UPDATE ON THE EBA REPORT ON LIQUIDITY MEASURES UNDER ARTICLE 509(1) OF THE CRR – RESULTS BASED ON DATA AS OF 30 JUNE 2019

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EBA EUROPEAN BANKING AUTHORITY

Contents

Abbreviations

COVID-19	coronavirus disease 2019
CRR	Capital Requirements Regulation
EBA	European Banking Authority
ECB	European Central Bank
EHQCB	extremely high-quality covered bond
EU	European Union
EUR	euro
GBP	pound sterling
G-SII	global systemically important institution
LCR	liquidity coverage ratio
O-SII	other systemically important institution
SMEs	small and medium-sized enterprises
USD	United States dollar

1. Summary

- The results of the report represent the LCR levels across institutions as of June 2019 and do not reflect the potential consequences of the existing COVID-19 situation[1]. The EBA believes that, although precise information is not reported in this report, the liquidity position of EU institutions in December 2019, before the outbreak, did not significantly differ from the main conclusions of this report.
- **Trends in the LCR:** The weighted average LCR for the monitored sample of 134 banks[2] is 147% as of the end of June 2019. 78% of the banks in the sample had an LCR above 140% at that date. The LCR, on average, has always been above 100% since September 2016 and banks have increased it by approximately 100 basis points since December 2017. The number of banks with a shortfall (i.e. a shortfall in liquid assets to comply with the minimum requirement of 100%) decreased from seven at the end of September 2016 to three at the end of June 2019. The aggregate liquidity shortfall decreased from over EUR 26.7 billion at the end of September 2016 to EUR 4.7 billion at the end of June 2019.
- **Composition of liquid assets and of outflows and inflows:**
  - Composition of liquid assets: The largest part of LCR liquidity buffers consists of Level 1 assets in the form of cash and central bank reserves, as well as securities (including EHQCBs). GSIIs and O-SIIs, on average, tend to hold higher shares of central bank reserves and lower levels of EHQCBs than other banks. Overall, the liquidity buffer (before the application of the cap on liquid assets) is approximately 16.0% of total assets.
  - Liquidity outflows: On average, liquidity outflows (post-weight) represent approximately 16.1% of total assets. GSIIs and O-SIIs show a higher proportion (16.7%) than other banks (10.1%). As expected, for both groups of banks, the main component of the liquidity outflows is non-operational deposits (e.g. short-term deposits from financial customers), which tend to have higher run-off rates and account for 6% of total assets.
  - Liquidity inflows: Liquidity inflows (post-weight and before the cap) relative to total assets for GSIIs and O-SIIs are 5.3% of total assets. This proportion is higher than it is for other banks (2.8%).

[1] The possibility of making used of liquid assets during times of stress (resulting in an LCR below 100%) is foreseen in liquidity regulation (Article 412(1) of the CRR (and Article 4(3) of the Commission Delegated Regulation (EU) 2015/61)) as maintaining the LCR at 100%, which, under such circumstances, could produce undue negative effects on the credit institution and other market participants.

[2] These 134 banks represent, on average, 80% of the total assets of the EU banking sector (based on data from the Statistical Data Warehouse of the ECB). The results for all banks and for groups of banks (all EU banks, G-SIIs, O-SIIs and others) do not include subsidiaries. Nevertheless, the results by country do include subsidiaries (see annex).

