Council of the European Union

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COVER NOTE

From:	Mr José Manuel CAMPA, Chairperson of the European Banking Authority (EBA)
date of receipt:	19 December 2022
To:	Ms Thérèse BLANCHET, Secretary-General of the Council of the European Union
Subject:	2022 report on the risk assessment of the European banking system

Delegations will find attached a communication from the EBA regarding the report mentioned above.

The full report and its annex can be viewed and downloaded via these links:

https://www.eba.europa.eu/sites/default/documents/files/document_library/Risk%20Analysis%20and%20Data/Risk%20Assessment%20Reports/2022/RAR/1045298/Risk%20Assessment%20Report%20December%202022.pdf

https://www.eba.europa.eu/eba-risk-assessment-warns-about-impact-deteriorating-macroeconomic-environment

Encl.

#13467

MAIL REGISTRATION

From: Jose Manuel Campa <JoseManuel.Campa@eba.europa.eu>

Sent: lundi 19 décembre 2022 17:30

To: BLANCHET Therese

Cc: Jacob Gyntelberg; CABINET SG; EBA-Executive Office

Subject: EBA Risk Assessment Report of the European banking system December 2022

Attachments: EBA Risk Assessment Report December 2022.pdf

EUROPEAN BANKING AUTHORITY

Dear Ms Blanchet,

It is my pleasure to send you the recently published [2022 report on the risk assessment of the European banking system]. Alongside the risk assessment report the EBA also published the 2022 EU-wide transparency exercise, which provides detailed data for 122 banking institutions from 26 EEA/EU countries.

The risk assessment report warns about the impact of a deteriorating macroeconomic outlook. Banks still maintain sound capital and liquidity ratios and they are benefitting from rising rates. However, the slowdown in economic growth, high inflation and monetary policy tightening might negatively affect profitability and asset quality.

The report highlights several areas where EU banks face particular challenges:

- Banks should prepare for asset quality deterioration. Rising rates might increase borrowing costs and reduce collateral valuations, while higher inflation and slower economic growth might reduce borrowers' disposable income. Banks should timely recognise vulnerable clients and corresponding impairments, and engage, as soon as possible, with struggling borrowers to ensure their viability.

- Supervisors should carefully assess the impact of maturing central bank loans. The progressive normalisation of monetary policy implies that some banks have to adjust their funding structure. Funding in foreign currencies also needs to be carefully assessed as liquidity coverage ratios for foreign currencies below 100% might make banks vulnerable in case of difficulties to swap currencies or to raise funds on FX markets.

- Banks should pursue prudent capital distribution policies. Even though banks' profitability is benefitting overall from higher interest rates and capital ratios are at relatively high levels, banks should carefully consider dividend, share buy-back or bonus policies. They should count on comfortable capital headroom to cover unexpected losses and maintain the flow of lending to the real economy under a worsening macroeconomic environment.

- Banks should strengthen their screening systems and controls to ensure a strict compliance with sanctions and prevent related legal and reputational risks. In previous years, ineffective implementation by some institutions of AML/CFT requirements contributed to significant Russian assets being laundered in the EU financial system.

- Banks should continue efforts to integrate ESG considerations into their overall risk management. Recent climate-related events in Europe such as droughts, wildfires and floods show that climate-related physical risk can drive financial risk for banks through the economic activities of their counterparties and through physical assets held on their balance sheets. At the same time, policy initiatives to reduce greenhouse gas emissions and shift energy resources towards renewables mean that banks can face further transition risk.

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I trust you find this report of interest.

Kind regards,
José Manuel

José Manuel Campa
EBA Chairperson

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RISK ASSESSMENT OF THE EUROPEAN BANKING SYSTEM

DECEMBER 2022

EBA EUROPEAN BANKING AUTHORITY