EBA REPORT ON FUNDING PLANS

SEPTEMBER 2018

EUROPEAN
BANKING
AUTHORITY

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List of abbreviations

ABS	asset-backed securities
AT1	additional Tier 1
BRRD	Bank Recovery and Resolution Directive
EBA	European Banking Authority
ECB	European Central Bank
EU	European Union
G-SIB	global systemically important bank
LTRO	longer term refinancing operations
MREL	minimum requirement for own funds and eligible liabilities
NFC	non-financial corporate/non-financial corporation
RAQ	Risk Assessment Questionnaire
T2	Tier 2
TLAC	total loss-absorbing capital
TLTRO	targeted LTRO

Country code	Name of country
AT	Austria
BE	Belgium
BG	Bulgaria
CY	Cyprus
CZ	Czech Republic
DE	Germany
DK	Denmark
EE	Estonia
ES	Spain
FI	Finland
FR	France
GB	United Kingdom
GR	Greece
HR	Croatia
HU	Hungary
IE	Ireland
IT	Italy
LT	Lithuania
LU	Luxembourg
LV	Latvia
MT	Malta
NL	Netherlands
PL	Poland
PT	Portugal
RO	Romania
SE	Sweden
SI	Slovenia
SK	Slovakia

Executive summary

The objective

The objective of the report is to analyse EU banks' funding plans submitted to the EBA and assess their feasibility.

Asset deleveraging continued in 2017…

Banks' total assets decreased in 2017 by -1.9% compared with their 2016 levels. The biggest banks in Europe are the main contributors to this decline.

…but banks expect asset growth over the next 3 years

Against this background, most banks expect their assets to grow throughout the 3-year forecast period. On average, total assets are projected to grow by 6.2% until 2020. The main drivers of asset growth are loans to households and to NFCs.

The funding mix is expected to be dominated by client deposits but also by long-term debt funding, while the share of short-term debt and repos funding are expected to fall

In parallel with the asset side, banks plan to increase the total liabilities and equity during the forecast period. Based on the projected data, this upward trend will be driven by both a growth in client deposits (including deposits from households and NFCs) and long-term debt securities. Deposits from households and NFCs remain the main component of EU banks' funding, with a share of more than 50%. By contrast, financial corporations' deposits are expected to remain broadly stable, with a share of around 15%, even though banks intend to slightly decrease this source of funding in 2019 compared with 2018. Short-term debt share is projected to slightly decline by 2020 while repurchase agreements share are expected to continuously fall throughout the forecast period.

Further reliance on market-based funding is expected with a concentration of debt securities issuances in 2019 and 2020

The projected data shows a broad-based increase in gross issuances volumes throughout the forecast period, driven by long-term unsecured funding. While the forecast gross issuances volumes in 2018 remain significantly below the volumes issued in 2016/2017[1], the data displays a sharp increase in long-term debt issuances in 2019 and 2020. Various factors could explain this dynamic, including the expected asset growth, the redemption of the TLTRO in the euro area and the Term Funding Scheme (TFS) in the United Kingdom as well as the implementation of the total loss-absorbing capacity (TLAC) for globally significant banks and the minimum requirements for eligible liabilities (MREL). As such, the expected increase in volumes raises a question about the capacity of banks to attain their targets amid less favourable environment and higher competition to attract investors' interest at a reasonable cost.

[1] More details in table 1 of this report.

Interest rate spread to decline in 2018

Amid higher competition in the EU banking sector, banks expect interest rates on loans to decline in 2018. Deposit rates are expected to stay flat for corporates and decline slightly for households in an attempt to retain client deposits, which still represent a cheap source of funding.

Long-term market-based funding costs to remain at 2017 levels

Banks assume that their costs of long-term market-based funding in 2018 will remain at 2017 levels. However, market analysts' expectations, collected using the EBA Risk Assessment Questionnaire (RAQ),[2] suggest an increase in funding costs in 2018. A planned increase in issuance volumes in 2019 and 2020 combined with the fading support by central banks is also likely to drive up funding costs.

Credit Supply Incentive Scheme to the real economy is expected to become the main component of public sector funding instead of repo funding programmes

The reliance on public sector sources of funding is projected to halve by 2020. While the share of repo funding is expected to decrease sharply, the credit supply incentive scheme to the real economy will represent the majority of total public funding (almost 50% in 2020).

Share of innovative instruments and deposit-like funding is predicted to remain very low

Consistently with previous reports, projected data shows that innovative instruments and deposit-like funding account for a marginal share of the funding mix.

Many banks missed 2017 targets by a large margin

Back-testing of last year's funding plans highlights that many banks missed their own targets for 2017 by a large margin. This holds true for both assets and liabilities. Competent authorities should investigate the reasons for divergences between plans and actual implementation and identify whether management forecast errors or misreporting have led to this outcome. Future funding plans should be scrutinised by Competent authorities.

Regulators and supervisors should monitor and assess the impact of changes in monetary policy stances on banks' funding

The expected increase in issuance volumes in 2019 and 2020, combined with the curbing of central banks' support measures, is likely to increase banks' funding costs. The impact on banks' net interest income as well as on their assumption of expanding client deposit-based funding will require careful monitoring. In addition, the replacement of central bank funding maturing in 2020 might require a greater effort to adapt from those countries that have made more intensive use of this source of funding.

[2] http://www.eba.europa.eu/documents/10180/2282718/Risk+assessment+questionnaire+-+July+2018.pdf/84cf5f2c-8185-4250-bc01-62c8fb6bc639

Introduction

The objective of this report is to analyse and assess the feasibility of submitted funding plans for the EU banking system. To assess the feasibility of asset growth forecast by banks on an aggregated level, as well corresponding forecasts on deposit and market-based funding, the report also compares submitted data with market and statistical information, such as historical issuance volumes and economic forecasts. The aim of the report is to perform the assessment at the EU level. However, it also includes comparisons at a country level.

The analysis is based on funding plan data reported in accordance with the EBA Guidelines.[3] The EBA collects data from a sample of banks, as defined in EBA Decision DC/2015/130, on reporting by competent authorities to the EBA.[4] The sample covers the largest institutions in each Member State and, in terms of total assets, covers more than 80% of the EU banking sector. The list of 159 reporting banks (including subsidiaries) from all EU jurisdictions is provided in Annex 2.[5]

Funding plan data is generally reported on a consolidated basis.[6] The EU aggregated figures and charts in this report are based on the data reported at the highest level of consolidation. Country-level data, in contrast, also includes subsidiaries where these belong to the largest banks in the corresponding jurisdiction. The reporting covers balance sheet forecast figures for 3 years, and includes information on public sector sources of funding, deposit funding, innovative funding sources, activities in main currencies, information on pricing and impact of disposals and acquisitions. The analysis uses data reported in December 2016[7] and December 2017, and covers actual figures for 2016 and 2017 as well as forecasts for the subsequent 3 years (2018 to 2020). The cut-off date for all funding plan data submitted by banks was 6 August 2018, and for market data[8] the cut-off date was 9 August 2018.

[3] EBA Guidelines: https://www.eba.europa.eu/documents/10180/742799/EBA-GL-2014-04+%28Guidelines+on+Harmonised+Definitions+and+Templates+for+Funding+Plans%29.pdf

[4] EBA Decision: http://www.eba.europa.eu/documents/10180/16082/EBA+DC+090+%28Decision+on+Reporting+by+Competent+Authorities+to+the+EBA%29.pdf/9beaf5be-2624-4e36-a75b-b77aa3164f3f.

[5] Throughout the report, country-specific data is not disclosed if the country in question participated in the exercise with fewer than three banks.

[6] Competent authorities should exercise discretion as to the level and perimeter of consolidation on a firm-by-firm basis (paragraph 11 of the Guidelines on Funding Plans).

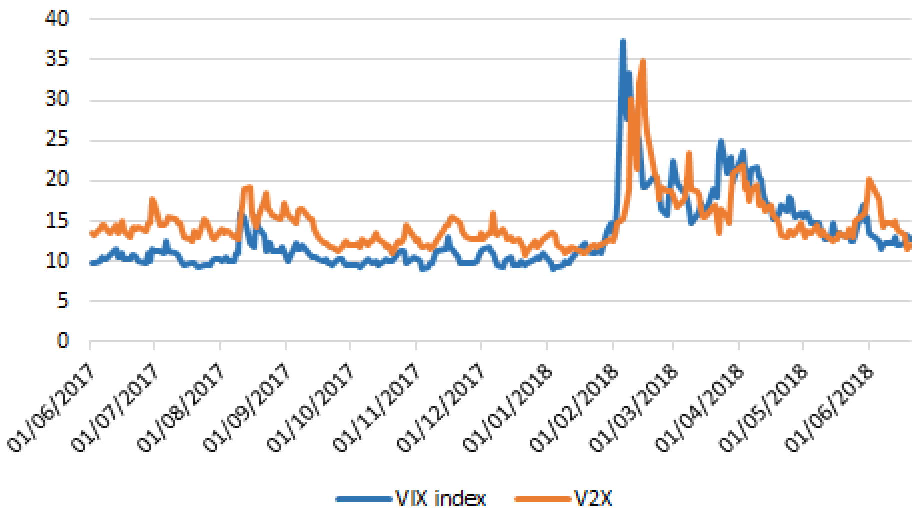
[7] For the back-testing analysis, a common sample is used, i.e banks that reported in both 2016 and 2017.

