based wholesale funding such as debt securities issued – amounts to 10% (or EUR 2.83tn) of total consolidated bank assets (Figure 8)[21]. From that 10%, deposits are the primary source of funding (both overnight and with agreed maturity) followed by repo funding.

EU/EEA banks also maintain notable off-balance-sheet linkages with NBFIs. As of December 2024, undrawn loan commitments, financial guarantees and other commitments extended to NBFIs accounted for 7.3% (or EUR 0.95 tn) of total off-balance-sheet contingent liabilities (Figure 9). At the same time, NBFIs play an important role in providing loan commitments, financial guarantees and other commitments to EU/EEA banks, with such commitments accounting for 8.8% (or EUR 1.53 tn) of the total off-balance-sheet contingent assets of EU/EEA banks (Figure 10). Off-balance sheet exposures are almost solely driven by larger banks.

Compared to the previous year, at aggregate level, interlinkages between banks and NBFIs remained largely stable, with a slight increase in exposures on the asset side and a modest decrease in interlinkages on the liability side. Medium-sized banks in particular recorded the most notable changes, with interlinkages increasing both on the asset and liability sides. Conversely, small banks mainly reduced their funding interlinkages with NBFIs. Off-balance-sheet items remained generally stable, with a slight increase in commitments given to NBFIs and a slight decline in commitments received from NBFIs. These changes were largely driven by medium-sized and small banks.

The increasing complexity of the global financial system in a context of heightened geopolitical and economic uncertainty may exacerbate downside risks for the EU banking sector. These may be particularly relevant, as a significant part of these exposures are related to non-EEA counterparties. For example, exposures towards US counterparties are quite significant, amounting to more than EUR 400 bn.

The banking sector's reliance on NBFIs introduces systemic risks that can undermine financial stability. These not only include heightened interconnectedness, where stress in NBFIs can

[21] While precise data on NBFI holdings of bank-issued debt securities as a share of total assets is limited, earlier publications, e.g. by the ECB using December 2022 data, suggest that such exposures were in the order of about 3.0% of total consolidated bank assets.

rapidly spill over to banks, and regulatory arbitrage, as riskier activities migrate to less regulated entities. Liquidity mismatches and leverage in NBFIs can trigger fire sales and market disruptions, indirectly affecting banks through declining asset prices or funding pressures. Additionally, the opacity of NBFI operations creates data gaps, making it difficult for banks and regulators to assess and manage risk. This interconnected and opaque landscape may also foster excessive risk-taking and reduce the effectiveness of monetary policy, ultimately increasing the vulnerability of the entire financial system.

Figure 7: EU/EEA banks' asset exposures to NBFIs, as share of total assets, December 2024

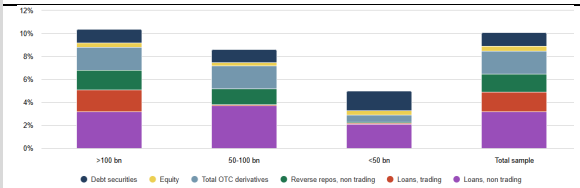


Figure 8: EU/EEA banks' liability interlinkages with NBFIs (excluding market-based funding), as share of total assets, December 2024

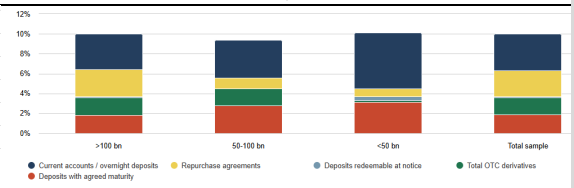


Figure 9: EU/EEA banks' share of loan commitments, financial guarantees, and other commitments to NBFIs, December 2024

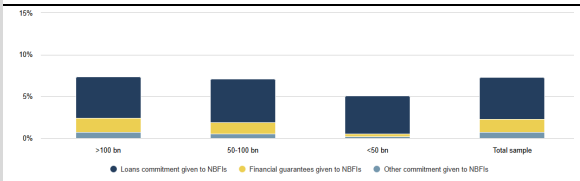
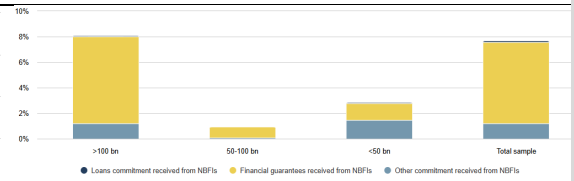


Figure 10: EU/EEA banks' share of loan commitments, financial guarantees, and other commitments received from NBFIs, December 2024



Source: EBA supervisory reporting data

Corporate lending is recovering but geopolitical tensions expose banks to downside risks through sector-level vulnerabilities

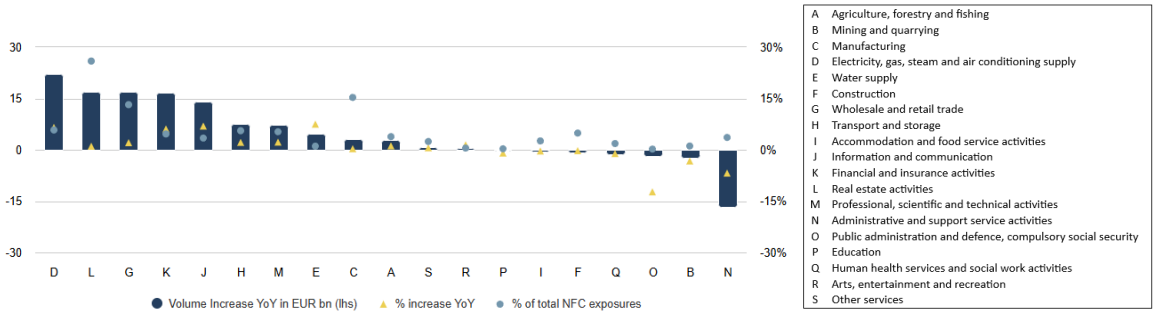
As of December 2024, loans to NFCs totalled EUR 6.4tn, reporting an increase of almost EUR 90 bn from the same period one year earlier (+1.4% YoY). EU/EEA banks reported EUR 2.6 tn in small and medium-sized enterprise (SME) exposures, up by 0.9% YoY (EUR +25 bn), and loans collateralised by CRE were about EUR 1.5 tn, up by 2.9% YoY (EUR +40 bn).

Bank lending surveys report that, in most EA countries, banks upheld their stringent credit standards for loans and credit lines to enterprises, demonstrating low risk tolerance due to higher perceived vulnerabilities related to the economic outlook. The results of the last EBA's RAQ suggest that banks are more willing to extend loans to SMEs but rather reluctant to increase their exposure to CREs. ECB lending surveys agree on this, showing that in the second half of 2024, the tighter credit standards were mainly related to particular sectors like CRE, trade, construction and manufacturing. At the same time, corporate demand for loans increased moderately, due to lower interest rates in the final two quarters of 2024, albeit remaining weak overall because of low fixed investments, before moving back into slightly negative territory in the first quarter of 2025. The sluggish demand reflected the ongoing economic weakness, especially in investment-heavy sectors being severely affected by rising geopolitical uncertainty.

Outside the EA, there were mixed developments in NFC lending demand and credit standards. For instance, in Norway, NFC credit demand was stable in the first three quarters of 2024, before it started to modestly increase in Q4, including for CRE loans. Credit standards also remained broadly unchanged[22]. By contrast, Polish banks started to ease credit standards for SME loans in Q2 2024, primarily due to rising competition. Demand from corporates also picked up, including from large enterprises, driven by loans for working capital, mergers and acquisitions (M&A) and fixed investments[23].

Considering the current intense geopolitical uncertainty, the sectoral-level financing needs and lending dynamics might change significantly in the near future. This is not least due to a possible readjustment of supply chain and demand dynamics as a result of the imposition of trade tariffs or the need to rearm Europe[24]. Sector-level data shows that the loans for electricity, gas, steam and air conditioning supply activities increased by more than EUR 20bn (+6.5% YoY). EU/EEA banks also increased their exposure through loans for financial and insurance activities, which reported the second largest rise in volume (EUR +17 bn). By contrast, EU/EEA banks reported a decline in outstanding loans to the public administration, defence and compulsory social security (-12.3% YoY), as well as mining and quarrying (-3.3% YoY) sectors in 2024. Lending to manufacturing, as one of the presumably more vulnerable sectors going forward, only marginally increased (Figure 11).

Figure 11: Growth in loans to NFCs by sector from December 2023 to December 2024, and share of total NFC exposures



Source: EBA supervisory reporting data

The new tariff policy by the US administration is intended to restore trade imbalances between the US and its global trading partners. The imposition of tariffs is expected to primarily adversely affect those sectors that exhibit a substantial export flow in terms of volume and value to the US. Data from the US International Trade Data Commission shows that, in 2024, EU countries in total exported more than USD 650 bn worth of products. Pharmaceutical products, machinery, vehicles, electrical products and organic chemicals accounted for more than 60% of these exports. It suggests that the manufacturing sector is probably among the most affected sectors, as the six[25] largest categories of EU/EEA exports are classified under manufacturing goods (Figure 12).

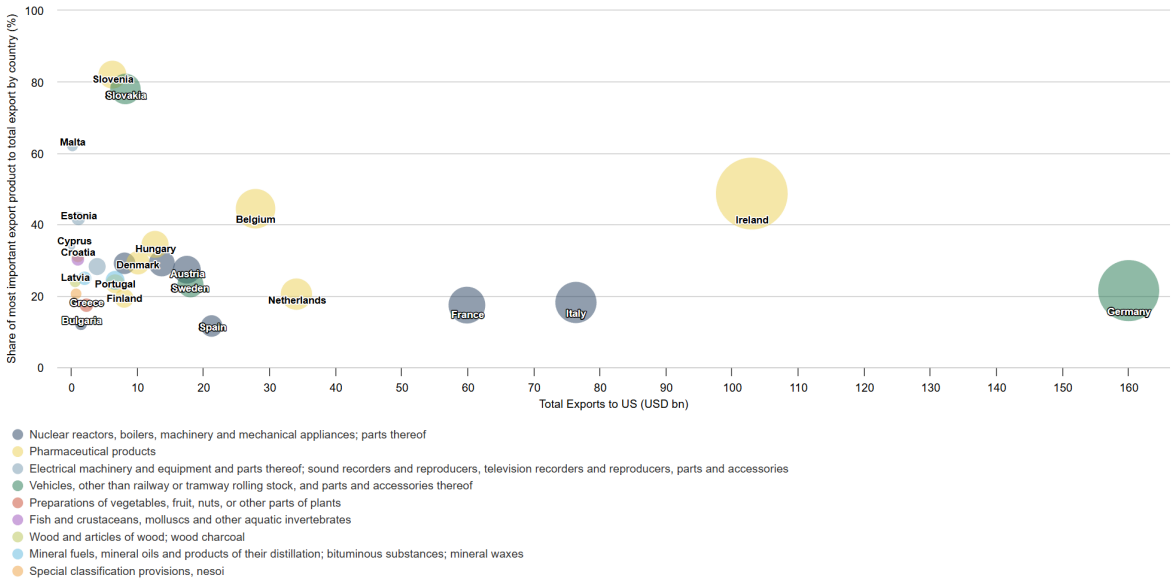
[22] See Norges Bank's Survey of Bank Lending.

[23] See Senior loan officer opinion survey | NBP.

[24] In relation to defence sector exposures, for example, anecdotal evidence suggests that banks are now increasing them.

[25] The six largest export sectors would include NACE code Sector C 'Manufacturing': Division 21 'Manufacture of pharmaceutical products' for 'Pharmaceutical Products', Division 28 'Manufacture of machinery and equipment' for

Figure 12: Exports of EU/EEA countries to the US in 2024 (%)*



Source: US International Trade Data Commission

** Bubble size denotes the value in EUR bn of the largest export product for each country*

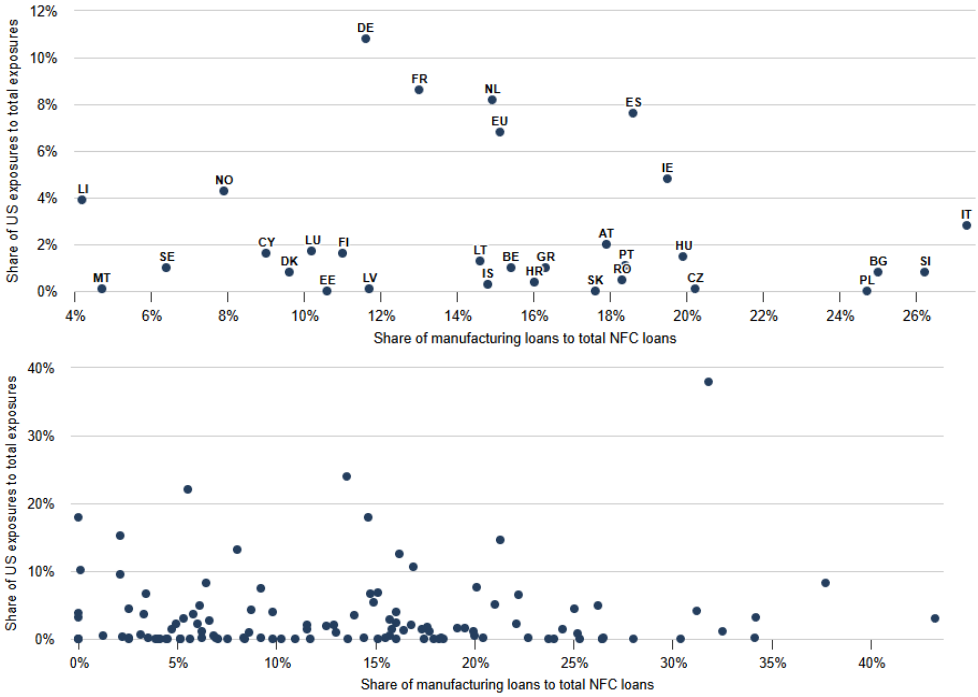
EU/EEA banks reported close to EUR 1 tn loans to manufacturing as of the end of 2024. According to Environmental Social and Governance (ESG) Pillar 3 disclosure data, around 35% of these manufacturing loans are to sectors that resemble the largest export categories to the US. Although the EU banking sector is materially exposed to companies in the automotive industry, this does not exceed 8% of total manufacturing loans. Spanish, German and Italian banks have provided the biggest share of these loans. EU/EEA banks also have material exposure towards companies related to steel and aluminium, for which the imposition of additional US tariffs will presumably have an adverse effect, and also affect other important sections of manufacturing such as basic metals, fabrication of metal products, etc. US tariffs on EU exports of steel and aluminium could also impact mining and quarrying; however, the overall exposure of EU/EEA banks to this sector is around 1% of total NFC exposures, and the mining of metal ores consist of around 20% of these. Agricultural product export companies may also be confronted with a challenging economic environment. EU/EEA banks have direct exposures of close to EUR 230 bn to the agricultural sector, with French and Dutch banks reporting more than 60% of these loans. Other sectors that could be adversely impacted include wholesale and retail sectors, construction or transport.

A shift in the supply chain dynamics, with either changing suppliers or sourcing locations, restructuring logistics and transportation, onshoring or nearshoring production, or a realignment of demand-supply conditions, could have a broader effect on not only corporates but also on households, and would have a broader reach. The impact on individual banks from a potentially

Nuclear Reactor, Boilers, Machinery and Mechanical Appliances, parts thereof', Division 29 'Manufacture of motor vehicles' for 'Vehicles, other than railway or tramway or rolling stock and parts and accessories thereof', Division 27 'Manufacture of electrical equipment' for 'Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television recorders and reproducers, parts and thereof', Division 26 'Manufacture of optical and precision instruments' for 'Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus, parts and accessories thereof' and Division 20 'Manufacture of chemicals' for 'Organic chemicals'.

escalating scenario of further and rising tariff implementations will be mainly determined by the actual format of such a conflict and whether their clients are directly or indirectly affected by the imposition of increased tariffs. Such effects could manifest as rising impairments of EU/EEA banks against exposures towards struggling enterprises, as clients that are involved in trade-sensitive sectors may face an increased default risk on loans. Escalating geopolitical tensions, however, will potentially have a much broader impact through slower economic growth, not only because of weaker credit demand but as also because of investment delays due to uncertainty (see Chapter 1). To address these 'known unknown' risks, EU/EEA banks use overlays. 90% of the banks surveyed in the RAQ, report the use of overlays, of which around 40% use overlays to address geopolitical risks followed by 'other', in which a number of banks explains that these relate to sectoral and industrial specific risks stemming from macroeconomic uncertainty.

Figure 13: Share of US exposures to total exposures vis-à-vis share of manufacturing loans to total NFC loans by country (top) and by bank (bottom) (%), December 2024[26]



Source: EBA supervisory reporting data

Although a disruption in trade and supply chain balances could prove challenging for many European corporations, as they may struggle to readjust to the new environment, the ambitious initiative of the Commission to enhance Europe's global competitiveness through the Competitive Compass could prove beneficial for many sectors and mitigate these detrimental effects[27]. Although benefits are expected to have a broad reach, they might particularly be seen in the technology and energy sectors by closing the innovation gap and reducing dependencies and enhancing security, or sector-specific action plans for industries, such as supporting the decarbonisation and competitiveness of the steel, chemicals and metals industries.

[26] Exposures to the US include also sovereign exposures, which in several cases is a major driver of banks' exposures to this country.

[27] See the European Commission's Competitive Compass from January 2025.

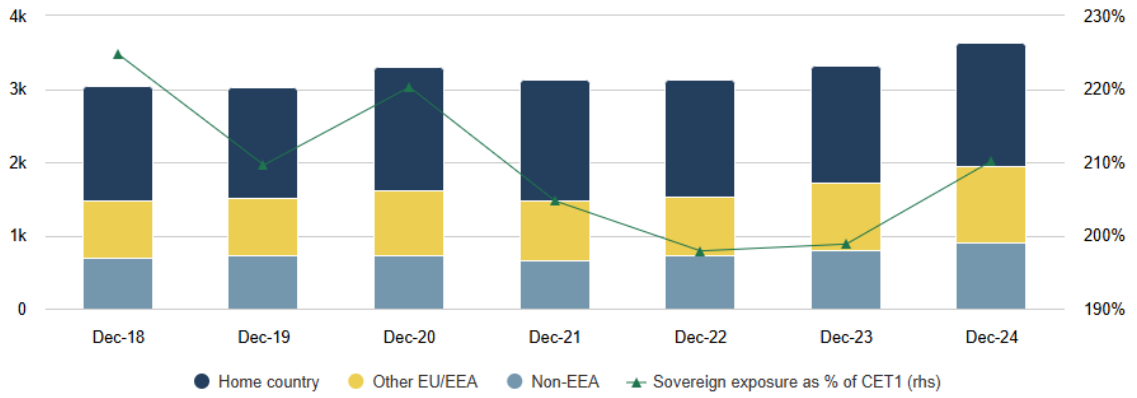
The plan to rearm Europe could additionally boost the manufacturing sector, as it will significantly boost defence spending across the EU. This is expected to channel substantial investment towards various sectors, including manufacturing and technology. Although funding is expected to come from EU-level programmes and Member States alike, and also depending on the fiscal space of each country, private finance is also expected to play a role in these developments. For instance, EU/EEA banks are expected to sustain defence-related firms through direct corporate lending, as well as infrastructure tied to defence readiness or research and development (R&D) centres for military innovation through project-based lending. The enhancement of R&D and innovation will most possibly have positive broad effects for other sectors and the economy.

EU/EEA banks further increase their sovereign exposures

In the context of the rearm Europe Plan and the broader shift in European defence strategy, EU/EEA banks could also play a role in financing the increasing needs of governments to ramp up defence spending. This would lead to a further increase in EU/EEA banks' sovereign exposures, which were the main driver of the notable surge in EU/EEA banks' debt securities holdings recorded over the last year. The increase was not solely attributable to the higher interest rate environment, which incentivised banks to secure long-term high returns. It also resulted from banks partially assuming the role of investors as the ECB phased out its bond purchasing programmes, and was linked to changes in their HQLA portfolios (see Chapter 3.4 and 7.2).

As of December 2024, EU/EEA banks reported around EUR 3.6 tn in total exposures to sovereign counterparties, which is a surge of more than 9% compared to December 2023 (EUR 3.3 tn). Almost half of these exposures were towards domestically domiciled counterparties, while 28% were towards other EU/EEA countries. Sovereign exposures towards non-EU/EEA domiciled counterparties were slightly above EUR 900 bn, up by around EUR 110 bn compared to the figures reported one year before (Figure 14). Of these, around 30% were towards the US Government. In respect of maturity buckets, around one third of sovereign exposures will mature in 1 to 5 years (33%), which has also increased on a yearly basis (by 2 p.p.), at the cost of the 10-year and longer bucket (down from 23 to 20%). Despite these and some other moves between the maturity buckets, a large share is still of a rather long-term nature, which entails elevated risks of these exposures to moves in interest rates. This is particularly relevant for exposures recognised at fair value (share of nearly 40% as of YE 2024).

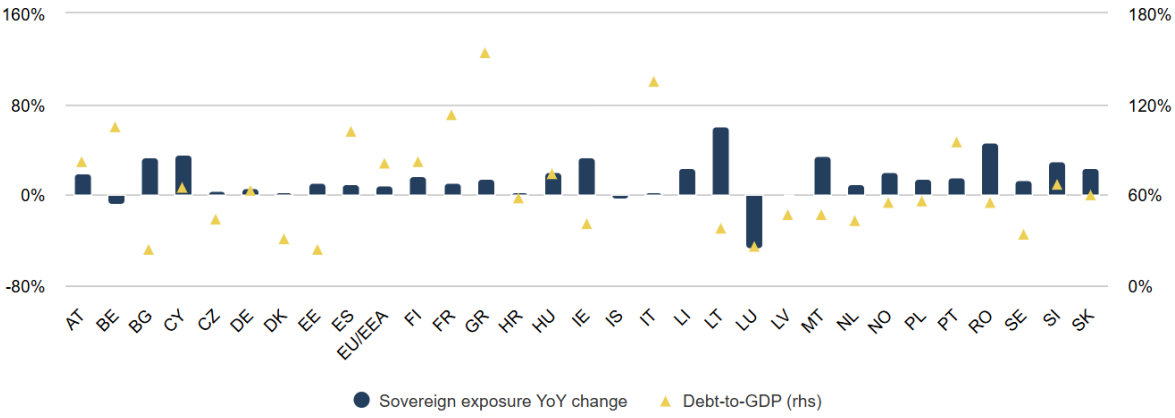
Figure 14: Evolution of EU/EEA banks' sovereign exposures domicile distribution (EUR bn, LHS) and ratio over CET1 (%, RHS), from December 2018 to December 2024



Source: EBA supervisory reporting data

Although banks in most jurisdictions have increased their sovereign exposures on an annual basis to varying degrees, the significant growth observed at aggregate level was primarily driven by French banks. These institutions contributed 38% of the overall increase in volume, with an annual expansion of EUR 118 bn (to EUR 1.15 tn). Spanish banks also made a substantial contribution, as their exposures to sovereign counterparties grew by nearly EUR 52 bn year-on-year (to almost EUR 590 bn) (Figure 15).

Figure 15: Sovereign exposures growth by country, from December 2023 to December 2024, and debt-to-GDP as of December 2024[28]



Source: EBA supervisory reporting data

The nexus between sovereigns and banks has weakened compared to a decade ago, due to a diversification of assets, the increasing strength of the EU/EEA banking sector as well as broad fiscal discipline by EU/EEA countries. The growing financing requirements of sovereign entities, along with the limited available fiscal space for some countries, coupled with the potential that banks could further materially increase their sovereign exposures, could potentially act as a trigger for the resurrection of this nexus. The feedback loop during times of financial stress can still be a source of risk for the banks, leading to a situation where the stability of the banking sector is tied to the creditworthiness of the sovereigns.

[28] The changes in sovereign exposures may also be affected by changes in the sample of banks for each country (e.g. Luxembourg).

Significant variability in navigating climate risks

On climate risk-related considerations of EU/EEA banks' exposures, disclosure data-based analysis indicates that more than 60% of NFC loans are subject to transition risks (share of exposures to NFCs in sectors that highly contribute to climate change)[29]. For mortgage exposures, disclosure data indicate that the majority of them are classified in the first two buckets of energy efficiency, with energy performance lower than 200 kWh/m^2. Even though this seems to indicate a rather limited transition risk for this segment, this needs to be taken with caution, as the underlying data strongly relies on proxies and estimates with regard to energy efficiency data. Whereas the dispersion of respective risks among countries is less pronounced for NFC loans, differences between countries are very wide. Finally, more than 20% of EU/EEA banks' exposures are subject to physical risks, based on their disclosure data. Considering the significant differences between countries in methodology assessments, these numbers indicate that the climate risk of banks' exposures is material and needs to remain a focus topic going forward.

2.2 Assets: outlook

EU/EEA banks forecast recovery in lending towards NFCs

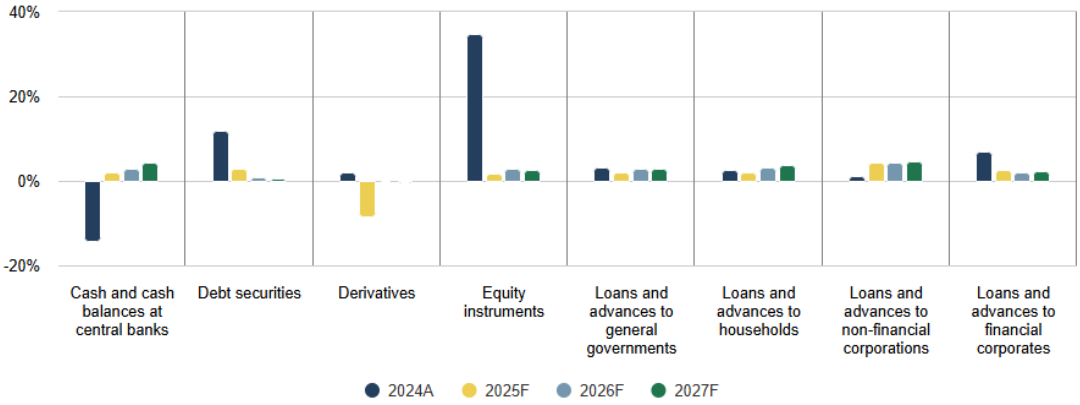
According to EU/EEA banks' three-year funding plans, total assets are projected to increase by 1.7% in 2025 (+2.9% in 2024), with banks expecting a higher asset growth rate in the subsequent two years (2.8% in 2026 and 2.7% in 2027). During this period, banks anticipate a rebound in lending to NFCs, reversing the sluggish growth observed in 2024. These are predicted to grow at 4.3% in 2025, with annual growth expected to remain close to 4% through 2026 and 2027. In contrast, loans towards households are forecast to increase modestly by 2.0% in 2025, down from 2.7% in 2024, before picking up pace to 3.3% in 2026 and 3.7% in 2027. Over the three-year forecast horizon, the cumulative growth in lending is expected to reach 13.1% for NFCs and 9.2% for households.

