EBA update on COVID-19 response

SUERF-EBF conference - Bank's funding and revenue prospects in the low for long era

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11 December 2020

Adaptive changes to the health crisis

12. March
Postponement of stress test and use of flexibility

25 March and 2. March
Regulatory treatment of moratoria and IFRS9 treatment

31. March
Operational relief on reporting/disclosure
Prudent dividend/ buyback policy
Mitigation of financial crime

22 April and 4. May
Prudent valuation and OTC derivatives relief
Pragmatic SREP (GL on 23 July)

9 July
Resolution planning

2. July and 7. August
Report on COVID-19 clarifications

2. Dec
Limited re-activation of GL on moratoria

More detail can be found here:
https://eba.europa.eu/coronavirus

COVID-19 has caused an unprecedented shock, although banks' capital and liquidity not affected

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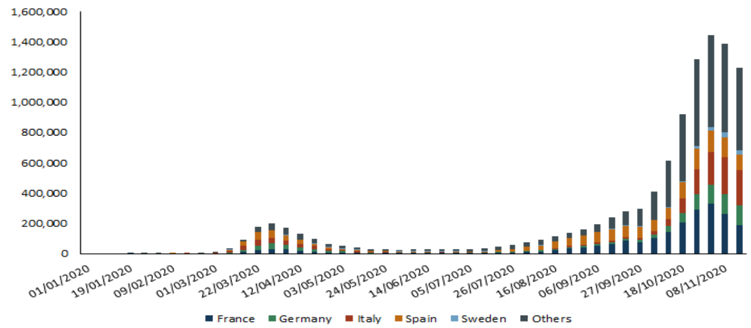
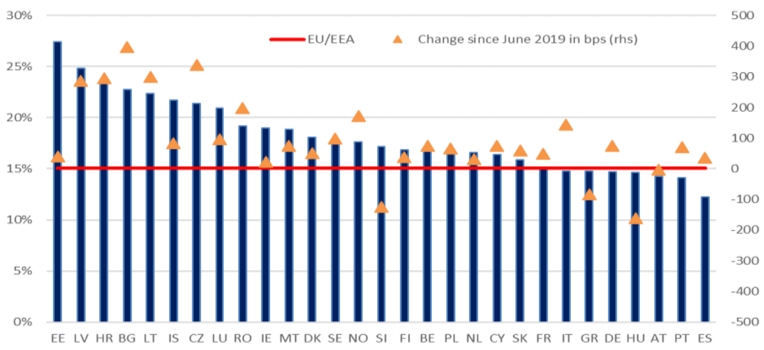
Weekly COVID-19 confirmed cases



Source: European Centre for Disease Prevention

CET1 ratio by country as of June 2020 (lhs) and change in bps since June 2019 (rhs)



Source of above charts: Supervisory reporting data

** Based on a sample of 157 banks*

- **Economic recovery remains subject to a high degree of uncertainty**, as COVID-19 cases were rapidly increasing and national authorities resumed containment measures.
- In contrast to the Global Financial Crisis, **banks have increased their lending to the real economy**.
- In the early stages of the COVID-19 outbreak, NFCs, especially SMEs, made **extensive use of available loan commitments**. Later on, credit demand was mostly driven by PGS.
- **Cash balances surged (around 50% YoY),** as a result of central bank extraordinary liquidity allotments. Liquidity coverage ratios (LCR) stand now even above already high pre-COVID-19 levels
- **CET1 ratios are up YoY** thanks to a pick-up in capital and to a decrease in RWAs amidst regulatory relief measures.
- Buffers above OCR and P2G are still high. As of June 2020, this management buffer was around 3.63% of RWAs and EUR 320bn.*

EBA GL on legislative and non-legislative moratoria 1/2

- Excerpts from press release from 21 September:
  - The payment moratoria have been an effective tool to address short-term liquidity challenges caused by the COVID-19 pandemic.
  - It is opportune to return to the practice that any rescheduling of loans should follow a case-by-case approach.
  - The regulatory treatment set out in the Guidelines will continue to apply to all payment holidays granted under eligible payment moratoria prior to 30 September 2020…
  - Banks can continue supporting their customers with extended payment moratoria also after 30 September 2020, such loans should be classified on a case-by-case basis according to the usual prudential framework.

EBA GL on legislative and non-legislative moratoria 2/2

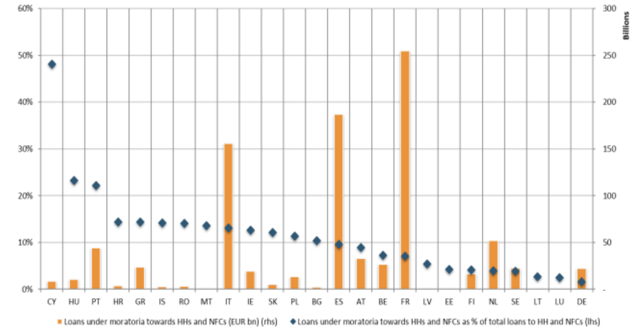
- A challenging choice for EBA whether to extend the GLs:
  - ✓ increased risks of not recognising obligors' long-term payment difficulties in bank balance sheets

  versus

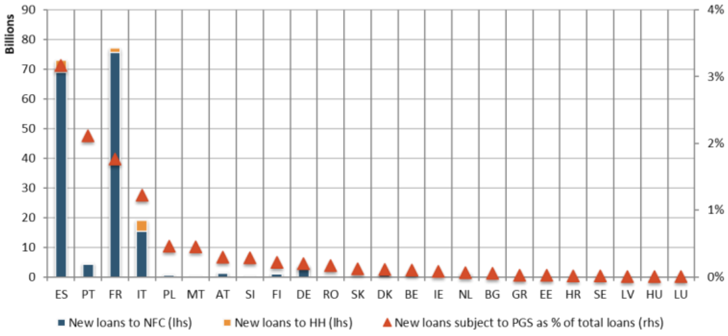
  - ✓ Ensuring that banks continue to support customers that face short-term liquidity issues
- Activation of Gls was announced on 2 December - with additional safeguards
  - ✓ The proposal includes a cap of 9 months on the total length of the payment extension at exposure level
  - ✓ Proposed extension until 31 March 2021
  - ✓ Enhanced documentation requirements for bank' UTP assessment plans

Moratoria and Public guarantees schemes (PGS) were significantly used in certain countries and sectors

Total volumes of loans under moratoria (EUR bn), loans under moratoria as % of total loans to HH and NFCs by country - June 2020



Volumes of loans subject to PGS and % of total loans by country – June 2020



Source for above charts: EBA supervisory reporting.