[8] ‘Market data’ refers to Bloomberg data used in the section ‘Recent development of liquidity and funding conditions in the EU area’.

Recent developments of liquidity and funding conditions in the EU

After favourable conditions throughout 2017, funding and liquidity conditions have been affected by various headwinds since the beginning of 2018, although in general EU banks continue to have easy access to attaining the amounts set in their funding plans. Indeed, during the first part of 2018, financial markets have experienced a new regime with heightened volatility amid a looming monetary policy normalisation process, mixed macroeconomic prospects and persistent political/geopolitical concerns.

Figure 1: Implied volatility since June 2017



Source: Bloomberg

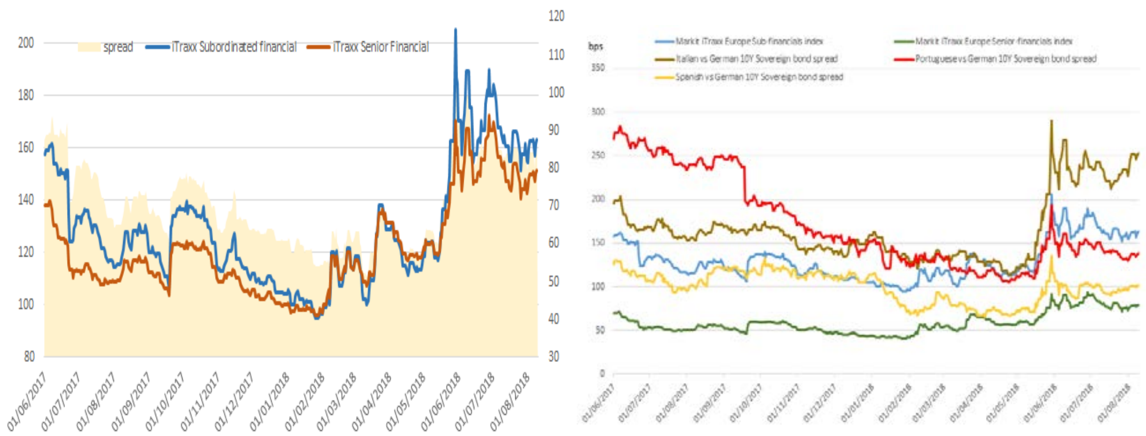
Thus, the unforeseeable bouts of volatility recorded in February, and their aftermath in the equity market and, to some extent debt markets, highlights that the repricing of risk premia is still a serious concern that could rapidly deteriorate access to funding markets and weigh on the banking sector's funding costs.

At the very beginning of the year, the stealthy steepening of yield curves resulting from the normalisation process of monetary policies influenced somewhat the funding and liquidity conditions. This brief move led to higher interest rates weighing slightly on the banks' funding costs.

More importantly, EU funding markets were markedly affected by the political uncertainties in some EU countries that fuelled changes in investors' risk appetite during the second quarter of 2018. As a result, bonds spreads widened dramatically in directly affected jurisdictions, spilling over into peripheral countries and affecting the EU financials' spreads. The Markit iTraxx indices subordinated and senior debt edged to their highest level for over 1 year on 29 May 2018, at 205 basis points and 92 basis points, respectively. This contagion effect highlighted that the feedback loop between the sovereign and financial sectors remains a concern among investors as EU banks are still highly exposed to sovereign debt.

Therefore, while EU banks continued to have easy access to funding, the spreads stood slightly higher than last year, although they are still low when compared historically. In this respect, market participants expect spreads to continue to widen as it is assumed volatility will continue long term given the remaining vulnerabilities and new sources of uncertainty.

Figure 2: iTraxx subordinated and senior financials indices (left) and iTraxx senior and subordinated financial index and Italy, Portugal and Spain - Germany 10Y bonds spread (right)



Source: Bloomberg

In terms of activity in the EU's funding markets (secured and unsecured), EU banks have continued to benefit from vigorous demand from investors, particularly during the first quarter. Both primary and secondary markets have been supported by the search for yields in a context of ultra-low rates, ample liquidity and improving macroeconomic and banks' fundamentals (improved balance sheets, deleveraging, decreasing non-performing loan ratios, and increasing capital positions).

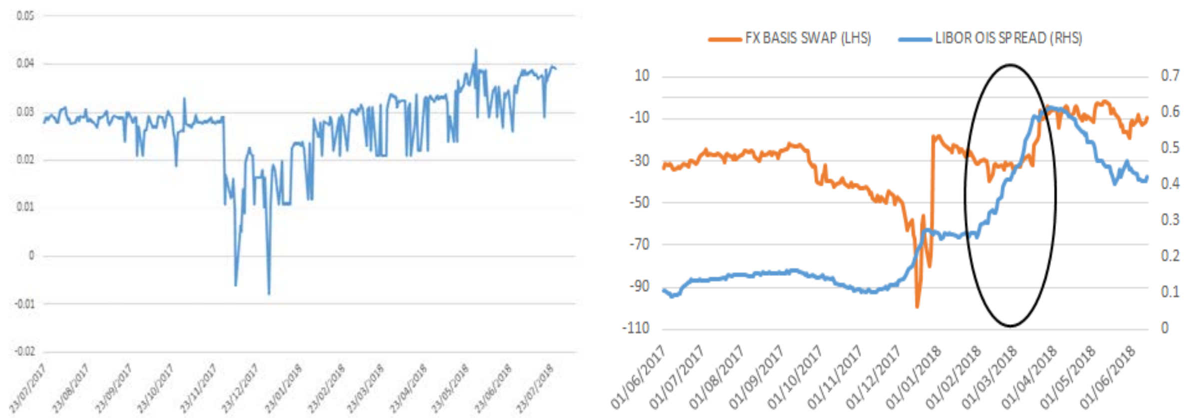
As for liquidity conditions, the environment has remained benign in all currencies. The monetary policy in the EU has continued to be supportive, although some central banks took further steps towards normalisation. In the euro area, the announcement by the European Central Bank (ECB)[9] of a gradual tapering of net asset purchases by the end of 2019 ultimately had limited effect, as this was already priced in the market. Nevertheless, some market observers highlighted some risks in diminishing central bank liquidity despite the dovish statement delivered by the ECB. On the back of the ECB's June meeting, market participants also adjusted their rate expectations. Hence, any normalisation of rates is expected to be gradual after the ECB confirmed an accommodative rates forward guidance stating that rates will 'remain at present levels at least through the summer of 2019'.[10] Based on market data, the first hike is not predicted until end of 2019 or early 2020, which coincides with the most important TLTRO maturities in the euro area.

[9] http://www.ecb.europa.eu/press/pr/date/2018/html/ecb.mp180614.en.html

[10] http://www.ecb.europa.eu/press/pressconf/2018/html/ecb.is180614.en.html

Looking at the dollar funding conditions, the beginning of the year was also characterised by the widening of the spread on Libor over the overnight indexed swap rate, commonly known as Libor-OIS spread, a proxy to gauge banks' funding/liquidity stress in USD dollar. The spread climbed to around 58 basis points in the middle of March, its highest level since May 2009. At the same time, the FX basis swaps, which represent the cost of borrowing USD in exchange for other currencies on foreign-exchange swap markets, remained unstressed compared with historical levels. Overall, these moves did not reflect any concern regarding USD funding of EU banks as previously experienced by the European banking sector, and nor did they signal any build-up of systemic risk. However, the development of the USD funding conditions should be further monitored, as European banks still exhibit a high reliance on short-term and wholesale USD funding[11].

