

2023

EU-wide Stress Test

Main takeaways

- The results of the 2023 EU-wide stress test show that **European banks remain resilient under an adverse scenario** which combines a severe EU and global recession, increasing interest rates and higher credit spreads.
- This resilience of EU banks partly reflects a **solid capital position at the start of the exercise, with an average fully-loaded CET1 ratio of 15%** which allows banks to withstand the capital depletion under the adverse scenario.
- The **capital depletion under the adverse stress test scenario is 459 bps**, resulting in a fully loaded CET1 ratio at the end of the scenario of 10.4%. **Higher earnings and better asset quality at the beginning of the 2023 both help moderate capital depletion** under the adverse scenario.
- **Despite combined losses of EUR 496bn, EU banks remain sufficiently capitalised to continue to support the economy** also in times of severe stress.
- The high current level of **macroeconomic uncertainty shows however the importance of remaining vigilant** and that both supervisors and banks should be prepared for a possible worsening of economic conditions.

Key enhancements in this year's stress test

The sample has increased by 20 more banks compared to previous stress tests. The stress test involves 70 banks from 16 EU and EEA countries, covering 75% of the EU banking sector assets.

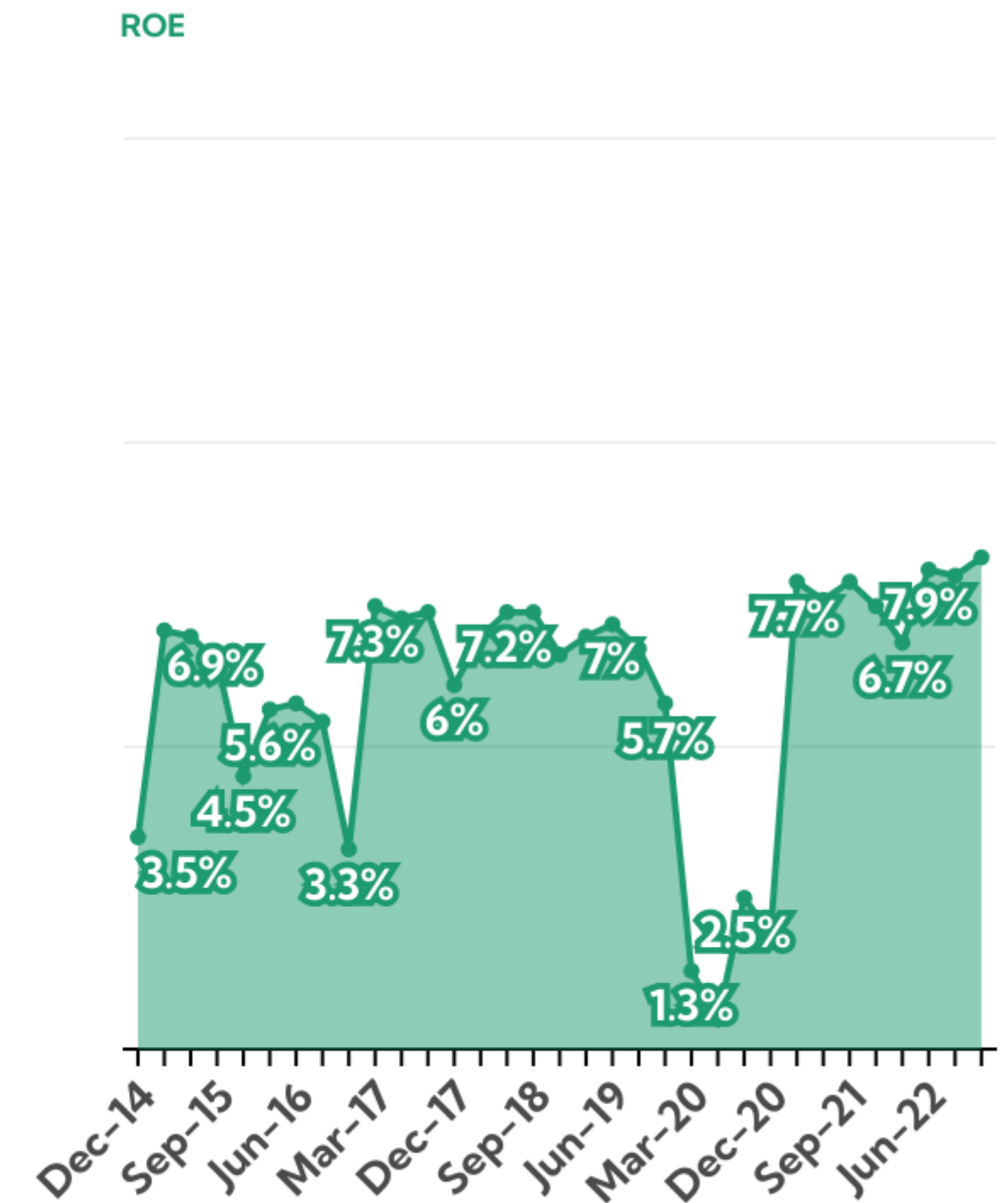
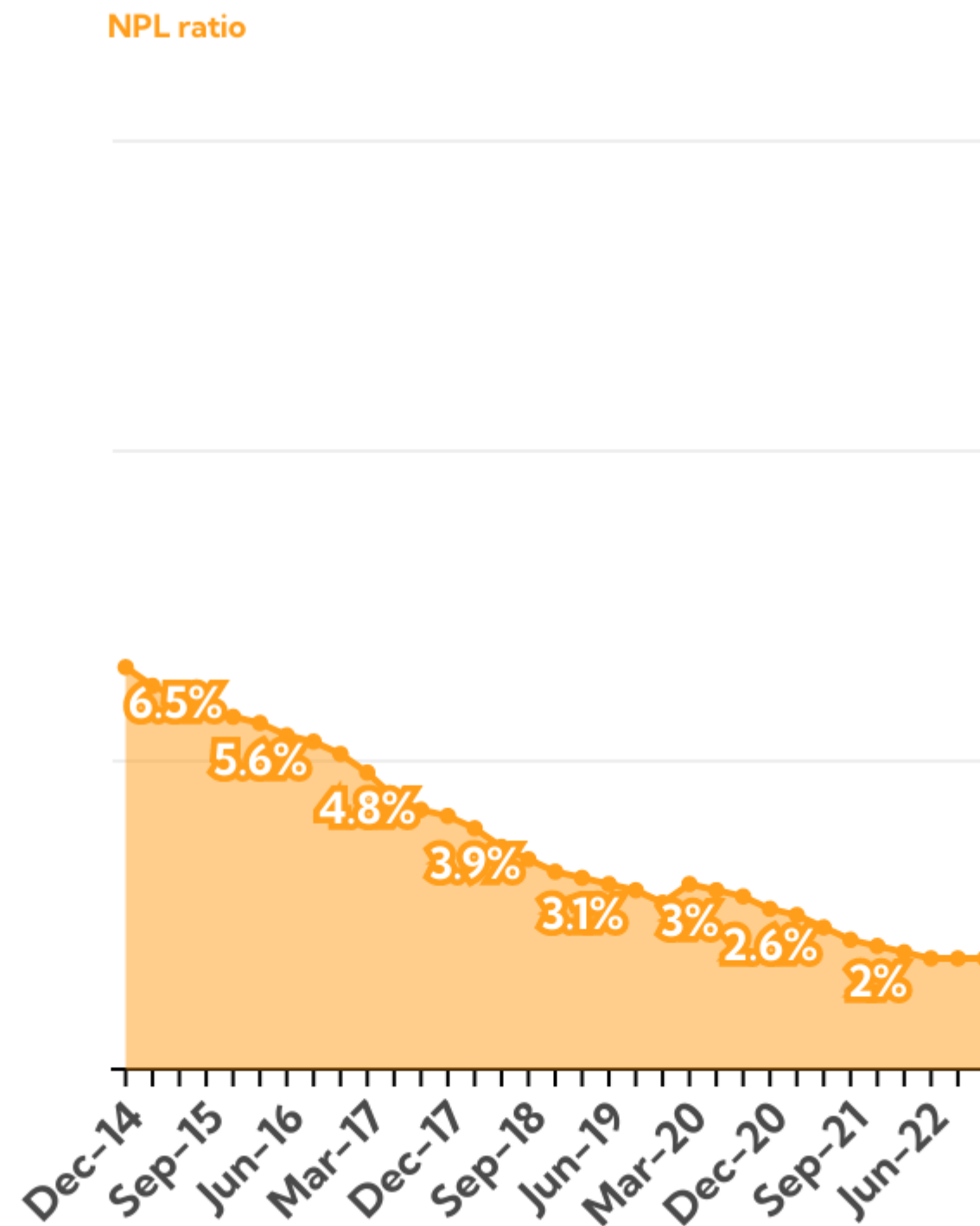
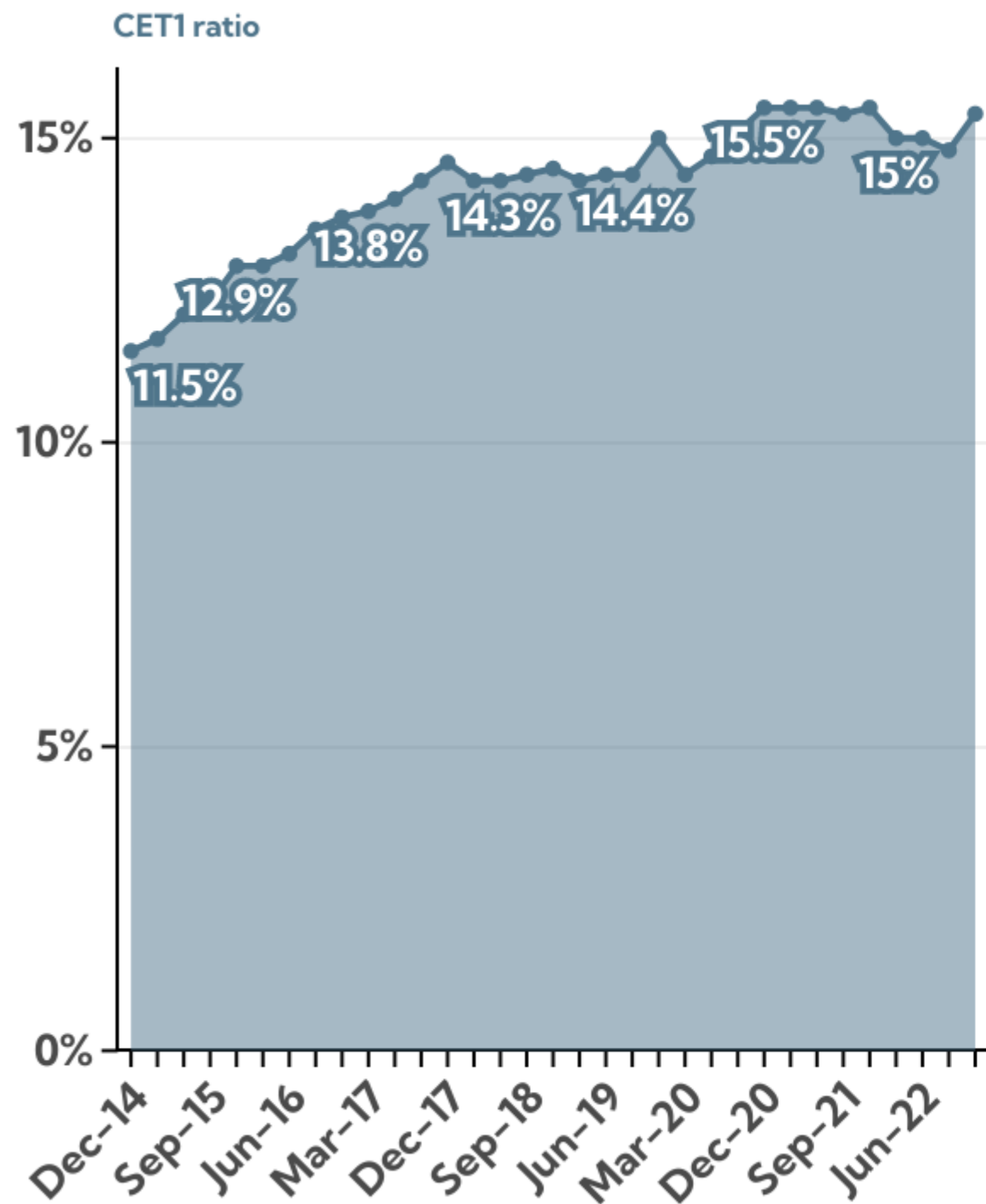
Net Fees and Commission Income is projected with a top-down model.