The decline in cash balances is projected to reverse, with EU/EEA banks planning to increase their liquid assets by 1.7% in 2025, followed by a further rise of 3.0% in 2026 and 4.4% in 2027. The planned trend in cash balances can presumably be explained by the end of TLTRO repayments and increased banks' appetite to improve the structure of their liquidity amid current geopolitical tensions and economic uncertainty (see Chapter 3.4 on past changes in LCR composition, including HQLA). Contrary, the growth of debt securities is expected to materially slow down (2.7% in 2025, 1.0% in 2026 and well below 1% in 2027). The anticipated lower growth rates in debt securities can be attributed to the declining interest rate environment, which may discourage banks from increasing their exposure to debt securities, particularly those with longer durations. An opposite trend was actually observed in the previous years within a rising rate environment. Finally, EU/EEA banks' exposure to derivatives is expected to report a sharp decline of -8.5% in 2025 and then stabilise around their new level, presumably driven by underlying assumptions of interest rate and FX trends going forward. Also, a pull-to-par effect might explain parts of this expectation, amid a

[29] Data on transitional and physical risk is as of June 2024, and based on the EBA's ESG dashboard.

huge rise last year (see above in Chapter 2.1 on asset trends)[30]. After double-digit annual growth rates in 2023 and 2024, EU/EEA banks' equity holdings are expected to return to annual growth rates slightly above 2.5% over the next three years (Figure 16).

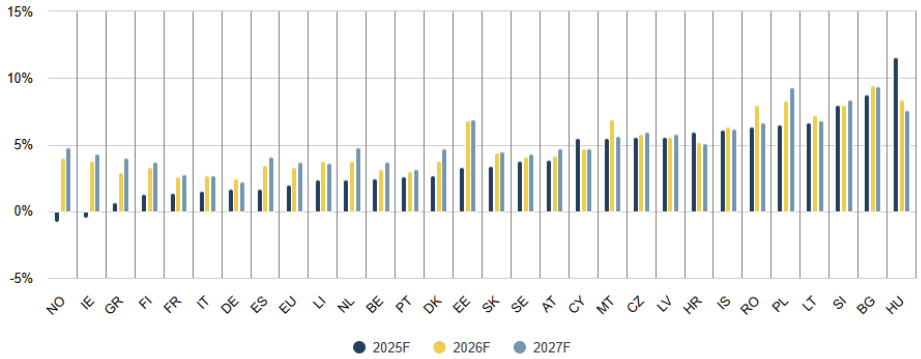
Figure 16: Growth expectations for selected asset classes



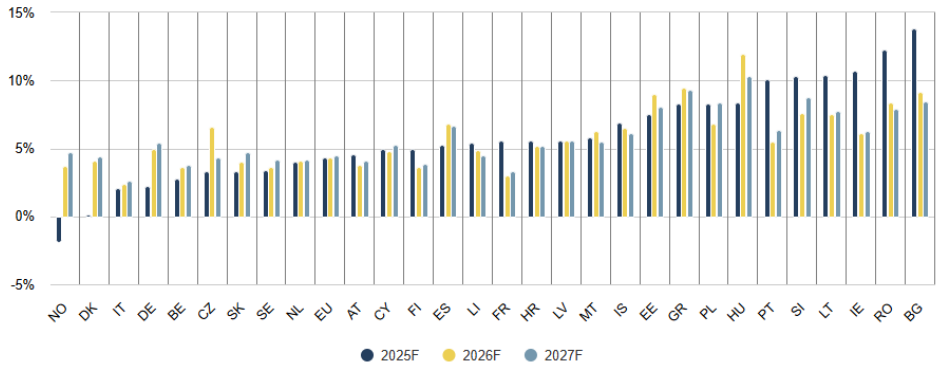
Source: EBA supervisory reporting data (funding plan data)

On a country level, banks forecast positive growth in their lending towards households in 2025 in nearly all countries, except for Norway and Ireland. At the same time, Greek banks expect only marginal growth in 2025, while Slovenian, Bulgarian and Hungarian banks project strong growth. All countries expect at least a 2.5% yearly growth rate for 2026 and at least 2.2% for 2027. Banks forecast a more aggressive growth rate for lending towards NFCs across the board, as also reflected in the EU/EEA expectation. Only Norwegian banks expect a decrease in their NFC lending for 2025. In contrast to household lending, Irish banks expect a double-digit growth rate in 2025 (10.7%) for their NFC exposures, following Bulgarian and Romanian banks (13.8% and 12.3% respectively) (Figure 17).

Figure 17: Growth expectations for lending to households (top) and NFCs (bottom) by country



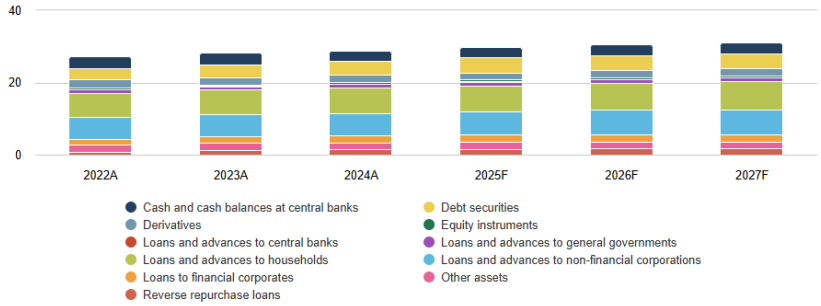
[30] The Pull-to-Par effect is a concept used primarily in fixed-income investing, especially with bonds. It describes the natural tendency of a bond's price to move toward its face (par) value as it approaches maturity.



Source: EBA supervisory reporting data (funding plan data)

For the years 2025 and 2026, banks do not expect significant changes to their overall asset composition. At the end of the forecast period (December 2027), the share of loans to households is set to remain close to 25% of total assets and that of loans to NFCs is expected to increase from 21.4% in 2024 to 22.5% amid their assumed relatively strong volume growth of the forecasting period. Banks forecast the share of debt securities and loans to financial corporates over total assets to remain almost constant, representing 13.2% and 6.5% respectively. Cash balances are expected to remain somewhat elevated at 9.9% of banks' total assets compared to pre-pandemic levels (7.6% in 2019) amid the assumed change in the composition of liquid assets, yet lower than their post-pandemic levels (11.7% in 2023) (Figure 18).

Figure 18: Actual and planned asset composition (EUR tn)



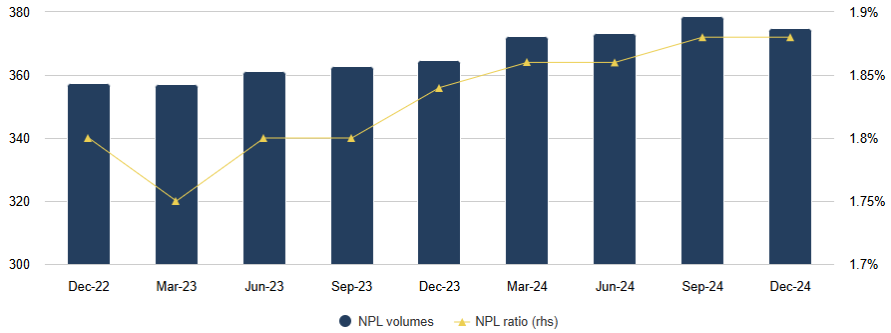
Source: EBA supervisory reporting data (funding plan data)

2.3 Asset quality trends

The deterioration in banks' asset quality has marginally increased

By the end of 2024, EU/EEA banks reported EUR 375 bn of NPLs, which is an increase of EUR 10bn compared to December 2023 (EUR 365 bn). With the exception of the last quarter of 2024, NPLs have been increasing steadily over the last two years (+5% from their lowest point of March 2023). The NPL ratio was reported at 1.88% in December 2024, showing a marginal increase over the course of 2024 (+4 bps compared to the end of 2023 and 13 bps compared to March 2023) (Figure 19).

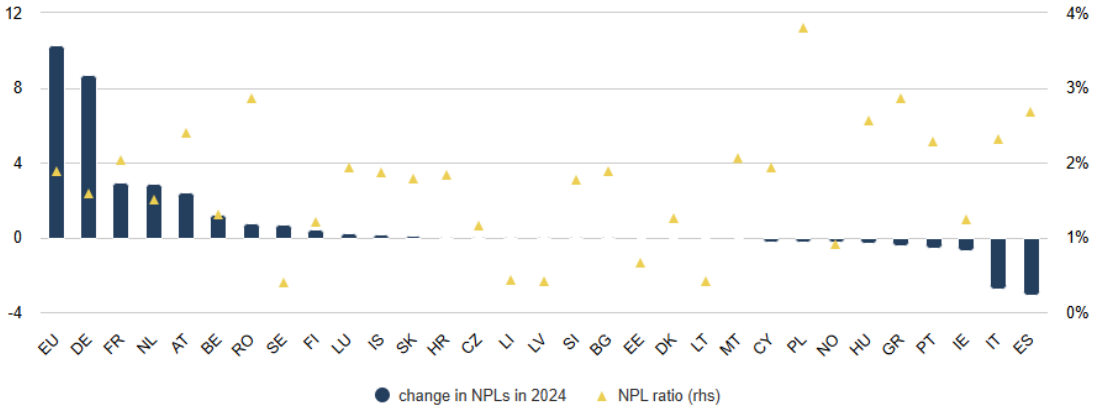
Figure 19: Trend of EU NPL volumes (EUR bn, LHS) and NPL ratio (%, RHS)



Source: EBA supervisory reporting data

The overall rise in NPLs was, however, not uniformly distributed across countries. It was predominantly driven by substantial increases in Germany, amounting to EUR 9 bn or a 23% YoY increase. Additionally, there was a smaller but significant rise in France, the Netherlands and Austria. Conversely, Spanish and Italian banks reported notable reductions in their NPL volumes compared to the previous year. The highest NPL ratio was recorded by Polish banks at 3.8%, followed by Greek and Romanian banks at 2.9%. Despite these figures, the NPL ratios in Poland and Greece decreased on a YoY basis (Figure 20).

Figure 20: Change in NPL volumes in 2024 (EUR bn) and NPL ratios in Q4 2024 (%) by country



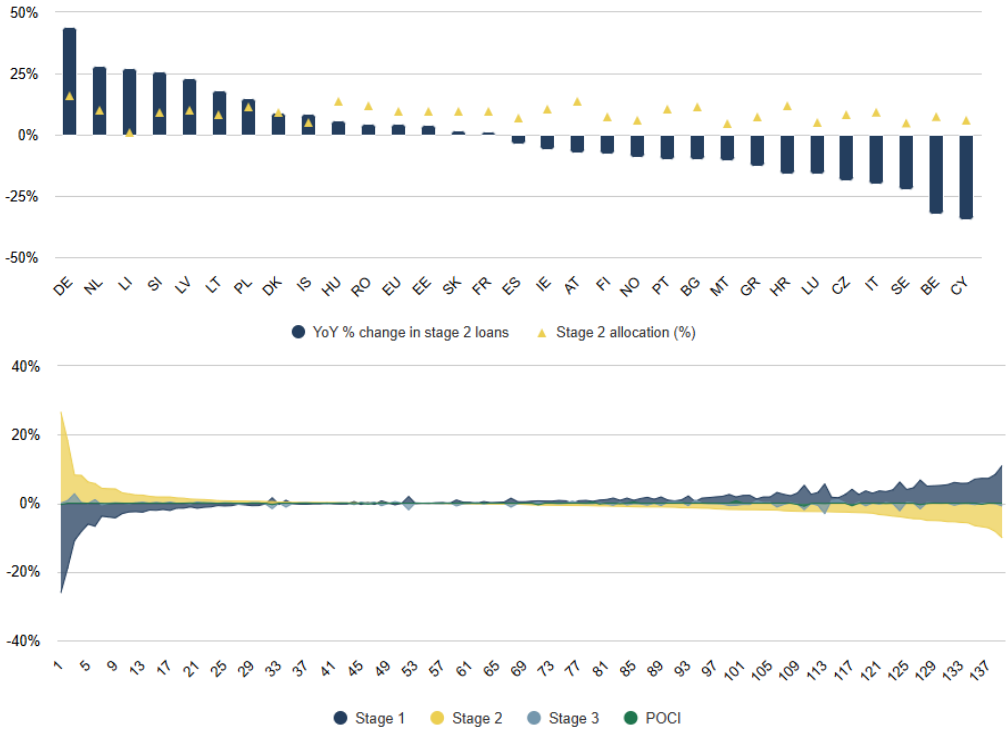
Source: EBA supervisory reporting data

Stage 2 loans surge to historically high levels

EU/EEA banks reported a significant increase of 4.4% in the allocation of IFRS9 Stage 2 loans in 2024, amounting to EUR 1.56 trillion as of December 2024. The proportion of Stage 2 loans to total loans reached 9.7%, representing the highest level recorded by EU/EEA banks. Furthermore, Stage 3 loans increased by 3.4% (or EUR 12 bn), reaching EUR 352 bn. Similar to the increase in NPLs, the surge in Stage 2 loans reported for 2024 was unevenly distributed across countries. Notably, German banks reported an increase of more than 44% in Stage 2 loans (or EUR 104 bn), contributing significantly alongside Dutch banks to the overall rise in Stage 2 loans. By contrast, Italian and Belgian banks reported a substantial decrease in Stage 2 loans (over 20%). Figure 21

illustrates that the reallocation of loans from Stage 1 to Stage 2 in German and Dutch banks was more significant, but was reported by fewer banks, while the reallocation from Stage 2 to Stage 1 in other countries was more widespread but less intense.

Figure 21: IFRS9 Stage 2 allocation and YoY change of loans and advances held at amortised cost by country (%) (top) and pp. change in IFRS9 allocation of loans by bank (bottom)



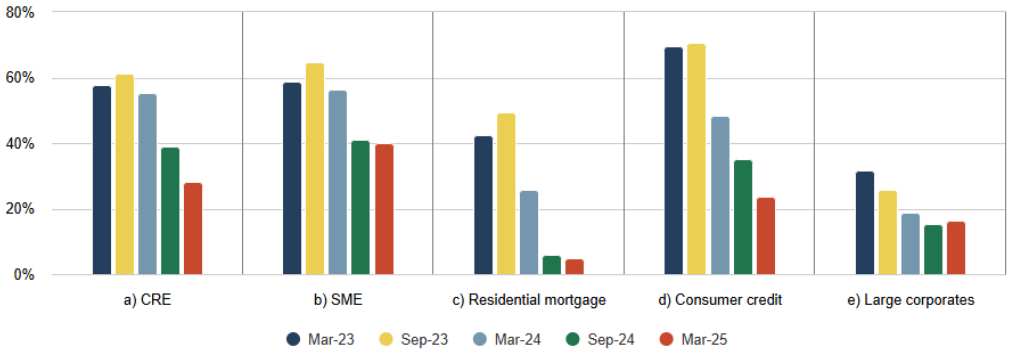
Source: EBA supervisory reporting data

The substantial increase in the volume of Stage 2 loans was primarily driven by household loans, evenly attributed to mortgage loans and consumer credit. In 2024, the proportion of Stage 2 loans for consumer credit reported by EU/EEA banks rose by over 2 p.p., reaching 11.8%, which equates to an increase of EUR 25 bn (+29%). During the same period, EU/EEA banks also indicated a higher allocation of Stage 2 loans collateralised by RREs (EUR +27 bn, +8%). The share of Stage 2 mortgages increased from 7.7% in December 2023 to 8.2% in end of 2024. Stage 2 loans to NFCs remained stable last year; however, loans collateralised by CRE exhibited the highest Stage 2 allocation (17.7%), followed by loans directed towards SMEs (14.8%), both figures being close to those reported one year earlier. An increase in the NPL ratios was only evident in corporate lending (also partly due to a slower increase in the denominator). NPL ratios for NFC loans were reported at 3.5% in December 2024, up from 3.3% one year earlier. The increase in corporate NPLs was equally attributable to CREs and SME exposures. Contrary to the early warning signals sent by the increase in Stage 2 loans, the NPL ratio for households remained stable (2.1% of total household loans), despite the increase in NPLs, which was solely attributed to asset quality deterioration of consumer credit.

Banks anticipate stabilisation in asset quality

Despite the deterioration in asset quality metrics, the asset quality outlook, as indicated by the results of the spring 2025 RAQ, demonstrates a significant improvement in banks' expectations. While a substantial portion of banks (40%) still anticipate a decline in asset quality for certain segments, such as SMEs, the overall outlook for other segments has been consistently improving since Q3 2023. In addition, banks increasingly expect a lower cost of risk levels, with 50% predicting less than 25 bps and nearly 90% forecasting under 50 bps for the current financial year. This trend aligns with the commencement of the monetary easing cycle, which has alleviated pressure on borrowers. Concurrently, robust labour market dynamics have continued to support banks' asset quality (Figure 22). This is similarly reflected in funding plan data, according to which the NPL ratio remains stable during the forecast horizon. This comes with a small exception for NFC exposures, for which banks expect a slight uptick in the NPL ratio by 10 bps this year, followed by a decline afterwards. The rise in the NFC NPL ratio is due to a major rise in the respective NFC NPL volumes by nearly 7% this year (approximately 8% the forecast period of three years), while household NPLs are expected to increase by 5% in the next three years.

Figure 22: Banks' expectations on possible deterioration in asset quality in the next 12 months by segment (%)



Source: EBA Risk Assessment Questionnaire

3. Liabilities: funding and liquidity

3.1 Funding – state of play

Rising relevance of market-based funding and deposits in 2024

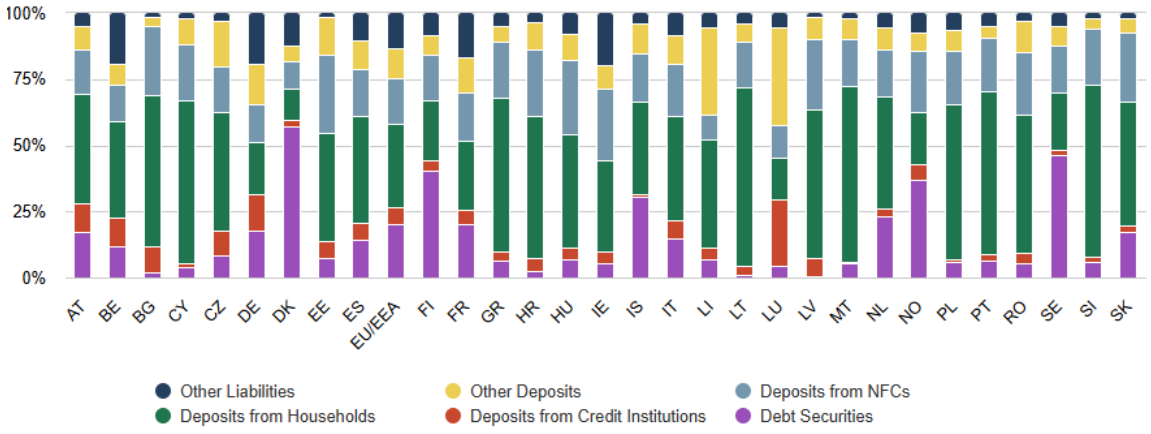
Banks grew their liabilities by around 3% in 2024, reaching EUR 26.2 tn as of YE 2024. Within liabilities, debt securities issued increased the most, rising by around 3% and reaching a share of 20.3% of total liabilities in Q4 2024 (19.7% in Q4 2023). Deposits remained the most important source of funding and continued to increase their share of total liabilities. Household deposit volume reached a share of nearly one third of total liabilities and increased by 1.3% in relative terms in 2024, to a share of 31.1%. The share of NFCs deposits marginally increased to 17.2% in Q4 2024, while the share of deposits from credit institutions grew stronger, from 6.3% in Q4 2023 to 6.5% in Q4 2024. These developments widely confirm banks' intentions regarding their funding mix, as expressed in previous RAQ results[31]. Within customer deposits, a move from term deposits to sight deposits was observed, as central banks lowered their policy interest rates, lowering the interest rate differential between term deposits and sight deposits.

The importance and volume of central bank funding continued to decrease in 2024. This is reflected in decreasing other liabilities in total liabilities, which include deposits from central banks, and fell from 14.4% in Q4 2023 to 13.1% in Q4 2024. The decrease is not least driven by final repayments of TLTRO funding that EA banks had taken up from the ECB, and which had to be finally repaid by December 2024, when the programme ended. At the start of 2024, the outstanding TLTRO amount was at around EUR 400 bn, and a large share of this amount was repaid in H1 2024.

Accordingly, other liabilities in total liabilities decreased strongly in H1 2024, and decreased more slowly in H2 2024. The composition of total liabilities indicates that the main replacement for central bank funding was debt securities issued, followed by increasing customer deposits. In parallel to the decrease in central bank funding, the EU/EEA banks' asset encumbrance ratio has also further declined (see more details on this in Chapter 3.3). Regarding the liability mix, dispersion among countries has remained wide. While banks from Nordic countries have a higher dependency on market-based funding, certain banks domiciled in, for example, Cyprus, Greek, Latvia, Poland, Portugal and Slovenia, rely more heavily on household deposits (Figure 23).

[31] See the EBA's Risk Assessment questionnaire spring 2024 and autumn 2024 editions. On the development of the loan to deposit ratio for client business (with households and NFCs) see the EBA's Risk Dashboard, according to which it declined from 107.1% as of Q4 2023 to 104.9% as of Q4 2024.

Figure 23: Breakdown of financial liabilities composition by country, December 2024



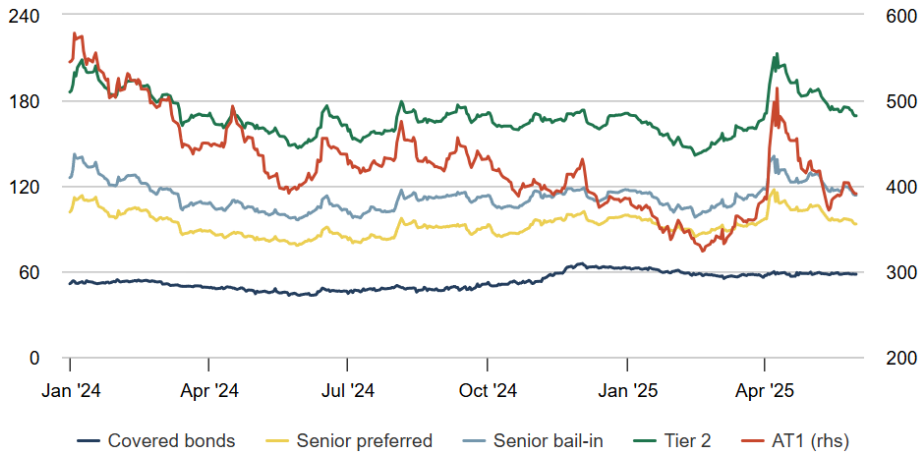
Source: EBA supervisory reporting data

Market data indicate that EU/EEA banks remained very active in primary funding markets in 2024, except for periods of significant volatility, which resulted in the described increase in the proportion of market-based funding in banks' total liabilities. Issuance volumes of subordinated capital instruments of Tier 2 (T2) and Additional Tier 1 (AT1) increased sharply in 2024 compared to the previous two years. However, 2024 volumes of senior preferred, non-preferred senior and unsecured funding issued from holding companies (HoldCo) decreased compared to 2023. Issuance volumes of covered bonds were also lower than in 2023.

Market sentiment for bank funding became more challenging in 2025

Primary bank funding markets were overall resilient in the first months of 2025. Moderate issuance volumes of unsecured instruments amid slightly tightening spreads and rather low volatility were reported, while macroeconomic growth expectations were still more benign than they have become since April 2025. Market conditions became more challenging in March 2025. Higher market interest rate- and spread volatility resulted in rising yields for bank debt instruments amid a backdrop of a deteriorating macroeconomic outlook with rising sovereign yields. This led to episodes of very limited debt issuance activity. It came to a near standstill following the 2 April 2025 announcements by the US administration on the planned increases in tariffs globally, when market volatility spiked. Spreads faced a very marked widening for all instruments across the capital stack (Figure 24). Funding market conditions have improved again since then, with resuming issuance activity and decreasing spreads.