Figure 3: Euribor OIS spread 3 months since June 2017 (left) and Libor-OIS spread and FX basis swap (right)



Source: Bloomberg

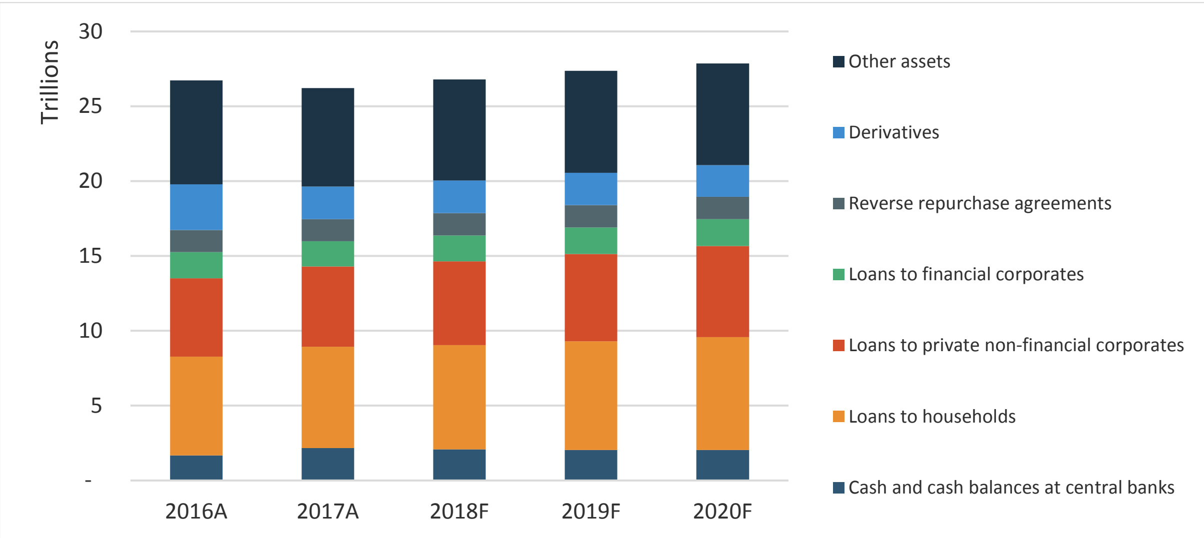
[11] The EBA is monitoring and evaluating liquidity coverage requirements including whether or not the currency denomination of their liquid assets is consistent with the net liquidity outflows. A report is due to be published in autumn 2018.

Asset trends

Forecast asset growth and its main drivers

European banks' total assets are expected to grow throughout the forecast period (2018 to 2020), indicating a reversal of the trend of recent years. While total assets actually decreased in 2017 by 1.9%, banks expect total assets to increase at an average rate of 6.2% over the 3-year forecast period. Figure 4 reflects this, showing the actual asset composition for the years 2016 and 2017 and the planned asset composition for the years 2018-2020.

Figure 4: Actual and planned asset composition, 2016-2020

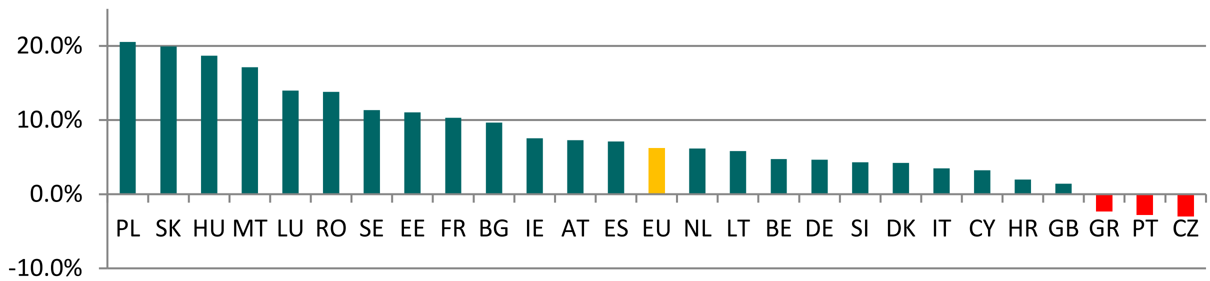


Source: EBA

The reported asset growth forecast figures show wide dispersion across banks and countries. While 61 of the 122 banks in the sample[12] expect their total assets to grow by more than 5% in the next 3 years, 39 of the banks expect to stay within a range of +/-5% of their total assets as reported in December 2017, and 22 banks expect to further reduce their total assets by more than 5%. Figure 5 shows the planned total assets growth rate over the 3-year forecast period for each country with a minimum of three banks included in the sample. Whereas banks in four countries show average growth rates of between 15% and 21%, banks in another three countries reported asset reductions over the forecast period.

[12] Only figures reported by banks at the highest level of consolidation are considered – subsidiaries are not included.

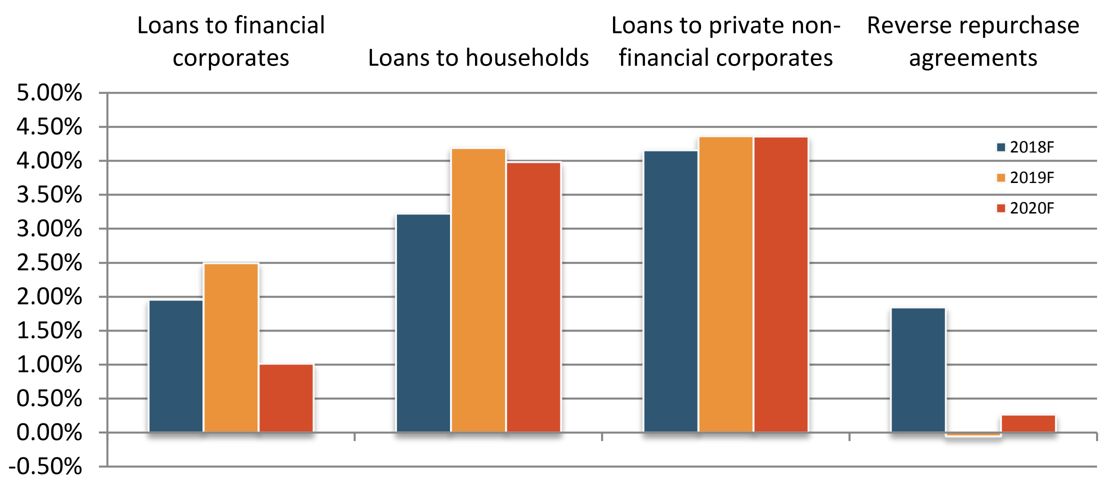
Figure 5: Planned total asset growth by country, 2018-2020



Source: EBA

On average, the main drivers of the planned asset growth are loans to households and to NFCs, which together are referred to as client business. Whereas loans to households are expected to increase by 11.8% over the forecast period, the growth rate for loans to NFCs is expected to be 13.4%.[13] These two asset classes also represent the biggest asset classes and, combined, make up almost 50% of the total. Loans to financial corporates and reverse repurchase agreements contribute to a lesser extent to overall asset growth at a rate of 5.6% and 2.1%, respectively.[14] Cash and cash balances at central banks, as well as derivatives, are expected to decline during the forecast period, by –6.7% and –3.3%, respectively.

Figure 6: Planned growth by asset class, 2018-2020



Source: EBA

The trend of growing client business can be identified at an aggregated EU level and across countries. Loans to households and to NFCs are projected to grow in nearly all countries and across most of the projection period. Contrary to the findings for banks' client business, it is not possible to identify common patterns in the evolution of loans to financial corporates. The trends, in terms of both the magnitude and the direction (i.e. negative or positive), vary across countries. Similarly, no clear pattern can be identified for reverse repurchase agreements. Indeed, these agreements are considered

[13] See Figures 35 and 36 in Annex 1 for country-specific growth of loans to households and NFCs.

[14] The funding plan reporting does not cover any intragroup financing, which might constitute a significant share of banks' funding in some jurisdictions, and nor does it cover any potential cross-investments of banks (such as banks investing in other institutions' covered bonds issuances).

relevant (if reverse repos as a share of total assets are greater than 2%) for less than half of the banks in the sample and the growth is almost entirely driven by forecast figures for 2018.

Assessment of planned asset growth

To get an indication of the reliability of banks' forecasts, two approaches are applied: a back-testing based on data reported by participating banks and a comparison with market analysts' expectations.

In the first approach, banks' planned loan growth figures for 2017 as reported in December 2016 were compared with the actual growth figures for 2017 as reported in December 2017. The sample of banks for this analysis was restricted to those that reported valid figures in 2016 (actual figures for 2016 and forecast figures for 2017) and in 2017 (actual figures for 2017). This reduced the sample to 150 banks.

In the second approach, banks' planned loan growth figures for 2018 were compared with expectations expressed by banking experts and market analysts via the EBA's RAQ, which the EBA conducts twice a year. Responses to the questionnaire received in spring 2018 were used for this comparison.