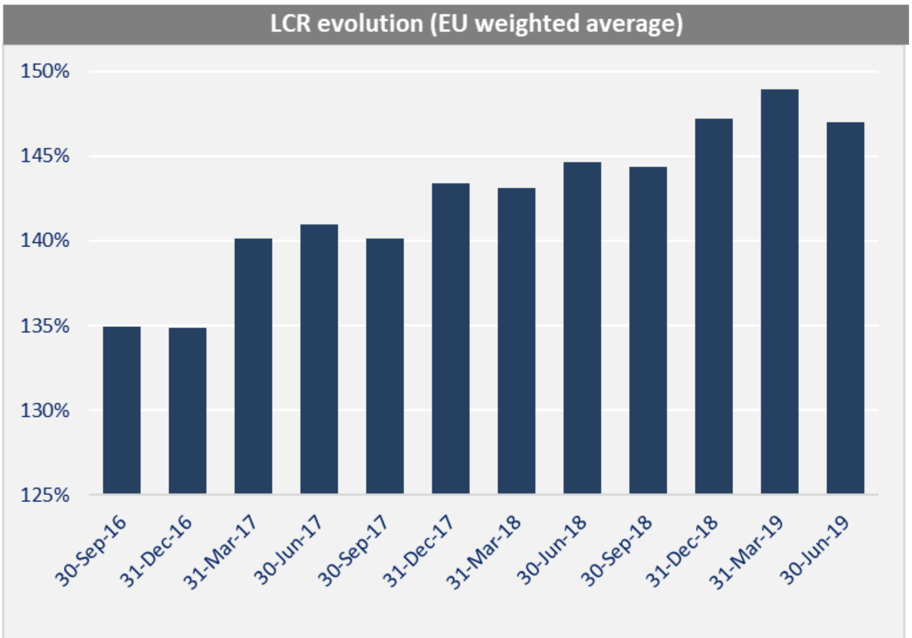
- **LCR by business models:** For the monitored sample (157 banks),[3] the LCR exceeds, on average, the minimum requirement of 100% for all business models. Mortgage banks show the highest LCRs (average LCRs of 376%), well above the EU average. Locally active savings banks and public development banks also show an LCR above 200%. Cross-border universal banks (composed of large banks) and local universal banks show the lowest LCR levels (142% and 155%, respectively).
- **LCRs in different currencies:** In normal times, it is expected that banks can easily swap currencies and can raise funds in foreign currency markets. However, the ability to swap currencies may be constrained during stressed conditions (as seen during the financial crisis). The LCR Delegated Regulation[4] does not require institutions to have an LCR in foreign currencies above a minimum requirement. Nevertheless, Article 8(6) of the LCR Delegated Regulation requires banks to ensure that the currency denomination of their liquid assets is consistent with the distribution by currency of their net liquidity outflows. Therefore, it is useful to understand how the LCRs in all currencies differ from the LCRs in significant currencies:
  - A total of 43 banks reported euros as a significant (foreign) currency. Of these banks, 58% showed an LCR in euros lower than their LCR in all currencies and, for 38% of these banks, the LCR in euros was below 100%.
  - A total of 79 banks reported US dollars as a significant (foreign) currency. Of these banks, 58% showed an LCR in US dollars lower than their LCR in all currencies and, for 47% of these banks, the LCR in US dollars was below 100%.
  - A total of 23 banks reported pounds sterling as a significant (foreign) currency. Of these banks, 83% showed an LCR in pounds sterling lower than their LCR in all currencies and, for 43% of these banks, the LCR in pounds sterling was below 100%.

  For the majority of the banks, the ratio for total figures (reporting currency, i.e. across all currencies) was higher than the same ratio considering only each individual significant foreign currency (euros, US dollars and pounds sterling). This implies that banks are likely to hold a higher liquidity buffer in relation to their net cash outflows in the domestic currency than in significant (foreign) currencies. Thus, at the aggregate level, the surplus in liquidity coverage in all currencies offsets (or dominates) the liquidity shortfall in other significant currencies.

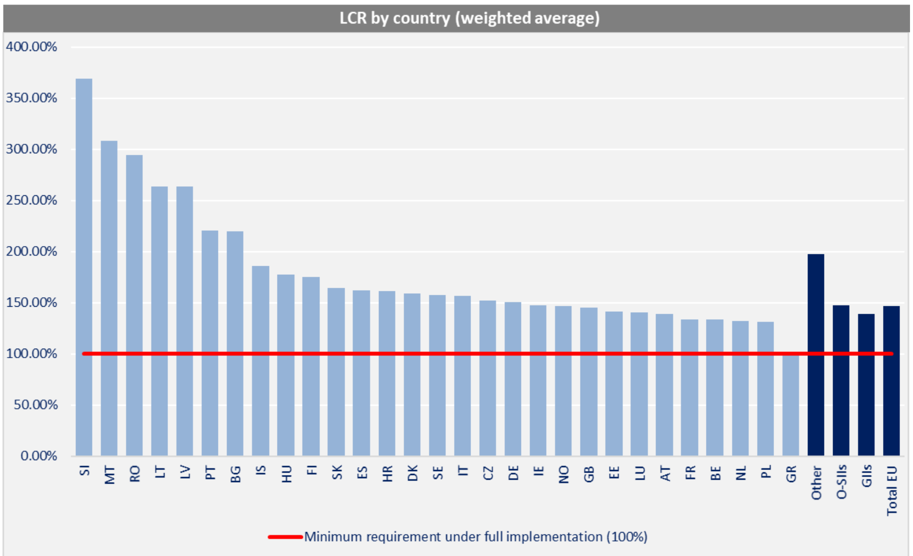
[3] The results by business model include subsidiaries with a business model different from that of their mother company. One caveat to the analysis by business model is the representativeness of the sample, since there is a high concentration of banks with two business models (see annex).