Figure 24: Cash asset swap (ASW) spreads of banks' EUR-denominated debt and capital instruments (in bps)

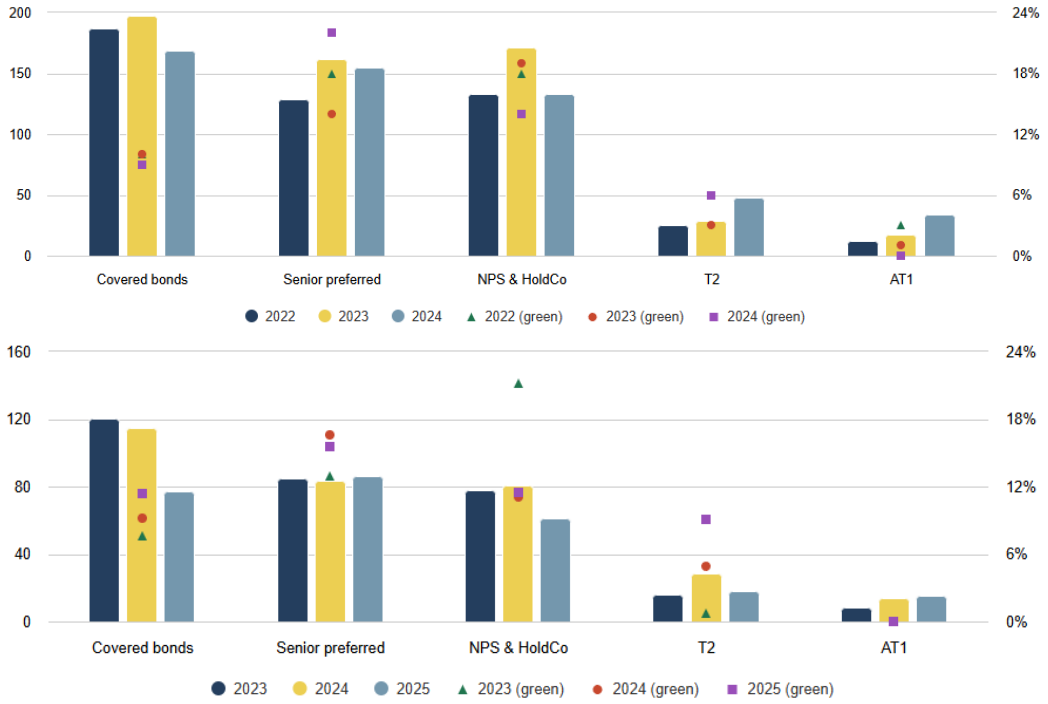


Source: IHS Markit [32]

Issuance data shows that volumes of bank debt instruments were lower in the first five months of 2025 than in the first five months of 2024 across most seniorities (Figure 25). The end of TLTRO in 2024, which was a driver for issuances last year to replace it, might be one reason for lower primary market activity this year. Rather long periods of market volatility, coupled with a deteriorating economic outlook, are presumably also among the drivers of reduced issuance volumes so far. Only the issuance volume of AT1 instruments and senior preferred instruments was broadly the same as it was in 2024. Covered bond issuance volume has been particularly reduced so far in 2025 compared to the first months of 2024. An observed tightening of spread differentials between covered bonds and sovereign, supranational, and agency bonds, making covered bonds relatively less attractive for investors, are among additional drivers for this development. Within the covered bond segment, the issuance volume of green bonds has increased markedly, as green covered bonds have become more mainstream products and are increasingly used in the financing of green projects. The share of green bonds in senior preferred and senior non-preferred and HoldCo instruments has remained broadly the same. The first green T2 instruments were reported in early 2025 (Figure 25).

[32] With regard to IHS Markit in this chart, and any further references to it in this report and related products, neither Markit Group Limited ('Markit') nor its affiliates nor any third-party data provider make(s) any warranty, express or implied, as to the accuracy, completeness or timeliness of the data contained herewith nor as to the results to be obtained by recipients of the data. Neither Markit nor its affiliates nor any data provider shall in any way be liable to any recipient of the data for any inaccuracies, errors or omissions in the Markit data, regardless of cause, or for any damages (whether direct or indirect) resulting therefrom.

Figure 25: EU/EEA banks' full year (top) and 1 January–31 May (bottom) debt and capital instrument issuances (EUR bn), 2023 to 2025 and share of green bonds per debt class (%) (rhs) ([33])



Source: Dealogic, EBA calculations

Senior unsecured debt is a key resource for meeting the MREL[34]

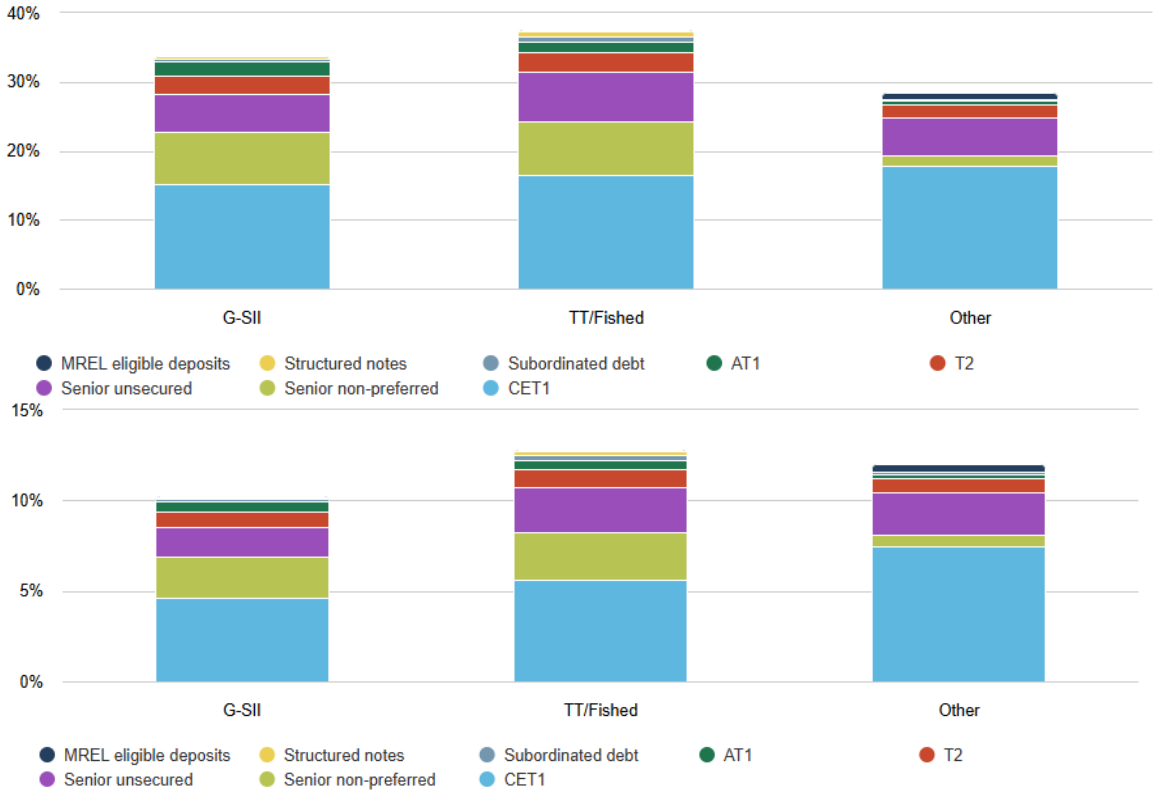
Senior preferred instruments (in Figure 26 described as 'senior unsecured') are one of the key components that EU/EEA banks use to meet their MREL-related funding needs. This is independent of their size and accordingly applies for Global Systemically Important Institutions (G-SIIs) as well as top tier / fished and other institutions. It shows that functioning funding markets for these instruments are not least paramount for all groups of banks, to meet their ongoing MREL requirements. Whereas senior non-preferred funding plays a similar role for the first two groups, it is of smaller relevance for the group of 'other' banks, not least due to their need to meet subordination requirements only on a case-by-case basis, depending on resolution authorities' assessment of no creditor worse off (NCWO) risks. For those 'other' institutions, which tend to correspond to the smaller institutions in the covered sample, CET1 is of greater relevance (Figure 26)[35].

[33] Based on publicly available market data, which may not completely reflect all issuances of the different types of debt and capital instruments.

[34] On MREL-related data: see also the EBA's MREL Dashboard. This part shows Q2 2024 data.

[35] The slightly higher implicit CET1 ratio for the group of 'other' banks corresponds to indications from the EBA's Risk Dashboard, according to which smaller and mid-sized banks have a higher CET1 ratio than their larger peers.

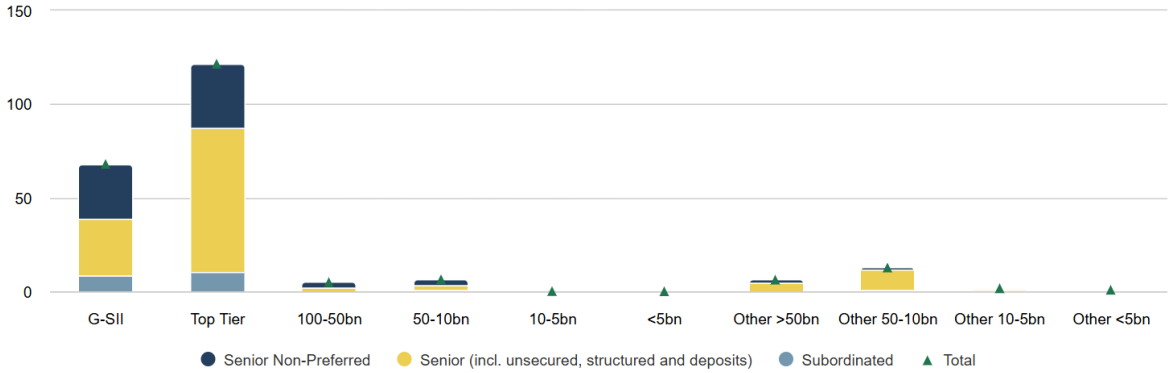
Figure 26: MREL resources for G-SII, top tier and fished, as well as for 'other' banks as of Q2 2024 as % of RWA (top) and as % of total exposure measure (bottom)



Source: MREL/TLAC reporting

The importance of a functioning primary market for MREL debt is also reflected in data showing the maturing volumes of the respective funding instruments. The volume of senior non-preferred debt instruments with residual maturities of between one and two years – i.e. instruments that would implicitly need to be replaced to keep their MREL eligibility status – reached slightly more than EUR 70 bn as of Q2 2024, whereas volumes of respective senior preferred and similar instruments reached nearly EUR 130 bn (Figure 27). As a high-level comparison of potential primary market capacity to digest the replacement of such volumes within a one year period, actual issuances of senior non-preferred debt reached around EUR 130 bn, and for preferred debt more than EUR 150 bn in 2024 (see also Figure 25 and above coverage on primary markets). Funding plan data similarly indicate that these maturing volumes can be replaced (on banks' funding plans, including planned gross and net issuances by debt category, see Chapter 3.2 below). However, certain risks remain that banks cannot fully replace such maturing MREL funding volumes. This will also depend on how primary markets further evolve this year.

Figure 27: MREL-eligible liabilities by instruments and category of bank, with residual maturities of between one and two years as of the reporting date Q2 2024 (EUR bn)



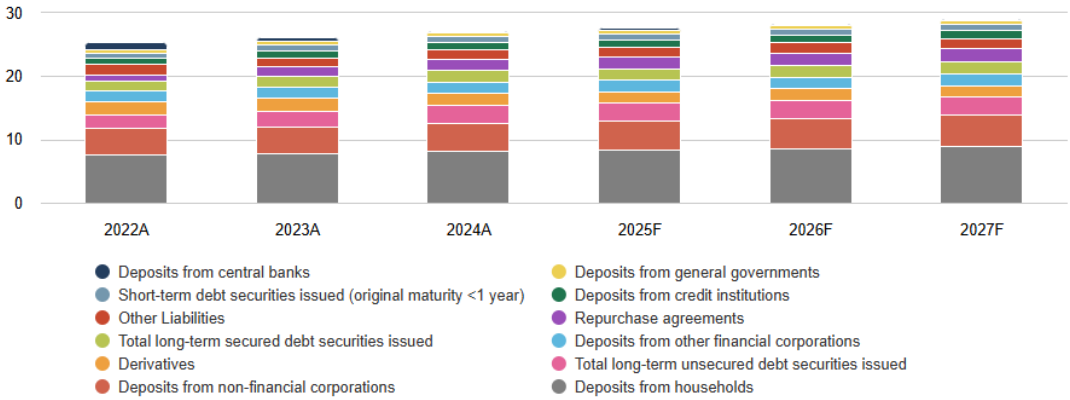
Source: MREL/TLAC reporting

3.2 Funding plans – outlook

Deposits and long-term debt expected to become more prominent in banks' funding mix

The expiry of extraordinary central bank support measures and the application of binding MREL requirements led to a substitution of central bank funding by market-based funding and client deposits in the last year. According to funding plan data based on the respective sample of banks (see the Introduction Chapter and Annex 1), deposits from central banks dropped from 1.9% in 2023 to 0.7% of total liabilities as of the end of 2024 and are expected to stay at this level for the years 2025 to 2027 ('the forecast period'). Long-term unsecured debt instruments increased from 8.8% in 2023 to 9.5% of total liabilities in 2024 and banks forecast this level to be stable over the forecast period (Figure 28). In addition to market-based funding, deposits from households increased from 27.6% in 2023 to 28.0% in 2024. Banks expect the share of household deposits to increase further throughout the forecast period, to reach 28.5% in 2027. The share of deposits from NFCs slightly decreased in 2024 (from 15.4% in 2023 to 15.3% in 2024), but banks expect that NFC deposits will reach 15.8% of total liabilities by the end of 2027.

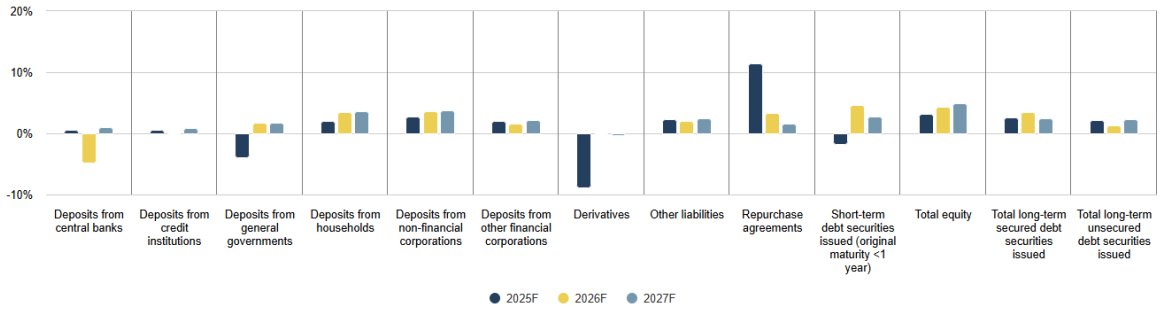
Figure 28: Funding composition of EU/EEA banks (EUR tn)



Source: EBA supervisory reporting data (funding plan data)

While the overall funding composition is expected to remain rather stable over the forecast period, banks' funding plans suggest that some liability segments will show larger moves than others. The fastest growing liability segment is expected to be repurchase agreements, with an expected increase of 16% during the three-year forecast period, of which 11% is expected in 2025. Three further liability segments are expected to grow by around 10% over the forecast period. These include long-term unsecured debt securities, deposits from households and deposits from NFCs. Derivatives and deposits from central banks are the only two liability segments with projected declines over the forecast period (-9% and -3% respectively; Figure 29). The decline in derivatives on the liability concurs to a similar expectation for the asset side (see Chapter 2.2 and related possible explanations for these expectations).

Figure 29: Growth expectations for selected liability segments

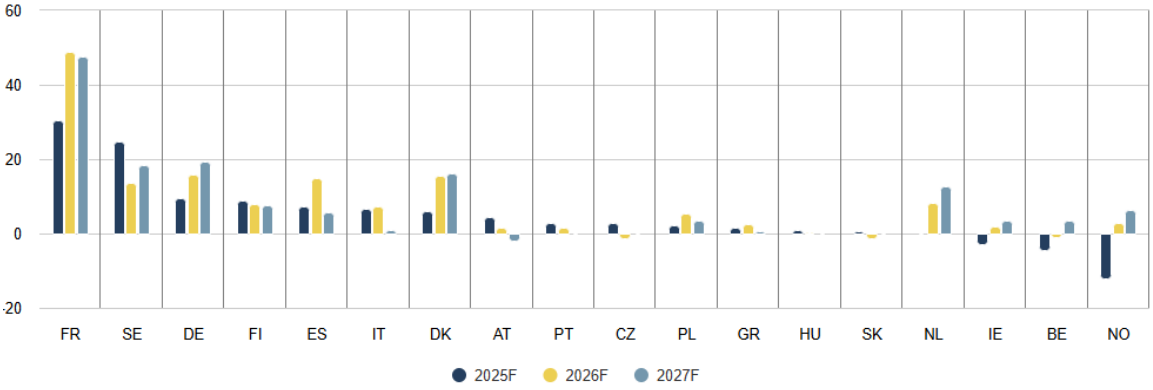


Source: EBA supervisory reporting data (funding plan data)

Trends in market-based funding: rising issuance volumes

Over the forecast period, banks plan to increase total long-term funding by 7%, reaching a total outstanding volume of EUR 4.8 tn in 2027 (EUR 4.5 tn in 2024). Banks expect a total net issuance volume across all long-term debt securities of EUR 106 bn in 2025, EUR 99 bn in 2026 and EUR 113 bn in 2027. Banks in most countries plan for a significant net issuance volume in 2025, with overall issuance volume highest in France, Germany and Sweden. The latter also has the highest issuance relative to the size of the local banking market. Banks in a number of countries such as Ireland, Belgium and Norway expect a negative net issuance volume in one of the years of the forecast period. In most cases this either follows or is followed by a year of positive net issuances (Figure 30).

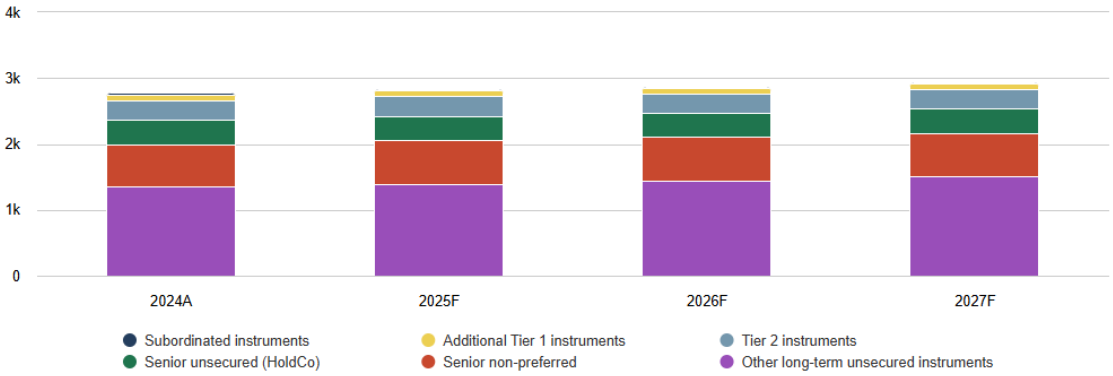
Figure 30: Net issuance volume by country and year (EUR bn)



Source: EBA supervisory reporting data (funding plan data)

Banks expect to increase the outstanding volume of unsecured debt instruments by 5.9% over the forecast period, to EUR 2.9 tn in 2027 compared to EUR 2.8 tn in 2024. However, there are significant divergences between segments of unsecured debt instruments. Senior preferred instruments (represented as 'other long-term unsecured instruments' in Figure 31) are the main driver behind this trend, with outstanding volume expected to increase by 10% and reach EUR 1.5tn by 2027. Banks also forecast growth for senior non-preferred instruments of 5% throughout the forecast period, with outstanding volume set to reach EUR 660 bn. Similarly, banks plan to grow AT1 instruments by 7% and reach EUR 93 bn by 2027. For other segments, outstanding volume is expected to decline over the next three years. This is the case for T2 instruments (-4% by 2027), subordinated instruments (-7% by 2027) and senior HoldCo (-1% by 2027).

Figure 31: Unsecured debt instruments – stock volume (EUR bn)

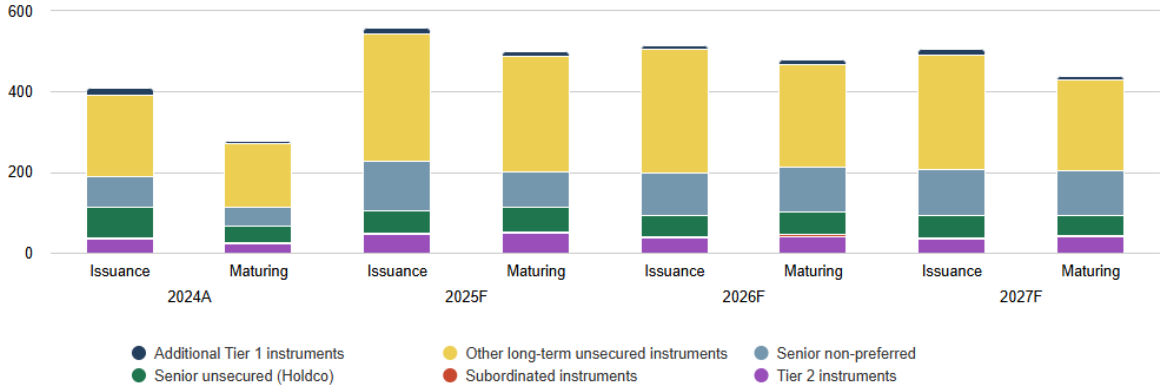


Source: EBA supervisory reporting data (funding plan data)

According to banks' funding plans, yearly issuance volumes over the next three years are expected to rise. In 2025, the total volume of unsecured debt to be issued is EUR 548 bn, which compares with EUR 409 bn placed in 2024. Senior preferred and senior non-preferred issuances dominate the 2025 issuance volume, with EUR 317 bn and EUR 122 bn respectively (Figure 32). The growth in issuance volume for both segments can mainly be explained by higher maturing volumes in 2025 compared to 2024. The volume of maturing debt in 2025 is higher than the planned issuance volume for senior HoldCo instruments (EUR 60 bn vs EUR 55 bn) and for T2 instruments (EUR 49 bn vs EUR 46 bn), pointing to a slight underfunding for these types of instruments in 2025. The high net positive issuances in 2024 for both segments, however, might indicate that banks have pre-funded some of the 2025 maturing volume in 2024.

The issuance volume of unsecured instruments is set to stay high in 2026, mainly driven by a high volume of maturing debt. Banks plan to issue EUR 308 bn of senior preferred and EUR 106 bn of senior non-preferred instruments in 2026, resulting in a positive net issuance volume for the two main debt classes. For T2 instruments, the planned 2026 issuance volume of EUR 37 bn is below the maturing volume of EUR 41 bn. The same pattern repeats itself in 2027, with senior preferred and senior non-preferred instruments issuance volume exceeding maturing volume and T2 issuance volume below maturing volume.

Figure 32: Unsecured debt issuance and maturing volume (EUR bn)



Source: EBA supervisory reporting data (funding plan data)

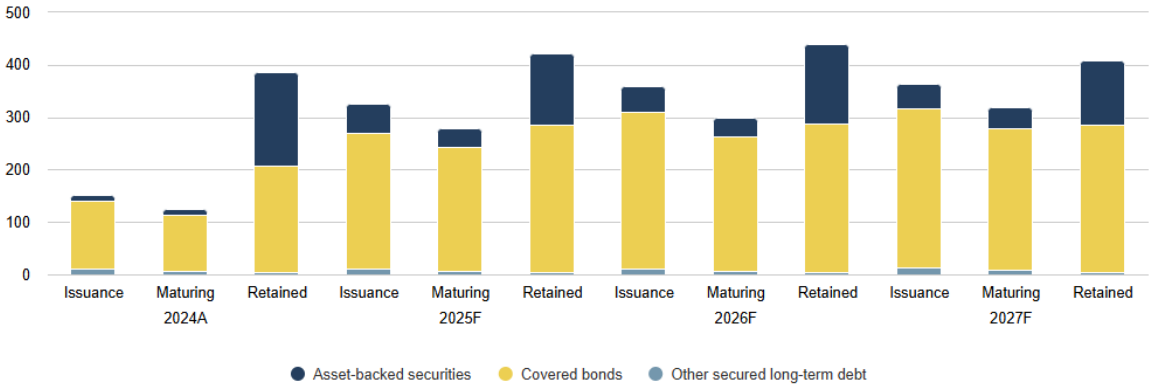
Significant rise in planned covered bond issuances might be challenging to meet

On secured debt, banks plan to strongly increase secured funding issuances in 2025 after a comparatively low issuance volume in 2024. Compared to 2024, the total issuance volume of long-term secured debt is expected to double to EUR 325 bn in 2025 (EUR 151 bn in 2024)[36]. The issuance volume of covered bonds is expected to reach EUR 259 bn in 2025, followed by EUR 298 bn in 2026 and EUR 304 bn in 2027. The strong increase in covered bond issuance in the forecast period is largely driven by a high volume of maturing covered bonds. Yet the issuance volume of covered bonds is forecasted to exceed the volume of maturing covered bonds in each year of the forecast period, representing a total net issuance volume of almost EUR 100bn for the forecast period. Equally important in size are retained covered bonds (i.e. those that have not been placed on the market). In 2024, retained covered bonds amounted to EUR 203 bn (1.6 times the issuance volume). The ratio of retained vs issued covered bonds is expected to be between 1.1 and 0.9 during the forecast period.

Banks expect a strong increase in issuances of asset-backed securities (ABS) in the years to come, with EUR 55 bn in 2025, EUR 51 bn in 2026 and EUR 47 bn in 2027 (compared to EUR 11 bn in 2024). This may also be due to ongoing regulatory and policy initiatives to facilitate and promote securitisations. For each year of the forecast period, banks plan to issue ABS significantly above maturing volume, leading to a net issuance volume of EUR 42 bn over the forecast period. The share of retained ABS in 2024 was 16 times the volume of issued ABS and is expected to stay close to 33 times throughout the forecast period. Issuance volume of other secured long-term debt is expected to stay close to the current level of EUR 11 bn throughout the forecast period.

[36] In funding plan reporting long-term debt includes that with maturities above one year.

Figure 33: Secured debt issuance and maturing volume (EUR bn)



Source: EBA supervisory reporting data (funding plan data)

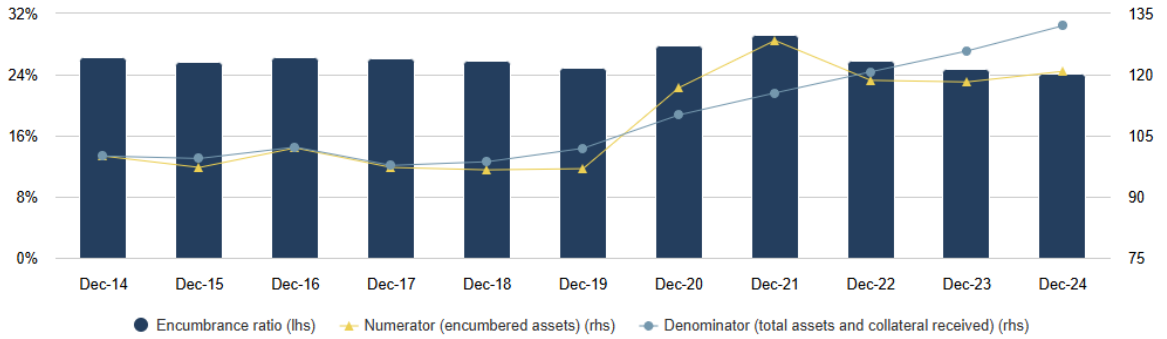
Banks' planned issuance volume for 2025 can be compared with actual bond issuances recorded in the first four months of 2025 (see Chapter 3.1, incl. Figure 25). While the coverage of banks and issuances differs for the two data sets, a comparison of trends in actual versus planned bond issuances can provide an indication on the feasibility of banks' issuance plans. Primary market data shows that banks placed a somewhat lower volume of bonds across all bond segments in the first months of 2025 compared to the same period in 2024.