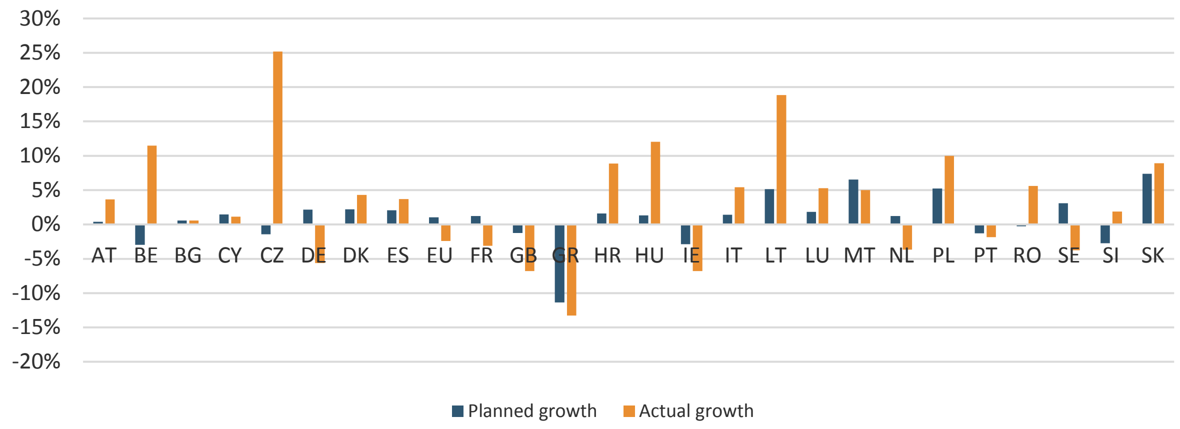
Back-testing banks' asset growth

The back-testing results show that banks were too optimistic in their forecasts. On average, in December 2016, banks estimated that their total assets would grow by 1.0% during 2017. However, in December 2017, it turned out that their total assets had actually declined by –2.4%. This means that banks missed their asset growth targets by an average of 3.4%.

Figure 7 highlights that there is a wide dispersion of growth rate misses by country, ranging from landing exactly on or very close to growth targets (which is the case for banks in Bulgaria) to overshooting their targets by 27% (in the case of Czech banks).[15]

[15] In response to rapid credit growth, the Czech central bank recently raised its countercyclical capital buffer for banks to 1.50% to strengthen banks' resilience to any deterioration in the economic cycle.

Figure 7: Back-testing total assets (2017)



Source: EBA

At the individual bank level, dispersion is even wider, with growth target misses ranging from –65% to 38%. Only 27% of the banks in the sample managed to stay within 2 percentage points of their total assets target, while 25% of the banks missed their targets by more than 5 percentage points and 21% of the banks beat their target by more than 5 percentage points.

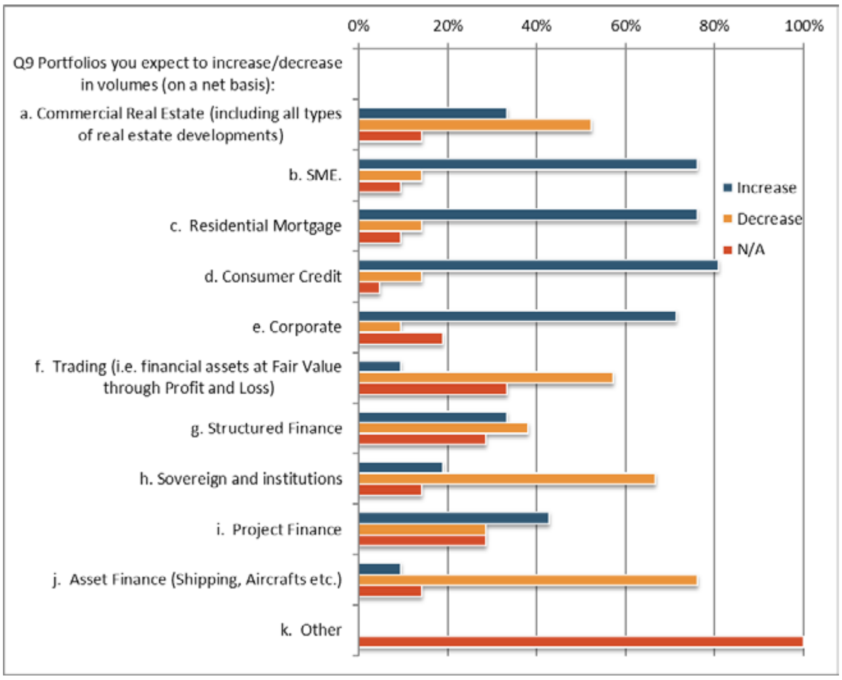
The overall decline in total assets and the gap between actual and forecast assets for 2017 is driven by the top 10 banks in Europe (measured in terms of total assets as of December 2017), which continued their asset disposals in 2017. Of the top 10 banks, 8 actually missed their targets (5 of which missed the targets by more than 5 percentage points), and together they account for almost 70% of the total gap between the target and the actual figures. The asset reductions of big banks also drove results at country level and explain the negative gap for Germany, France, the Netherlands, Sweden and the United Kingdom, as shown in Figure 7.

Comparison with market expectations

As part of the EBA's semi-annual RAQ, banking experts and market analysts identify which portfolios they expect banks to increase or decrease in 2018. Figure 8 summarises the analysts' expectations for a predefined set of portfolios. Almost 80% of analysts expect the portfolios Corporates, SMEs, Residential mortgage and Consumer credit to grow in 2018.

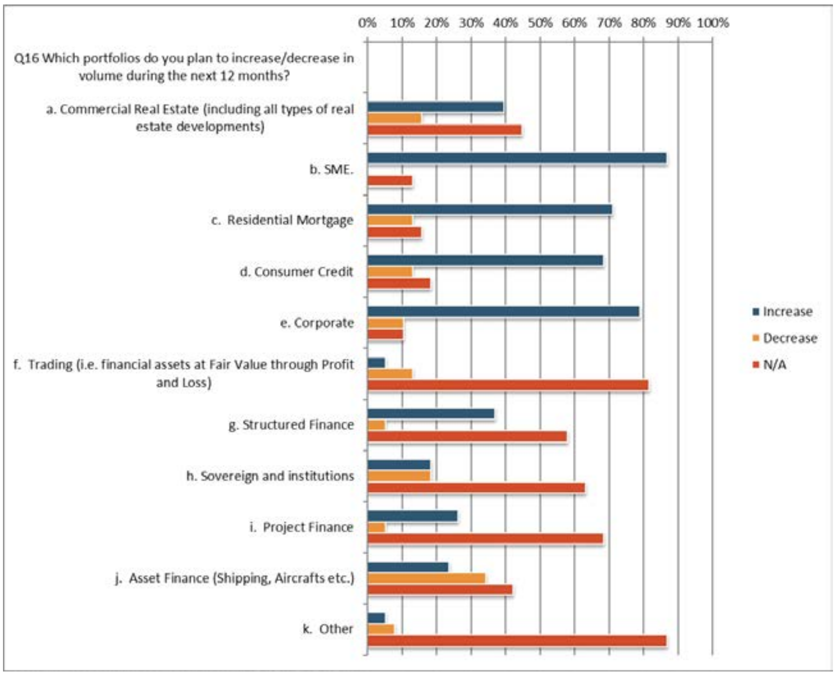
Figure 9 provides a summary of views expressed by banks via the EBA's RAQ as regards portfolios they expect to increase or decrease in 2018. Responses are broadly in line with those provided by analysts and point towards the same portfolios to grow in 2018. The RAQ responses are in line with forecast figures reported by banks in our sample, 75% of which forecast an increase in loans to households and to corporates. Analysts were not requested to express their expectations as regards the magnitude of the changes to portfolio volumes, but data reported by the banks in our sample suggests an average growth rate in 2018 of 3.1% for loans to households and of 4.2% for loans to private NFCs.

Figure 8: Analysts' expectations on portfolio changes in 2018



Source: EBA RAQ

Figure 9: Banks' expectations on portfolio changes in 2018



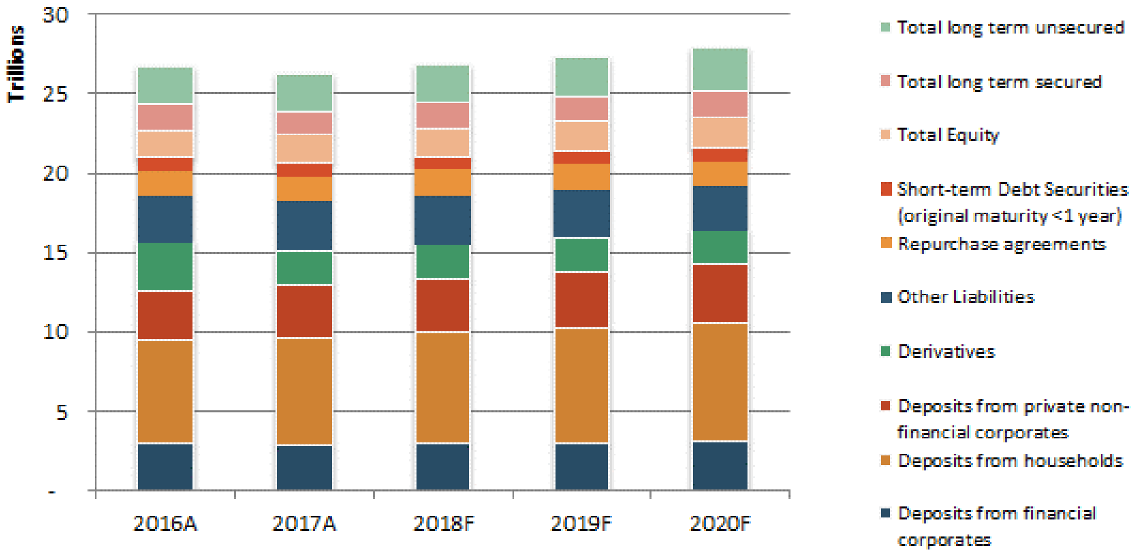
Source: EBA RAQ

Liability trends

Forecast liability growth and its composition

While the total liabilities of the EU banking sector have been exhibiting a downward trend over the recent period, the projected data shows that banks expect liabilities to increase over the forecast period (2018-2020) (Figure 10). EU banks plan to continue to rely heavily on deposits, but the share of long-term funding is also expected to grow somewhat over the next 3 years.

