



TOPICS:

Banking System

SOURCE

European Banking Authority

EBA: Risk Assessment Report Spring 2025

- EBA's Spring 2025 **Risk Assessment Report presents a comprehensive analysis of the EU/EEA banking sector** amid evolving geopolitical, macroeconomic, and financial market conditions.
- **Economic activity in the EU has moderately strengthened** due to a series of interest rate cuts by the ECB and other national authorities, which have spurred lending and revived real estate markets. However, **geopolitical uncertainty, heightened defense expenditures, and global trade frictions** - particularly tariffs introduced by the U.S. - **pose significant downside risks.**
- **EU/EEA banks demonstrated resilience**, with aggregate profits rising by 9% in 2024, yielding a stable return on equity (RoE) of 10.5%. While net interest margins came under pressure, banks offset the impact through higher fee and trading income. **Capitalisation remained strong**, with a Common Equity Tier 1 (CET1) ratio of 16.1%, supported by retained earnings and increased use of Significant Risk Transfers (SRTs) to manage capital.
- **Liquidity remains solid:** the Liquidity Coverage Ratio (LCR) stood at 163.4% and the Net Stable Funding Ratio (NSFR) at 127.1%, although some decline in LCR was noted due to changing reserve compositions.
- **Credit quality showed mild deterioration**, with non-performing loans (NPLs) rising to €375 billion and IFRS 9 Stage 2 loans increasing significantly, particularly in the household sector. Banks reported elevated provisioning amid uncertainty.
- **Operational risk is increasingly systemic**, shaped by **digitalisation, cyber threats, financial crime, and emerging legal risks.** Some banks are expanding into digital assets, introducing additional exposure to infrastructure and cybersecurity vulnerabilities.

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