If full-year 2025 plans are to be met, bond markets will need to show high activity levels for the remainder of the year. This is particularly true for covered bond markets, given the planned increase in issuance volume for 2025 (Figure 33). Planned high issuance volumes might become more difficult if financial markets show elevated levels of volatility, as was the case in recent months (see Chapter 1 and 3.1). It will therefore be important that banks make the most of windows of opportunity for their issuances.

3.3 Asset encumbrance

The asset encumbrance ratio (i.e. the ratio of encumbered assets and collateral received to total assets and collateral received that can be encumbered) continued to decrease from its 2021 peak of ca. 29%. In December 2024 it stood at 24.1%, 60 bps below the 24.7% reported in December 2023. Although encumbered assets (i.e. the numerator) increased in this period by around 2%, the denominator (i.e. total assets and collateral received that can be encumbered) recorded a stronger rise (Figure 34).

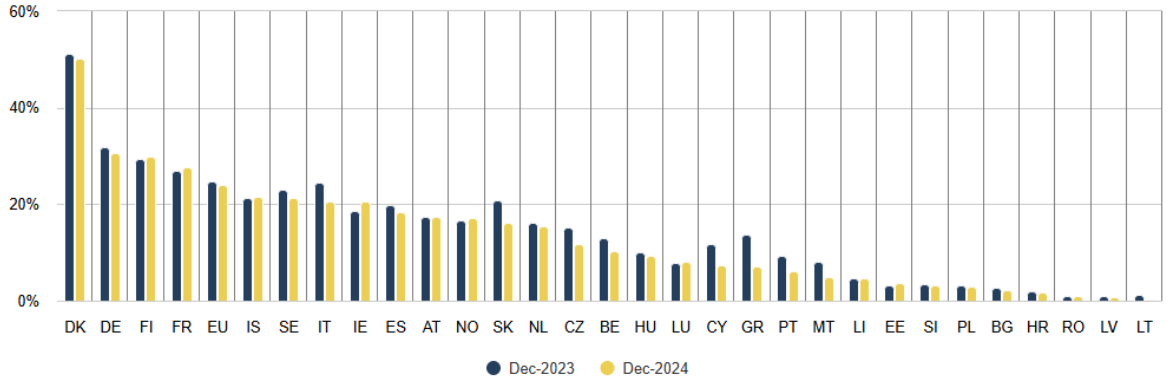
Figure 34: YoY evolution of the asset encumbrance ratio of total assets and collateral received, numerator (encumbered assets), and denominator (total assets and collateral received that can be encumbered), between December 2014 and December 2024, Dec-2014=100



Source: EBA supervisory reporting data

Discrepancies between countries can be clearly observed. Banks report by far the most encumbered assets in Denmark, largely due to the large issuance volume of covered bonds for funding purposes. Conversely, Lithuania, Latvia and Romania are the countries with the smallest asset encumbrance ratios, at 0.2%, 0.8%, and 1% respectively. The asset encumbrance ratio fell the most YoY for Greece, from 13.7% to 7.2%, which might be explained by final TLTRO repayments (Figure 35).

Figure 35: Evolution of the weighted average asset encumbrance ratio by country, between December 2023 and December 2024



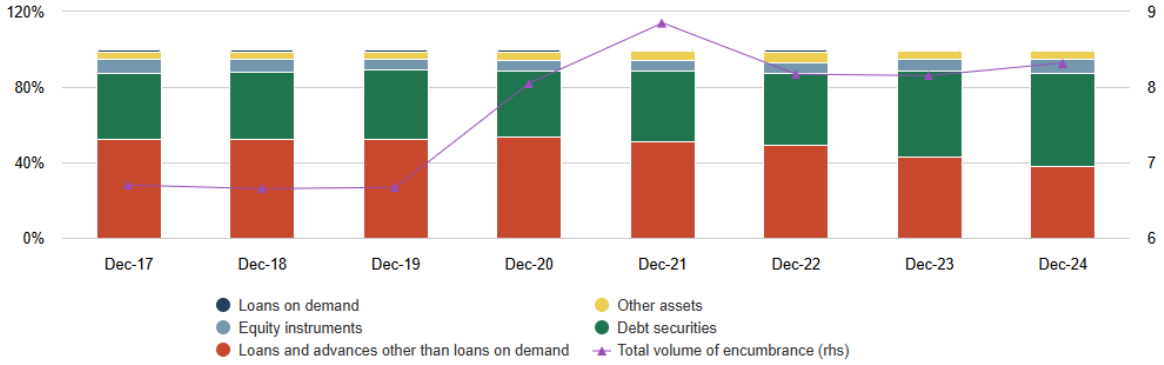
Source: EBA supervisory reporting data

Debt securities are the most frequently encumbered instruments, followed by loans and advances. These two categories have exhibited opposite trends over the past two years. Since December 2020, the encumbrance of debt securities has increased, while loans and advances have declined as a source of encumbrance. Starting in 2023, both instrument categories saw accelerated trends, with debt securities surpassing loans and advances as the primary source of encumbrance since 2024 (Figure 36). These dynamics presumably represent the progressive decrease in central bank funding while other reasons for encumbrance gain prominence, for which debt securities are required as collateral.

The total volume of encumbrance is on the rise, with a 2% increase from December 2023 to December 2024. Together with the decline in the asset encumbrance ratio, this might also indicate

that instruments that can less often be encumbered – such as loans – might be the assets that are now available for encumbrance, and less so debt securities. This might imply that the 'quality' of the assets available for encumbrance might decline: they cannot be encumbered for all purposes, such as repos, which is an instrument that can be used relatively quickly in case of a sudden funding needs. However, there are also instruments for which loans, for example, would be the required assets, such as covered bonds. A further analysis shows that the fair value – as a ratio of carrying amount – of non-encumbered debt securities slightly declined in 2024, by 20 bps to 97.5%. This confirms that there do not seem to be major hidden losses as of YE 2024 – which would need to be considered when using such assets for encumbrance – and that they barely increased during the year. However, yield rises during spring 2025 have presumably negatively affected these fair values, but they presumably have partially reverted again in the meantime (see macro Chapter 1 on sovereign yield developments, for example).

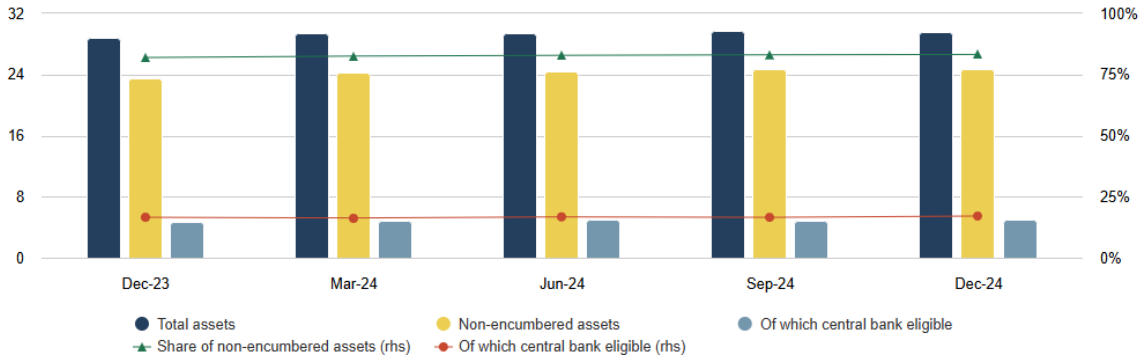
Figure 36: Evolution of the share of the main sources of asset encumbrance and total volume, from December 2017 to December 2024



Source: EBA supervisory reporting data

In the EU/EEA on average, the share of non-encumbered assets over total assets is high and YoY has gone up by almost 1.3 pp. to 83.2%, which corresponds to around EUR 25 tn. The amount of central bank funding-eligible encumbered assets over total assets has also increased by 50 bps to 17.1% as a share of total assets, corresponding to EUR 5tn. However, there are quite significant discrepancies among countries in both indicators. For example, the Netherlands stands at 89.7% of non-encumbered assets and 18.4% of central bank funding-eligible non-encumbered assets, while Italy's non-encumbered asset ratio is 80.5% and 21.4% for central bank funding-eligible non-encumbered assets. More generally speaking, southern European countries tend to hold higher central bank eligible non-encumbered assets, measured as share of total assets, while for northern countries this share tends to be lower. For the latter group of countries, the share of non-encumbered assets over total assets also more broadly tends to be lower than for other countries.

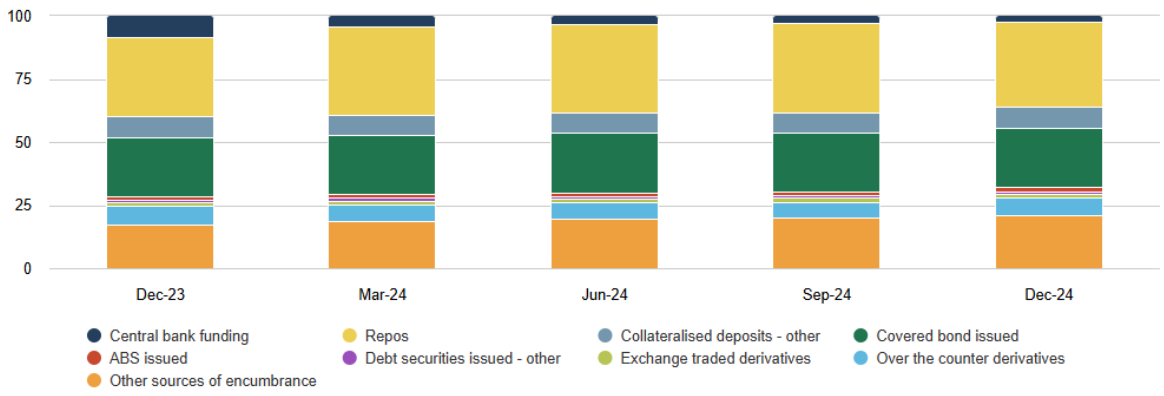
Figure 37: Non-encumbered assets amounts (EUR tn) and share of non-encumbered assets to total assets from December 2023 to December 2024



Source: EBA supervisory reporting data

Sources of asset encumbrance, i.e. balance sheet liabilities for which collateral is posted, rose by around 2% YoY, from around EUR 8.1 tn in 2023 to around EUR 8.3 tn in 2024. The main sources of asset encumbrance remained relatively stable in 2024. Repos continue to be the primary source of encumbrance, accounting for 34% of the total encumbrance, having increased by 2.5 pp. YoY. They are followed by covered bonds at 23.4%, whose share rose slightly by 20 bps YoY. The share of central bank funding has been steadily decreasing, showing a YoY decline of 6.1 pp., which comes in parallel to the declining volume and final repayments of TLTRO.

Figure 38: Distribution of the sources of encumbrance (%)



Source: EBA supervisory reporting data

3.4 Liquidity positions and NSFR[37]

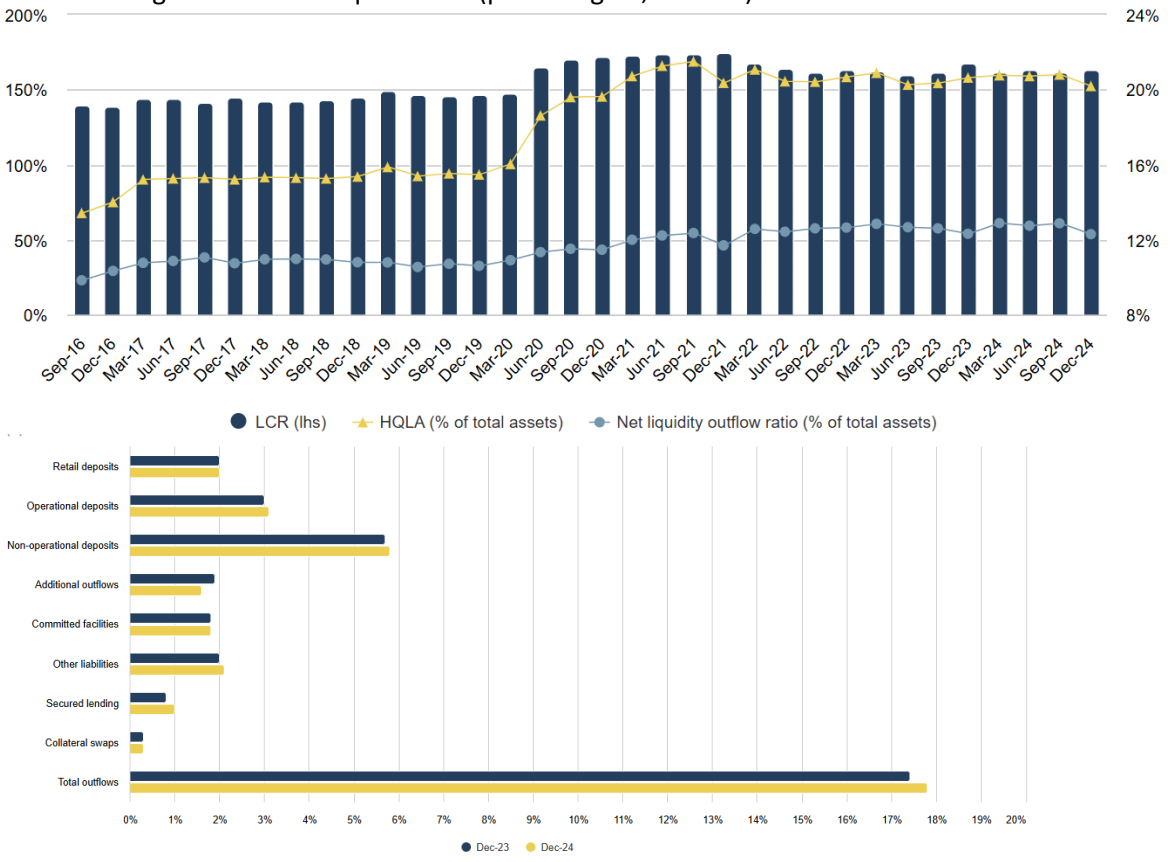
The decline in the liquidity buffer (HQLA) drives LCR lower

The liquidity positions of EU/EEA banks remained solid and well above minimum regulatory requirements. The weighted average LCR of EU/EEA banks decreased to 163% as of December

[37] Besides these more general trends in LCR and NSFR, deep dives into selected LCR related topics are covered in a separate focus topic in Chapter 7, namely on the role of deposits exempted from the calculation of the outflows in the evolution of EU banks' LCR and the impact of lower excess reserves on EU banks' liquidity ratios and liquidity management.

2024, down from the level observed as of December 2023 (168%). This decline was attributed to a reduction in liquid assets while net outflows remained constant. In December 2024, the share of liquid assets to total assets reached 20.2% (20.7% as of December 2023), while the net outflow ratio remained stable at 12.3% (Figure 39). The decrease in liquid assets was primarily due to the decline in central bank reserves, which was not fully compensated by the increase reported in Level 1 sovereigns, Level 1 covered bonds and Level 2 assets. While net outflows remained constant, gross outflows increased by 0.3% of total assets, due to an increase in outflows from operational deposits, non-operational deposits and secured lending. The latter was likely due to demands from counterparties for additional collateral to mitigate valuation risks amid moves in interest rates. These outflows were partially offset by a slight decline in outflows from retail deposits. This reflects the decline in outflows from deposits exempted from the calculation of the outflows, consisting mostly of term deposits.

Figure 39: Evolution of the LCR and its main components of as a share of total assets (top), evolution of gross outflow requirement (post-weights; bottom)

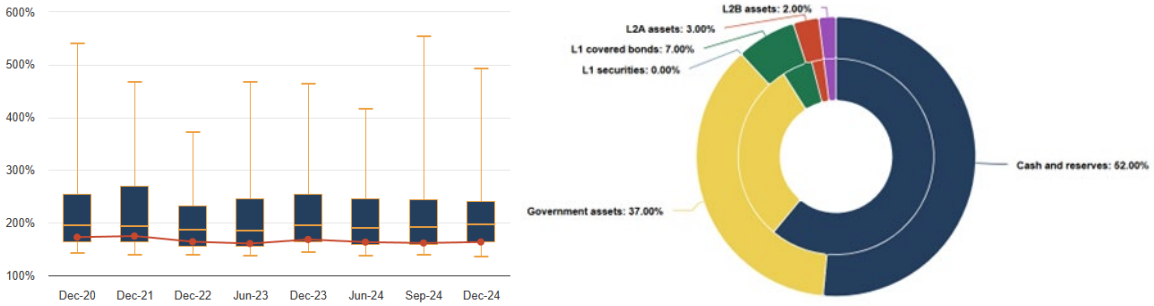


Source: EBA supervisory reporting data

As central bank reserves are gradually drained from the system, EU/EEA banks are reshuffling their liquidity buffers by increasing their holdings of government bonds, Level 1 covered bonds and Level 2 assets. This also helped banks to lock in interest income at times when sovereign bonds have provided higher yields. Despite the changes observed in the composition of the aggregate liquidity buffer, cash and central bank reserves continued to dominate HQLA. As of December 2024, they accounted for 52% of all HQLAs, down from 61% in December 2023. Conversely, government assets and Level 1 covered bonds increased their share of total liquid assets to 37% and 7%, respectively,

by December 2024, up from 30% and 5% in December 2023. Such assets also ensure an adequate stock of available collateral for the provision of liquidity in the repo market, for example, or for other funding and similar purposes (see also Chapter 3.3 on asset encumbrance). In parallel to the build-up of the buffer of government bonds, EU banks' central bank reserves have steadily decreased, reaching their lowest level since September 2020 by December 2024. The change in the HQLA composition, which is also due to declining liquidity in the systems overall, suggests that banks will have to manage their liquidity buffers more actively to ensure that they can meet their short-term financing needs.

Figure 40: Banks distribution of the LCRs (median, interquartile range, 5th and 95th percentiles; left) and composition of liquid assets as of December 2023 (inner circle) and December 2024 (outer circle) (right)



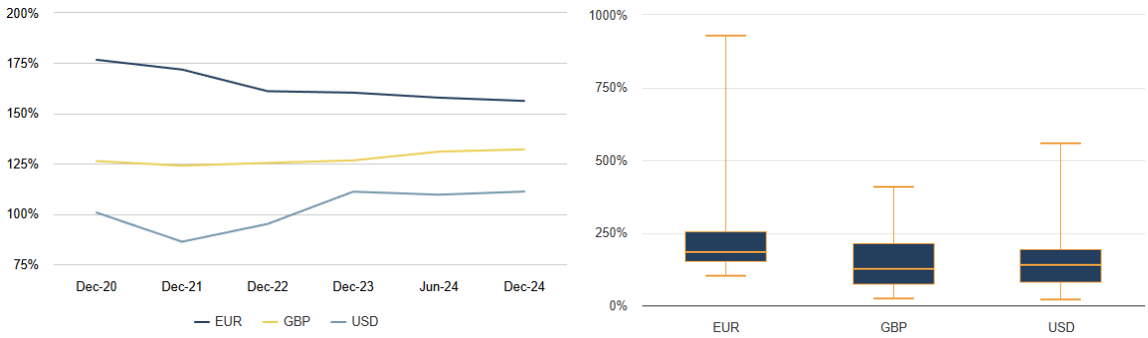
Source: EBA supervisory reporting data

Weighted average LCRs in foreign currencies are in general above 100%

Apart from the aggregate LCR figures, the EU/EEA banks also report their LCR in significant foreign currencies[38]. The LCR value in EUR (for banks domiciled in non-EA countries) was 156%. On an annual basis, the weighted average LCR in EUR shows a decreasing trend, with values close to the overall LCR. On average, the LCR in GBP stood at 132% as of December 2024. However, while even the lowest quartile of the distribution of EUR LCR is above 100%, the lowest quartile of GBP LCR is below 100%. The average LCR in USD was consistently below 100% until December 2023. It has improved since then, reaching more than 100% and has remained steadily above that level (111% in December 2024). The median USD LCR is also above 100%, while only the first quartile remains below 100%. Low levels of LCR in foreign currency may create vulnerabilities in periods of high volatility, and therefore banks should manage this risk appropriately. In addition, some central banks provide liquidity swaps in some currencies that can, for instance, be used in times of market stress (Figure 41).

[38] LCR by currency is reported for significant currencies, i.e. those with exposures above a certain threshold. Therefore, the LCR by currency is not reported for all exposures but for those that are denominated in a significant currency, which explains why these currency LCRs cannot be fully reconciled with all reporting banks' overall LCR.

Figure 41: Evolution (left), and dispersion (5th, 95th percentiles and interquartile range; right) of the LCR by currency in December 2024 (right)

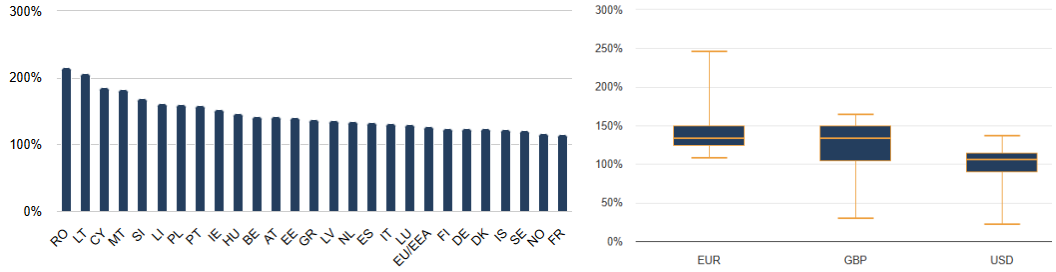


Source: EBA supervisory reporting data

NSFR shows a comfortable position for banks across all jurisdictions

EU/EEA banks' average NSFR continued its previous rise throughout H1 2024, not least because banks substituted part of the maturing TLTRO funding with market-based funding. After its rise in H1 2024, it declined during H2 2024, reaching 127.1%, a slightly higher level compared to the one observed in December 2023 (127%). It implicitly confirms prior assessments indicating that banks did not encounter significant difficulties in replacing TLTRO funding with other stable sources of financing. As of December 2024, all banks in the sample recorded NSFR levels exceeding 100% (Figure 42).

Figure 42: Net stable funding across EU/EEA countries (left) and dispersion of NSFR and ASF and RSF as share of total assets (5th, 95th percentile and interquartile range) (right), December 2024[39]



Source: EBA supervisory reporting data

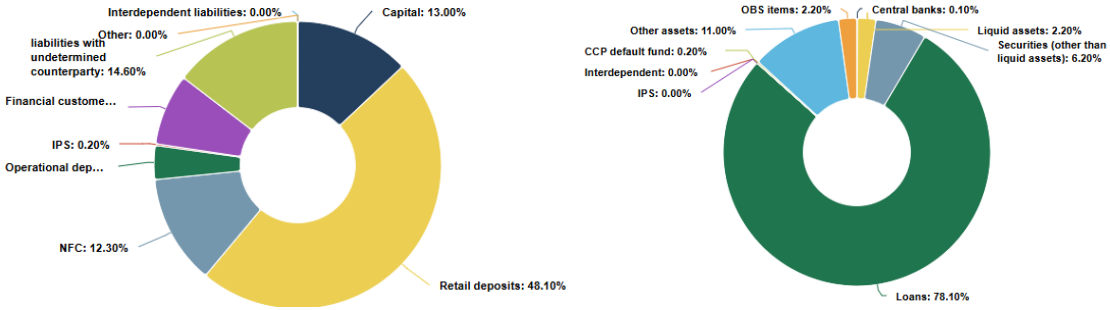
Despite the comfortable NSFR levels, on average, the ratios by currencies are partially lower. The average NSFR in USD, for instance, stood at 98% as of December 2024. The number of banks with a NSFR in USD below 100% represented 37% of the total sample as of December 2024. However, the average USD NSFR levels are still higher than the levels observed before the second half of 2022.

Retail deposits constitute nearly half of the banks' total Available Stable Funding (ASF), not only due to the high relevance of deposits in banks' liability mix, but also to their consideration as a stable source of funding in line with the NSFR (see also Chapter 3.1, but also their relevance for banks' profitability, as covered in Chapter 5). The second largest component is liabilities with

[39] ASF refers to available stable funding, and RSF to required stable funding.

undetermined counterparties, accounting for 14.6% of the total ASF[40]. This is followed by capital at 13%, funding from non-financial customers at 12.3%, and funding from financial customers and central banks at 8%. Other components, including funding from operational deposits, account for the remaining 3.8% of total ASF. On the denominator side of the ratio, loans are the dominant component, comprising over three quarters of the total Required Stable Funding (RSF) (Figure 43).

Figure 43: Components of the NSFR's components (ASF – left, RSF – right), December 2024



Source: EBA supervisory reporting data

Banks' funding plans point to a declining LCR

Funding plan data indicate that the LCR is expected to decline this year by 7 pp. This is mainly due to a rise in net outflows, whereas HQLAs are expected to remain stable. The rise in net outflows might not least be due to a continuation of some of the trends seen last year, namely the switch-out of term deposits to overnight ones (see also Chapter 7.1). The NSFR is planned to remain more or less stable over the forecasted horizon (Figure 44).