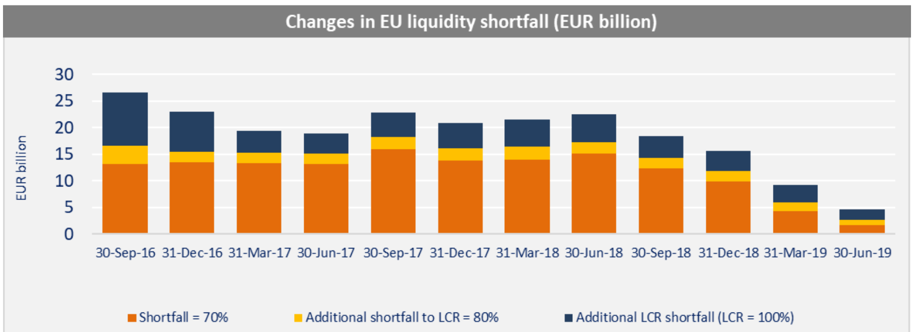
[4] Commission Delegated Regulation (EU) 2015/61.

Trends in the LCR

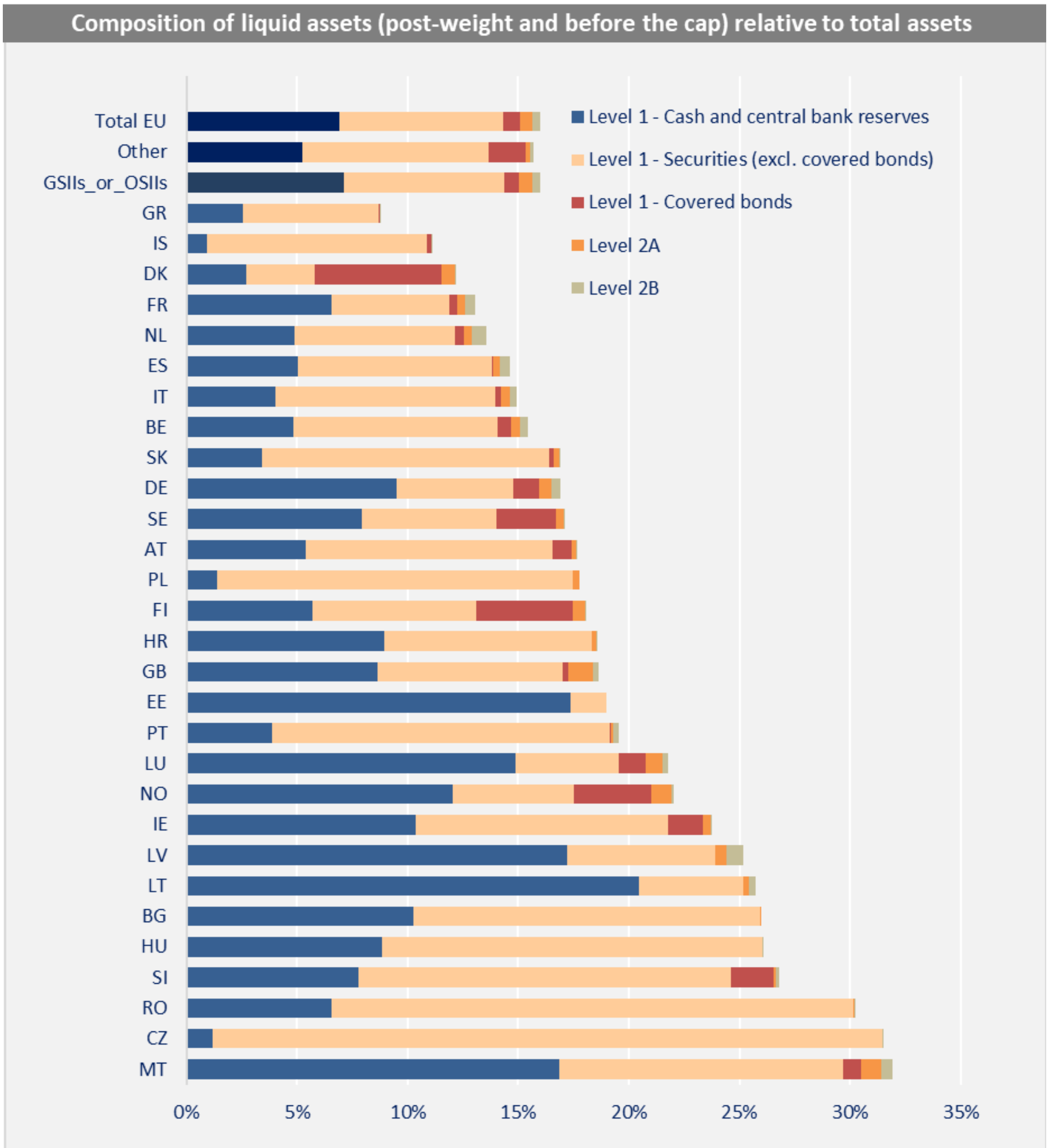