Figure 10: Actual and planned liabilities composition, 2016-2020



Source: EBA

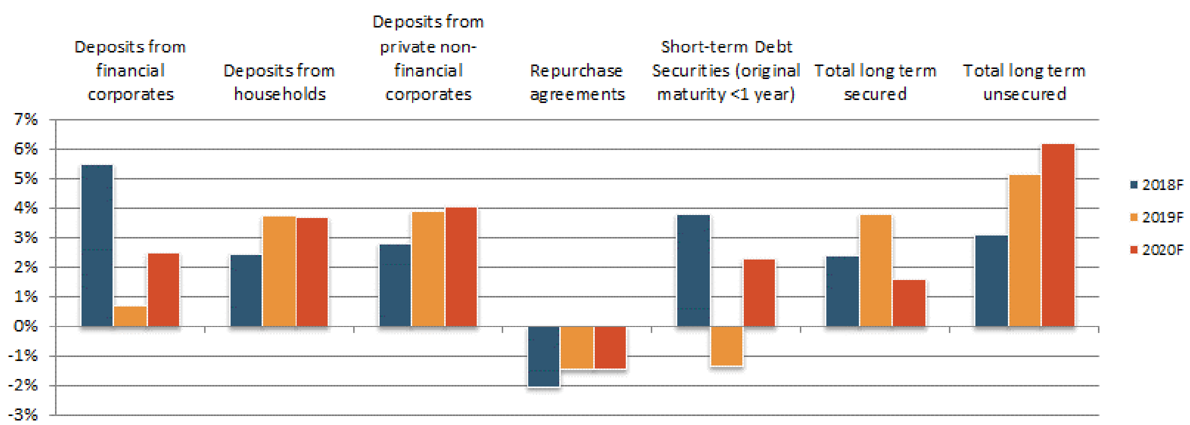
The liability data projected by EU banks displays three main features. According to banks' plans, client deposits will remain the main component of their funding-mix confirming that they will continue to target stable funding. At aggregated EU level, the share of the total deposits[16] in total funding is assumed to increase continuously from 67.5% in 2017 to 68% in 2020. The main source of funding will continue to be deposits from NFCs and households, which in 2017 represented, respectively, 17.1% and 35.6% of the total funding and 13.4% and 28.0% of the total liabilities. These two sources of funding are projected to grow by 4% and 3.7%, respectively, in 2020. Conversely, deposits from financial corporates, accounting for around 15% of the total funding in 2017, are expected to remain broadly steady over the forecast period. At country level there is a wide dispersion, as in some countries (e.g. Luxemburg and Germany) these deposits exceed 30% and are even more important than the share of households deposits.

[16] Total deposits include deposits from households, NFCs and financial corporates.

Furthermore, banks plan to be more active in long-term market-based funding. This source of funding is assumed to increase gradually over the next 3 years, from 20.0% in 2017 to 20.6% in 2020. Specifically, this trend should be mainly driven by unsecured funding, which is assumed to grow by 4.8% on average over the next 3 years. In parallel, the long-term secured funding is expected to continue to increase but at a lesser magnitude (+2.6% in average over the projected period). While this latter represents only 8% of the total funding at EU aggregated level, it is still an essential part of the funding in Denmark and Sweden. The trend observed in the secured and unsecured funding suggests a shift between these two sources of funding that could be linked to the need for G-SIBs to meet the TLAC deadlines in January 2019 and 2022 and the progress in implementing MREL across the EU.

Regarding the share of short-term funding in the total funding, it is assumed to decline from 2019 to reach 4.1% of the total funding in 2020 versus 4.3% in 2017. Similarly, according to the projected data, the repurchase agreements funding (repos) is expected to drop notably. Indeed, banks expect a negative growth rate for repos over the coming years and in almost all countries with some exceptions such as Denmark, Germany and Netherlands, where this type of funding is expected to remain broadly stable. Altogether, the repos and short-term debt securities represent 12.7% in 2017 and are assumed to drop to 11.5% by 2020 in terms of total funding.

Figure 11: Growth in selected liability classes (EU)

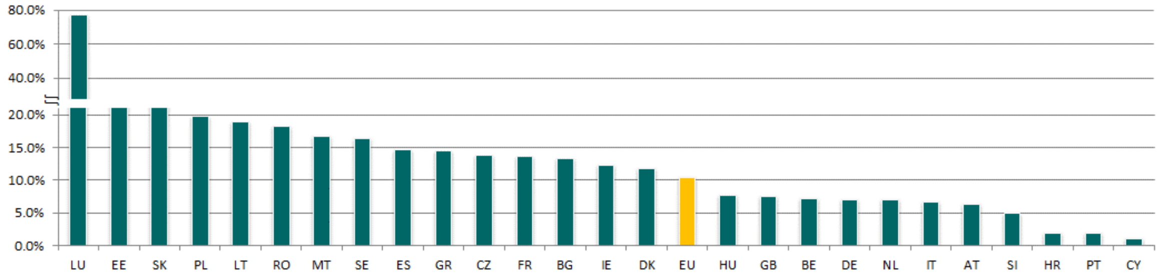


Source: EBA

Plans for client deposits

The projected data shows that client deposits should continue to grow cumulatively in all countries (Figure 12). At aggregated EU level, deposits are expected to increase by 10.46% by 2020. Almost 60% of countries expect deposits to increase by more than 10%, while only three countries foresee a deposit growth rate below 2%. To some extent, many countries expect growth in deposits and loans to move in tandem between 2017 and 2020. This is the case, for instance, for Poland, Romania, Slovakia and Malta. However, there is a divergence for Greek banks as they plan to continue to increase their deposits, while a negative growth in loans is expected for 2020.

Figure 12: Growth in deposits from households and NFCs by country and for the EU (2017A-2020F)



Source: EBA

Assessment of planned liabilities trend

Similarly to the asset side, to get an indication of the reliability of banks' forecasts, two approaches were taken: a back-testing based on data reported by participating banks and a comparison with market analysts' expectations. Banks' planned liabilities growth figures for 2017 as reported in December 2016 were compared with the actual growth figures for 2017 as reported in December 2017. The sample of banks for this analysis was restricted to those banks that reported valid figures in 2016 (actual figures for 2016 and forecast figures for 2017) and in 2017 (actual figures for 2017). This reduced the sample to 150 banks. The back-testing analysis of the liabilities was limited to deposits due to data quality issues.

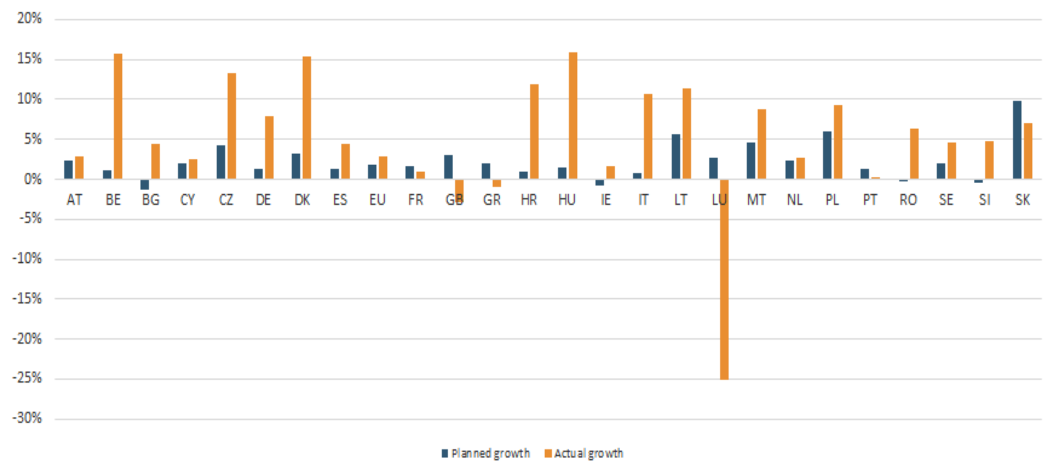
Back-testing analysis on banks 'deposits

The back-testing run on the different types of deposits (Figures 13 to 15) shows different results depending on the deposit category.