A detailed analysis on banks' sectoral exposures. There is a specific focus on banks' credit risk toward firms, broken down by sector of economic activity.



EU banks start stress test with robust capital positions

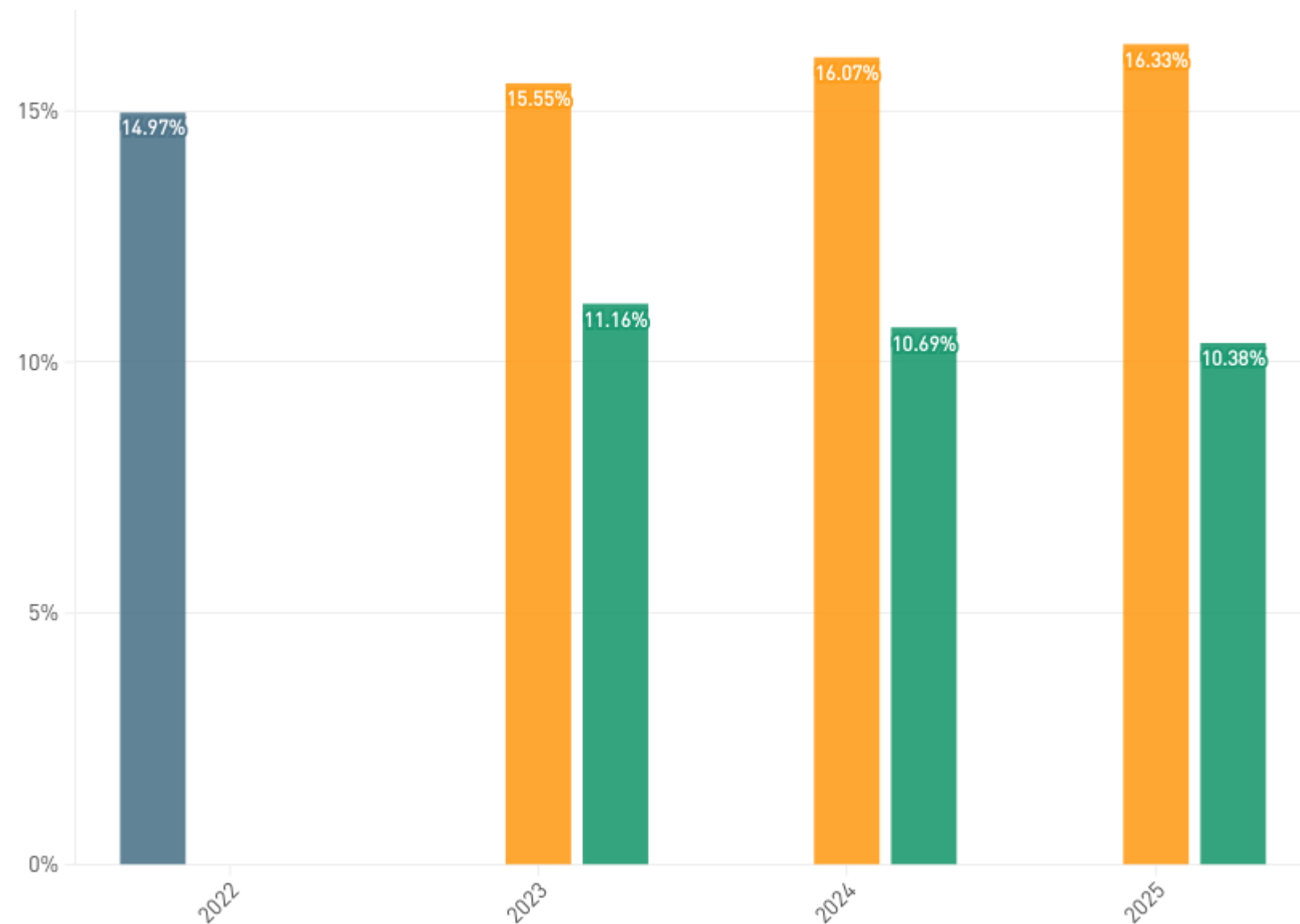
- A combination of regulatory reforms and bank efforts have resulted in clear improvements for EU banks in both capital positions and asset quality since the Global Financial Crisis.



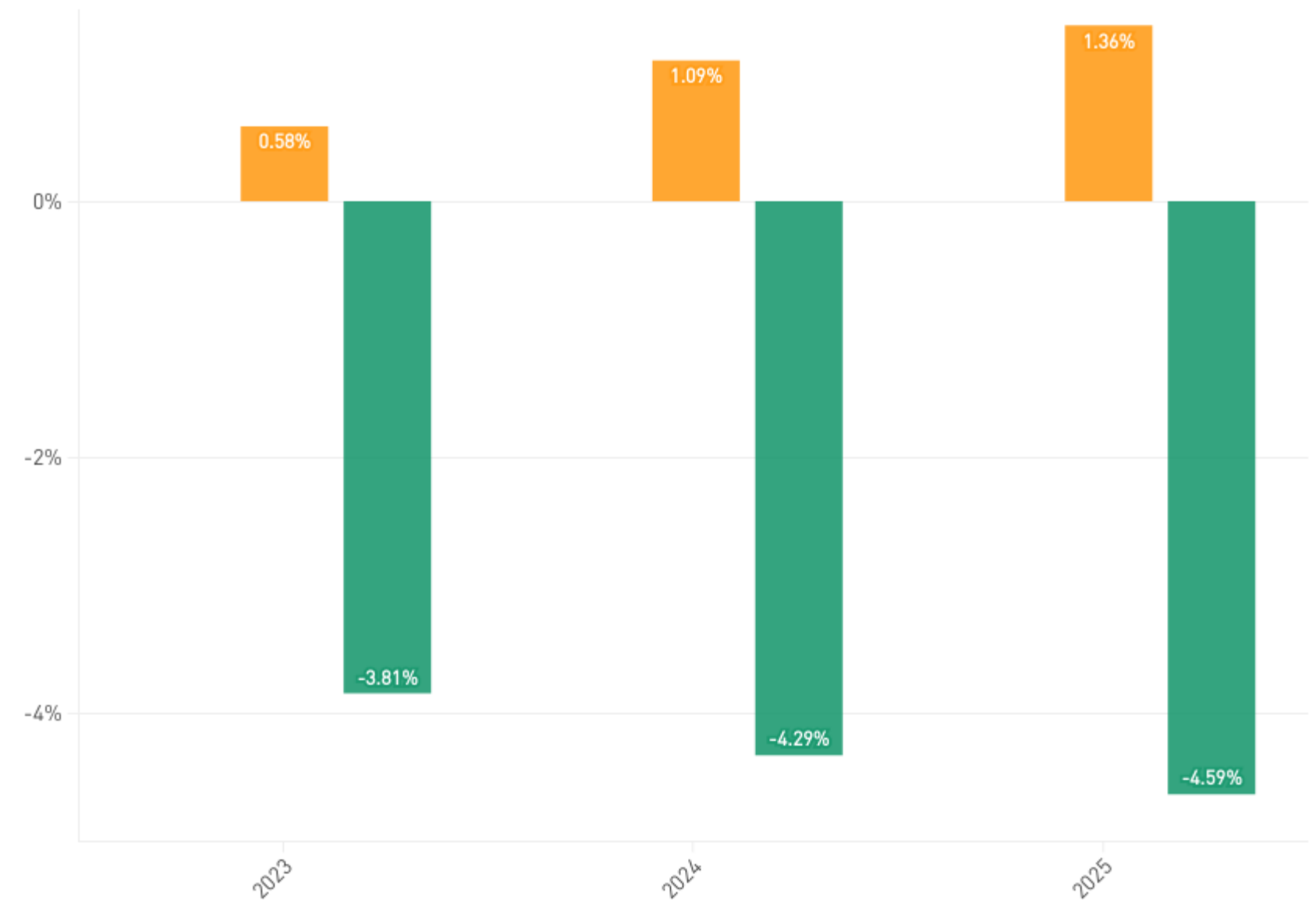
Capital depletion amounts to 459 basis points under the adverse scenario

- EU banks on average finish the exercise with a fully loaded CET1 capital ratio above 10%. This shows that banks hold sufficient capital to continue to support the economy also in times of severe stress.
- Under the adverse scenario, the average CET1 capital ratio declines from 15% in 2022 to 10.4% in 2025.
- Under the baseline the CET1 capital ratio increases by 136 bps to 16.3%.
- The lower capital depletion partially reflects higher earnings and better asset quality at the beginning of the 2023 stress test.