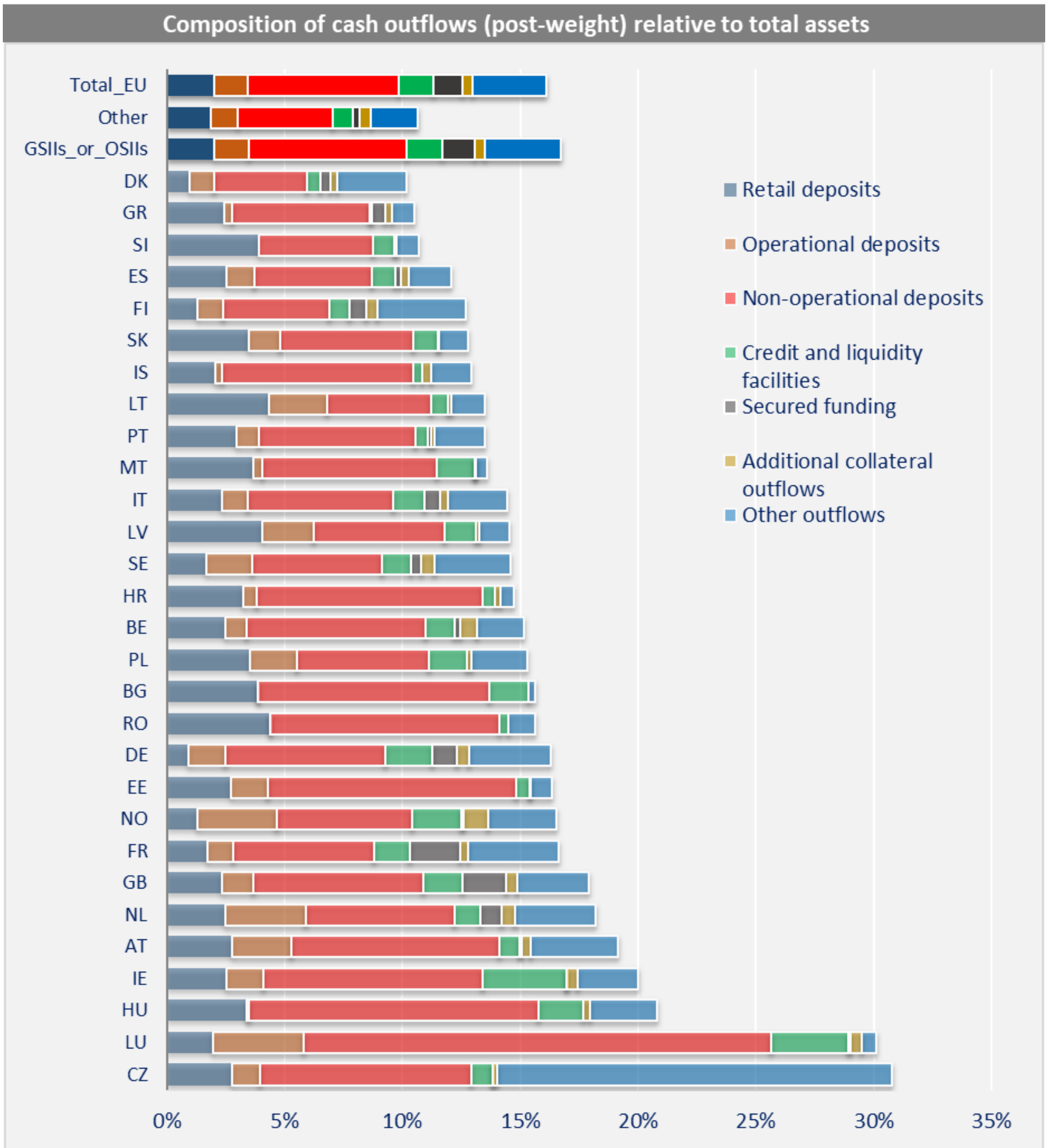
Note: LCR evolution based on a consistent sample across reporting dates.