Figure 44: Forecasted LCR (left) and NSFR (right, both in %), including forecasted numerators and denominators (EUR bn)

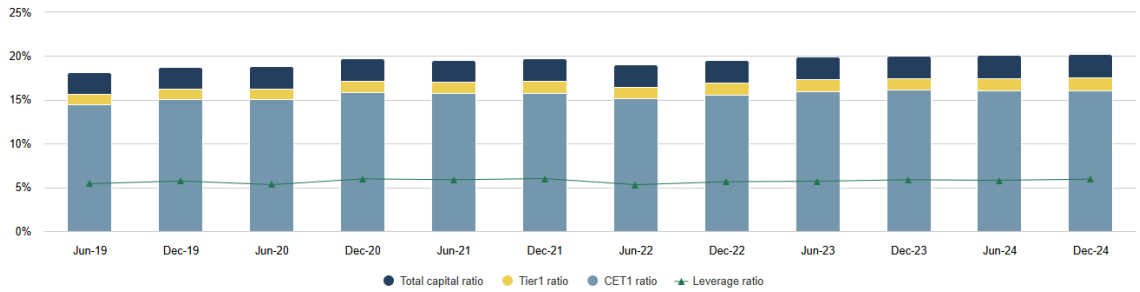
Source: *EBA supervisory reporting data (funding plan data)*

[40] Liabilities with undetermined counterparties include liabilities where the counterparty cannot be determined, including securities issued where the holder cannot be identified.

4. Capital and risk-weighted assets

Capital ratios have remained at record levels. The total capital ratio reached 20.2% as of YE 2024, which is a YoY increase of 14 bps. This was primarily driven by the Tier 1 and Tier 2 components, which rose in the last year by 10 bps and 6 bps respectively. Tier 1 stood at close to 1.5% and Tier 2 at 2.6% of total RWA. The CET1 ratio, on the other hand, remained broadly stable and close to its record level, at 16.1% in Q4 2024 (Figure 45).

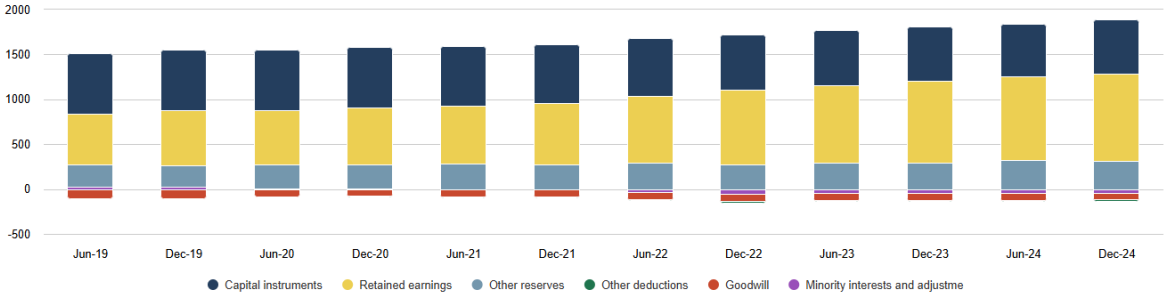
Figure 45: Capital ratios and leverage ratio (%)



Source: EBA supervisory reporting data

Overall, the volume of CET1 capital rose by around EUR 70bn (or 5%) in 2024, from around EUR 1.5 tn in Q4 2023 to around EUR 1.6 tn as of Q4 2024. The increase in CET1 capital was mainly due to rising retained earnings and other reserves, which increased by 6% and 8% respectively (Figure 46).

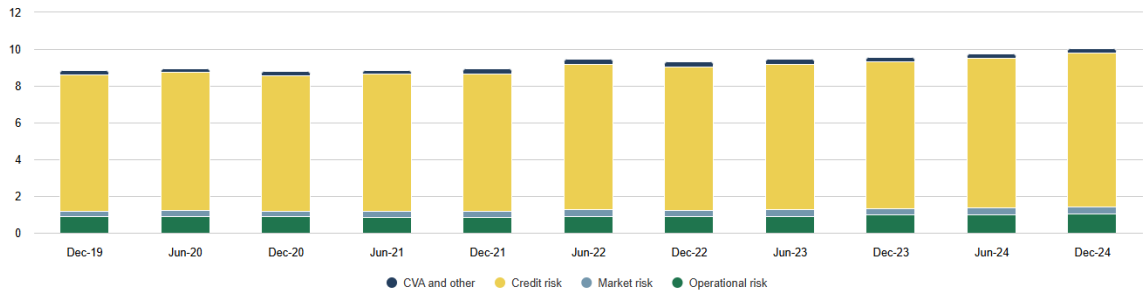
Figure 46: CET1 capital components (EUR bn)



Source: EBA supervisory reporting data

Total RWAs increased by around EUR 460 bn (or 5%) in 2024 to around EUR 10 tn in Q4 2024. By type of risk, credit risk was the main driver, with an increase of EUR 403 bn (5%) in 2024. Operational risk also added EUR 81bn to the RWA total in 2024, representing an increase of 8%. Market risk remained almost unchanged and credit valuation adjustment (CVA) risk declined by 11% in 2024 (Figure 47).

Figure 47: RWA components (EUR tn)



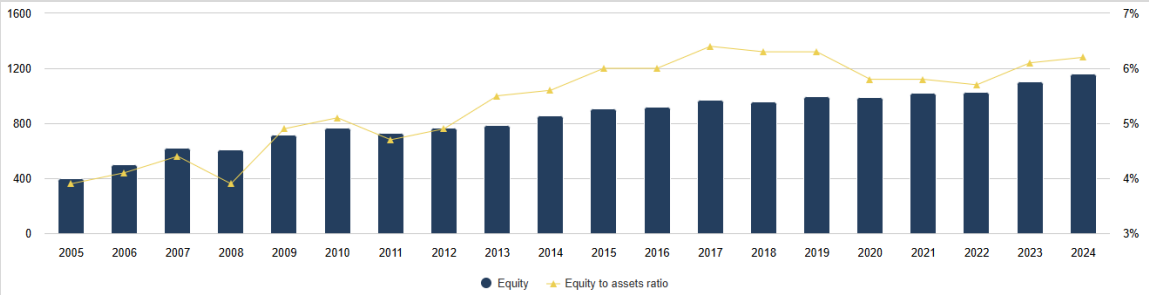
Source: EBA supervisory reporting data

Box 2: Achievements of the post-GFC regulatory reform in the banking sector

15 years after the GFC, much progress has been made in reforming the financial rulebook. The broad agenda set by the international regulatory community has given rise to new standards that have contributed to a more resilient financial system – one that is less leveraged, more liquid, better supervised and able to allow an orderly resolution of failing banks with minimal costs for taxpayers and to the real economy. The final implementation of the Basel III framework has led to new requirements that apply to EU/EEA institutions from 1 January 2025. All Member States now have macroprudential authorities and tools with which to oversee and contain risks to the whole financial system. Furthermore, bank supervision has been intensified, especially at large banks, and stress testing has been widely adopted to assess risks for the banking sector. Finally, bank resolution regimes and deposit guarantee schemes have been improved – providing additional safeguards for depositors and taxpayers.

Banks' capital positions and capital ratios have increased significantly since the GFC. The volume of equity held by EEA banks has almost doubled since 2008 and the ratio of equity to total assets (a proxy of the leverage ratio to overcome changes in regulatory definitions over time) increased by 50% during the same period[41]. Banks are thus better prepared to absorb shocks and to continue operations during periods of financial distress, increasing financial stability overall.

Figure 48: Evolution of equity (EUR bn, LHS) and equity to assets ratio (%, RHS)



Source: S&P Global

The introduction of the Bank Recovery and Resolution Directive (BRRD), which aims, together with the Single Resolution Mechanism Regulation (SRMR) and the Deposit Guarantee Scheme Directive

[41] 62 large EEA banks with valid data for the entire time series of 2005–2024. Equity defined as per accounting definition.

(DGSD), to create a comprehensive framework for dealing with failing banks without resorting to taxpayer-funded bailouts, has led to a rise in liabilities that can be bailed in if needed. As of June 2024, the average MREL requirement has reached 28.5% of total RWA for G-SII banks and 28.3% of total RWA for top tier and fished banks, both of which are typically subject to bail-in as the preferred resolution strategy[42]. These requirements compare to average MREL-eligible resources of 33.6% of total RWA for G-SII banks and to 37.2% of total RWA for top tier and fished banks. The progress made since the BRRD was introduced in 2015 is also visible in the stock volume of MREL-eligible debt instruments. As of December 2024, EEA banks have in total raised EUR 1,005 bn in senior non-preferred and senior HoldCo debt, in addition to EUR 388 bn of AT1 and Tier 2 instruments.

The DGSD ensures that depositors are protected by national deposit guarantee schemes (DGSs), which guarantee that deposits up to EUR 100 000 will always be repaid even if the bank holding them fails. For that purpose, there is EUR 79 bn available in the EU to guard depositors against bank failures. To achieve that, banks in the EU have been contributing to the build-up of these deposit guarantee funds over the past ten years, with the deadline for the funds to reach the minimum required target level of (usually) 0.8% of covered deposits for the first time in July 2024. The data for the end of 2024 shows that all 33 EU DGSs had reached that target level or held even more funds than legally required[43]. In total, the DGSs protect EUR 8.6tn of covered deposits. In December 2023, the EBA assessed that the minimum target level is still accurate to protect depositors and financial stability. Since 2014, the funds have already been used more than 100 times to protect depositors. If DGSs need more means than directly available in the funds, they have in place additional arrangements to require credit institutions to make additional contributions to the fund and/or to make additional short-term funding available. However, fully built-up DGS funds reduce the likelihood that banks will need to provide ad hoc short-term funding when other banks fail.

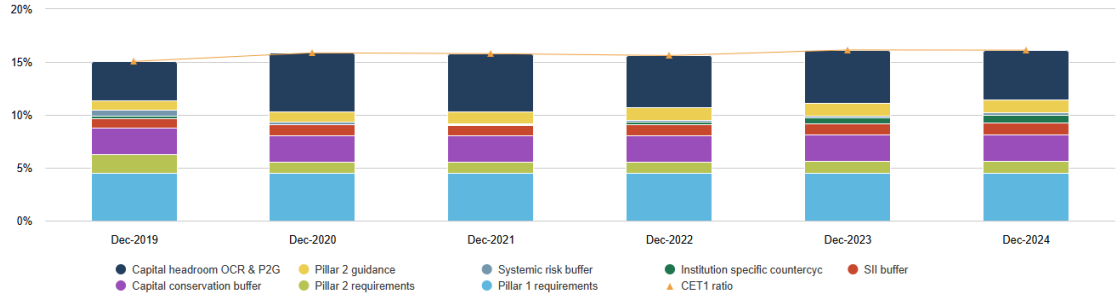
High capital buffers and profits enable high payouts

EU/EEA banks' CET1 headroom above overall capital requirement (OCR) – which consist of Pillar 1, Pillar 2 and the combined buffer requirements (CBR) – and Pillar 2 Guidance (P2G), has remained at comfortable levels. The headroom declined slightly YoY, from nearly 500 bps in Q4 2023 to around 470 bps in Q4 2024. The decline is mainly the result of higher OCR plus P2G. The rise in the OCR was primarily due to an increase in the countercyclical buffer (CCyB) component, which rose by 19 bps in the last year (Figure 49).

[42] MREL data source: MREL dashboard.

[43] DGS data source: DGS data.

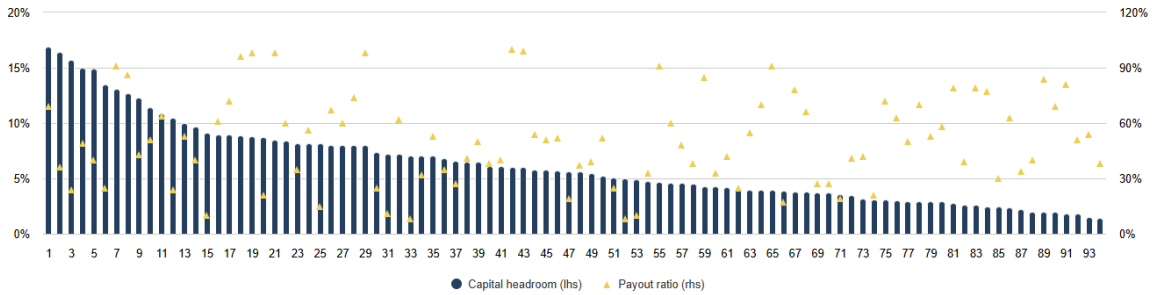
Figure 49: CET1 requirements and P2G vs CET1 ratio (%)



Source: EBA supervisory reporting data

A bank-by-bank analysis covering 94 banks[44] shows a relatively big dispersion of the available CET1 headroom, but also confirms that most banks operate with a comfortable headroom of CET1 ratios above capital requirements, ranging from 1.4% to 16.9% of total RWA. Data indicate that there is no link between banks' capital headroom and their approach to payouts (dividends plus share buy-backs), i.e. the payout ratios do not seem to be lower for banks with lower capital headroom, for example (Figure 50).

Figure 50: CET1 headroom and payout ratios by bank (%)

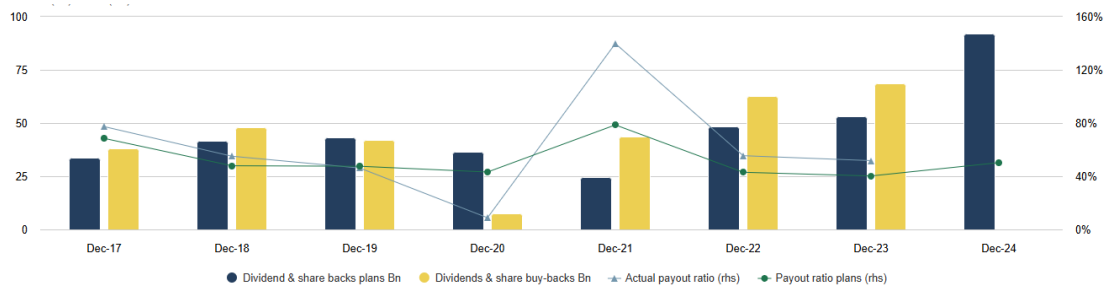


Source: EBA supervisory reporting data

On the back of on average solid capital headroom and high profitability, banks' dividend payouts and share buy-backs (together referred to as 'payouts') continued to increase and reached EUR 92 bn in 2024, representing a payout ratio of 51% of YE 2023 profits. Payouts do not seem to be constrained by capital requirements as all banks in the sample reported CET1 ratios above OCR&P2G (see Figure 50). Compared to 2023, payouts were 35% higher (vis-à-vis a 32% rise in net profits in 2023) but in relation to YE profits, payout ratios remained almost unchanged. Banks' actual payouts in 2024 exceeded payout targets that the banks set themselves at the beginning of the year (EUR 86 bn). The plans for 2025 indicate a further rise in payouts, with a combined target of EUR 107 bn, or 55% of YE 2024 profits (Figure 51).

[44] The sample includes banks with a CET1 headroom of less than 20% of RWA and with payout ratios of between 1% and 100%.

Figure 51: Dividends and share buy-backs (in EUR bn, lhs) and payout ratio (rhs)



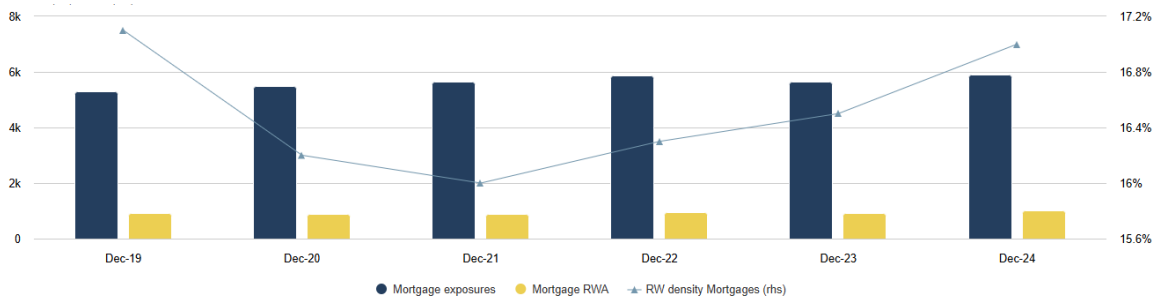
Source: EBA supervisory reporting data

Looking forward, a cautious stance in respect of payouts seems warranted. Record payout plans for 2025 coincide with lower economic projections for 2025, an uncertain geopolitical environment (see Chapter 1) and lower asset quality (see Chapter 2). Case-by-case assessments of banks' payouts will remain an important element for supervisory authorities.

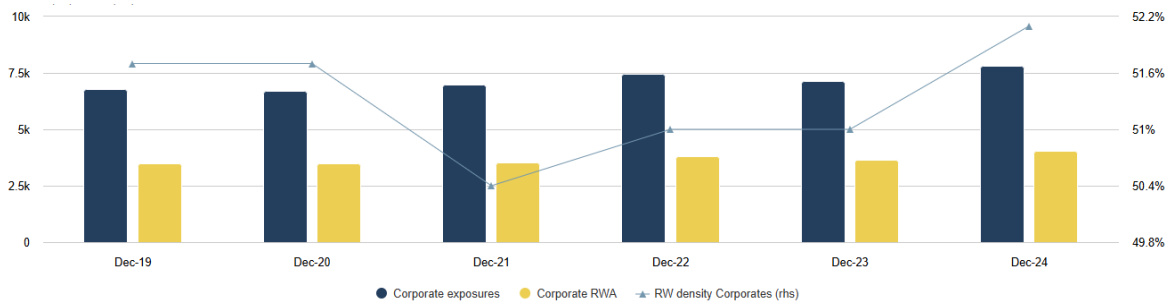
Exposure volume and risk weight of banks' credit portfolio on the rise

Banks' credit exposure increased by 6% (EUR 1,550 bn) in 2024, on the back of lower central bank rates and increased demand for loans. The increase was notable across all exposure classes. Corporate exposures increased by 9% (EUR 650 bn) and mortgage exposures by 5% (EUR 270 bn)[45]. During the same period, RWA for banks' credit portfolio increased by 10%. The increase in 2024 was driven by the two biggest exposure classes, namely +11% for corporate and +8% for mortgage exposures (Figure 52). This change last year represents an increase in the overall RW density of about 100 bps (from 27.7% in Q4 2023 to 28.7% in Q4 2024). The increased risk weight is most pronounced for the corporate segment of banks' credit portfolio (up 105 bps to 52.1% in Q4 2024). Mortgage exposures saw average risk-weights increase by 53 bps to 17.0% in Q4 2024. This represents an acceleration of the trend towards higher RW density that has been observed since 2021. For both exposure classes – corporate and mortgages, average risk-weights have returned to levels last seen in 2019.

Figure 52: Credit risk exposure amounts, RWA and RW density for mortgages (top), and corporates (bottom)



[45] It must be noted that growth rates here cannot be fully reconciled with those of accounting data-based calculations, for example. This is, for instance, because portfolios/segments are differently defined in financial reporting (FINREP), which forms the basis for the analysis in Chapter 2.1, and in common prudential reporting (COREP), which forms the basis for the analysis in this chapter. Furthermore, the concept of the carrying amount of loans differs from the concept of exposure amount. The latter, for instance, also includes loan commitments after a certain weighting, etc.

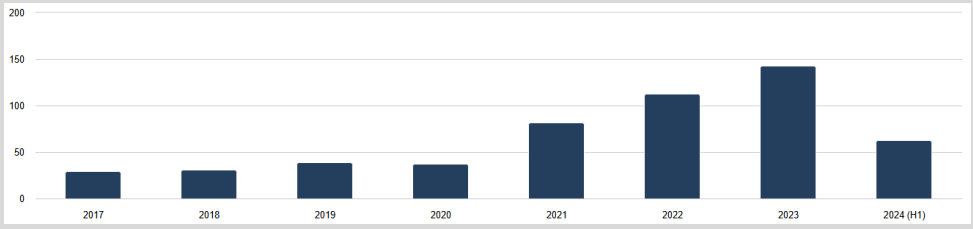


Source: EBA supervisory reporting data

Box 3: EU/EEA banks' rising usage of SRTs

Banks' usage of SRTs has continuously increased in recent years[46]. EU/EEA banks' SRTs are slightly more than half of their total securitisation of around EUR 1 tn (here and in the following, considering securitised exposure as volume). RAQ results similarly confirm the wide usage of SRTs by banks: more than half of the banks have so far made use of SRTs and around three quarters of them aim to continue doing so going forward. Around 20% of SRT users are not yet sure about future usage, whereas approximately 5% no longer want to make use of SRTs. Around 20% of banks that have never made use of an SRT aim to issue one in the future. Compared to other jurisdictions, EU/EEA banks have a comparatively big share in worldwide SRT markets, with some analysis estimating their share at around 50%[47]. At EU/EEA banks, SRT exposure volume corresponds to around 2% of total credit exposure amounts (excluding retention). Nearly three quarters of SRTs' underlying exposures are related to corporates, including SMEs and CRE financing (Figure 53).

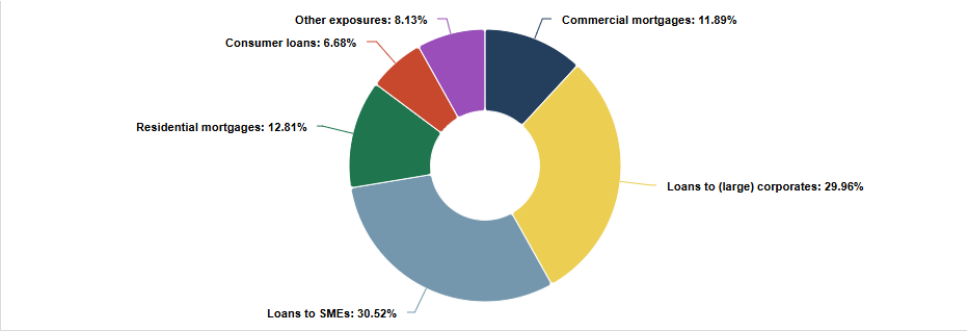
Figure 53: Outstanding SRT volumes' origination years since 2017 (EUR bn; top), and distribution of underlying exposures (bottom)[48]



[46] As it also includes other input and information for the analysis and calculations, the box on SRTs is based on Q2 2024 data in contrast to the other analysis and charts of this report.

[47] See, for instance, the International Association of Credit Portfolio Managers' (IACPM) survey on risk sharing transactions from May 2024.

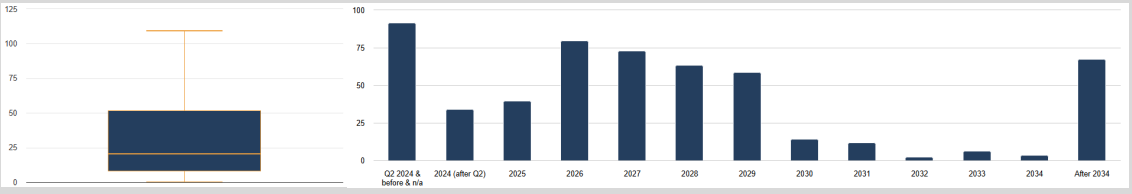
[48] As for the text in this box, the volumes show securitised exposures. The chart on origination years is cut off at 2017; the previous years are smaller in volumes and not shown.



Source: EBA supervisory reporting data

SRTs are not least a means of banks to expand their lending: through securitising exposures, banks can free up capital for new deployment and, for example, to extend new loans. This is of benefit for the economy, as it enables banks to expand lending without for example raising new capital. One of the questions related to SRTs is how much capital is actually 'freed up' through them. This can, for instance, be estimated through the implicit capital relief that these transactions provide. High level calculations indicate that there is a wide range of the CET1 capital relief by banks, ranging from around small single digit bps to more than 100 bps. Considering an average CET1 ratio of around 16.0%, the relief thus seems to be limited. One of the risks related to SRTs is if they mature at a similar time, as such creating a kind of 'maturity wall' at which the capital relief would suddenly end from banks' point of view, and assuming that similar volumes of exposures do not mature at the same time. Banking sector-level supervisory reporting data do not indicate any such maturity wall. It remains important that this risk is also properly managed by banks going forward, not least amid their rising SRT usage: if these newly issued SRTs have similar maturities, it can quickly happen that a maturity wall is built up in future (Figure 54).

Figure 54: Distribution of capital relief estimates by bank in bps of CET1 (5th, 95th percentile and interquartile range) (left), maturity estimates using first foreseeable termination date (right)[49]

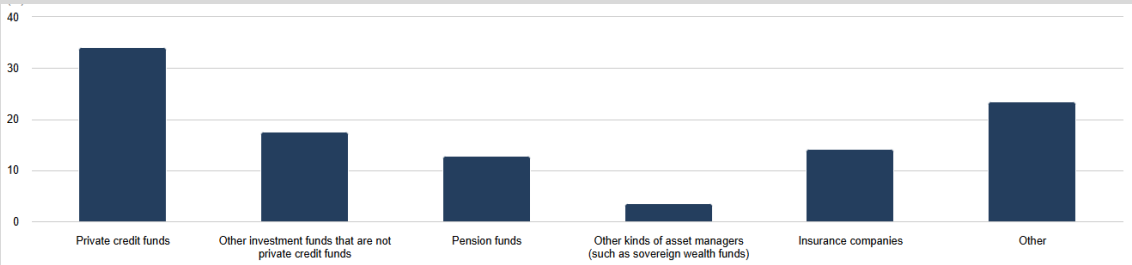


Source: EBA supervisory reporting data

The credit risk of SRTs' underlying exposures is transferred to investors (protection providers). Amid rising SRT volumes, a key question is who the investors are. It is also important to understand whether these investors are sustainable in nature and will possibly be able to invest in new SRT transactions going forward. RAQ data indicate that private credit funds are the main investors in relative terms (around a third), followed by other investment funds (18%), insurance companies (14%) and pension funds (13%), which shows the interlinkages in the financial sector. Even though the investor base is not evenly distributed, it is still well distributed between different kinds of investors. This might also help to facilitate that, going forward, SRT investors will be available (Figure 55).

[49] The CET1 relief calculation is indicative. Several assumptions and simplifications are applied in its calculation, such as the usage of banks' average risk density for the relief in RWA volumes from their SRTs.