For the deposits from households, with the exception of a few countries, the back-testing shows that banks beat their targets, as the actual growth in deposits largely exceeds the planned growth in the majority of countries. However, in some countries, banks failed to achieve the levels they had planned for, and exhibited a negative growth rate. This was the case in Greece, Luxembourg[17] and the United Kingdom.

[17] A main part of the gap between actual and planned growth is due to the deconsolidation of one entity in the course of 2017 leading to an impact on the comparability of figures between 2016 and 2017.

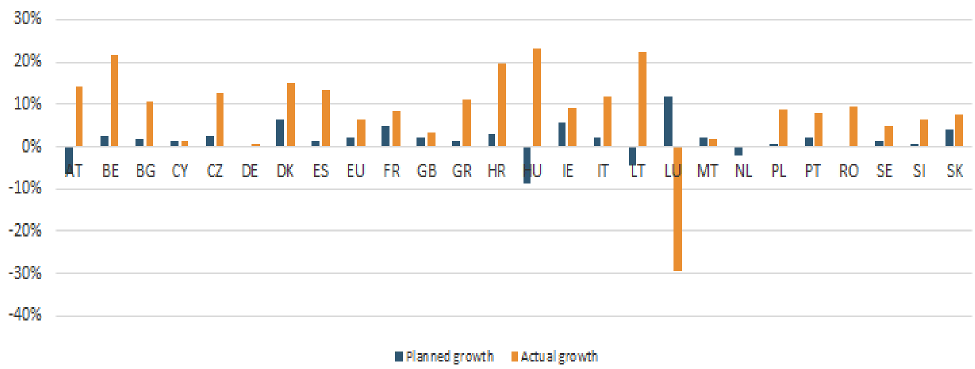
Figure 13: Back-testing deposits from households (2017)



Source: EBA

As regards the deposits from NFCs, the majority of banks far exceeded their initial forecasts (e.g. in Hungary, Austria, Lithuania, Belgium and Croatia). On the other hand, in Luxembourg[18], banks recorded a negative growth rate and missed their targets.

Figure 14: Back-testing deposits from NFCs (2017)[19]



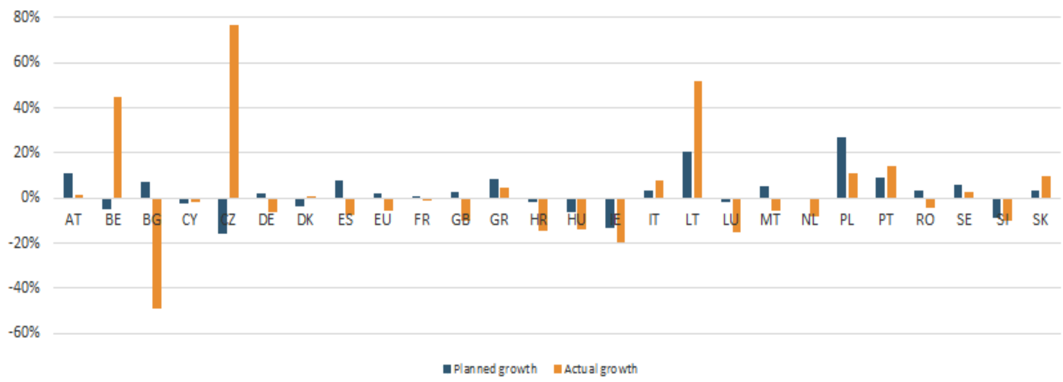
Source: EBA

For deposits from financial corporates, in general, banks missed their targets. Indeed, actual growth was either significantly higher or lower than planned. For instance, actual growth was substantially higher than expected for banks in some countries (the Czech Republic, Belgium and Lithuania), while in other jurisdictions (most significantly in Bulgaria), banks did not meet their expectations.

[18] A main part of the gap between actual and planned growth is due to the deconsolidation of one entity in the course of 2017 leading to an impact on the comparability of figures between 2016 and 2017

[19] A main part of the gap between actual and planned growth is due to the deconsolidation of one entity in the course of 2017 leading to an impact on the comparability of figures between 2016 and 2017.

Figure 15: Back-testing deposits from financial corporates (2017)



Source: EBA

Comparison with market expectations

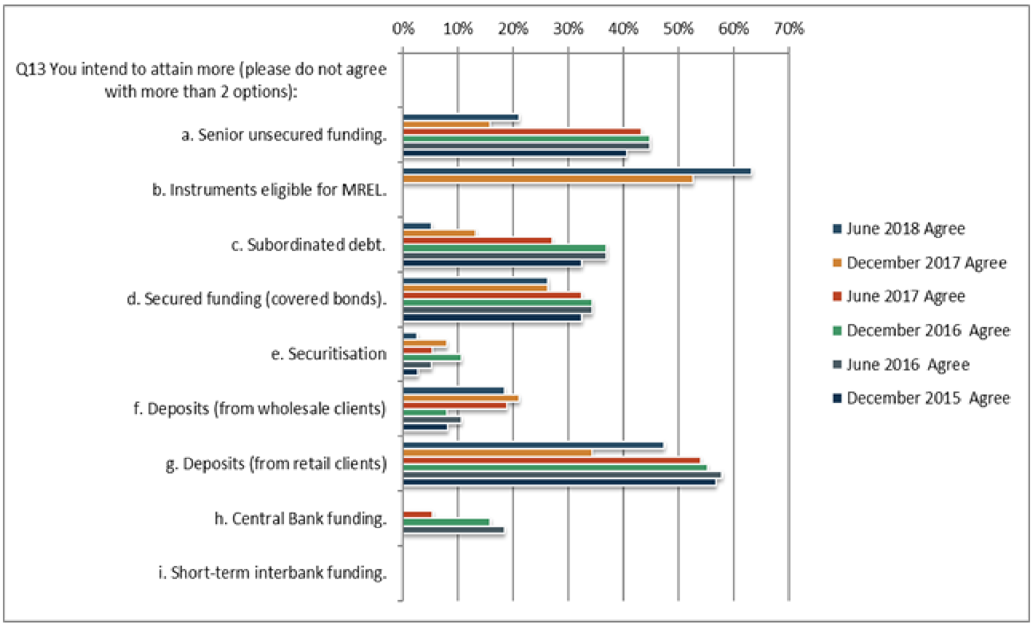
The funding plan data can be compared with banks' data and analysts' expectations for the 6 and 12 coming months expressed in the EBA's RAQ, conducted semi-annually. Responses to the 2018 spring questionnaire were used for this comparison.

The results of the RAQ confirm the predominance of long-term funding and deposits in EU banks' funding strategies for the coming years.

Banks remain optimistic about the growth in deposits, particularly from the retail sector. Almost 66% of respondents identified wholesale and retail deposits as the main type of funding they intend to attain. In addition, based on the RAQ responses, long-term funding constitutes a clear priority for EU banks. In particular, more than 63% of respondents intend to attain more MREL-eligible instruments (compared with 53% in the December RAQ).

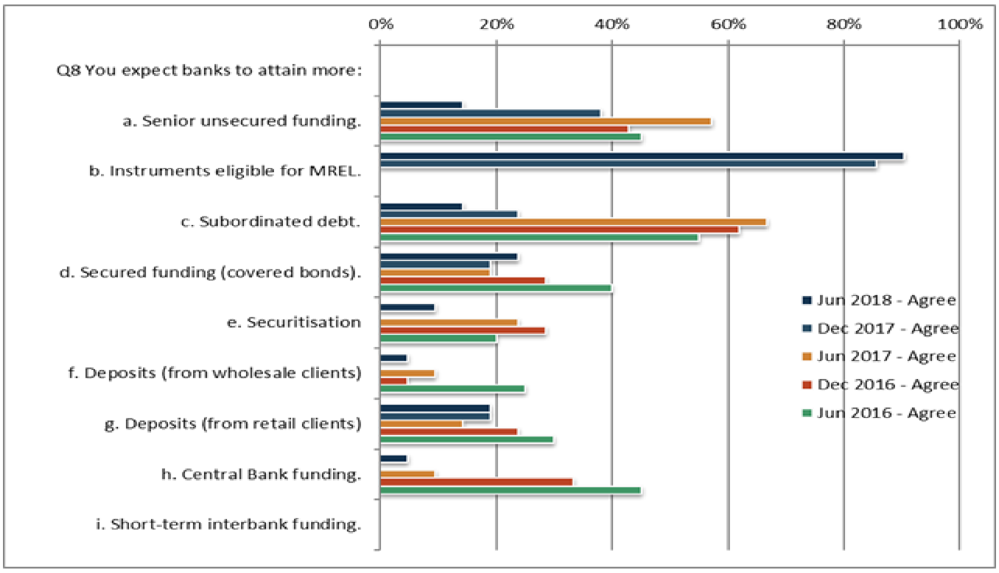
From the analysts' perspective, in 2018 EU banks will focus on MREL requirements. Indeed, 90% of respondents think that banks will attain more MREL-eligible instruments.