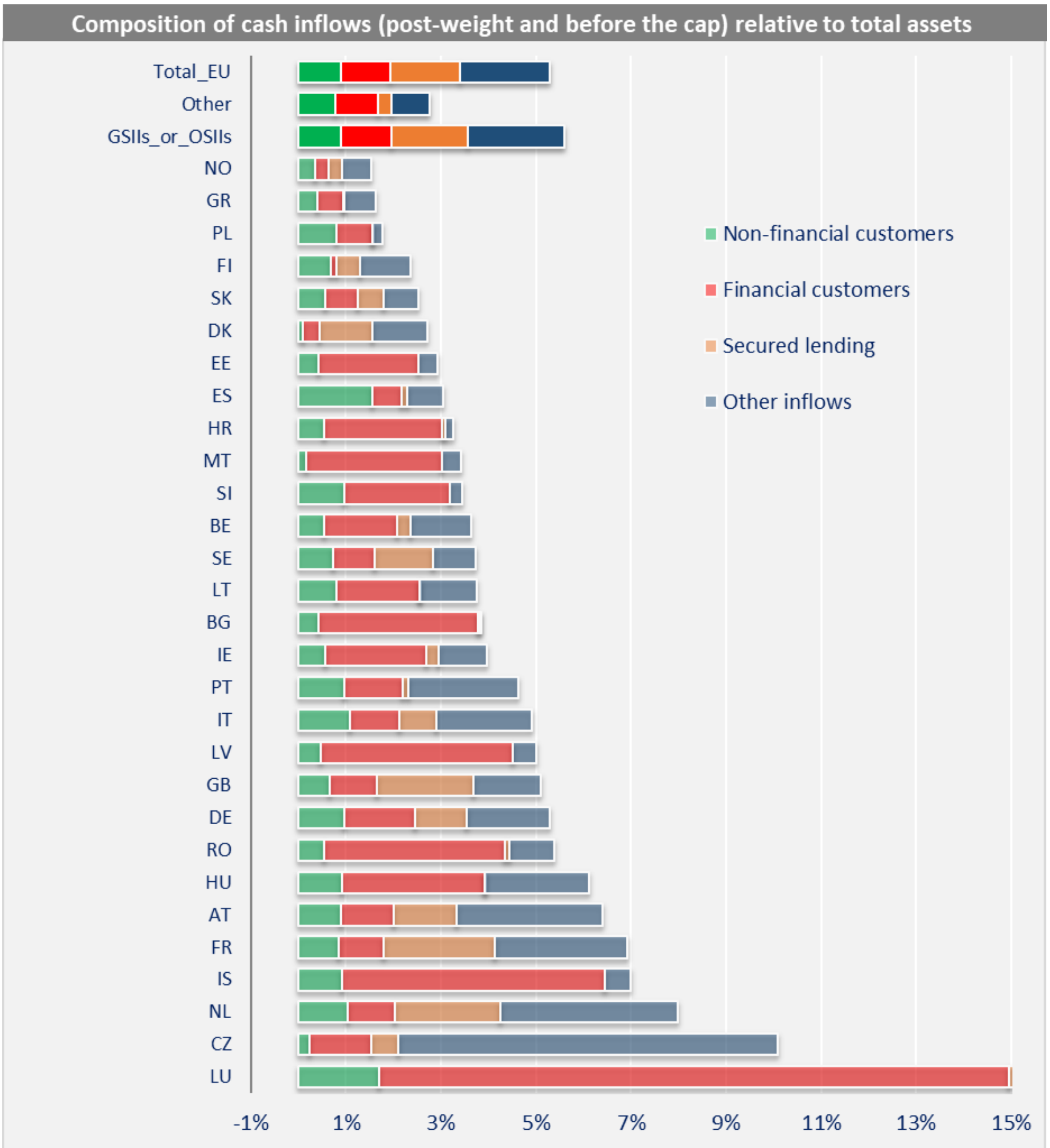




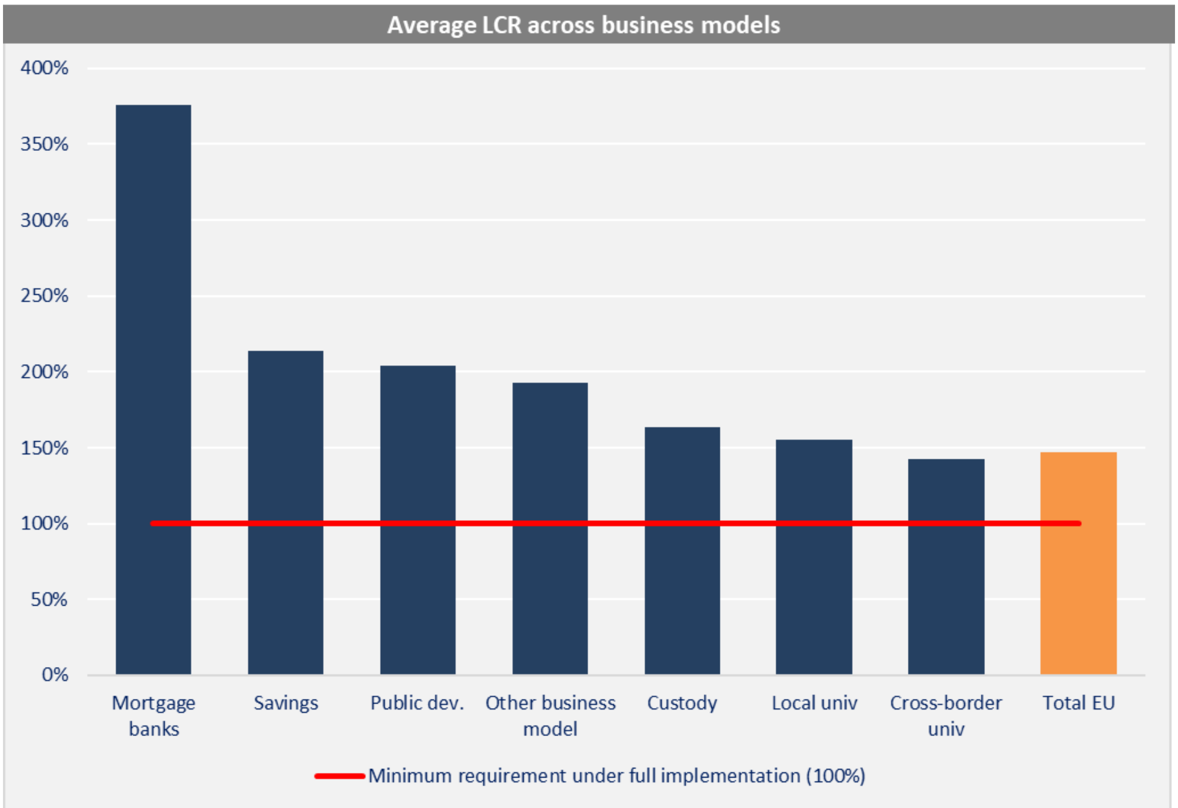
Note: LCR shortfall evolution based on a consistent sample across reporting dates.


Composition of liquid assets (post-weight and before the cap) relative to total assets
Level 1 - Cash and central bank reserves
Level 1 - Securities (excl. covered bonds)
Level 1 - Covered bonds
Level 2A
Level 2B
Total EU
Other
GSIIs_or_OSIIs
GR
IS
DK
FR
NL
ES
IT
BE
SK
DE
SE
AT
PL
FI
HR
GB
EE
PT
LU
NO