CET1 capital ratio development

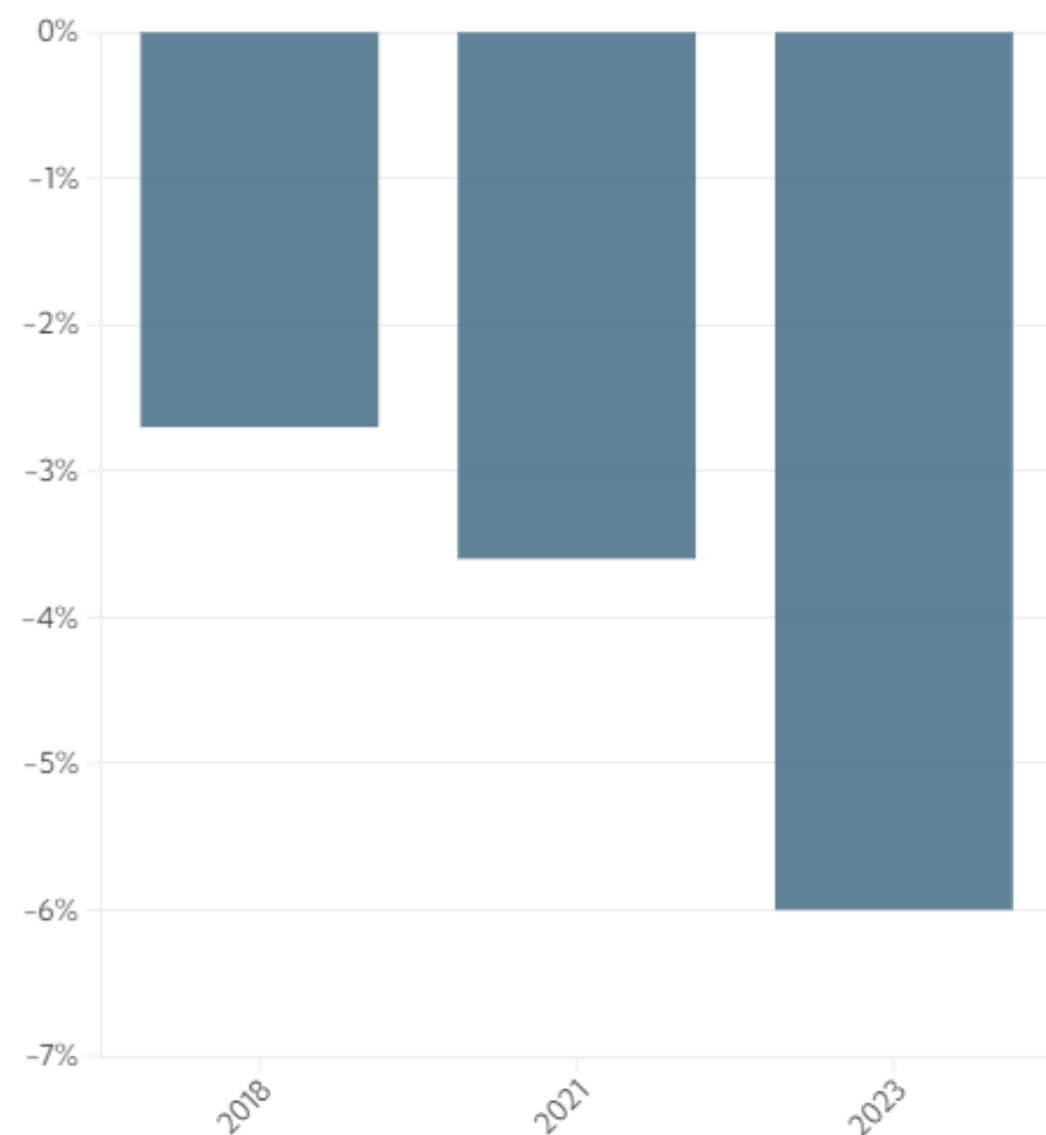


CET1 capital ratio impact

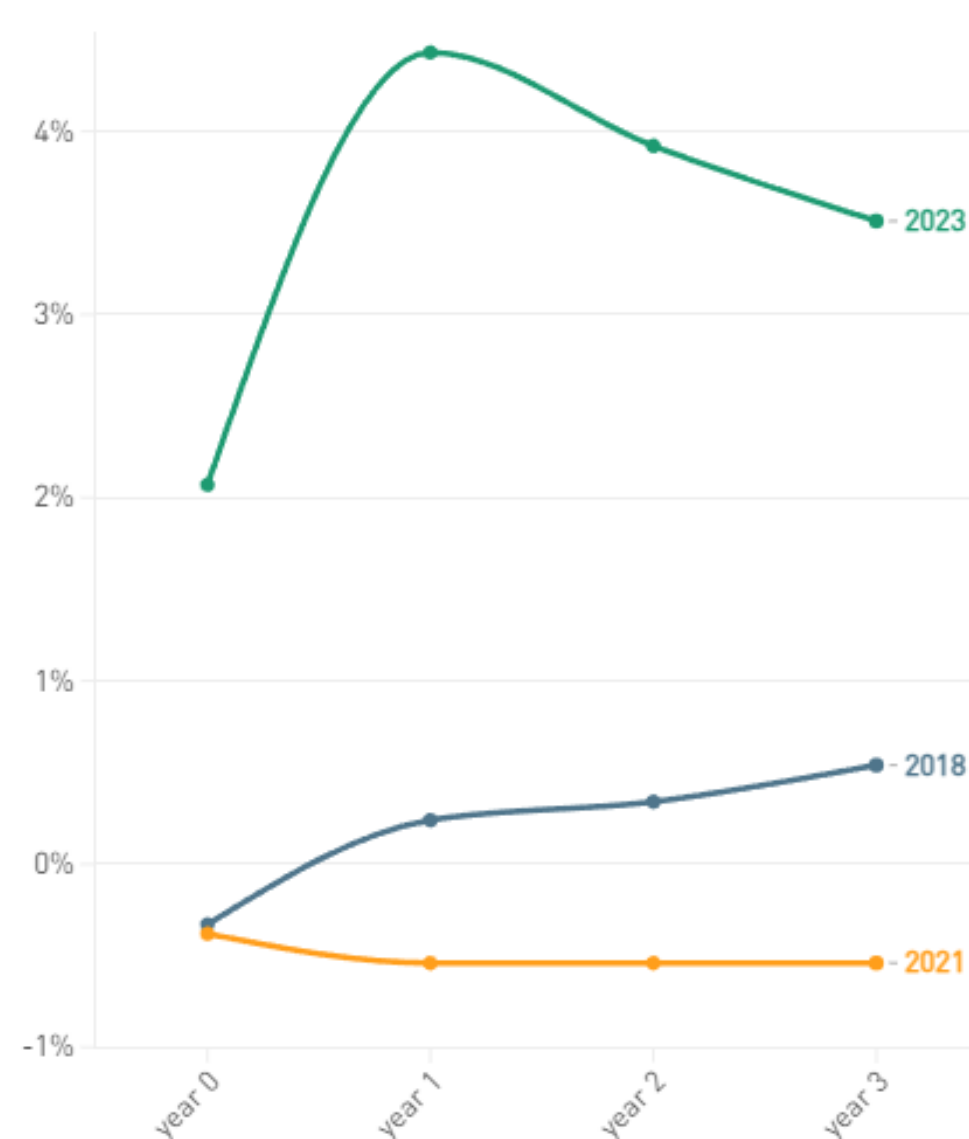


The adverse scenario combines a severe recession with higher interest rates and credit spreads

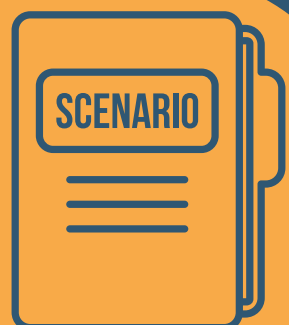
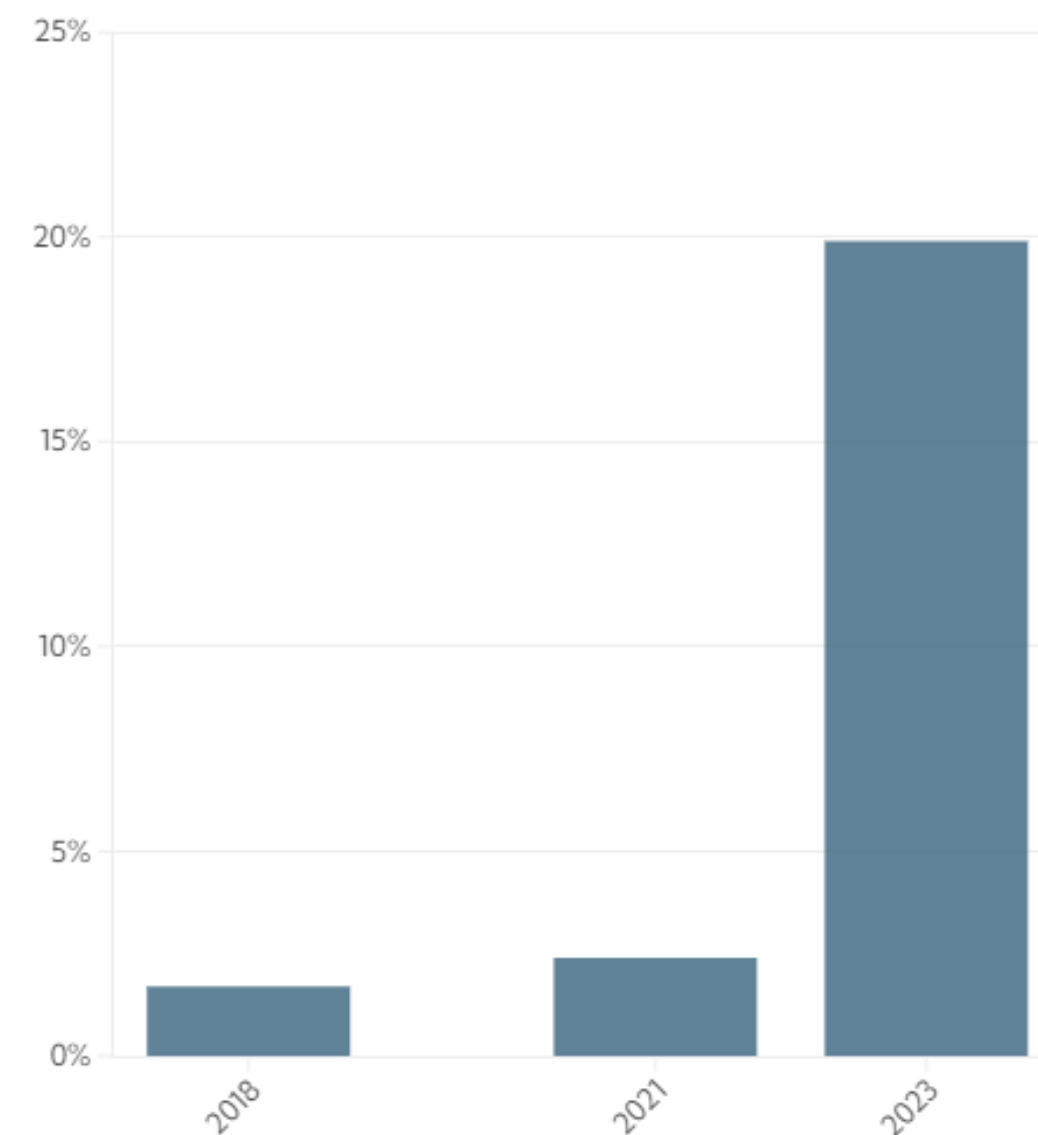
Cumulative GDP growth