Figure 55: Main investor groups of banks' SRTs (share of responding banks, in %)



Source: EBA Risk Assessment Questionnaire

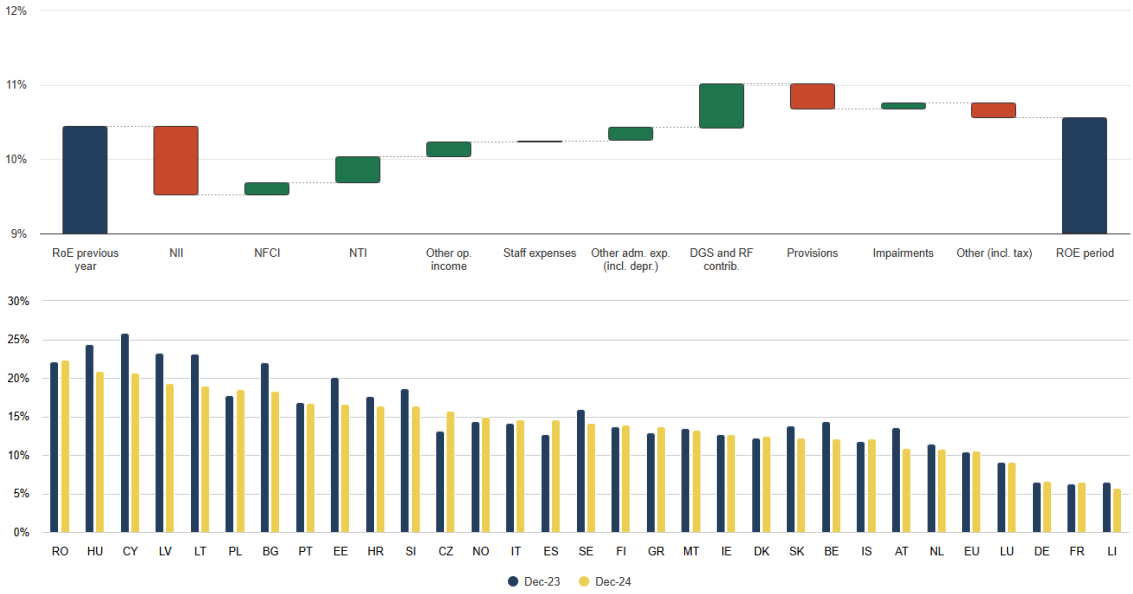
It remains paramount to understand whether banks are, for instance, investing in private credit funds or other NBFIs that then invest in banks' SRTs. Such investments of banks could for instance be through lending to private credit funds or NBFIs, potentially contributing to these funds' / NBFIs' leverage (on banks' interconnections with NBFIs see Box 1, which shows, for example, the loan and repo funding from banks to NBFIs). This could create certain 'circles of risks', as in the end a private credit fund's SRT investment would become an implicit risk for a bank that invests – e.g. through providing repo-based or other funding – in that fund (see coverage on NBFIs in the Box 1 above, and more broadly in the July 2024 edition of the EBA's Risk Assessment Report).

5. Profitability

5.1 Key drivers and developments in EU/EEA banks' profitability

EU/EEA banks reported a slightly increased RoE in 2024. The RoE increased from 10.4% in Q4 2023 to 10.5% Q4 2024. It reached its peak in between, at 11.1% in September 2024. The growth in RoE was due to a bigger increase in banks' profits (approximately +9.1% YoY) than the rise in equity (ca. +6.6% YoY). As key contributors to the differences between 2023 and 2024 RoE, NII had a negative impact with a -0.92% YoY change (as share of equity), which corresponds to a decline in NII income of nearly 3% YoY. This was mainly due to central bank rate cuts (see Chapter 1 on macroeconomic developments). Other negative contributions included provisions and other factors such as taxes. All other contributors were positive, the most notable being the reduction in contributions to DGS and resolution funds (RF), after they had reached target levels. Data also shows that there has been a wide dispersion of RoE among countries, as well as its YoY development, with many countries even showing a YoY decline. Those differences in RoE levels and trends depend on, for example, a repricing of assets and liabilities amid a changing interest rate environment, but also on the composition of the revenue and cost drivers (Figure 56).

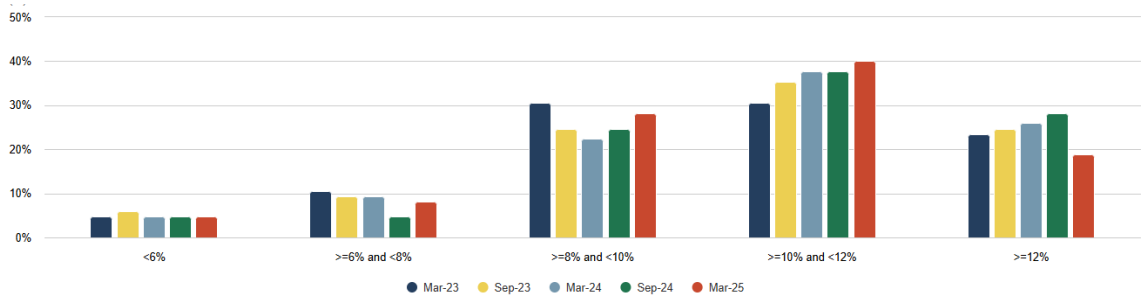
Figure 56: RoE and contribution of the main profit and loss (P&L) items (as share of equity) to the RoE's YoY change, comparison between December 2023 and December 2024 (%; top) and RoE by country (2024 vs 2023, bottom)



Source: EBA supervisory reporting data

Although RoE remains elevated compared to the last decade, the CoE for EU/EEA banks also remains high. Approximately 60% of banks estimate their CoE to exceed 10%, likely due to uncertain macroeconomic conditions. However, the share of banks estimating their CoE to be more than 12% has decreased by nearly 10 p.p. to 19%, according to the RAQ survey. This decline may be attributed to technical factors, such as declining central bank rates (Figure 57).

Figure 57: EU/EEA banks' estimates of their CoE, (%)



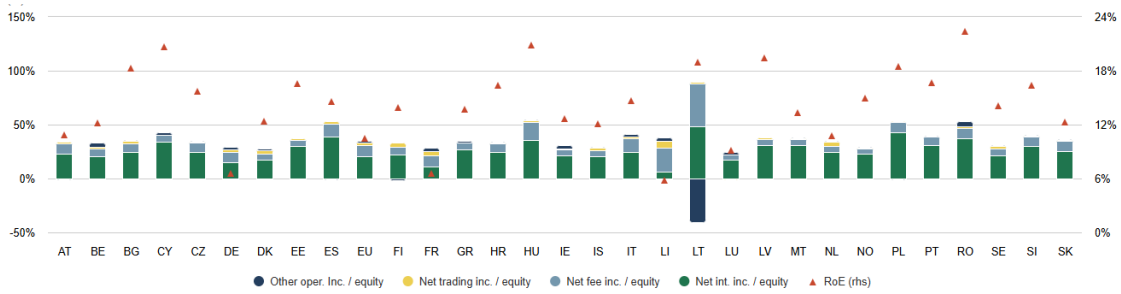
Source: EBA Risk Assessment Questionnaire

Banks steer their revenue mix towards strengthening fees and commission income

The decline in NII came in parallel to pressure on NIMs, which saw its peak in March last year at 1.68%, but has declined since then, reaching 1.66% as of YE2024 (and as such being stable on a yearly basis). It still remains to be seen how the NII trends will play out in the end, depending on further margin trends that depend on interest rate moves, but also the impact from a steepening of the yield curves, as well as underlying volumes, such as new lending. Given the presumably downward dynamic in NII at least for now, banks increasingly rely on other sources of income, not least fee and trading income (including fair value result), whose shares of equity rose from 9.6% to 9.8% and 2.2% to 2.6%, respectively, on a yearly basis.

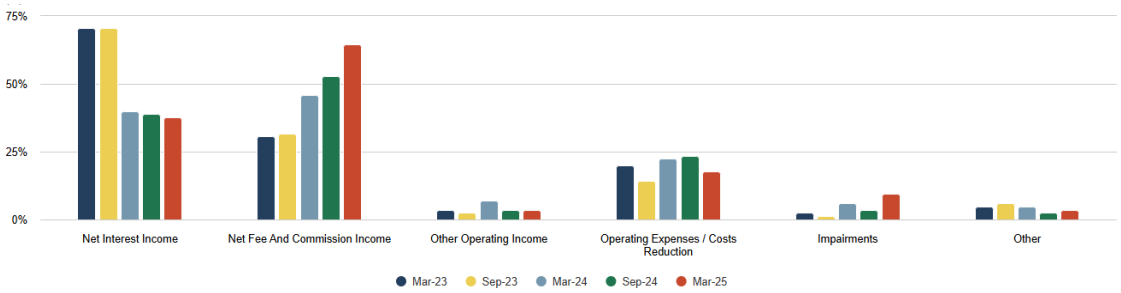
The rise in fee income is, as such, a positive trend, as it shows that banks can manage their revenue streams. This was similarly reflected in the RAQ results, according to which more than 65% of banks consider net fee and commission income (NFCI) a high priority to increase profitability, considered now to be by far the most important profitability driver going forward (+12 pp. from last September). It remains to be seen how revenue streams might evolve going forward, with the general geopolitical and macroeconomic uncertainty making it even more challenging to provide any assumptions at this stage. Whereas a certain focus on fee income should normally help to address potentially declining NII, the former might also come under pressure if GDP growth deteriorates, for instance. The rise in trading income (including fair value result) is, in contrast, a more volatile position, which cannot be considered a sustainable revenue contributor. A country-by-country comparison shows that there are large differences in banks' revenue composition. The data indicate that a higher NII contribution implies higher RoE, even though there does not seem to be an automatism in this relationship (Figure 58).

Figure 58: Revenue composition by country vs RoE as of Q4 2024 (%)[50]



Source: EBA supervisory reporting data

Figure 59: Banks' targets for profitability increase in the next 6 to 12 months



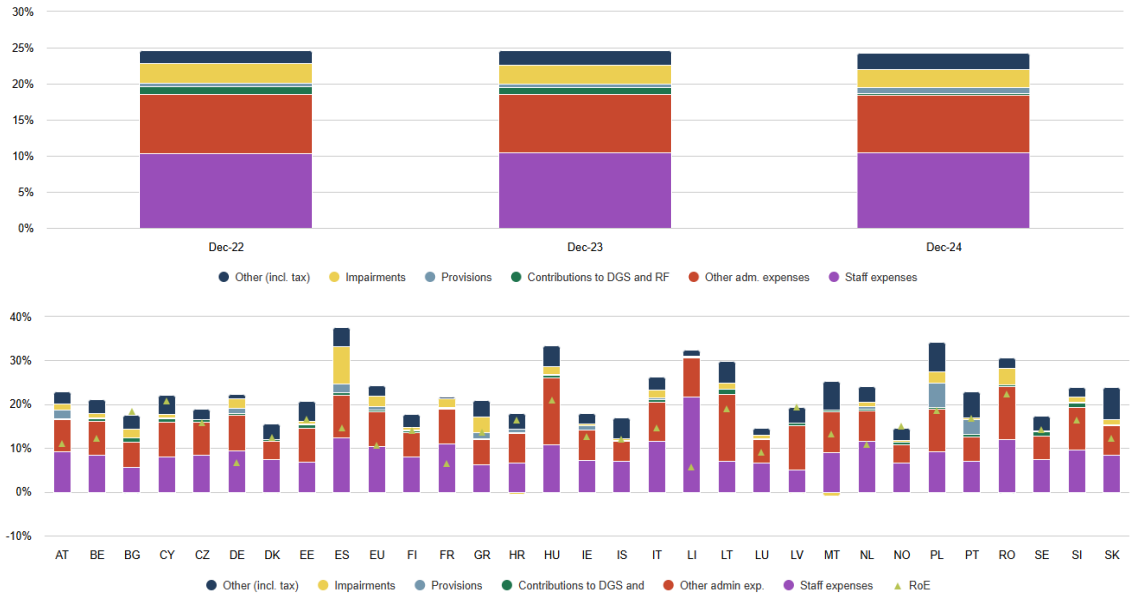
Source: EBA Risk Assessment Questionnaire

There is likely to be limited scope for reducing costs in the future

EU/EEA banks' costs increased by around 2% during 2024. On a yearly basis, they declined modestly in relative terms (as a share of equity) during 2024 by 35 bps. Provisions increased from 0.5% to 0.8% YoY and other costs (incl. taxes) rose from 2.1% to 2.3%. All other cost components were either relatively stable or declined. As a result, the average EU cost-to-income ratio (CIR) decreased YoY at EU/EEA level from 54.6% in December 2023 to 53.8% in December 2024. Moreover, EU/EEA banks' cost of risk remained stable YoY (for further details related to asset quality, see Chapter 2.3). With cost levels widely dispersed among countries, there is similarly no direct link between, for example, the cost composition and banks' profitability. It comes naturally, for instance, that banks with comparatively higher NII, which also benefit from comparatively low wage costs, and also do not have the burden of other elevated administrative expenses, benefit in the form of higher RoE (Figure 60).

[50] Outliers can be partly explained by the specificities of the sample of banks for respective countries, which might for instance depend on the business models of some major banks operating outside of one country. For Lithuania, for example, the data are highly influenced by one bank's specific business model.

Figure 60: Evolution of key components of costs and expenses as share of equity (top) and analysis of these components as share of equity vs RoE by country as of Q4 2024 (bottom)[51]



Source: EBA supervisory reporting data

RAQ results indicate that approximately two thirds of banks do not anticipate an increase in profitability over the next 6–12 months. The results show that, despite encountering challenges on the revenue side, particularly due to the deceleration of NII, banks are not prioritising cost savings as a strategy to enhance their profitability. This decision is presumably not least influenced by the rising necessity to invest in technological advancements and strengthen cybersecurity measures, while simultaneously improving automation and digitisation capabilities. These areas remain key targets for EU/EEA banks according to the RAQ. Furthermore, banks may face increasing demands for provisioning against credit losses if geopolitical tensions impact macroeconomic conditions. Additional challenges for profitability may also come from elevated competition from financial technology (FinTech) firms and the potential introduction of central bank digital currencies (CBDC). The latter may require ad hoc investment, which would at the same time presumably result in improvements in banks' information and communication technology (ICT) systems. It might also affect banks' NII and fee income, besides incurring related operational costs. Depending on the design choices, CBDCs might also offer new revenue streams (e.g. fee income)[52].

5.2 Banks' forecasts of client rates

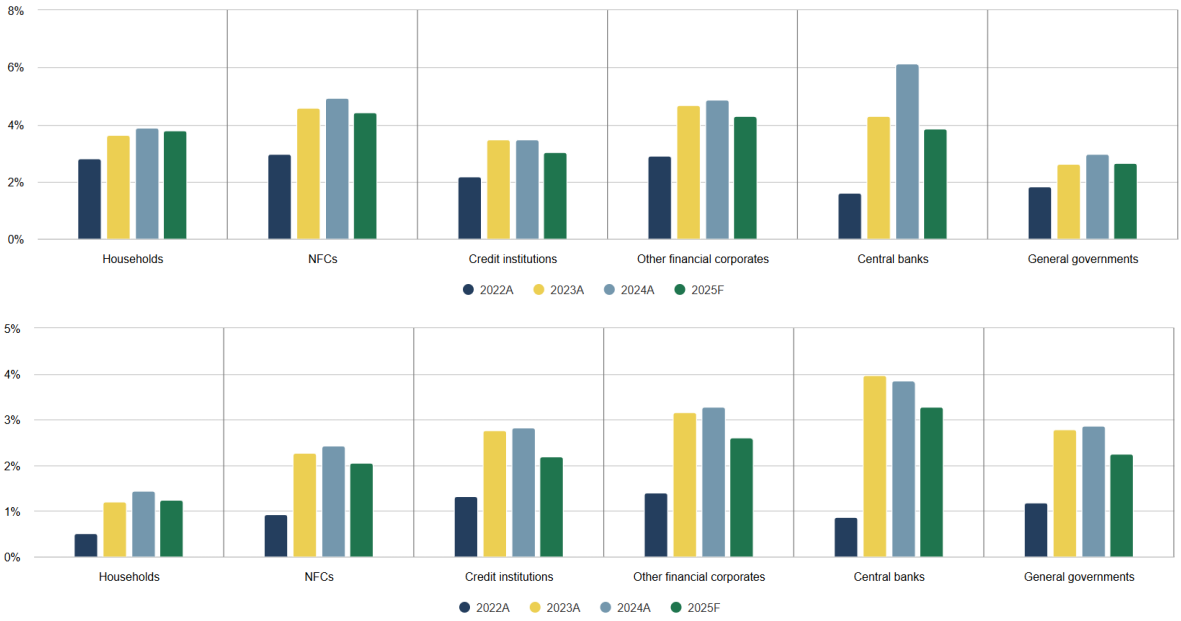
Based on funding plan data, interest rates on loans increased in 2024, albeit at a slower pace compared to the significant rise in 2023. All segments experienced this dynamic except for credit

[51] The divergence in the impairments as a share of equity, with some countries showing a higher ratio, is particularly affected by cross-border business, such as exposures to emerging markets, which also tend to have a positive associated impact in terms of higher NIMs, for instance.

[52] See a more detailed analysis of the potential impact from CBDC in the EBA's Risk Assessment report from July 2024. Besides the implications on profitability and technological aspects, for example, banks' funding and liquidity might also potentially be affected.

institutions, where interest rates stagnated. This might not least be driven by a presumably high share of variable rate loans in this segment, as well as presumably rather short durations. Interest rates on loans are expected to decrease in 2025, falling below the rates of the past two years: notably for exposures to central banks by -220 bps, other financial corporates by -60 bps, as well as credit institutions and NFCs by -50 bps. Interest rates for household loans are projected to contract by 10 bps. On the liability side, interest rates on deposits in 2024 continued to rise across all segments (except for central banks), although at a slower rate than in 2023. This might be due to the previous rise in term deposits (see recent editions of the RAR). In 2025, interest rates on deposits for all segments are forecast to decrease, by 60 bps for credit institutions and general government, and by 70 bps for other financial corporates (Figure 61).

Figure 61: Interest rates of stock of loans (top), and of stock of deposits (bottom) by segment



Source: EBA supervisory reporting data (Funding Plan data)

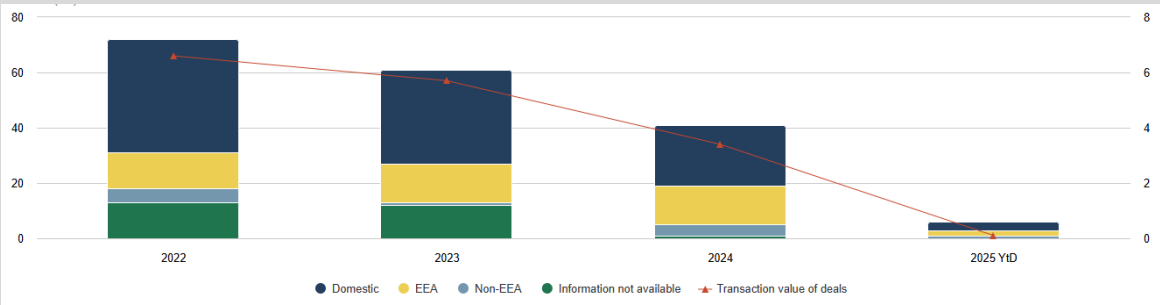
As a result of relatively parallel moves on the asset and liability side, the spread between interest rates for loans and deposits to/from households and NFCs remained relatively stable in 2024, with a slight EU/EEA average decrease of -10 bps to 2.5%. Most countries reported a decrease, with two thirds of Member States experiencing a tightening (e.g. Denmark, Ireland, Liechtenstein), while some countries reported a wider spread than last year (e.g. Estonia, Iceland, Italy). Also going forward, the client spreads are assumed to remain relatively stable, with minimal changes expected for most countries in 2025.

Box 4: Trends in EU/EEA banks' M&A

The number of completed M&As transactions and their respective volumes have been steadily declining over the years. In 2024, there were 20 fewer deals compared to 2023 and 31 less than in 2022, representing a 32.8% and 42.2% decrease, respectively. Despite the previous downward trend in banking sector M&A, the topic has gained prominence in recent quarters, with several key deals being announced, most of which are still pending completion. Among M&A transactions, domestic deals hold the largest share, followed by M&As within the EEA. Non-EEA transactions are

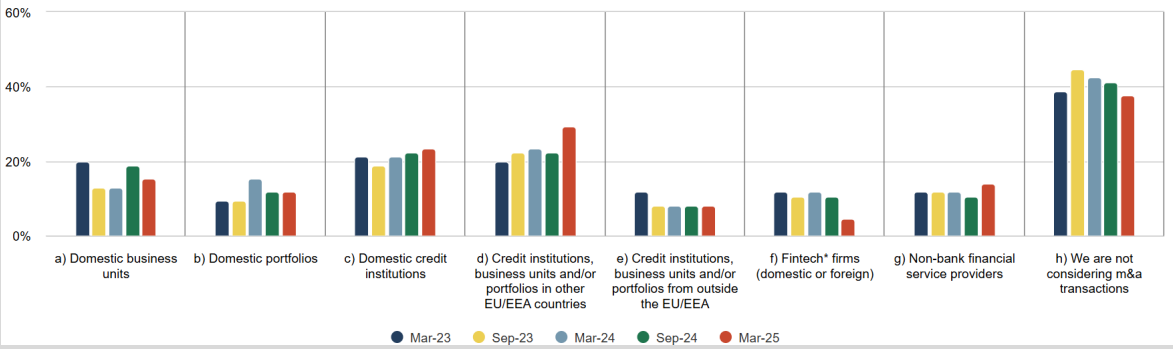
the least common, but they have increased from 2023 to 2024 (Figure 62). RAQ results indicate that banks have shown heightened interest in M&As recently, particularly involving domestic and EEA entities, while interest remains stable for non-EEA banks. Banks report also considering more transactions with non-bank financial service providers, but fewer with FinTech firms (Figure 63). Going forward, banking sector M&A should help to achieve more integration at EU/EEA level. It remains paramount that prudential, economic and competition considerations are fulfilled.

Figure 62: EU/EEA banking sector related completed M&A transactions since 2022, number (bars; left axis) and volume in EUR bn (line; right axis)[53]



Source: S&P Capital IQ and EBA assumptions and calculations

Figure 63: M&A measures considered by EU/EEA banks



Source: Risk Assessment Questionnaire

[53] The difference between the sum of domestic plus EEA plus non-EEA deals is smaller than the number of total deals, because there are some transactions for which the buyer's name and information are not disclosed.

6. Operational risks and resilience

6.1 General trends

Being operationally resilient is a key vulnerability in the banking sector, whose relevance and scope has continued to increase. They are elevated not least because of heightened geopolitical risks. Risks to operational resilience have become increasingly complex and include a range of aspects. While digitalisation and technological advances, with the related cyber risk, continue to be the key driver of operational risk, financial institutions and supervisors also closely monitor the risk of fraud, reputational challenges and the risk of financial crime, including AML risk, and further conduct-related and legal risks they are exposed to.

Risks to operational resilience have become increasingly systemic. Capital requirements for operational risk are the second most important component of banks' risk weight after credit risk. They have increased to 10.5% of total capital requirements (10.2% in December 2023), with a rather low dispersion across jurisdictions. The scope and importance of operational risk are not least driven by digitalisation and technological advances. Technological progress and digitalisation significantly influence the scope of operational risk and highlight the necessity of ensuring operational resilience.

Geopolitical tensions impact operational risk

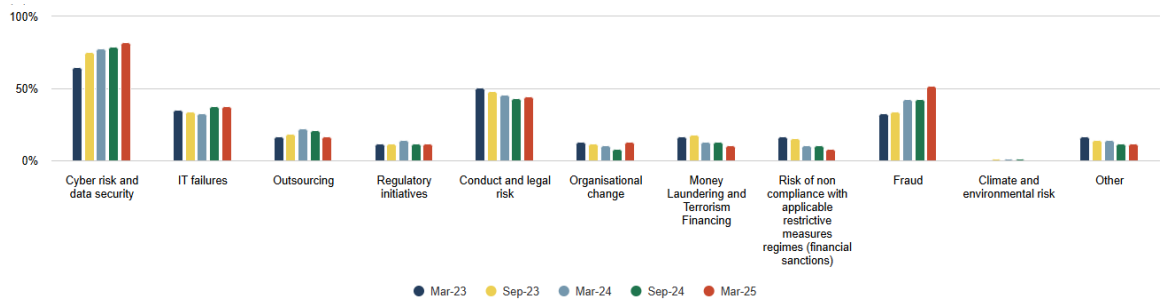
Geopolitical risks not only amplify or in some cases cause operational risk, for example by state sponsored malicious cyber activity against the banking sector, but they can also indirectly affect the banking sector, through increased risks of malicious behaviour, such as acts of sabotage potentially affecting the financial infrastructure. Cyber and digital risks are not contained by jurisdictional borders, and geopolitical tensions have increased risks significantly. A high dependency on ICT service providers, for example cloud service providers, and other financial service providers, for example payment systems, domiciled in third countries outside the EU/EEA might pose additional risks. Heightened geopolitical tensions are also contributing to AML risks, fraud risk, and sanctions compliance risk, and require close attention by financial institutions and supervisors.

The International Monetary Fund (IMF) in April pointed out that an increased risk of cyber-attacks can challenge the operational resilience of financial institutions [54]. Various European and international institutions have also continued to point this out. This is partly reflected in RAQ responses, according to which cyber risks and data security are considered the highest of the operational risks (82% agreement). Risk of ICT failures as a related risk also remains high. Fraud risk has grown sharply in the last two years and is now considered the second most relevant contributor to operational risk, at 52% agreement, and ahead of conduct and legal risks (45% agreement), which has been the second most relevant operational risk in previous RAQ iterations.

[54] See IMF Global Financial Stability Report, April 2025, Chapter 2.

Outsourcing risks, AML and terrorist financing risk, and risk of non-compliance with sanctions, as further operational risks for banks, have decreased in banks' perceptions. Risk related to organisational change has increased (13% agreement), after a steady decrease in previous RAQ iterations. This might partly reflect the growing impact digital transformation has on the organisation of banks.