IE
LV
LT
BG
HU
SI
RO
CZ
MT
0%
5%
10%
15%
20%
25%
30%
35%

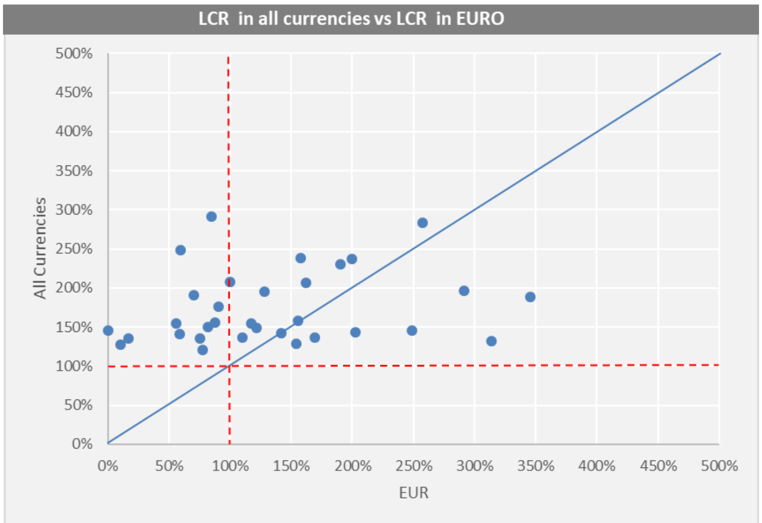

Composition of cash outflows (post-weight) relative to total assets
Total_EU
Other
GSIIs_or_OSIIs
DK
GR
SI
ES
FI
SK
IS
LT
PT
MT
IT
LV
SE
HR
BE
PL
BG
RO
DE
EE
NO
FR
GB
NL
AT
IE
HU
LU
CZ
0%
5%
10%
15%
20%
25%
30%
35%
Retail deposits
Operational deposits
Non-operational deposits
Credit and liquidity facilities
Secured funding
Additional collateral outflows
Other outflows