3-month SWAP-rate paths



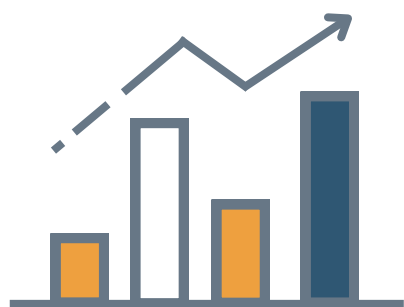
Cumulative inflation



The 2023 EBA adverse scenario assumes a strong 6% 3-year cumulative decline of the EU gross domestic product (GDP) from the starting point, the most severe decline compared to previous stress tests.

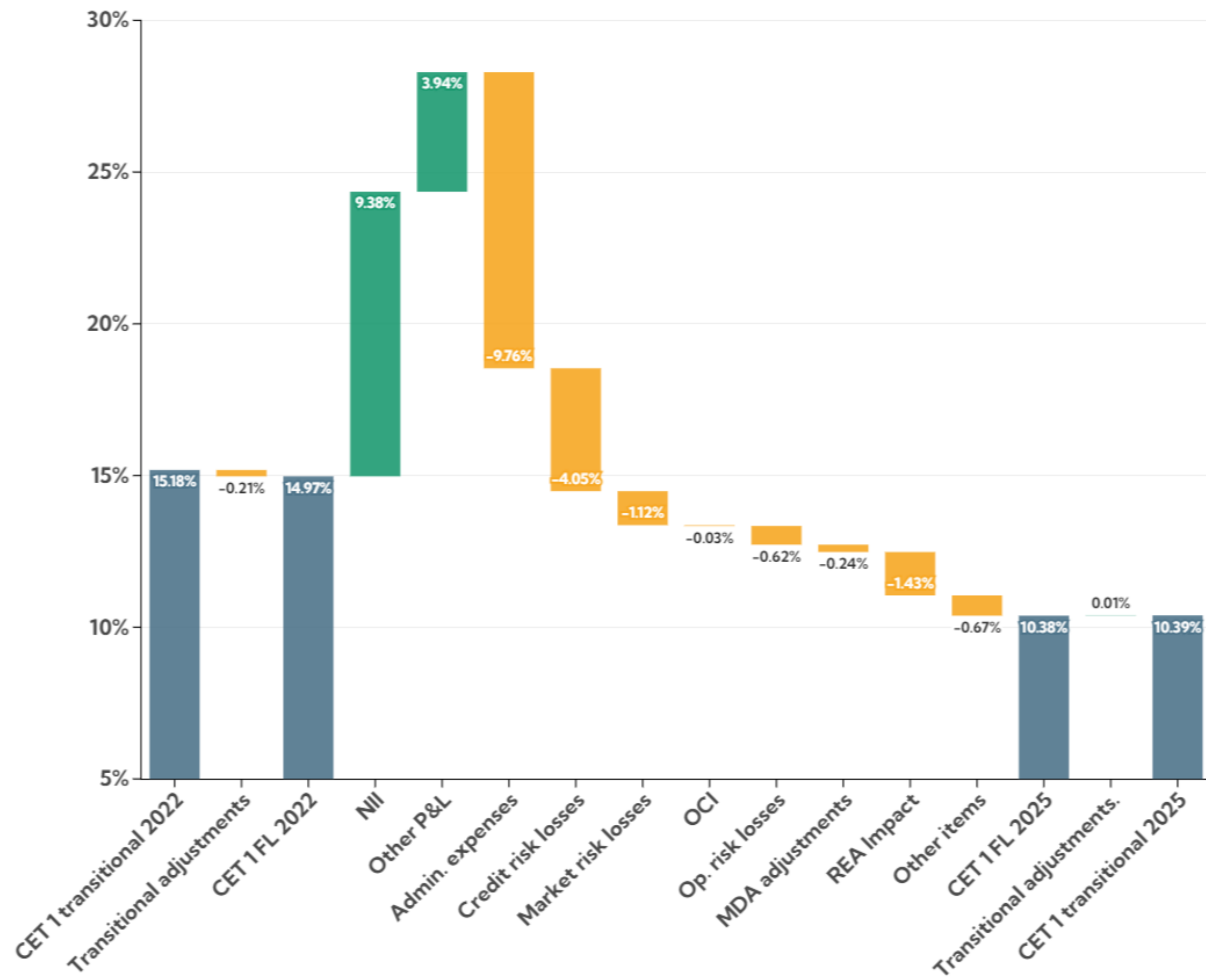
Large drops in residential and commercial real estate prices.

Contrary to previous scenarios, the adverse scenario assumes much higher interest and credit spreads over the three-year horizon. This reflects an underlying assumption of higher and more persistent inflation.



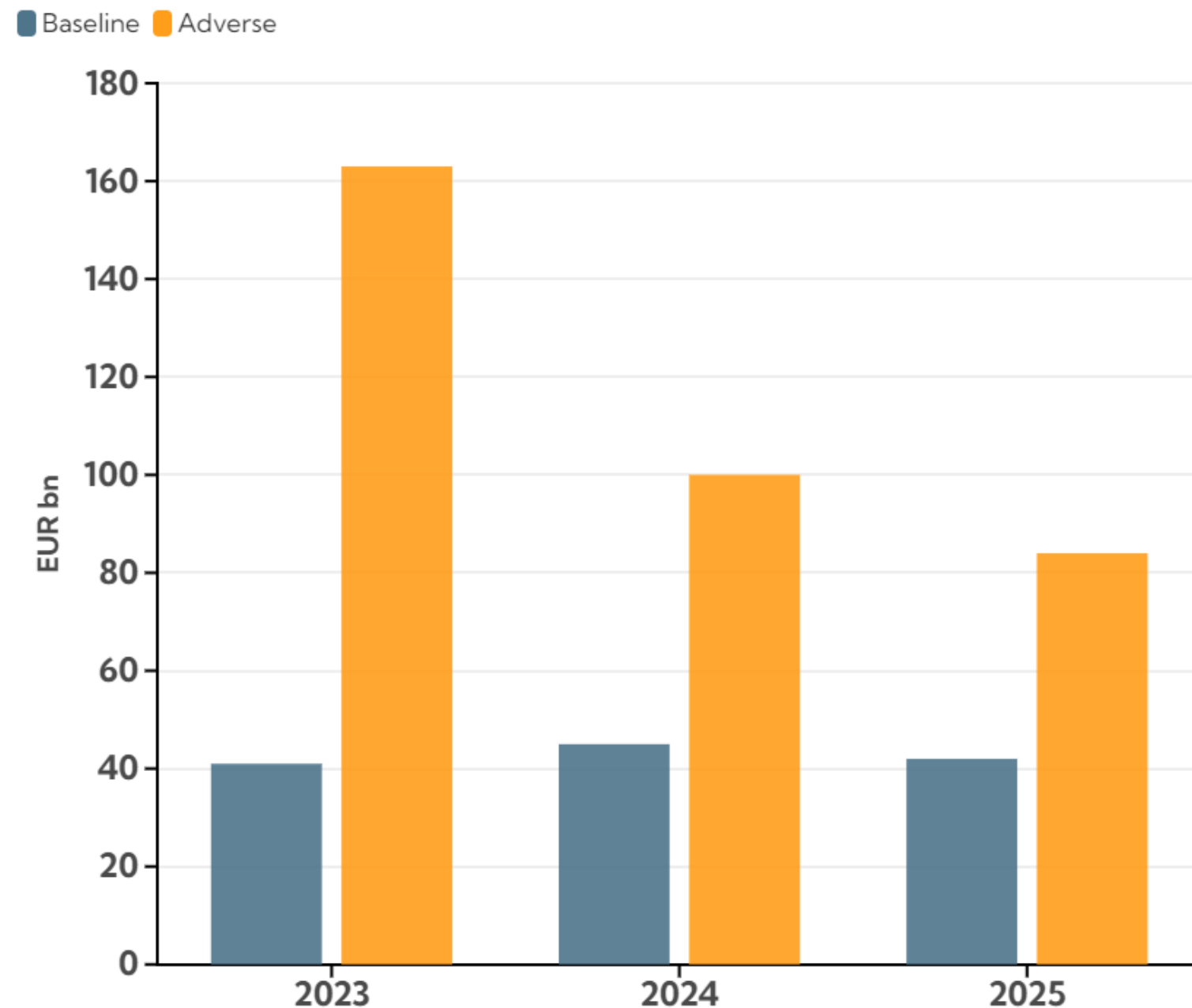
Higher earnings offset credit losses

- Under the adverse scenario, higher earnings increase the capital ratio by 356 bps at the end of 2025
- Net Interest Income (NII) is the largest positive contributor.
- Expenses more than offset the net interest income contribution.
- The negative impact on the CET1 ratio from credit losses (405 bps) is lower than in the previous stress test. This reflects better initial asset quality.
- Market risk losses impact on CET1 ratio amount to 112 bps and operational risk losses to 62 bps.