Figure 64: Main drivers of operational risk as seen by banks[55]



Source: EBA Risk Assessment Questionnaire

Fraud risk and payment fraud have become key operational risks

Fraud risk has grown sharply in the last two years, from 33% agreement in the March 2023 RAQ to 52% in March 2025, and is now considered the second most relevant operational risk, according to the RAQ. Risks related to further digitalisation and technical innovation, but also to financial crime, have contributed to a continuously growing risk of fraud. Theft or breach of customer credentials and social engineering are the main drivers of increased fraud risk (60% agreement), followed by online and cyber-fraudulent activities and payment fraud (each with 53% agreement). Growing usage of artificial intelligence (AI) in financial crime may have facilitated technology-driven fraudulent activities. A stocktake conducted by the EBA among NCAs, consumer associations and financial industry associations concluded that payment fraud is the topical issue most frequently mentioned as having arisen to consumers in 2024/2025[56]. The stocktake suggests that fraudsters have adopted more sophisticated techniques in response to the prevention of conventional attack vectors as a result of legislative initiatives and industry measures. Phishing appears to be the most frequently used technique by fraudsters, while social engineering was most frequently mentioned as new fraud type[57]. New types of fraud also include Authorised Push Payment (APP) fraud, where the payer is manipulated into making a payment to the fraudster.

As regards the total value of fraudulent transactions, credit transfer is the most affected payment service. Card-based transactions are impacted most in terms of volume of fraudulent transactions. The EBA stocktake also indicated an emerging trend of the use of AI to enable personalised scams to lure consumers into making payment transactions. To address payment fraud, the EBA supports the implementation of requirements of the new Payment Services and Electronic Money Services Directive (PSD3) and of the new Payment Services Regulation (PSR).

[55] Agreement to up to three options was possible for respondents.

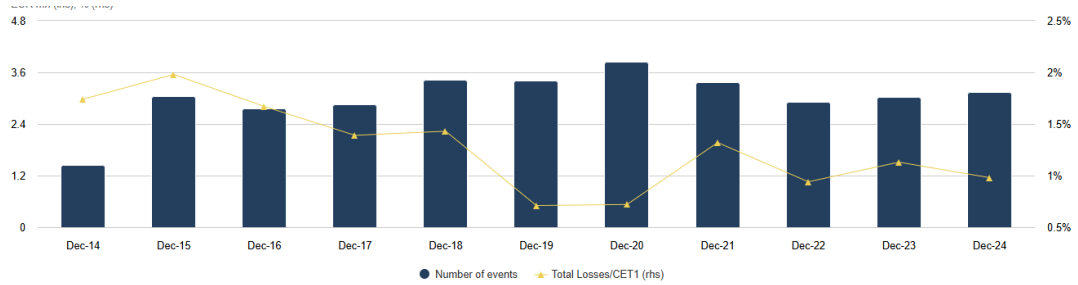
[56] See EBA Consumer Trends Report 2024/25, March 2025.

[57] Social engineering refers to techniques used by criminals to exploit a person's trust in order to make the payment services users authorising the payment orders issued.

The number of loss events is growing, while materialised losses have reduced

At approximately 3.1 million events according to EBA supervisory reporting data, the total number of loss events EU banks reported in 2024 continued on an increasing trend, rising by 3.7% compared to 2023 (Figure 65). The impact of losses related to operational risk has nevertheless decreased. Total materialised losses from new operational risk loss events and loss adjustments relating to previous periods reached EUR 15.9 bn in 2024 and decreased by approximately 9% compared to 2023. The decreasing volume of new operational risk losses amid an increasing number of loss events might indicate a lesser direct financial impact from rising operational risk. The amount of total losses from new operational risk loss events and loss adjustments relating to previous reporting periods as a share of CET1 capital decreased to 1.0% in 2024, from 1.1% in 2023 (Figure 65). The decrease in the ratio was largely driven by lower operational risk loss amounts reported in 2024 than in 2023.

Figure 65: Number of new operational risk events over time and total losses in operational risk as a share of CET1[58]



Source: EBA supervisory reporting data

Going forward, increased fraud risks, high cyber risk and continued high conduct risk may lead to additional materialising losses. Further future losses might arise and could add in the coming year to losses that have already been recognised. These might, for example, relate to ICT failures or successful cyber-attacks. A possible materialisation of an increasing fraud risk might further add to losses. The increasing number of operational risk events should therefore remain an issue of concern for the banking sector.

6.2 Digitalisation and ICT-related risks

Cyber and ICTrelated risk as well as data security are by far the most prominent driver of operational risk for banks as the digital transformation advances further. Reliance on digital and ICT solutions amid a constantly evolving cybersecurity threat landscape with further increasing sophistication of threats are resulting in a high risk exposure for banks, including vulnerability to sophisticated cyber-attacks. As a related risk, 38% of respondents in the RAQ also point to ICT failures as a main driver of operational risk. Reflecting ICT risk, supervisory reporting points to strongly increasing losses at banks in new IT risk events in 2024. Losses increased to approximately EUR 6.5 bn in 2024,

[58] Gross loss amount from new events and loss adjustments relating to previous reporting periods.

compared to approximately EUR 2.8 bn in 2023. Reported losses in new IT risk events are at their highest level since 2020 (approximately EUR 6.7 bn), when risks where heightened in the pandemic.

Banks are a key target of cyber threats

The European Union Agency for Cybersecurity (ENISA) observes a notable escalation in cyber threats and attacks for the financial sector in the latter part of 2023 and the first half of 2024, during a time of rising geopolitical tensions. ENISA considers ongoing regional conflicts globally as a significant factor shaping the cybersecurity landscape. Banks were most frequently affected by publicly reported cyber incidents affecting the finance sector in Europe[59]. The financial sector saw peaks in distributed denial-of-service (DDoS) activity linked to geopolitical events, particularly Russia's aggression against Ukraine. 'Hacktivists' targeted banks (58% of publicly reported incidents), notably causing operational disruptions[60]. Data breaches and leaks remained prominent issues, and threat actors exploited vulnerabilities for financial gain through fraud, supply chain attacks, and social engineering. European banks were the primary targets (39% of publicly reported incidents), with incidents leading to financial losses and reputational damage.

Regulators have responded to cyber risks with initiatives such as the Digital Operational Resilience Act (DORA) which started applying from January 2025, enhancing and harmonising requirements on operational resilience for financial entities. Within DORA, the effective management of ICT-related incidents is an essential component, as it can help identify threats and address vulnerabilities. Supervisors report the major ICT-incidents received by financial entities to the EBA and the other European Supervisory Authorities (ESAs), which assess them and then share them with authorities of other Member States in case the incident has a cross-border impact. During the first four months of reporting in 2025, the EBA received reports on more than 1 200 incidents, affecting mostly IT systems, payment services and online banking. The EBA and the other ESAs have also established a pan-European Systemic Cyber Incident Coordination Framework (EU-SCICF), as an operational framework set up to facilitate communication and coordination among EU authorities and to liaise with other key stakeholders at EU/international level, in case of cyber incidents posing a risk to financial stability.

Vulnerability to cyber-attacks is high

Observations of further increasing cyber threats in 2024 are highlighted by RAQ responses. 58% of banks noted that they had been victim of at least one cyber-attack in the second half of 2024, compared to 55% in the first half of 2024. While the share of banks having been victim to up to ten cyber-attacks slightly increased since 2023, to 48% now, the share of banks falling victim to more than 10 cyber-attacks has further increased to 10% in the second half of 2024 (from 8% in the first half), and confirms escalating cyber threats ENISA has observed.

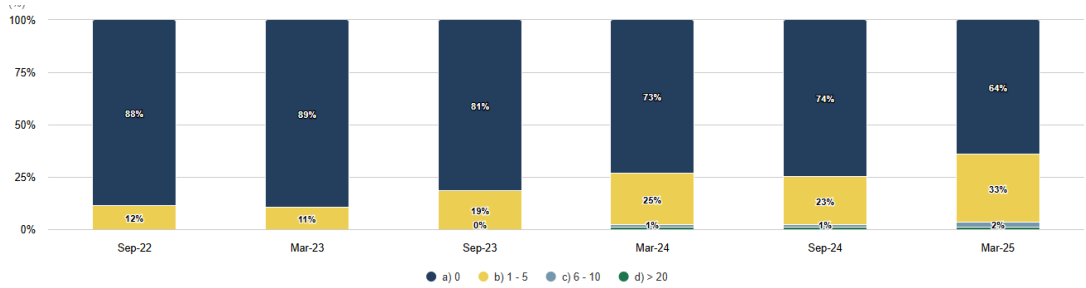
RAQ responses also suggest that, amid a growing volume and frequency of cyber-attacks, the share of responding banks having faced at least one successful attack which resulted in an actual major

[59] See ENISA Thread Landscape for the Finance Sector, March 2025.

[60] Hacktivists would, for instance, include individuals hacking or breaking into computer and data systems for politically or socially motivated purposes.

ICT-related incident strongly increased (Figure 66). One third of banks faced at least one successful cyber-attack in the second half of 2024, compared to 24% in the first half. 3% of banks faced a high number of at least six successful attacks (2% in the first half of 2024). The share of banks which did not experience a successful attack also decreased from 75% in the first half of 2024 to 65% in the second half.

Figure 66: Number of successful cyber-attacks resulting in 'major ICT-related incidents' in the last semi-annual assessment period[61]



Source: EBA Risk Assessment Questionnaire

These figures confirm that the scope, sophistication and impact of successful cyber-attacks across the banking system have increased further. Information of cyber-attacks might moreover not yet be fully reported to competent authorities concerned and my not reflect the full scope of threats. A shortage of adequate resources and skills at banks and supervisors to address cybersecurity challenges add to vulnerabilities and are not least driven by a more general shortage of such skilled resources on the labour market. Further investments in ICT, ICT security, and in related skills – including to increase attractiveness of related positions at banks – are very important while vulnerability to cyber-attacks remains high. Levels of sophistication of threats are expected to increase further, not least driven by growing use of AI. However, at the same time AI could also be a tool to for instance address cyber threats.

6.3 Financial crime risk

The high number of cases of money laundering (ML) and terrorist financing (TF) involving European banks in the past had caused reputational and financial damage to the banking sector and affected the integrity of the EU/EEA financial system. In response to these cases, and following the adoption of a comprehensive legislative package to aimed at strengthening the EU's legal and institutional framework on AML and counter terrorist financing (CTF), financial institutions and competent authorities have stepped up their efforts to identify and address weaknesses to address ML/TF, and to apply appropriate supervisory measures[62]. This progress may be reflected in slightly lower significance that banks attribute to ML/TF risks when asked about key operational risks, with 11%

[61] This relates to an ICT-related incident with a potentially high adverse impact on the network and information systems that support critical functions of the financial entity (Article 3(7) DORA).

[62] Report on NCAs approaches to the supervision of banks with respect to AML/CFT, December 2024.

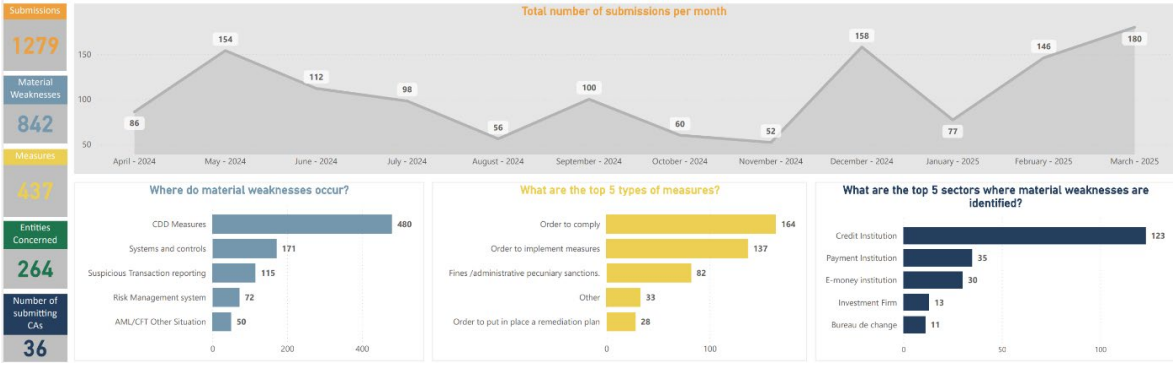
agreement in spring 2025, compared to 16% two years ago. The number of reported serious deficiencies with regard to AML/CFT weaknesses is nevertheless high (Figure 67).

Risks related to the implementation of restrictive measures and sanctions continue to be a priority for banks. According to the RAQ, risks related to customers' transactions received from, or sent to, jurisdictions that are subject to international sanctions remain the most relevant financial crime risks for 32% of banks, although with a decreasing trend. Also, risks related to customers' transactions received from, or sent to, jurisdictions where groups committing terrorist offences are known to be sources of terrorist financing have strongly increased, with 29% agreement compared to 13% in autumn 2024. Risks related to customers whose activities or leadership are publicly known to be associated with extremism or terrorism have strongly increased, too.

Reporting of AML/CFT weaknesses through EuReCA

From 1 April 2024 to 31 March 2025, 36 national competent authorities and the ECB reported to EuReCA, the EU's central database for AML/CFT, 1279 serious deficiencies, or 'material weaknesses', that they had detected in credit and financial institutions exposing them to ML/TF risks[63]. Most reports concerned credit institutions, followed by an increase in deficiencies detected in payment institutions and e-money institutions. Most relevant types of material weakness reported during the 12 months period ending in March 2025 were related to institutions' approaches to customer due diligence (CDD), followed by situations related to system and controls, and by suspicious transaction reporting. The most common measures in response to material weaknesses reported by competent authorities were orders to correct the deficiencies, followed by fines and administrative pecuniary sanctions (Figure 67).

Figure 67: Financial crime risks, April 2024–March 2025



Source: European reporting system for material CFT/AML weaknesses (EuReCa)

6.4 Further legal and reputational risk

Conduct and legal risk beyond risks related to ML/TF and of non-compliance with sanctions is the third most relevant operational risk to RAQ respondents. 45% of RAQ respondents consider it as the main operational risk, a slightly decreasing share in the past two years (51% in spring 2023).

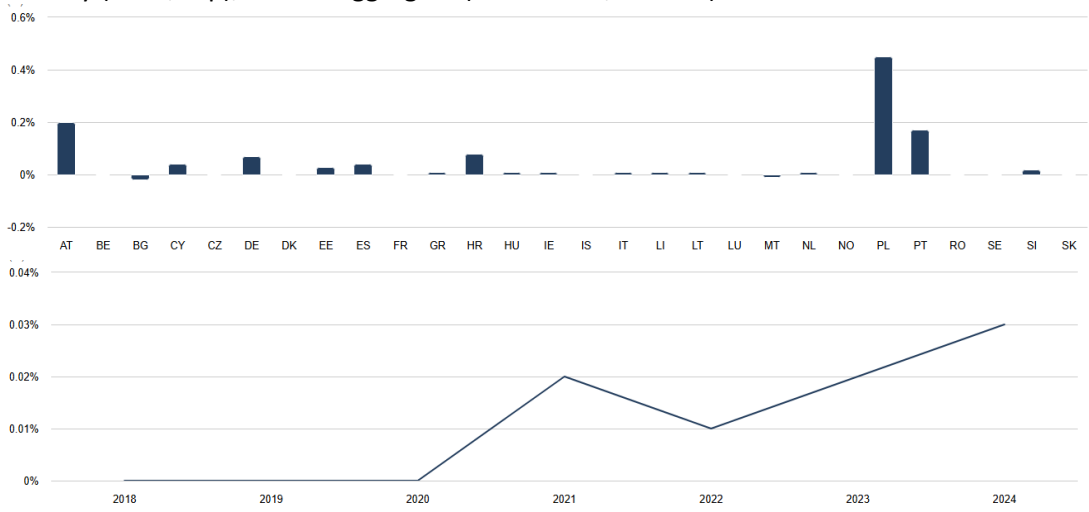
[63] See further explanations on the European reporting System for material CFT/AML weaknesses.

Legal and reputational risks go beyond those related to digitalisation and ICT-related risks, and include, for example unethical business practices, and mis-selling of financial products. Going forward, litigation as well as reputational risks may also affect banks in breach of climate-related targets as agreed with competent authorities and as banks are integrating ESG factors in their business. For example, litigation risks related to greenwashing and to financing of 'brown' fossil sectors have increased. Looking ahead, concerns about potentially continuing unidentified misconduct persist. Misconduct costs come in addition to other operational risks and associated costs banks are facing and can indirectly affect banks' ability to extend lending. At a systemic level, misconduct can, moreover, undermine trust in the banking system and the proper functioning of the financial system.

Increasing provisions for legal and conduct risk

Data indicate that banks continued to substantially increase their provisions for legal and conduct risk in 2024. Net changes in provisions due to pending legal issues and litigation measured as a share of total assets were at approximately 3.3 bps in December 2024, substantially higher than in December 2023 and December 2022 (at close to 1.9 bps and 1.3 bps, respectively). Considering the relevance of conduct and legal risk, such higher net changes in provisions due to pending legal issues and litigation appear adequate and may point to expectations of further arising redress costs (Figure 68).

Figure 68: Net provisions for pending legal issues and tax litigation as a share of total assets by country (2024, top), and EU aggregate (2018–2024, bottom)



Source: EBA supervisory reporting data

Box 5: Links between EU/EEA banks and digital assets

In recent periods, the cryptocurrency markets have undergone a rapid evolution. Concurrent with this development, the underlying technology has emerged as a potential opportunity for financial institutions to facilitate transactions through distributed ledger technology (DLT), offer tokenised products, or provide services related to these assets. EU/EEA banks have made advancements with regard to their engagement with digital assets, which at the same time requires a proper reflection in their risk management going forward. Different banks formulated various strategies for

incorporating these assets into their business models as well as service and product offerings. This encompasses the potential to offer a variety of services and to provide traditional banking – institutional and retail – clients with access to the emerging landscape of digital assets.

Some sorts of digital assets fall in scope of long-standing EU financial services regulation. For instance, activities involving tokenised financial assets continue to be regulated by MiFID and associated regulatory measures applicable to the securities markets sector. Other types of digital assets are more novel and relevant activities, such as issuance and service provision, are now regulated pursuant to the markets in crypto assets regulation (MiCA). These include so-called stablecoins in the form of electronic money tokens (EMTs) and asset-reference tokens (ARTs). EMTs are crypto assets that are designed to maintain a stable value by referencing a single official currency. A number of EU/EEA banks have already begun offering their own EMTs.

Other banks are exploring options to internally develop/utilise tokens to facilitate settlements of wholesale payments between institutional clients under private enterprise-focused blockchain platforms[64]. In the current financial landscape, some banks are also collaborating with digital enterprises to cultivate and disseminate specialised knowledge in the domains of cryptocurrency management, tokenised assets, and digital currencies. These collaborative endeavours encompass the facilitation of the issuance, custody, and redemption of tokens.

Some banks have begun to offer consumer-facing services, such as custodian wallet provision and facilitating customer cryptocurrency trading. These applications have the potential to be widely utilised by retail customers. The EBA's 2025 spring edition of the RAQ shows that banks are prioritising more crypto-related services for their clients, with custody and administration topping the list, followed by receiving and executing trading orders on behalf of their clients, whereas issuance and placing of crypto assets tends to be of less relevance.

Currently a de minimis number of banks are engaged in activities that result in direct exposure to digital assets, including in derivative format[65]. As the markets for crypto assets continue to expand, there is an increasing probability of greater interconnection with the traditional financial sector. As evidenced by the recent developments in the EU/EEA banking sector, traditional market participants are developing close relationships and new business lines with/in the digital assets market.

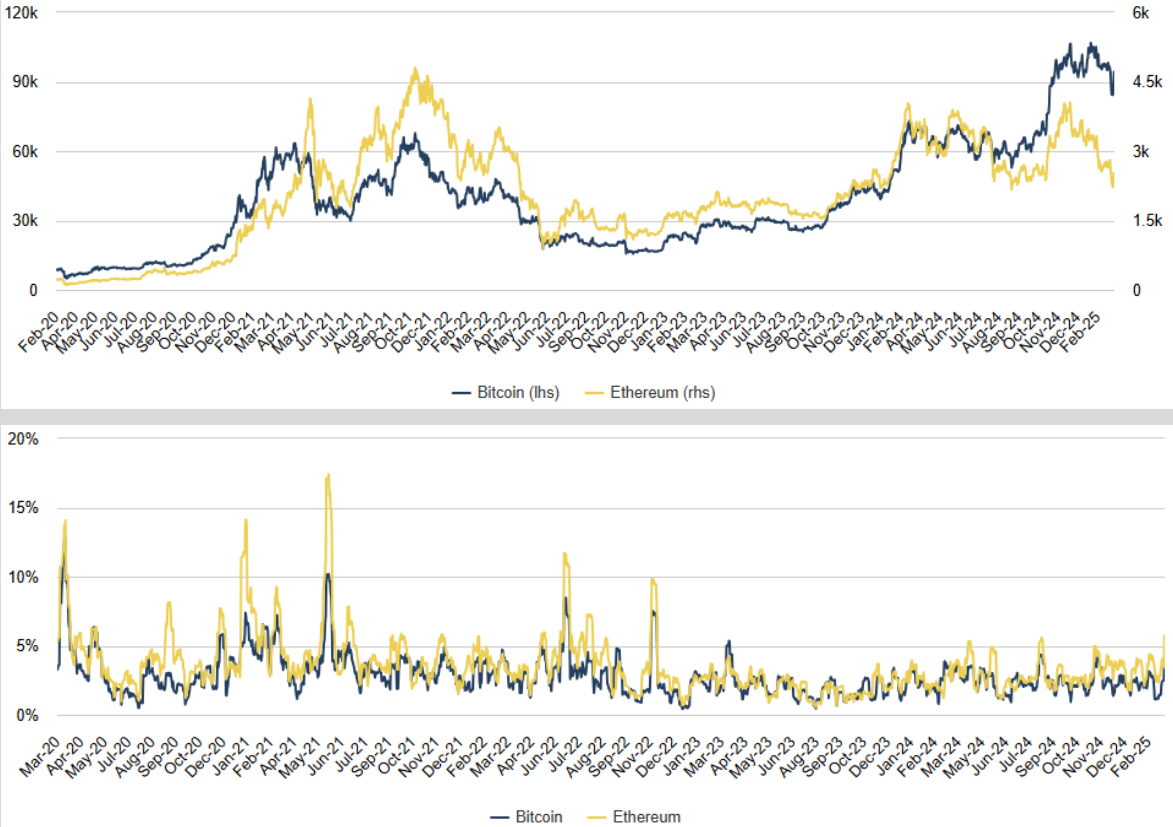
Such new services and products also entail risks for banks, which vary depending on the type of digital asset, and type of activities involved. This could also bring potential implications for both individual and institutional investors as well as banks themselves, depending on their level of involvement. Two major risks related to these new services and products are market and operational risks. While EMTs and ARTs demonstrate stability, some digital assets prices exhibit volatility because their values are not backed by any underlying assets. Their values follow supply and demand dynamics which can result in significant volatility. Data show that a period of

[64] A sample of selected references includes for instance, Banking Circle launches the first bank-backed MiCA-compliant stablecoin, EURI - Banking Circle, Standard Chartered granted licence in Luxembourg to offer digital asset custody services | Standard Chartered.

65 Examples for instance include Taurus Blog - Deutsche Bank and Taurus Sign a Global Partnership, BBVA to explore the potential of tokenized money through Visa's new Tokenized Asset Platform, N26 launches new cryptocurrency trading product, N26 Crypto, in Germany, Switzerland, Belgium, Portugal, and Ireland, and Italy's Intesa 'tests' bitcoin with 1 mln euro investment | Reuters.

heightened volatility ensued at the onset of 2020, with Ethereum surpassing Bitcoin while from the second quarter of 2023 the volatility for both digital assets declined (Figure 69).

Figure 69: Evolution of Bitcoin and Ethereum daily prices (top), Bitcoin and Ethereum 10 days rolling volatility (bottom)



Source: Reuters

On the operational risk side, both digital assets and the providers of them are for instance subject to infrastructure related risk – blockchain unexpected failure, smart contract bugs; cybersecurity risk such as hacks and data breaches or private keys management. A recent big event which is estimated to be the largest crypto loss in history concerns a cryptocurrency exchange which reported in February an unauthorised activity within one of the Ethereum Wallets resulting to a loss of over USD 1.4 bn worth of Ethereum[66]. If these or other operational incidents happen at banks, they can have a negative impact on their reputation, including clients' and investors' confidence.

In conclusion, few European banks seem to be beyond the exploratory phase in terms of digital asset activities. However, it should be noted that this activity also entails certain risks. The overall impact on the risk of the EU/EEA banking system of any uptick in their engagement in digital assets will depend on the nature of banks' activities undertaken and the nature of digital assets to which institutions gain any direct or indirect exposures. Therefore, a diligent approach by banks and supervisors is needed, to ensure that banks follow robust risk management practices.

66 See Bybit Announcement – Incident Update: Unauthorised Activity Involving ETH Cold Wallet.

7. Deep dive on selected liquidity related considerations

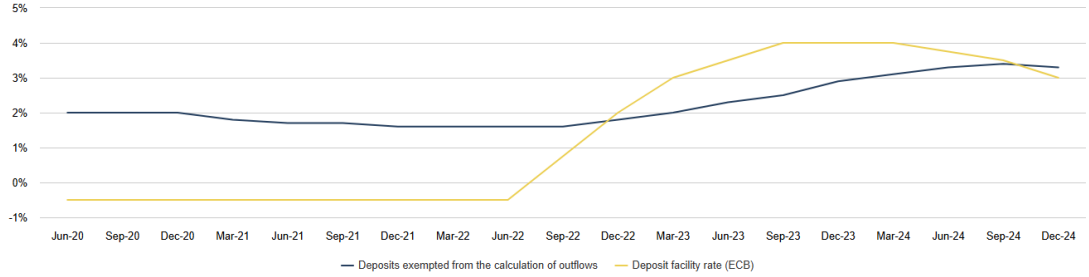
Chapter 3.4 covers general trends and developments on the LCR and NSFR. In contrast, the following two sub-chapters provide a more in-depth analysis focussing specifically on LCR-related topics, which have been of particular interest in explaining some of the general trends and developments described above. Chapter 7.1 covers how the LCR trend in recent years has been influenced by the development of customer deposits, which has been driven by the prevailing interest rate environment. Chapter 7.2 tries to make a link between general market liquidity and its impact on banks' LCRs and, in particular, their liquidity buffers. The chapter concludes that the decline in market liquidity requires banks to manage their liquidity buffers more cautiously.