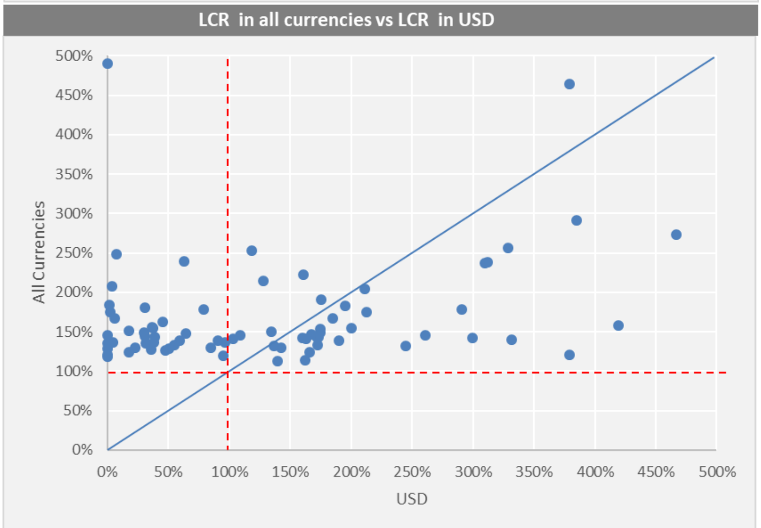

Composition of cash inflows (post-weight and before the cap) relative to total assets
Total_EU
Other
GSIIs_or_OSIIs
NO
GR
PL
FI
SK
DK
EE
ES
HR
MT
SI
BE
SE
LT
BG
IE
PT
IT
LV
GB
DE
RO
HU
AT
FR
IS
NL
CZ
LU
Non-financial customers
Financial customers
Secured lending
Other inflows
-1%
1%
3%
5%
7%
9%
11%
13%
15%

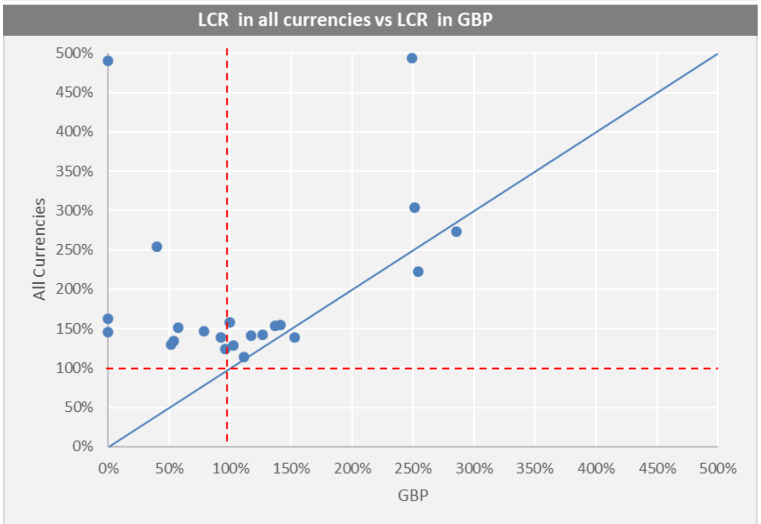
LCRs across business models



LCRs in different currencies







Annex

Table 1: Number of banks included in the June 2019 analysis

Country	ISO code	All banks	*Of which subsidiaries*	GSIIs/O-SIIs	*Of which subsidiaries*
Austria	AT	7	1	3	1
Belgium	BE	8	2	7	2
Bulgaria	BG	4	3	4	3
Cyprus	CY	2		1	
Czechia	CZ	3	3	3	3
Germany	DE	15		9	
Denmark	DK	4		4	
Estonia	EE	4	3	3	3
Spain	ES	12		5	
Finland	FI	4		1	
France	FR	10	1	6	
United Kingdom	GB	11		7	
Greece	GR	4		4	
Croatia	HR	3	3	3	3
Hungary	HU	3	2	3	2
Ireland	IE	12	4	5	2
Iceland	IS	3		3	
Italy	IT	11		3	
Lithuania	LT	3	2	3	2
Luxembourg	LU	8	2	6	2
Latvia	LV	3	2	3	2
Malta	MT	4	1	3	1
Netherlands	NL	4		3	
Norway	NO	3		1	
Poland	PL	3	1	3	1
Portugal	PT	6	1	4	1
Romania	RO	3	2	3	2
Sweden	SE	7		3	
Slovenia	SI	3		2	
Slovakia	SK	3	3	3	3
Total		**170**	**36**	**111**	**33**