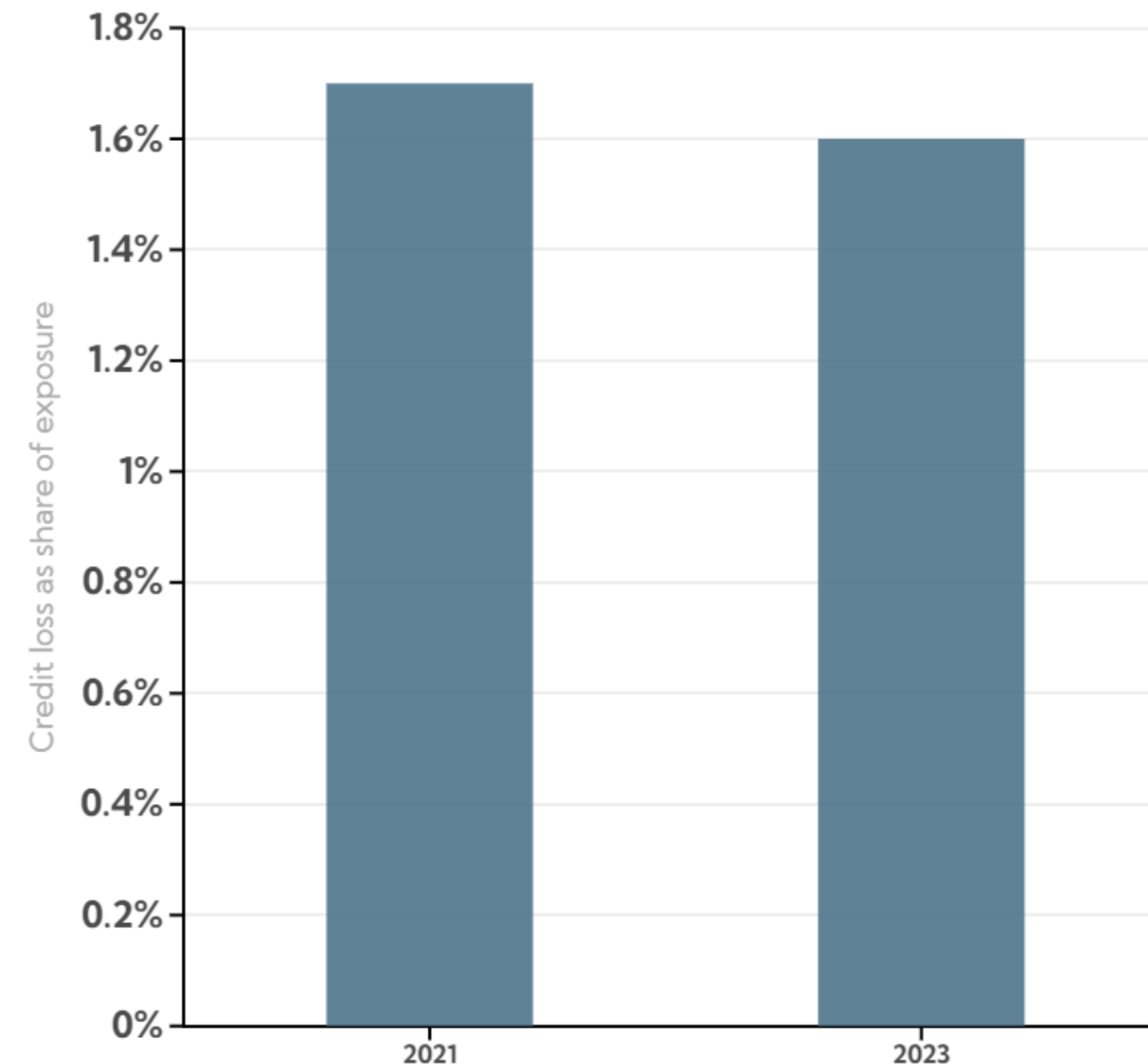
Under the adverse scenario, banks project credit losses of EUR 347 bn

Credit losses



Gap between baseline and adverse losses reflects the severity of the adverse scenario.

Loss rates



Loss rates are similar to the 2021 EU-wide stress test.

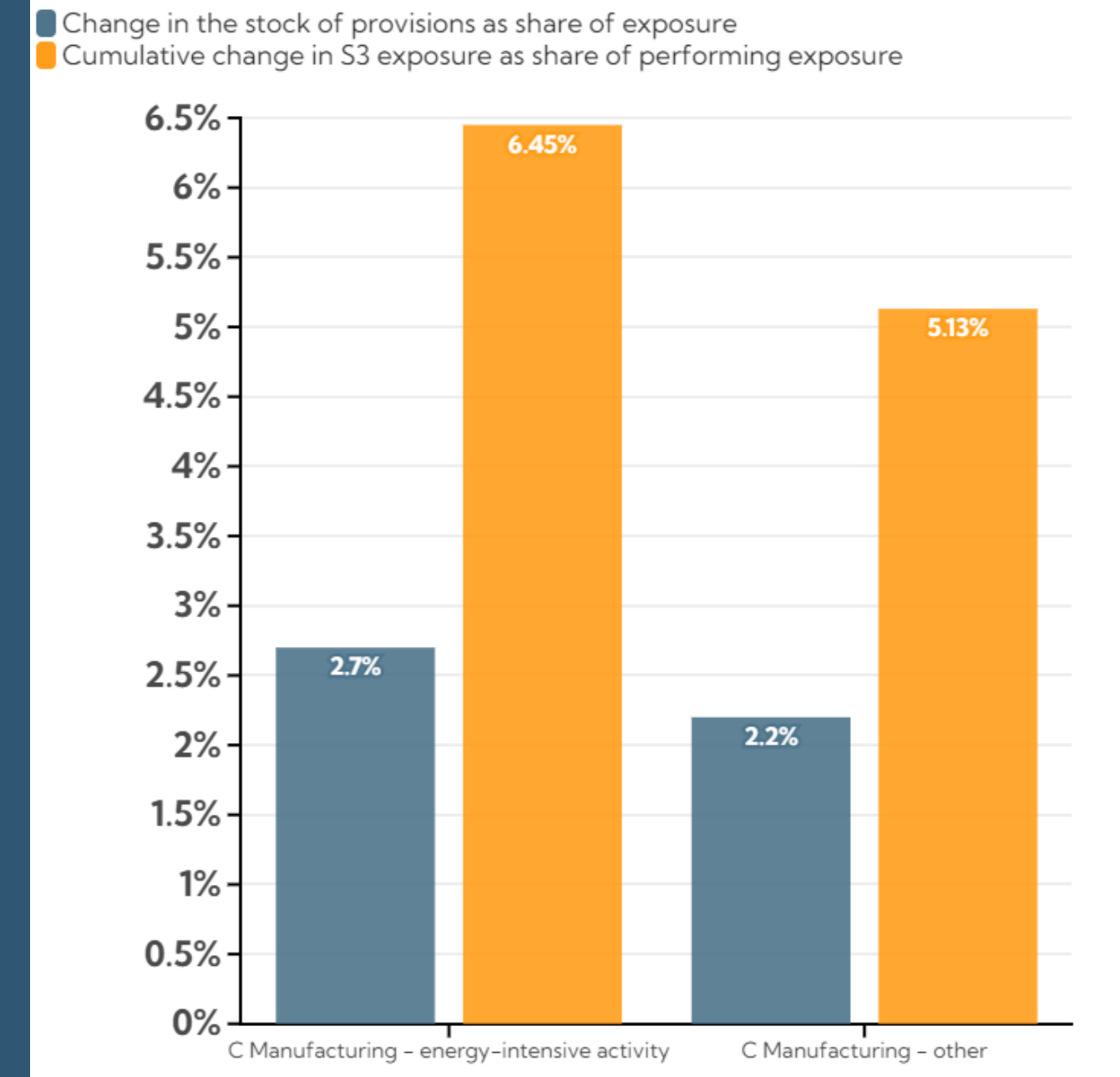
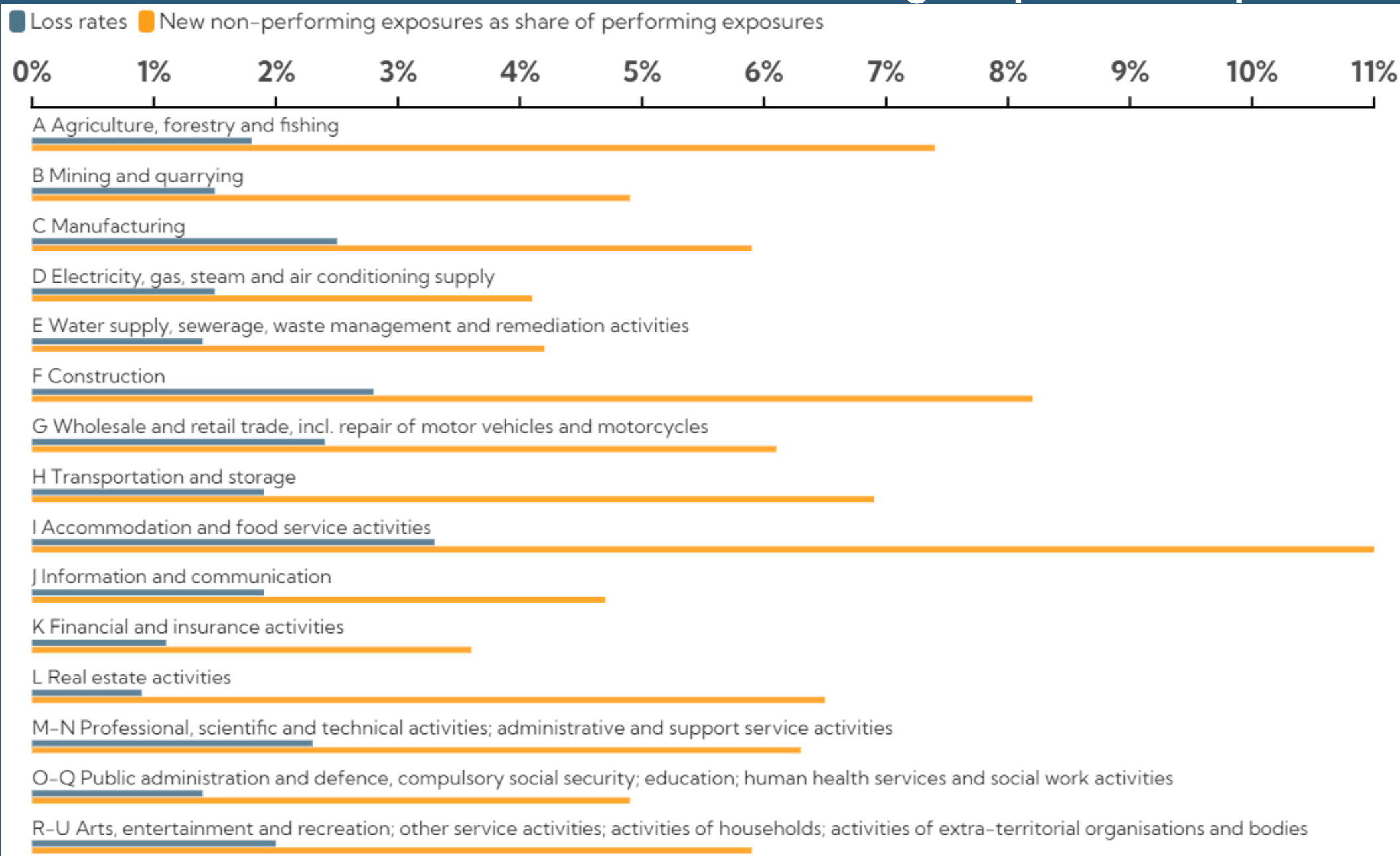
Heterogeneous impact of the scenario across economic sectors

Losses on large corporates and SMEs account over half of total credit losses.