Figure 16: The EBA's RAQ for banks



Source: EBA RAQ

Figure 17: The EBA's RAQ for market analysts

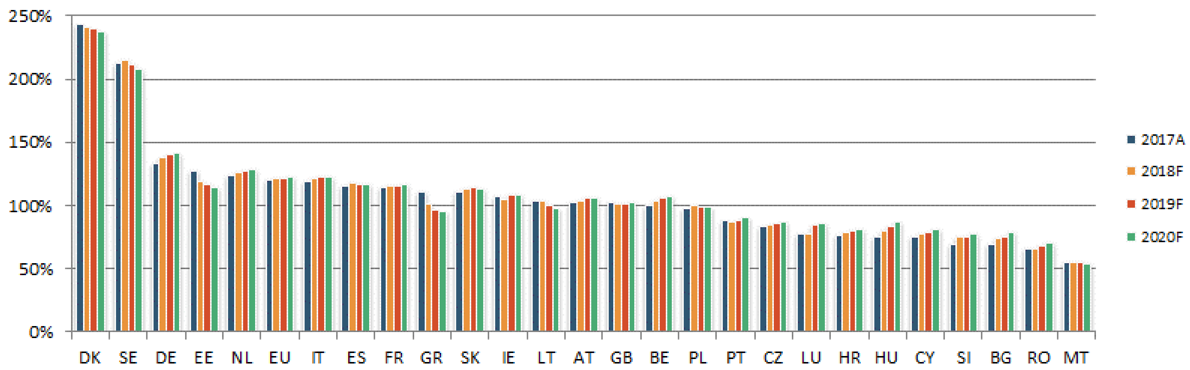


Source: EBA RAQ

Loan-to-deposit analysis

The loan-to-deposit ratio at EU aggregated level is expected to increase slightly, from 119.70% currently to 122% in 2020[20] (Figure 18). This trend is mainly driven by a numerator effect, as loans are assumed to increase more than deposits. A granular analysis of the loan-to-deposit ratio shows that there is still dispersion among Member States. These differences can be explained by the divergence in the funding-mix model of banks within the EU (e.g. in Denmark and Sweden, banks rely more on covered bonds funding and therefore show a higher loan-to-deposit ratio). It also reflects the business strategies that banks have already announced for the coming years regarding their funding and lending policies. Therefore, banks in Greece show the most significant decrease in the loan-to-deposit ratio, driven essentially by a substantial increase in deposits while loans are projected to decline notably. Similarly, banks in Denmark, Estonia, Lithuania, Malta and Sweden expect their loan-to-deposit ratio to fall in the near future, driven by a larger increase in deposits. In many other countries, banks assume that their loan-to-deposit ratio will increase, as they anticipate a higher growth in loans than in deposits (e.g. Austria, Belgium, Bulgaria, Croatia, Cyprus, the Czech Republic, Germany, the Netherlands, Portugal, Slovakia, and Slovenia). Finally, the projected data shows a group of countries where banks expect a parallel growth in loans and deposits, leading to a relative stability of their loan-to-deposit ratios (e.g. Ireland, Poland and Spain).

Figure 18: **Loan-to-deposit ratio by country and for the EU**



Source: EBA

Deposit-like and innovative funding instruments[21]

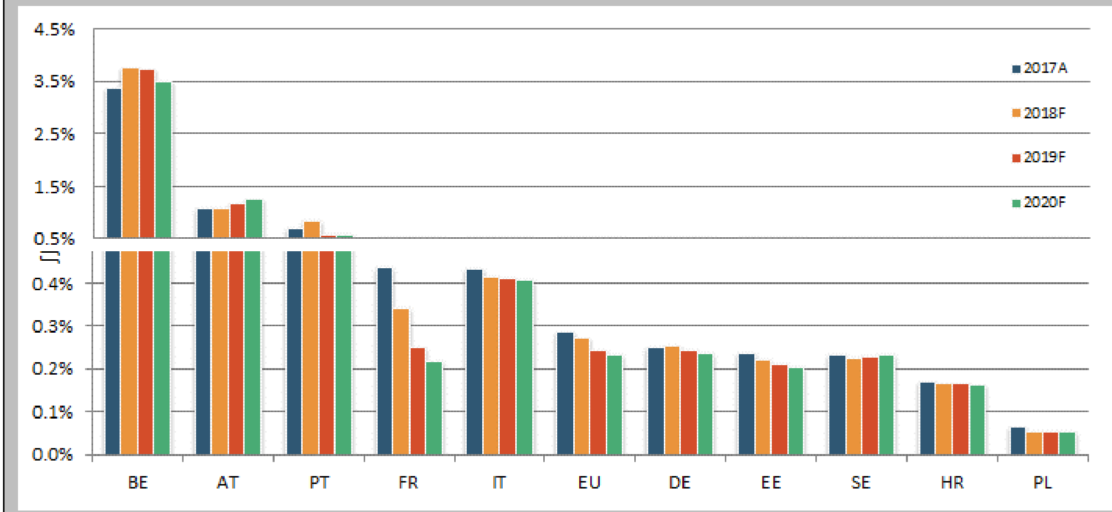
Deposit-like and innovative funding instruments continue to play a marginal part in banks' total funding. At EU aggregated level, deposits-like represent about 0.29% of the total funding in 2017. Apart from Belgium and Austria, where this source of funding represent respectively 3.37% and 1.09% of the total funding in 2017, the share of this funding in other jurisdictions is less than 0.80%.

[20] Loan-to-deposit ratio describes balance sheet structure and does not take into account the maturities of loans or deposits

[21] These are deposit-like financial instruments sold to retail customers. An example would be a product that has some notional or real concept of capital protection, but may have a variable performance outcome.

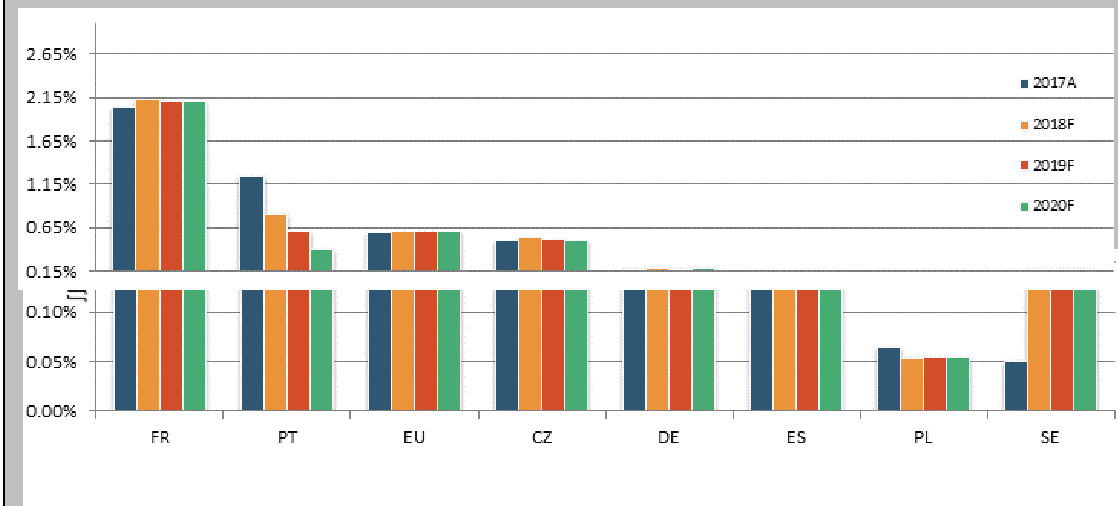
The projected data shows that banks expect this funding to slightly decline between 2017 and 2020 except for the two aforementioned countries. Innovative funding instruments, which account for a very limited proportion of the funding of banks (around 0.60% at EU aggregated level), are non-vanilla structures that the industry has started to issue in the recent past.