Table 2: Number of banks included in the evolution analysis[5] if balanced sample criteria apply

Country	ISO code	All banks	GSIIs/O-SIIs
Austria	AT	4	1
Belgium	BE	6	5
Bulgaria	BG	1	1
Cyprus	CY	1	1
Germany	DE	13	8
Denmark	DK	4	4
Estonia	EE	1	
Spain	ES	11	4
Finland	FI	2	1
France	FR	9	6
United Kingdom	GB	11	7
Greece	GR	4	4
Hungary	HU	1	1
Ireland	IE	1	1
Italy	IT	8	2
Luxembourg	LU	2	1
Malta	MT	2	2
Netherlands	NL	3	3
Norway	NO	2	1
Poland	PL	2	2
Portugal	PT	4	3
Romania	RO	1	1
Sweden	SE	5	3
Slovenia	SI	3	2
Total		**101**	**64**

Table 3: Number of banks[6] submitting liquidity coverage data (by business model)

Business model	All banks	*Of which subsidiaries*
Cross-border universal banks	47	1
Custody banks	7	
Local universal banks	57	17
Locally active savings and loan associations/cooperative banks	9	
Mortgage banks including pass-through financing mortgage banks	3	
Public development banks	6	

[5] All trend analyses are shown by group of banks (total EU/G-SIIs, O-SIIs and others) and therefore exclude subsidiaries.

[6] Results by business model include subsidiaries with a business model different to the one of their mother company.

Other business models	28	5
Total	**157**	**23**

Table 4: Definition of business models

Name	Description
Automotive and consumer credit banks	Banks specialising in originating and/or servicing consumer and/or automotive loans to retail clients
Building societies	Banks specialising in the provision of residential loans to retail clients
Central counterparties	Banks specialising in setting trading accounts, clearing trades, collecting and maintaining margin monies, regulating delivery and reporting trading data
Cross-border universal banks	Cross-border banking groups engaging in several activities including retail, corporate and investment banking and insurance
Custody banks	Banks specialising in offering custodian services (i.e. they hold customers' securities in electronic or physical form for safe keeping to minimise the risk of loss). These banks may also provide other services, including account administration, transaction settlements, collection of dividends and interest payments, tax support and foreign exchange
Local savings banks	Banks that focus on retail banking (payments, savings products, credit and insurance for individuals or SMEs) and operate through a decentralised distribution network, providing local and regional outreach
Local universal banks	Banks specialising in originating and/or servicing consumer loans to retail clients and SMEs
Merchant banks	Banks engaging in financing domestic and international trade by offering products such as letters of credit, bank guarantees, and collection and discounting of bills
Mortgage banks	Banks specialising in directly originating and/or servicing mortgage loans
Other specialised banks	Other specialised banks such as promotional banks and ethical banks
Private banks	Banks providing wealth management services to high net worth individuals and families
Public development banks	Banks specialising in financing public sector projects and/or the provision of promotional credit or municipal loans
Security trading houses	Banks facilitating trading done in derivatives and equities markets by guaranteeing the obligations in the contract agreed between two counterparties and/or by holding securities and other assets for safe keeping and record keeping on behalf of corporate or individual investors

Methodological note on the analysis of the LCR by currency

The LCRs by different currencies are calculated as the liquidity buffer over net cash outflows across all currencies or by using figures per individual significant (foreign) currency[7] (limited to euros, US dollars and pounds sterling).

The objective is to test whether there are any currency-specific patterns in the liquidity profiles of banks. The indicator demonstrates whether the difference between the ratio of the liquidity buffer and net cash outflows for a specific foreign currency is more pronounced than the same ratio for all currencies.

$$LCR\ currency = \frac{Liquidity\ buffer_{currency}}{Outflows_{currency} - Min(Inflows_{currency}, 0.75 \times Outflows_{currency})}$$

where currency = reporting currency (all currencies), euros, US dollars, pounds sterling.

[7] Article 415(2) of the CRR indicates that a currency is considered significant if the currency-denominated liabilities are higher than 5% of total liabilities. The analysis is limited to foreign significant currencies, meaning that only significant currencies different from the legal currency in the country of origin of each individual bank are included (e.g. a UK bank with positions in euros, pounds sterling and US dollars over 5% of total liabilities will be considered in the analysis only for euros and US dollars, but not for pounds sterling).

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