7.1 The role of deposits exempted from the calculation of the outflows in the evolution of EU banks' LCR

Looking back to 2023, although banks reported a decline in their HQLAs (i.e. the numerator of the LCR), this was more than offset by a drop in the LCR net outflows (i.e. the denominator of the LCR) leading to a rise in LCR. The decline in net outflows was to a large extent explained by an increase in deposits that are exempted from the calculation of the outflows, including certain categories of term deposits (Figure 70). It is assumed that the attractiveness of term deposits increased in parallel with higher interest rates, and it was largely responsible for the more than 60% annual increase in exempted deposits reported in 2023. This increase put downward pressure on the outflows from retail deposits (pre-weight), which was the category of outflows that fell by most in 2023, contributing to an annual increase in the LCR by 4 p.p..

In 2024, the trend in exempted deposits, including term deposits, reversed after the EU central banks widely began to lower their policy interest rates due to decreasing inflationary pressures. This was, accordingly, reflected in the evolution of exempted deposits, which initially stabilised and during the second half of 2024 started to shrink. This contributed to an increase in the outflows from retail deposits that are part of the LCR's denominator (pre-weight), and to a decrease in the LCR ratio in 2024.

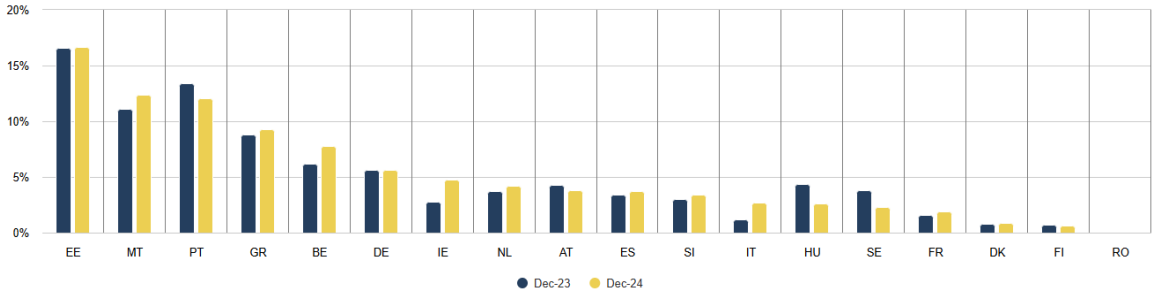
Figure 70: Evolution of deposits exempted from the calculation of outflows (% of total assets) vs ECB deposit facility rate



Source: EBA supervisory reporting data, ECB

Examining the evolution of exempted term deposits by country, it is observed that for 6 out of 17 countries, these deposits decreased. Meanwhile, the proportion for the remaining countries remained broadly stable. In percentage of total assets, the proportion of deposits exempted from the calculation of the outflows shows significant heterogeneity across Member States. As of December 2024, the shares range from 0.6% in Finland to 16.7% in Estonia of total assets, which also reflect the relevance of deposits in banks' overall funding mix in several cases (on deposit mix, see Chapter 3.1).

Figure 71: Deposits exempted from the calculation of outflows (% of total assets), breakdown by country



Source: EBA supervisory reporting data

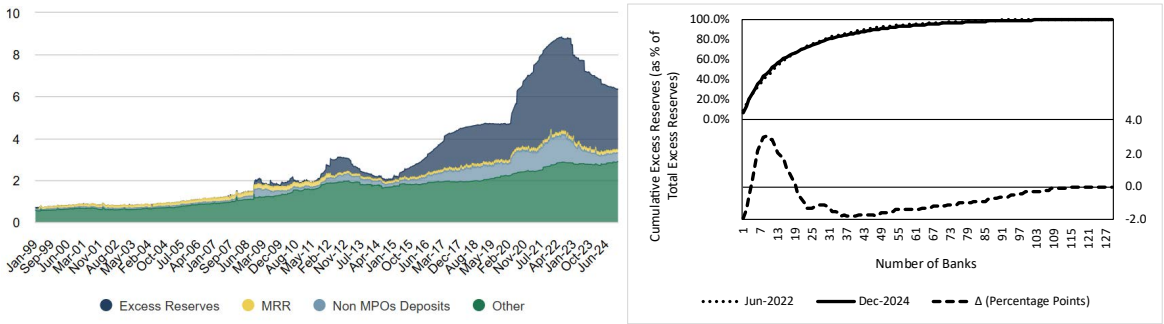
7.2 The impact of lower excess reserves on EU banks' liquidity ratios and liquidity management

Since the aftermath of the GFC, major central banks have actively used liquidity tools to steer financial conditions. These tools were initially introduced to produce credit easing and to safeguard financial stability (e.g. the Federal Reserve's QE1 and QE2 programmes and the ECB's three-year long-term refinancing operations (LTRO) programmes), and later on to support central banks' price stability mandates (e.g. the Federal Reserve's QE3 and the ECB's and the Swedish Riksbank's asset purchase programmes). Finally, during the COVID-19 pandemic, large-scale liquidity-providing measures were deployed to protect the financial system in the extraordinary stress situation. After the pandemic crisis, central banks started to gradually shrink their balance sheets by terminating the long-term liquidity operations and/or allowing purchased assets to mature without reinvestments.

From banks' perspective, central bank reserves are held to satisfy the mandatory minimum reserve requirements (MRRs). Additionally, banks may hold reserves in excess of their MRRs, either as 'voluntary reserves' or as 'involuntary reserves'. 'Voluntary reserves' are those that banks choose to hold above the required minimum, often for purposes such as liquidity risk management, regardless of how they were acquired (e.g. through central bank operations). The term refers to the intention to hold reserves, not the method of acquisition. 'Involuntary reserves' arise when banks accumulate reserves passively, for example, when they receive payments from the central bank in exchange for assets sold during open market operations. Either way, reserves are the most liquid component of Level 1 HQLA assets for banks. Until today, the abundance of excess reserves has allowed EU banks to report LCR ratios well above the 100% minimum requirement, and many banks may also have felt encouraged to reduce their holdings of other Level 1 and Level 2 HQLA assets given the large amounts of reserves in the system. With the central banks now gradually draining excess reserves, banks have had to start managing their HQLA portfolios more actively to ensure that they can satisfy their minimum liquidity coverage ratios even in a world of permanently lower reserves.

In the EA, excess reserves currently stand at around EUR 2.9 tn, a decline of almost 40% compared to the peak amount in 2022. The concentration of reserves in the banking system increased after the repayments of the TLTRO funds and the elimination of the related voluntary excess reserves since 2022. The excess reserves are concentrated in a limited number of mostly large lenders in the EA, whereas a majority of mostly small and medium-sized banks hold relatively small amounts of reserves in excess of their MRRs (Figure 72).

Figure 72: EA aggregate development of excess reserves, over time (EUR tn, left) and EU/EEA banks' cumulative excess reserves[67] and p.p. change between June 2022 and December 2024 (right)



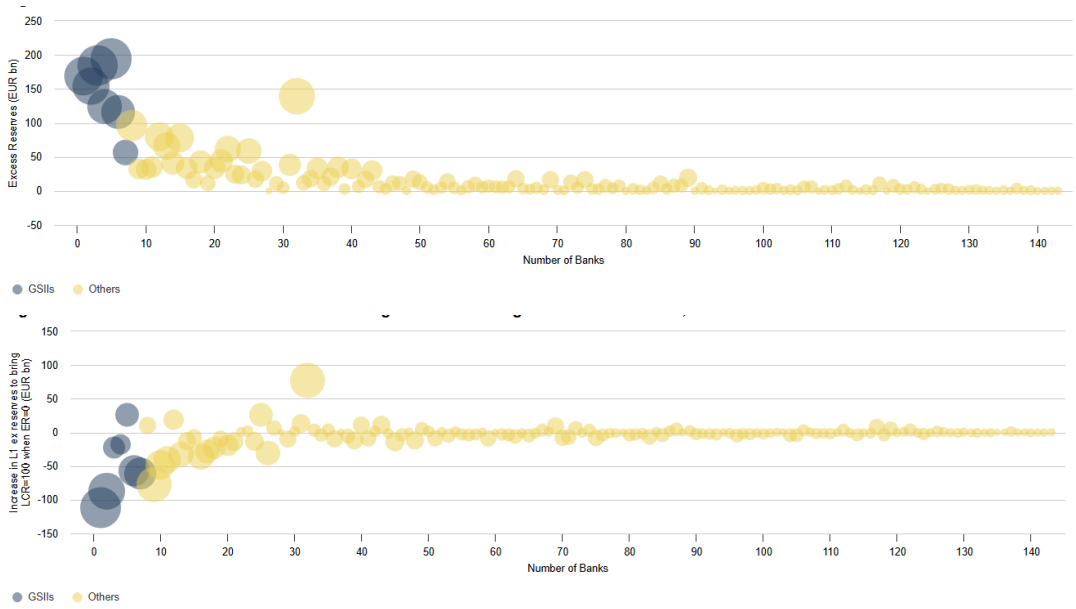
Source: ECB and EBA calculations (top) and EBA supervisory reporting data (bottom)

In a hypothetical scenario in which all excess reserves would be withdrawn from the system and the LCR outflow rates remained constant, banks would have to rely on alternative HQLA assets to meet their LCR requirements. Most banks already hold sufficient HQLAs even in the absence of excess reserves, but a few banks would breach their LCR requirements (the banks with negative numbers on the y-axis in Figure 73 bottom panel). These lenders would have to acquire primarily Level 1 HQLA components (such as government bonds or central bank reserves) rather than relying heavily on Level 2 assets to restore their 100% LCR minima. In the EA, a recent rise in volumes of term repo operations with maturities beyond 30 days suggests that banks may be seeking to

[67] Cumulative excess reserves denote a measure of concentration of excess reserves

improve their LCR ratios by exchanging Level 2 or non-HQLA assets for Level 1 assets in transactions that do not affect outflow rates[68].

Figure 73: EU/EEA banks' excess reserves (top) and EU/EEA banks' increase in L1 excluding reserves to bring LCR=100 when ER=0 (bottom), December 2024



Source: EBA supervisory reporting data

Aside from the prudential liquidity considerations, a reduction in central bank reserves also means that banks will have to manage their liquidity buffers more actively to ensure that they can meet their short-term financing needs. As reserves in the system will in the future be merely 'ample' and no longer 'abundant' as they are today, banks will have to increasingly cover their short-term liquidity needs by borrowing either from the central banks' regular refinancing operations or from the secured money markets. To ensure a smooth transition to a state where central bank reserves are permanently lower, and to avoid volatility spikes in the overnight interest rates as banks' activities in the money market increase, it is important for the banks, central banks and supervisors to anticipate when the aggregate liquidity conditions are likely to switch from 'abundant' to 'ample'. There are signs that EU banks are already making such preparations, as seen in increased sovereign bond holdings and greater activity in the term repo markets beyond 30 days' maturity. In those transactions, banks can pledge non-HQLA eligible collateral to obtain stable funding or transform it into HQLA assets, without triggering LCR outflows due to the longer maturities.

As EU banks will need to pay more attention to their liquidity requirements and liquidity management in the future, they may face new types of trade-offs between liquidity requirements and existing capital and resolution constraints. It is therefore important that banks and their supervisors monitor the situation carefully and plan for the new liquidity environment by proactively identifying pressure points that may arise from individual banks' business models and balance sheet structures.

[68] On the rise of term repos volumes see the ECB blog post on the 'The first year of the Eurosystem's new operational framework' from April 2025.

8. Policy conclusions and suggested measures

Geopolitical risks impact various aspects of banks' operations. It is important to incorporate these risk considerations into business processes and risk assessments. With ongoing deep geopolitical uncertainties, including trade and tariff uncertainties, banks need to use scenario analysis and planning. They should have proper risk management capacities in place to address potential unexpected short-term challenges, particularly sudden changes that can materialise through many channels, such as market corrections, credit, liquidity and operational risks, but also dependencies on service providers from third countries.

Maintaining operational resilience in a fast changing and uncertain geopolitical and technological environment is a key challenge. As cyber-attack vulnerabilities grow, banks must continue investing in advanced cybersecurity measures and attracting sufficiently skilled resources. This includes exploring opportunities to use technology, including AI, to address challenges. Further efforts are also needed to address fraud risk, which has increased strongly in recent years, often facilitated technology-driven fraudulent activities as fraudsters have adopted sophisticated techniques in response to prevention of conventional attack vectors. Sanctions need to be managed properly, too.

The provision of new lending remains important going forward to support economic growth. Robust and prudential underwriting practices are key to ensuring adequate lending terms, including loan pricing, and including the consideration of rising geopolitical risks. This would not least accompany government supported investment programmes in areas like ESG related financing. Banks may also need to contribute to increased defence financing needs in Europe by financing defence-related infrastructure, R&D and innovation, as well as providing related direct corporate lending. Amid a rising bank-sovereign nexus banks also need to cautiously manage respective exposures. As NBFI links remain a key concern within increasingly volatile markets, respective exposures need to be managed cautiously. Proactive management of asset quality is important. Proper identification of potentially defaulting counterparties and adequate provisioning is on the forefront of credit risk management. Geopolitical events may also affect banks' credit risk through direct exposures, or second-round effects affecting borrowers, and third-round effects through wider macroeconomic impacts. These may occur either simultaneously or over time via various risk types.

Market funding has lately become more challenging amid heightened volatility with higher yields in an uncertain market environment. As banks ambitiously plan to increase their market-based funding and increase debt issuance volumes, they need to use windows of benign market conditions for their issuances and be flexible while funding costs are heightened. This applies in particular for issuing covered bonds, where issuance volumes have reduced in recent months, but issuance plans are high. Although central bank funding continued to decrease, it will also be important that banks maintain sufficient eligible collateral available, if need be, including considering that rising yields or deteriorating asset quality could affect the value and the pool of

eligible assets. It is also important that banks pay additional attention to liquidity management and requirements in an uncertain market environment and maintain adequately high liquidity positions, including in foreign currencies.

Although rising profits in recent years and internal capital generation allowed for ample buffers to cushion against potential upcoming challenges, capital buffers need to be managed cautiously going forward. As part of their capital planning, banks should ensure their ability to serve the economy throughout the cycle and pursue their business model while fulfilling capital requirements. Dividend payments ensure not least investor interest and confidence but also need to be managed cautiously if they contribute to a major depletion of capital buffers amid geopolitical and economic risks. While providing a useful method for managing capital ratios and increasing lending capacity, it is important that SRTs are used cautiously. This helps to prevent creating connections within the financial sector that could intensify adverse feedback loops during a significant crisis.

Banks have so far managed to keep their profitability levels well above those of the last decade despite rising pressure from lower interest rates and increasing macroeconomic uncertainty. Banks should ensure they maintain a healthy and sustainable revenue mix while managing operational expenses and impairment provisions effectively, also given the potential need for additional provisions as a result of heightened geopolitical risks. This comes in parallel to major challenges from expenses related to ongoing ICT investments as well as highly competitive pressure from other players, for example FinTechs. The introduction of CBDCs may present technological challenges as well as potential implications for banks' profitability.

M&A should help to achieve more integration at EU/EEA level if prudential, economic and competition considerations are fulfilled. M&A is also a means to enhance and strengthen profitability, incl. through ensuring a healthy revenue mix but also revenue and cost synergies. It may also serve as a strategy to establish banks that are globally competitive and can support European businesses internationally. However, risks related to any such transaction need to be considered cautiously.

EU/EEA banks' exposures to digital assets have so far been low. However, there seems to be increasing interest among EU/EEA banks in digital assets, with a particular emphasis on custody services. Any services related to, as well as direct or derivative own exposure to such digital assets may entail market and operational risks, for example, and require effective risk mitigation as part of EU/EEA banks' broader risk management. It is paramount that banks follow a particularly diligent approach when doing any business in crypto markets, including having robust risk management procedures and techniques for this new kind of business.

Management of ESG related risks remains important going forward. These risks will increasingly materialise. It is essential for institutions to integrate ESG risks into their regular risk management and strategic processes to properly capture these risks as part of an integrated approach. While institutions have made progress in measuring and assessing climate-related risks and incorporating climate risk factors into credit risk models, they must also develop tools and practices that address broader environmental risks beyond those specifically related to climate.

Annex 1: Sample of banks

List of banks that made up the sample population for supervisory reporting and the RAQ: [69]

Name	Country	Risk Indicators	Funding Plans	RAQ, Spring 2025
BAWAG Group AG	Austria	X	X	X
Erste Group Bank AG	Austria	X	X	X
Raiffeisen Bank International AG	Austria	X	X	X
Raiffeisenbankengruppe OÖ Verbund eGen	Austria	X	X	
Raiffeisen-Holding Niederösterreich-Wien registrierte Genossenschaft mit beschränkter Haftung	Austria	X	X	
UniCredit Bank Austria AG	Austria	X	X	
VOLKSBANK WIEN AG VB	Austria	X	X	
Belfius Bank	Belgium	X	X	X
BNP Paribas Fortis	Belgium	X	X	
Crelan	Belgium	X	X	X
Euroclear Holding	Belgium	X		
Investeringsmaatschappij Argenta - Société d'investissements Argenta - Investierungsgesellschaft Arg	Belgium	X	X	
KBC Groupe	Belgium	X	X	X
The Bank of New York Mellon	Belgium	X	X	
DSK Bank AD	Bulgaria	X	X	X
First investment Bank AD	Bulgaria			X
UniCredit Bulbank AD	Bulgaria	X	X	
United Bulgarian Bank AD	Bulgaria	X	X	
Erste&Steiermärkische Bank d.d.	Croatia	X	X	
Privredna Banka Zagreb d.d.	Croatia	X	X	X
Zagrebačka banka d.d.	Croatia	X	X	X
Bank of Cyprus Holdings Public Limited Company	Cyprus	X	X	X
Eurobank Cyprus Ltd	Cyprus	X	X	
Hellenic Bank Public Company Ltd	Cyprus	X	X	X
The Cyprus Development Bank Public Company Ltd	Cyprus	X		
Česká spořitelna, a.s.	Czechia	X	X	X
Československá obchodní banka, a.s.	Czechia	X	X	X

[69] The sample of banks is regularly adjusted to take into account bank-specific developments; for example, banks that ceased activity or underwent a significant restructuring process are not considered further. Not all banks are subject to all reporting requirements (e.g. those for FINREP, funding plan data). The list of banks that are the basis for the risk indicators refers to the sample of banks used to calculate the Q4 2024 indicators. The list of reporting institutions is available on the EBA website.

Komerční banka, a.s.	Czechia	X	X	X
Danske Bank A/S	Denmark	X	X	X
Jyske Bank A/S	Denmark	X	X	X
Nykredit Realkredit A/S	Denmark	X	X	X
AS LHV Group	Estonia	X	X	X
AS SEB Pank	Estonia	X	X	
Luminor Holding AS	Estonia	X	X	X
Swedbank AS	Estonia	X	X	
Kuntarahoitus Oyj	Finland	X	X	
Nordea Bank Abp	Finland	X	X	X
OP Osuuskunta	Finland	X	X	X
Banque centrale de compensation	France	X		
BNP Paribas	France	X	X	X
BofA Securities Europe SA	France	X	X	
Bpifrance	France	X	X	
Confédération Nationale du Crédit Mutuel	France	X	X	X
Groupe BPCE	France	X	X	X
Groupe Crédit Agricole	France	X	X	X
HSBC Continental Europe	France	X	X	
La Banque Postale	France	X	X	X
RCI Banque	France	X	X	
SFIL S.A.	France	X	X	
Société générale S.A.	France	X	X	X
ATLANTIC LUX HOLDCO S.A R.L.	Germany	X		
Bayerische Landesbank	Germany	X	X	X
Citigroup Global Markets Europe AG	Germany	X	X	
Commerzbank Aktiengesellschaft	Germany	X	X	X
DekaBank Deutsche Girozentrale	Germany	X	X	
DEUTSCHE APOTHEKER- UND ÄRZTEBANK EG	Germany	X	X	
DEUTSCHE BANK AKTIENGESELLSCHAFT	Germany	X	X	X
Deutsche Pfandbriefbank AG	Germany	X	X	
DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main	Germany	X	X	X
Erwerbsgesellschaft der S-Finanzgruppe mbH & Co. KG	Germany	X	X	
Goldman Sachs Bank Europe SE	Germany	X	X	
Hamburg Commercial Bank AG	Germany	X	X	
HASPA Finanzholding	Germany	X	X	
J.P. Morgan SE	Germany	X	X	
Landesbank Baden-Württemberg	Germany	X	X	X
Landesbank Hessen-Thüringen Girozentrale	Germany	X	X	X
Morgan Stanley Europe Holding SE	Germany	X	X	
Münchener Hypothekenbank eG	Germany	X	X	

Norddeutsche Landesbank - Girozentrale -	Germany	X	X	X
State Street Europe Holdings Germany S.a.r.l. & Co. KG	Germany	X	X	
UBS Europe SE	Germany	X	X	
Volkswagen Financial Services AG	Germany	X		
Wüstenrot Bausparkasse Aktiengesellschaft	Germany	X	X	
Alpha Services and Holdings S.A.	Greece	X	X	X
Eurobank Ergasias Services and Holdings S.A.	Greece	X	X	X
National Bank of Greece, S.A.	Greece	X	X	X
Piraeus Financial Holdings	Greece	X	X	X
Kereskedelmi és Hitelbank csoport	Hungary	X	X	
MBH bankcsoport	Hungary	X	X	X
OTP-csoport	Hungary	X	X	X
Arion banki hf	Iceland	X	X	X
Íslandsbanki hf.	Iceland	X	X	
Landsbankinn hf.	Iceland	X	X	X
AIB Group plc	Ireland	X	X	X
Bank of America Europe Designated Activity Company	Ireland	X	X	
Bank of Ireland Group plc	Ireland	X	X	X
Barclays Bank Ireland plc	Ireland	X	X	
Citibank Europe plc	Ireland	X	X	X
Banca Mediolanum S.p.A.	Italy	X	X	
Banca Monte dei Paschi di Siena S.p.A.	Italy	X	X	X
Banca Popolare di Sondrio S.p.A.	Italy	X	X	
Banco BPM S.p.A.	Italy	X	X	X
BPER Banca S.p.A.	Italy	X	X	X
CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANOSOCIETA' PER AZIONI (IN SIGLA CASSA CENTRALE BANCA)	Italy	X	X	
Credito Emiliano Holding S.p.A.	Italy	X	X	
FINECOBANK S.p.A.	Italy	X		
Iccrea Banca S.p.A	Italy	X	X	X
Intesa Sanpaolo S.p.A.	Italy	X	X	X
Mediobanca - Banca di Credito Finanziario S.p.A.	Italy	X	X	
Unicredit S.p.A.	Italy	X	X	X
Akciju sabiedrība "Citadele banka"	Latvia	X	X	
AS "SEB banka"	Latvia	X	X	X
Swedbank Baltics AS	Latvia	X	X	X
LGT Group Foundation	Liechtenstein	X	X	
Liechtensteinische Landesbank AG	Liechtenstein	X	X	
VP Bank AG	Liechtenstein	X	X	
“Swedbank”, AB	Lithuania	X	X	

AB SEB bankas	Lithuania	X	X	
Akcinė bendrovė Šiaulių bankas	Lithuania	X	X	X
Revolut Holdings Europe UAB	Lithuania	X		X
Banque et Caisse d´Epargne de l´Etat, Luxembourg	Luxembourg	X	X	X
Banque Internationale à Luxembourg	Luxembourg	X	X	X
BGL BNP Paribas	Luxembourg	X		
Société Générale Luxembourg	Luxembourg	X		
Bank of Valletta Plc	Malta	X	X	X
HSBC Bank Malta p.l.c.	Malta	X	X	X
MDB Group Limited	Malta	X	X	
DNB Bank ASA	Norway	X	X	X
SpareBank 1 SMN	Norway	X	X	
SpareBank 1 Sør-Norge	Norway	X	X	X
Bank Polska Kasa Opieki S.A.	Poland	X	X	X
Powszechna Kasa Oszczednosci Bank Polski S.A.	Poland	X	X	X
Santander Bank Polska S.A.	Poland	X	X	
Banco Comercial Português, SA	Portugal	X	X	X
Caixa Geral de Depósitos, S.A.	Portugal	X	X	X
LSF Nani Investments S.AR.L	Portugal	X	X	
SANTANDER TOTTA, SGPS, SA	Portugal	X	X	
Banca Comerciala Romana SA	Romania	X	X	X
Banca Transilvania	Romania	X	X	X
BRD-Groupe Société Générale SA	Romania	X	X	
CEC BANK SA	Romania	X		
Slovenská sporiteľňa, a.s.	Slovakia	X	X	X
Tatra banka, a.s.	Slovakia	X	X	
Všeobecná úverová banka, a.s.	Slovakia	X	X	X
AGRI EUROPE CYPRUS LIMITED	Slovenia	X	X	
Nova Ljubljanska Banka d.d., Ljubljana	Slovenia	X	X	X
OTP Luxembourg S.a.r.l.	Slovenia	X	X	X
Abanca Corporacion Bancaria, S.A.	Spain	X	X	
Banco Bilbao Vizcaya Argentaria, S.A.	Spain	X	X	X
Banco de Crédito Social Cooperativo	Spain	X	X	
Banco de Sabadell, S.A.	Spain	X	X	X
Banco Santander, S.A.	Spain	X	X	X
Bankinter, S.A.	Spain	X	X	X
CaixaBank, S.A.	Spain	X	X	X
Ibercaja Banco, S.A.	Spain	X	X	
Kutxabank, S.A.	Spain	X	X	
Unicaja Banco, S.A.	Spain	X	X	X
Aktiebolaget Svensk Exportkredit	Sweden	X	X	
Kommuninvest - Grupp	Sweden	X	X	
Länsförsäkringar Bank AB - gruppen	Sweden	X	X	
SBAB Bank AB - Grupp	Sweden	X	X	

Skandinaviska Enskilda Banken - gruppen	Sweden	X	X	X
Svenska Handelsbanken - gruppen	Sweden	X	X	X
Swedbank - Grupp	Sweden	X	X	X
ABN AMRO Bank N.V.	The Netherlands	X	X	X
BNG Bank N.V.	The Netherlands	X	X	
Coöperatieve Rabobank U.A.	The Netherlands	X	X	X
de Volksbank N.V.	The Netherlands	X	X	X
ING Groep N.V.	The Netherlands	X	X	X
LP Group B.V.	The Netherlands	X		
Nederlandse Waterschapsbank N.V.	The Netherlands	X	X	
RBS Holdings N.V.	The Netherlands	X		

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