The manufacturing sector accounts for around a fifth of the losses on corporates – with loss rates for energy intensive companies being notably higher.

Exposures to companies operating in the accommodation and food services and the construction sectors experience the highest loss rates and are thus, the most affected by the scenario.

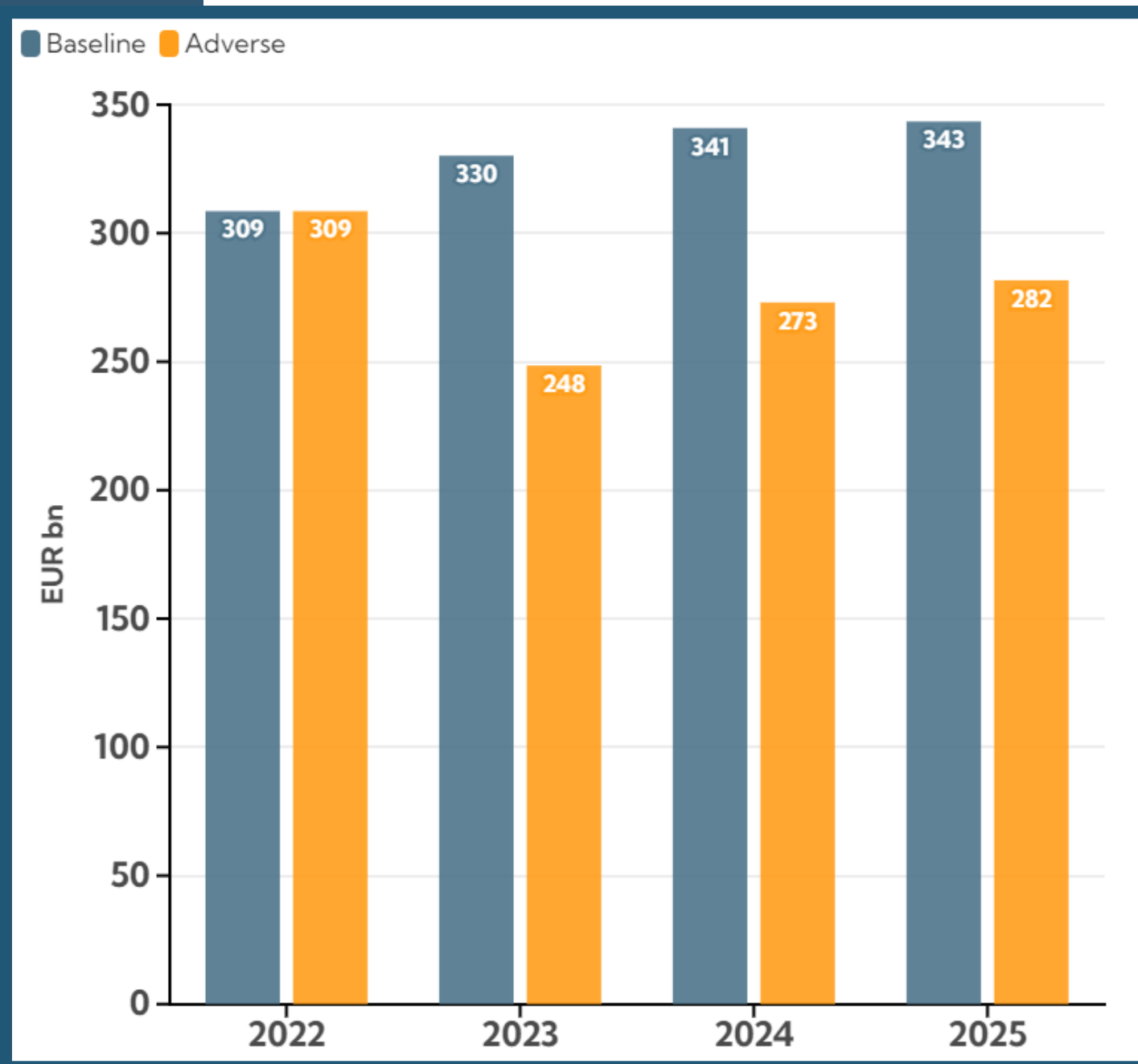
Change in provisions per sector



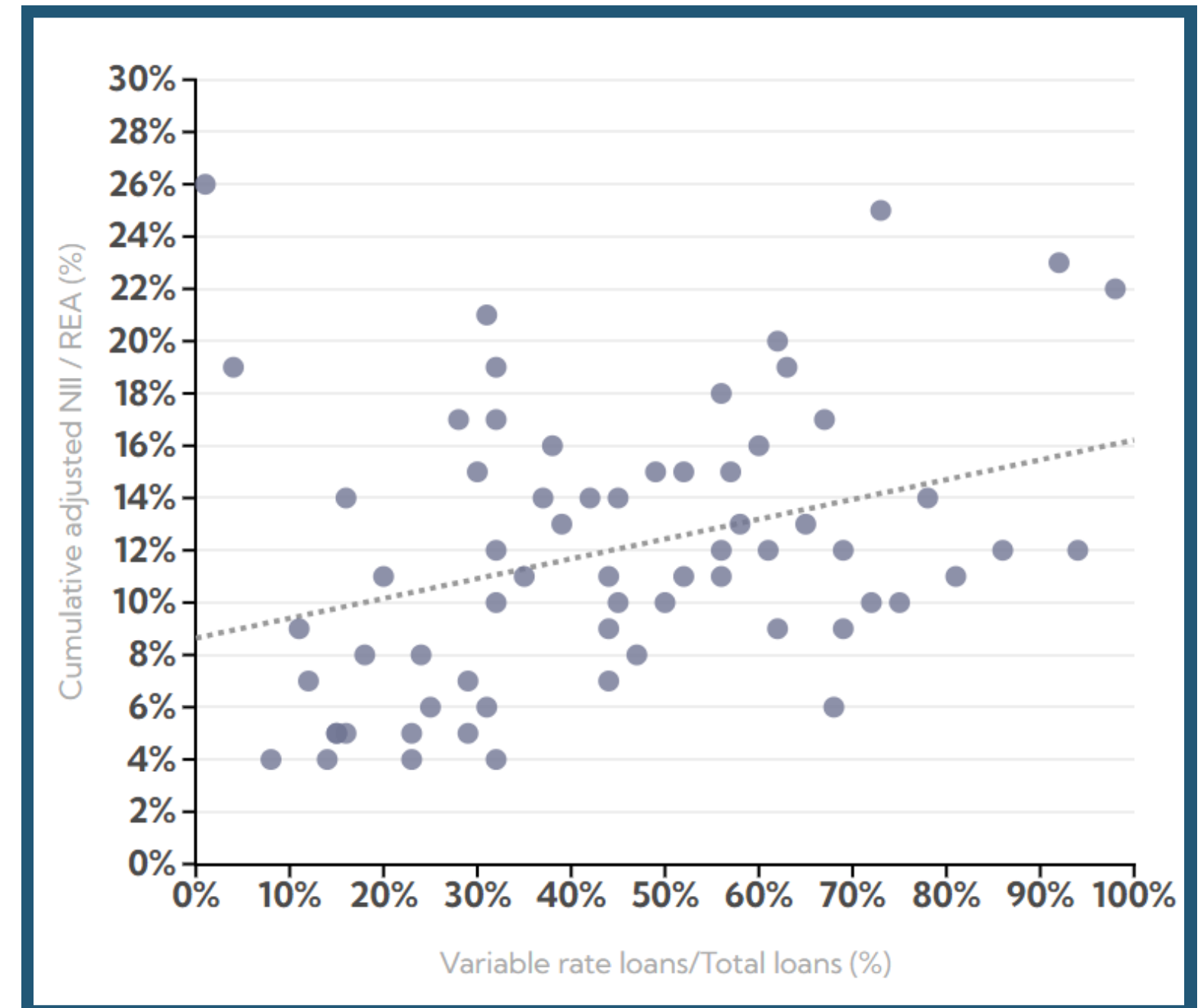
Net interest income is positively impacted by higher interest rates

- Cumulative net interest income (NII) amounts to EUR 803bn under the adverse scenario.
- Loan repricing reflecting interest rate increases contribute positively to NII under the adverse scenario.
- The assumed conservative pass-through of interest rates to deposit rates reduces NII.
- Banks with a higher share of variable loans are more likely to have higher NII.