- **EUR 871bn loans under moratoria**, i.e. 6% of total loans and 7.5% of total loans towards households and NFCs;
- **Use of moratoria widely dispersed** across 60% of the loans under moratoria were towards NFCs and 40% towards Households;
- **SMEs and CREs exposures** had the **highest percentage of loans under moratoria** (16% and 12%, respectively - share of total SME and CRE loans) vs. 6% for mortgages;
- **Public guarantees aim to support flow of lending in the EU banking sector;**
- **EUR 181bn of 'PGS-loans**' – around 1.2% of total loans (1.6% of total NFCs and households)
- Sectors most impacted by confinement measures had generally the highest shares of loans under moratoria and PGS.

Monitoring asset quality will be key

- While full impact of pandemic still to be seen, COVID-19 related support measures provided breathing space / fresh credit to most affected borrowers;
- Despite this unprecedented support, default rates could increase markedly in coming months depending on the overall sanitary / economic situation and on the duration of these support measures;
- Comprehensive risk assessment, early recognition of problematic exposures, proactive engagement with borrowers and adequate provisioning policies will be essential in tackling a possibly significant deterioration in asset quality;
- Transparency needed for stakeholders to properly assess risks. EBA will publish bank-by-bank data on their use of moratoria in its Transparency Exercise on 11 December;

Level playing field, monitoring and reliable risk metrics

- The health and economic challenges confronting us remain, so there is a strong need for monitoring, as the situation develops

- EBA shift towards monitoring:
  - COVID-19 reporting will provide assessment of the new situation
  - IFRS9 benchmarking is becoming even more important
  - Development in NPE metrics will be key

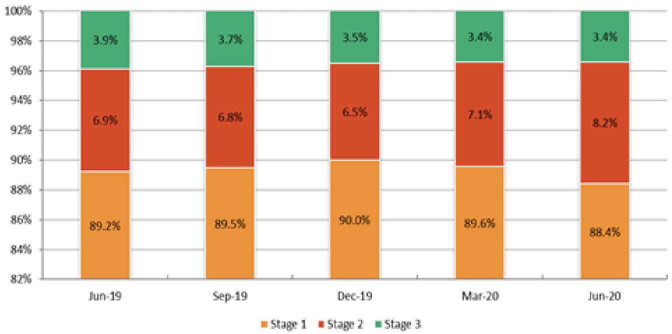
- Risk of distortion of banking rules. We must not forget that the level playing field must be maintained

- This monitoring will also enable EBA to react swiftly, should the situation develop in negative direction.

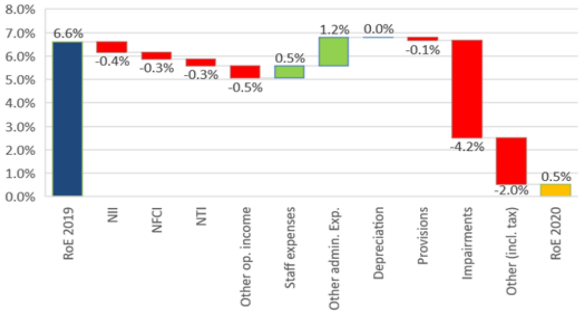
Annex

Early indications of asset quality deterioration are already observed

Share of exposures by IFRS 9 stages (%)



Contribution to the fall in RoE of the main P&L items, calculated as a ratio to total equity



Source of above charts: Supervisory reporting data

- **Stage 2 as well as forborne loans have increased significantly.** NPL volumes have slightly increased in Q2.
- **Banks have booked significant provisions on performing loans** that resulted in a material increase in the cost of risk, albeit with significant differences across countries and institutions.
- In addition to mounting impairments, subdued economic activity, low/negative interest rates and overcapacity **are adding pressure to banks' profitability.**
- **Cost reduction through automatisation and digitalisation have remained one of the primarily targeted areas to improve profitability**, followed by staff / overhead cost reductions according to our latest RAQ results.

Timeline for application of the moratorium

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TIMELINE FOR APPLICATION OF THE MORATORIUM

02 April '20 — 30 September '20 — 31 December '20 — 31 March '21

Date of application of the GL on moratoria

Original deadline in the GL on moratoria
(the decision on the application has to be taken before that date and the payments should be rescheduled by then)

Amendment proposed in these GL
until 31 March 2021, with a cap on the total length of the payment suspension, postponement or reduction

New deadline for the GL on moratoria

TIMELINE OF PAYMENT SUSPENSION, POSTENEMENT or REDUCTION

02 April '20 — 30 September '20 — 31 December '20 — 31 March '21

Loan 1: payments postponed from 1 May until 31 October 2020 (total length: 6 months)

Loan 1: payments could be postponed again for other 3 months (total length 9 months)

Loan 2: payments postponed from 1 May until 31 May 2021 (total length: 13 months)

Loan 3: payments postponed from 1 October 2020 until 31 May 2020 (total length: 9 months)

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