Evolution of NII

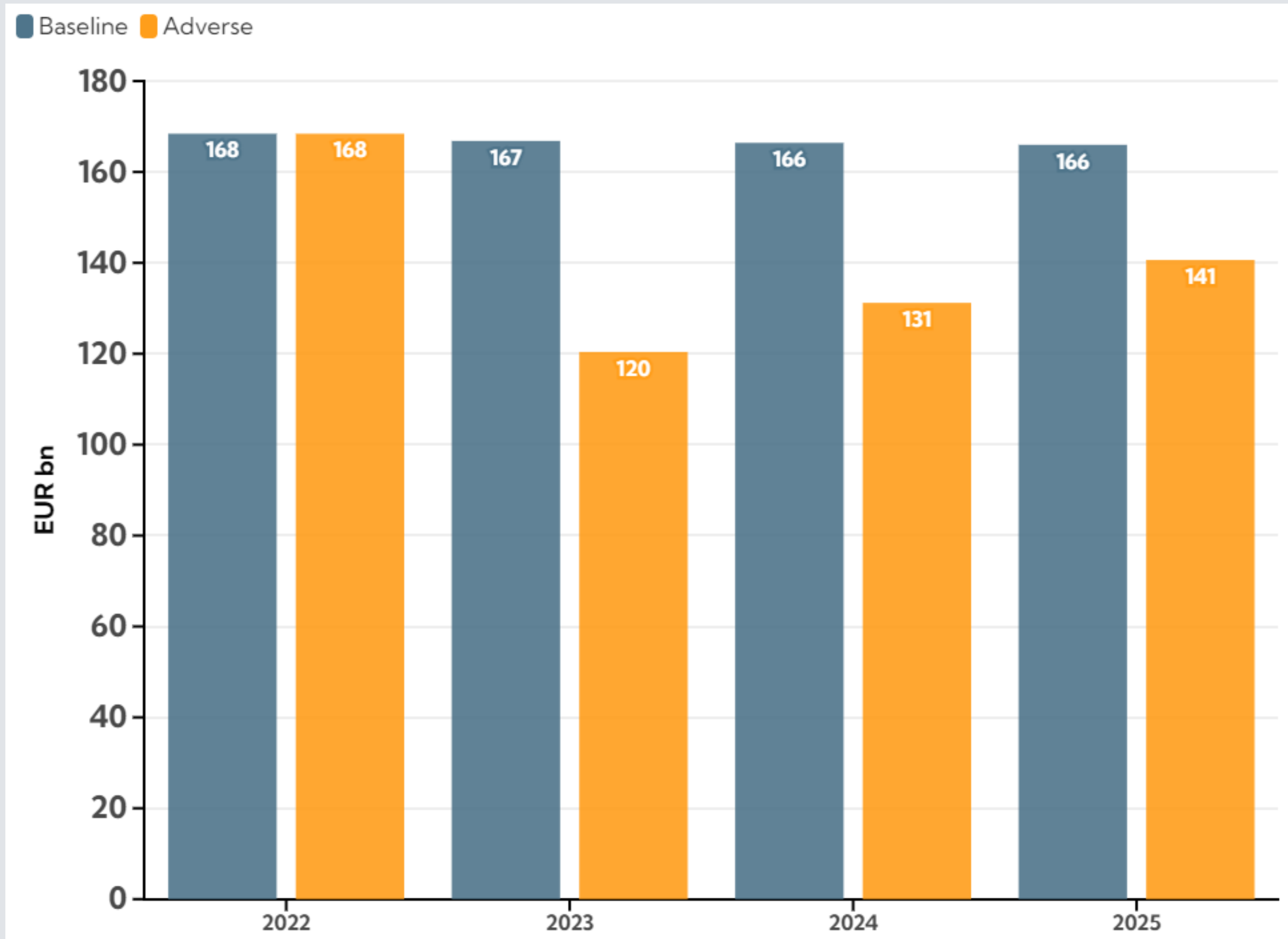


NII vs variable rate loans



Net Fees and Commission Income based on a top-down model

Evolution of NFCI and dividend income (EUR bn)

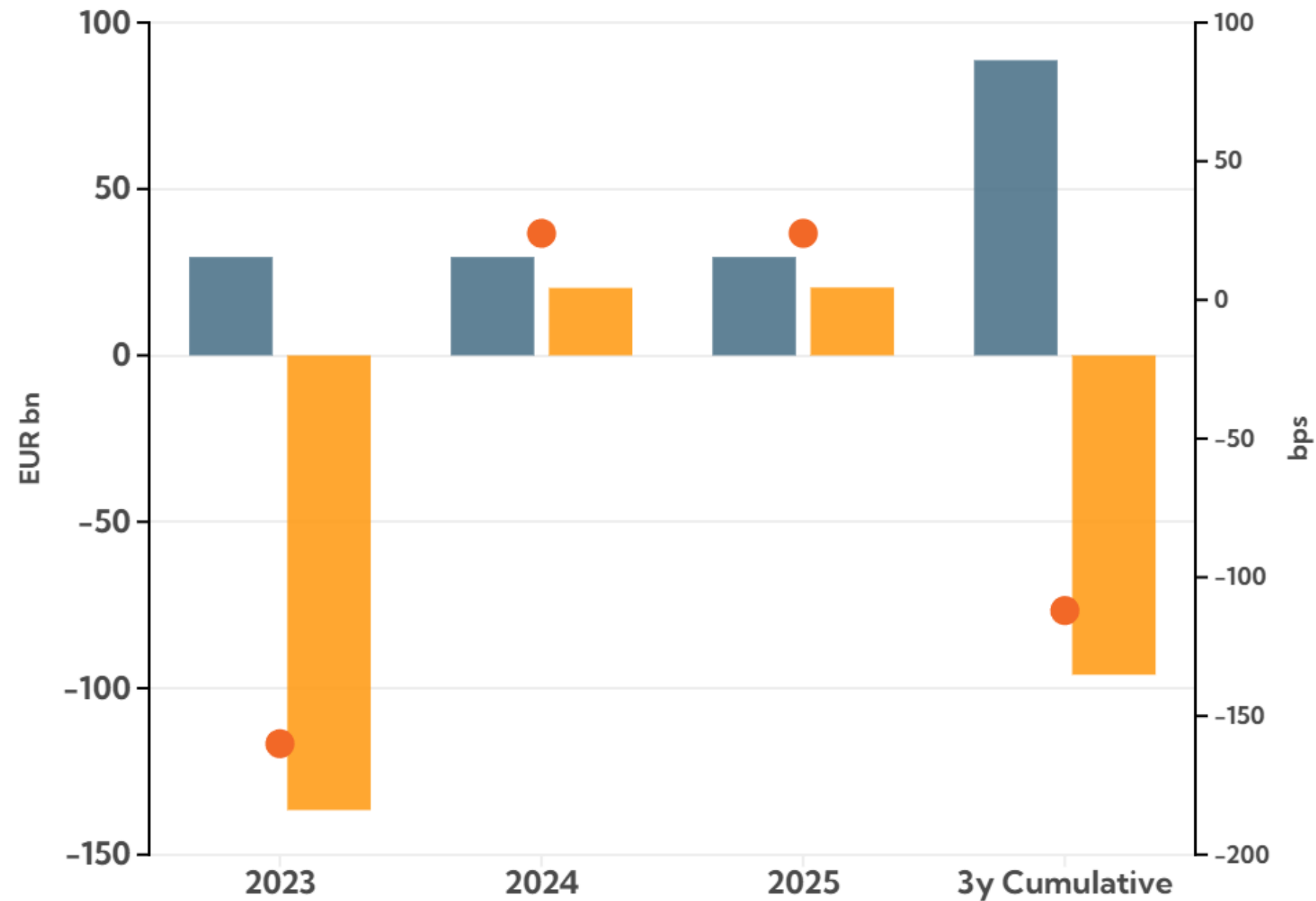


- As a new feature of the 2023 stress test, net fees and commission income (NFCI) projections are provided directly to banks based on a top-down model.
- Cumulative NFCI and dividend income in the adverse scenario amounts to EUR 392bn for the three-year horizon.
- Dividend income accounts for less than 3.5% of income for all years.

Market risk losses contribute to a worsening of capital positions

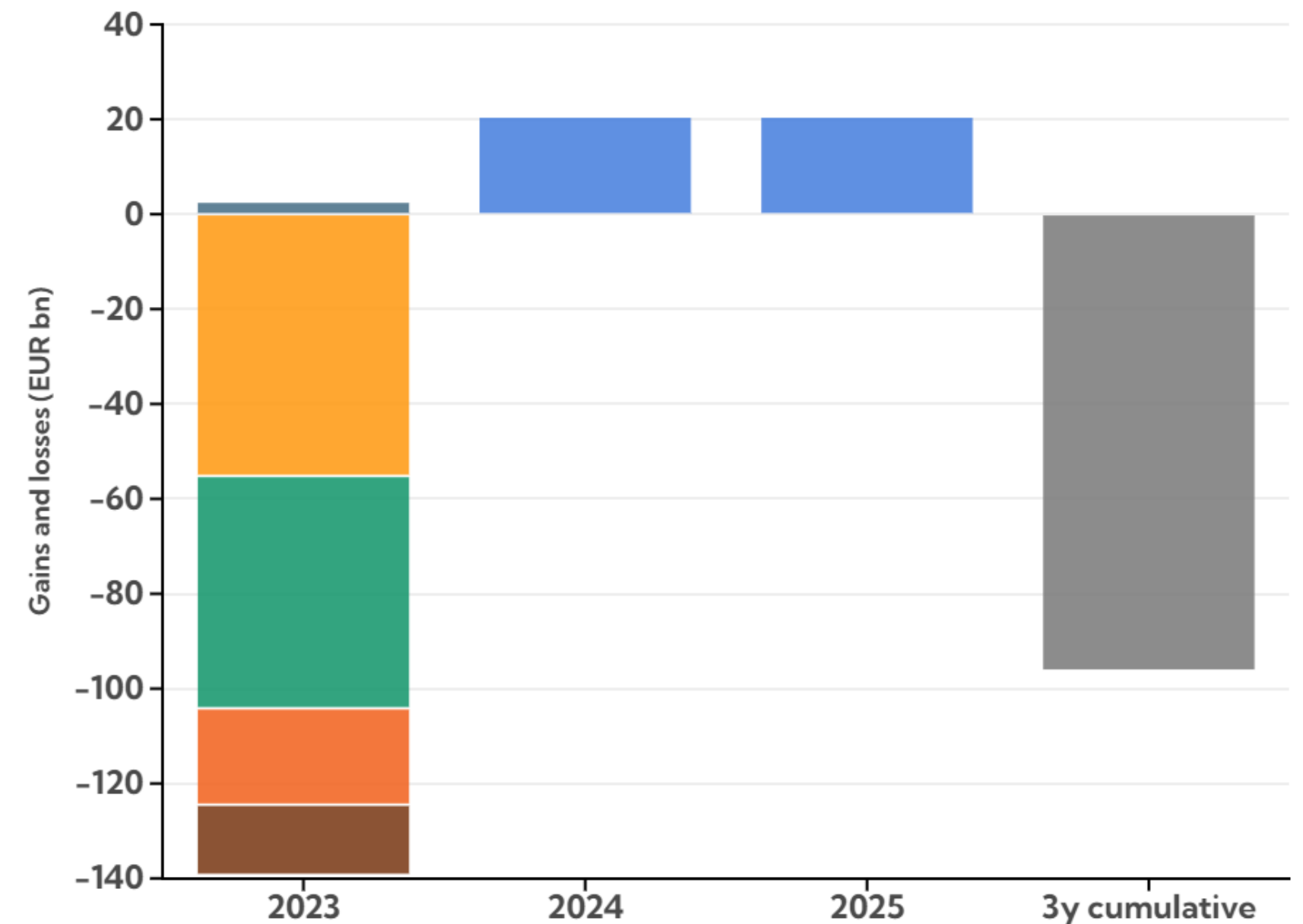
Market risk gains and losses

■ CET1 impact under the adverse scenario ■ Baseline ■ Adverse



Breakdown of gains and losses under the adverse scenario

■ Mandatory at FV ■ NTI ■ OCI ■ CCR ■ AVA ■ Client revenues ■ Total losses

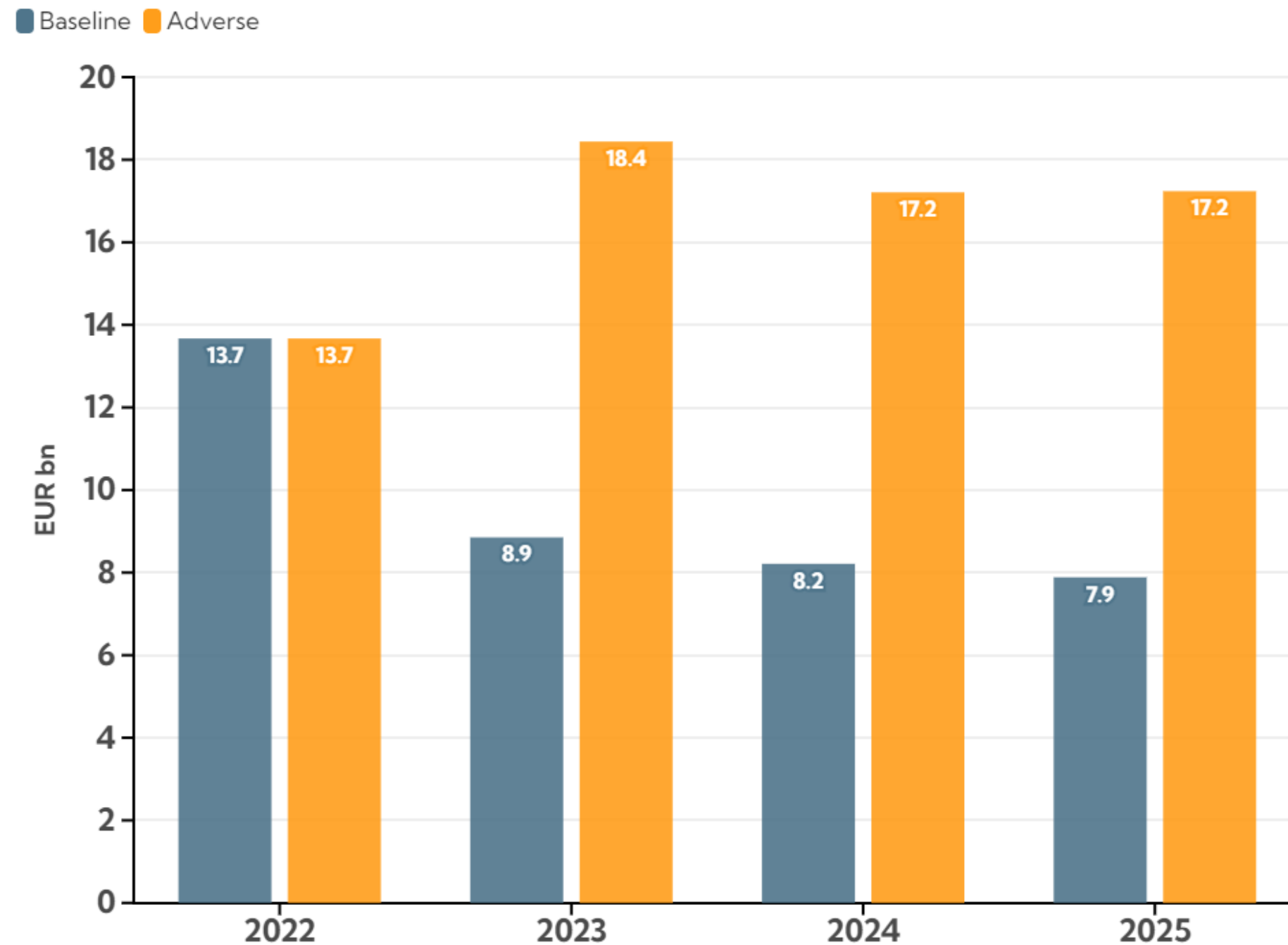


- Market risk losses amount to EUR 136bn (-160 bps) in the first year of the adverse scenario.
- Client revenues of EUR 40bn in the second and third year under the adverse scenario help reduce the cumulative 3-year market risk losses to EUR 96bn (-112 bps).
- The main drivers of the market risk impact are net trading income, other comprehensive income (including fair value through OCI) and counterparty credit risk.

Operational risk losses

- Total cumulative operational losses under the adverse scenario are EUR 53bn, with a negative capital impact of 62 bps.
- Losses are evenly split between conduct and other operational risk losses.

Evolution of operational risk losses

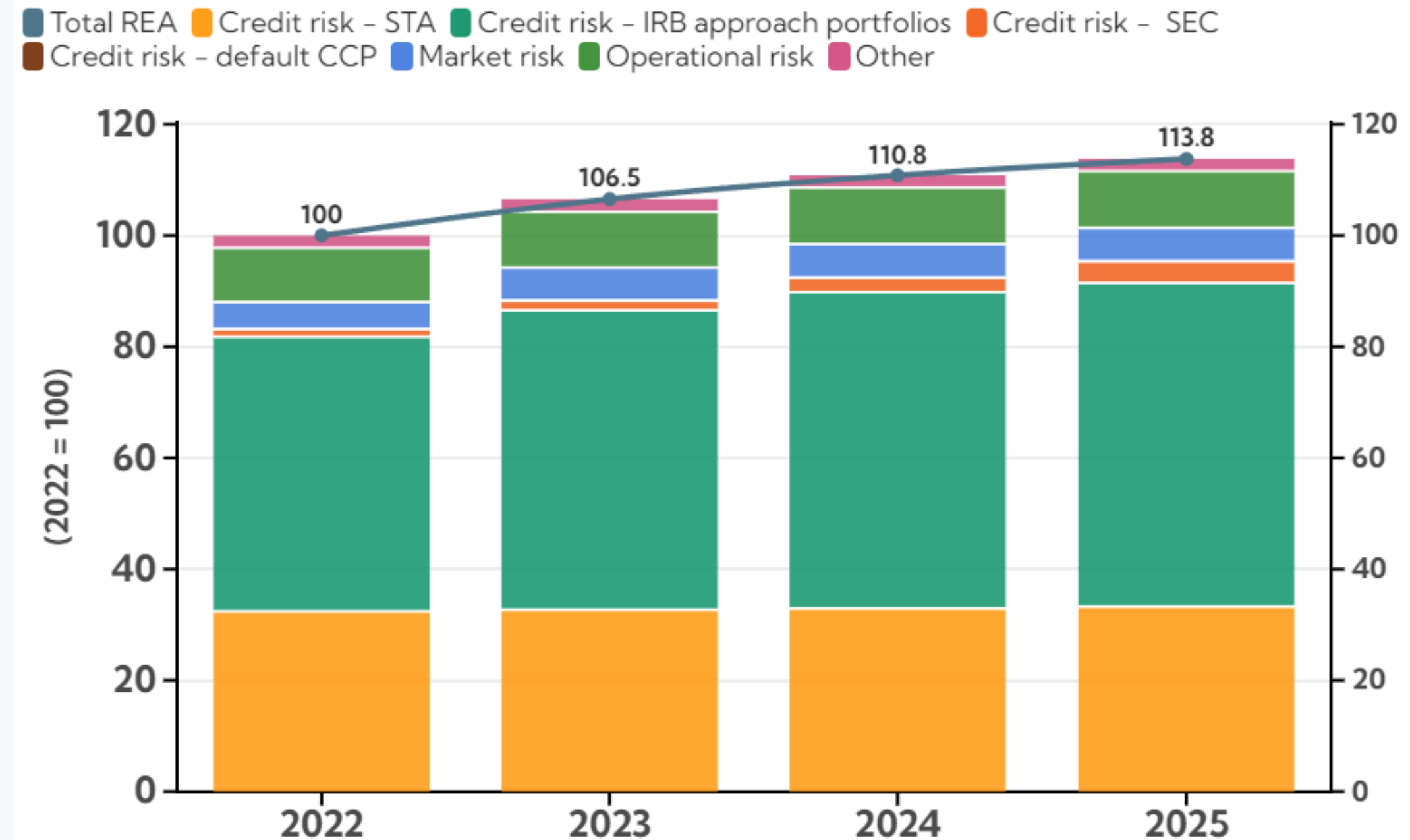




REA development

Increase in risk exposure amounts driven by credit risk

- Under the adverse scenario, total risk exposure amounts (REA) increases by 13.8%.
- Increased credit risk REA is the main contributor.
- The credit risk REA impact is more pronounced for portfolios under the internal ratings-based (IRB) approach.



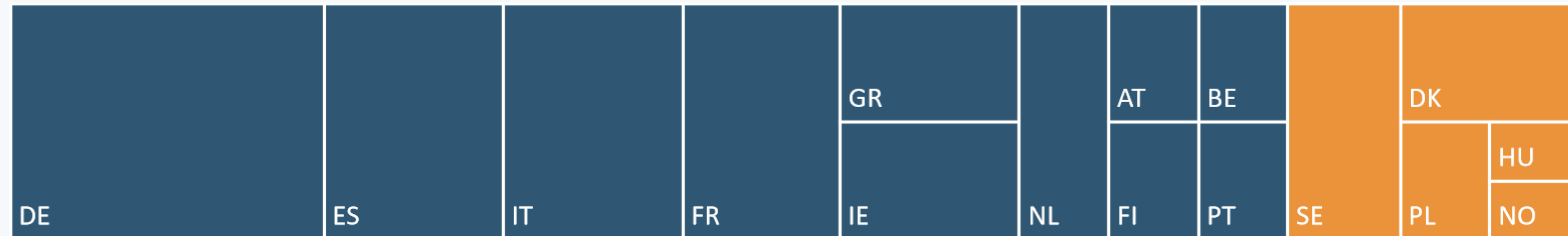
Transparency and disclosure

The EBA published **granular bank results**, including detailed information at the starting and end point of the exercise, under both the baseline and the adverse scenarios.

Data covers the 70 banks from 16 EU and EEA countries

SSM

Non SSM



Composition of the sample by number of banks per jurisdiction

10 Transparency templates will be made public, including Pillar 2 information at end-2022

- Summary
- Credit Risk: IRB / STA / COVID 19
- Securitisations

Capital
Profit & Loss
Risk Exposures Amount

Analysis, data and tools

Analysis of Results

Aggregate report

Frequently Asked Questions



Individual Transparency Templates

70 files – one for each bank (pdf)



Visualisation Tools

4 tools with individual results and EU/country aggregates



Entire Dataset

4 CSV files plus metadata, data dictionary, manual