Figure 19: Share of deposit-like instruments in total funding



Source: EBA

Figure 20: Share of innovative funding instruments in total funding

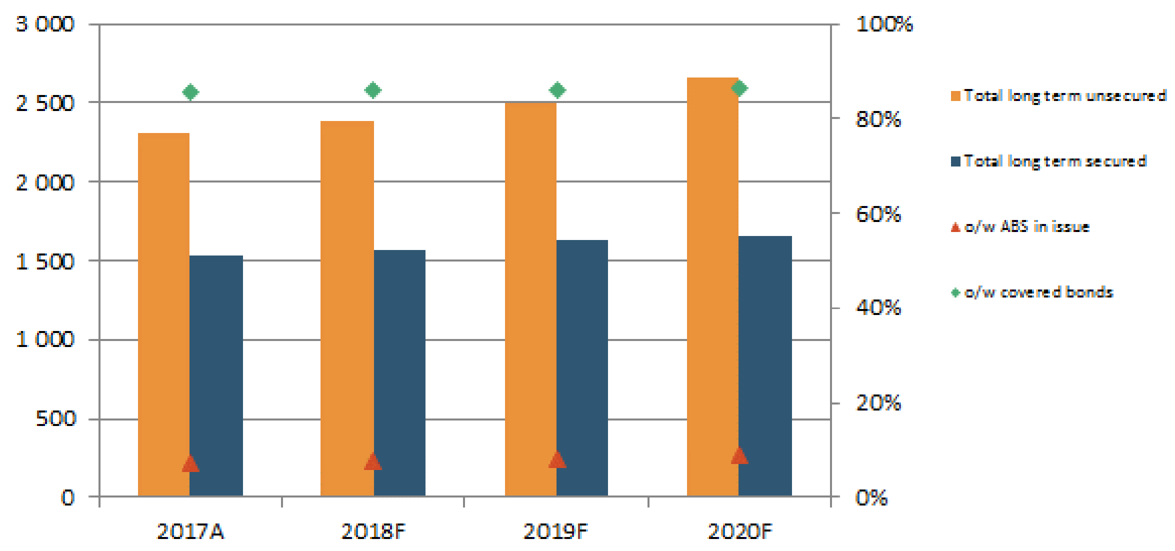


Source: EBA

Trends in market-based funding

As highlighted above, EU banks plan to rely more on long-term funding in the coming years. The outstanding amounts of long-term funding should increase by 12.23% according to the projected data, to reach EUR 4.31 trillion in 2020. Unsecured debt securities would increase by almost 15%, from EUR 2.3 trillion in 2017 to EUR 2.7 trillion by 2020, while long-term secured funding is expected to grow 8%, from EUR 1.5 trillion in 2017 to EUR 1.7 trillion by 2020. Within long-term secured funding instruments, the share of covered bonds remains significantly larger than that of asset-backed securities (ABS) instruments, representing, respectively, roughly 86% and 7% of the secured funding outstanding in 2017. Issuance of covered bonds is expected to remain broadly steady, with the trend still to be driven by banks, for example in Germany, Denmark, France and Sweden. By contrast, EU banks plan to increase their share of ABS over the forecast period (+20.50% between 2017-2020) (Figure 21)

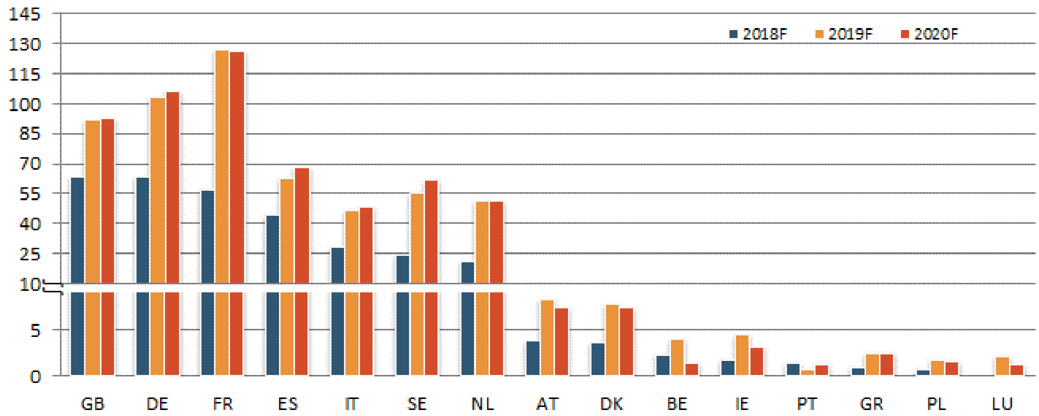
Figure 21: Long-term secured and unsecured funding (EUR billions, left axis) and mix of secured funding debt (%, right axis)



Source: EBA

Data shows a broad-based growth in gross issuance volumes across all the market-funding instruments covered (long-term unsecured, covered bonds, ABS) over the forecast years. Against a background of monetary policy normalisation and higher capital requirements, the funding plan data is in line with market participants' views; these former expect banks to front-load their funding plans to lock in cheap funding to continue to benefit from the current low-rate environment. Banks expect to increase their issuances notably from 2019, in particular of unsecured instruments. The most significant gross issuance volumes are expected by banks domiciled in the EU's largest economies. In particular, banks in Germany and France plan the highest levels of issuances, as the annual gross issuance volumes in the unsecured instruments is projected to reach more than EUR 100 billion in 2019 and 2020. Banks in the UK[22], Italy, Spain, Netherlands, and Sweden also forecast substantial volumes for the coming years (Figure 22).

Figure 22: Gross issuance volumes by country and year (long-term unsecured, EUR billions, countries with issuance volume > EUR 1 billion in at least 1 year).



Source: EBA

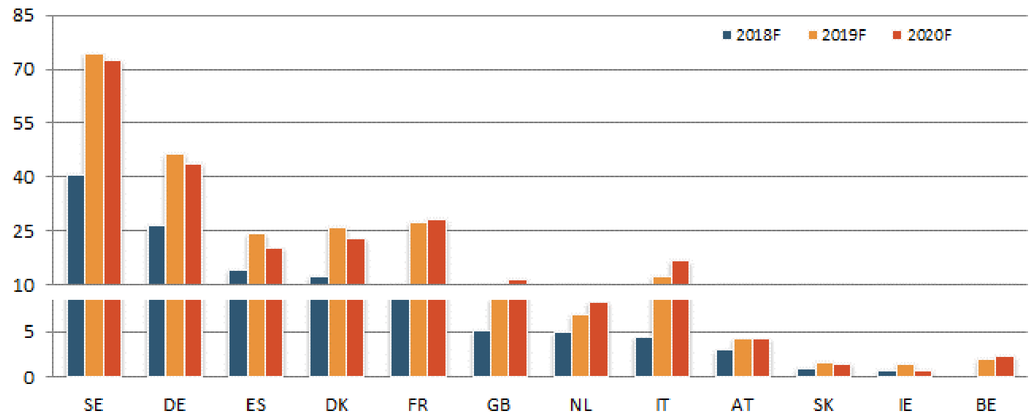
The covered bond market should remain dynamic in the coming years. Despite the announcement of the ECB tapering, projected gross issuance volumes indicate that volumes will reach a significant level in several countries like in France, Germany, Italy and the Netherlands. In the same vein, the volumes are expected to increase notably in the countries where this market represents a significant share in banks' funding mix. For instance, banks in Sweden plan to attain more than EUR 70 billion in 2019 and 2020. Significant volumes are also projected in the UK with banks planning to increase their issuances between 2018[23] and 2020 (Figure 23).[24]

[22] 2018 projected gross issuance volumes shown for the UK are for H2.

[23] 2018 projected gross issuance volumes shown for the UK are for H2.

[24] The jurisdictions with a large and established covered bonds funding are also displaying a high level of asset encumbrance, as shown in the EBA's *Report on Asset Encumbrance*, published in July 2018.

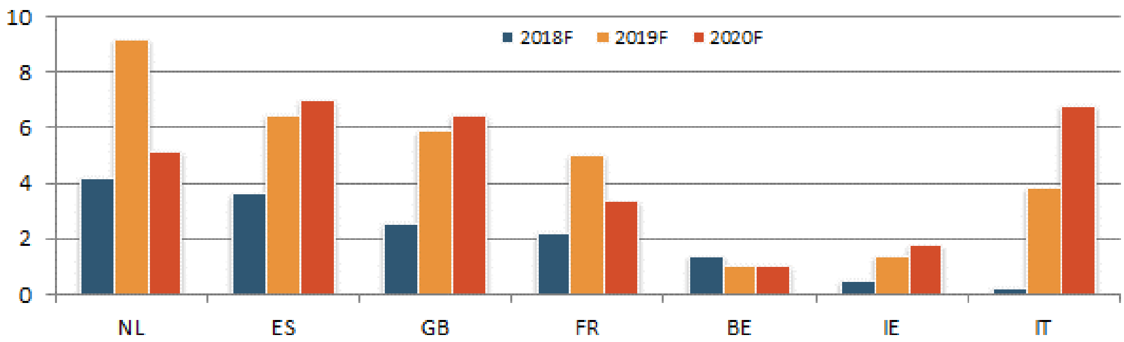
Figure 23: Gross issuance volumes by country and year (covered bonds, EUR billions, countries with issuance volume > EUR 1 billion in at least 1 year)



Source: EBA

The projected data shows that the activity in the securitisation market should also pick up. The largest issuance volumes are expected in the Netherlands, with more than EUR 9 billion ABS issuances foreseen for 2019. An upward trend is also observed in Spain, with a substantial increase assumed in 2019 and 2020. It is worth noting that Italian banks plan significant growth in 2019 and 2020. Finally, in the United Kingdom[25], where banks are the most active in this market, the volume is expected to remain important (Figure 24). After the closure of the TFS at the end of February 2018, this suggests that the UK banks will be gearing towards alternative funding sources.

Figure 24: Gross issuance volumes by country and year (ABS, EUR billions, countries with issuance volume > EUR 1 billion in at least 1 year)



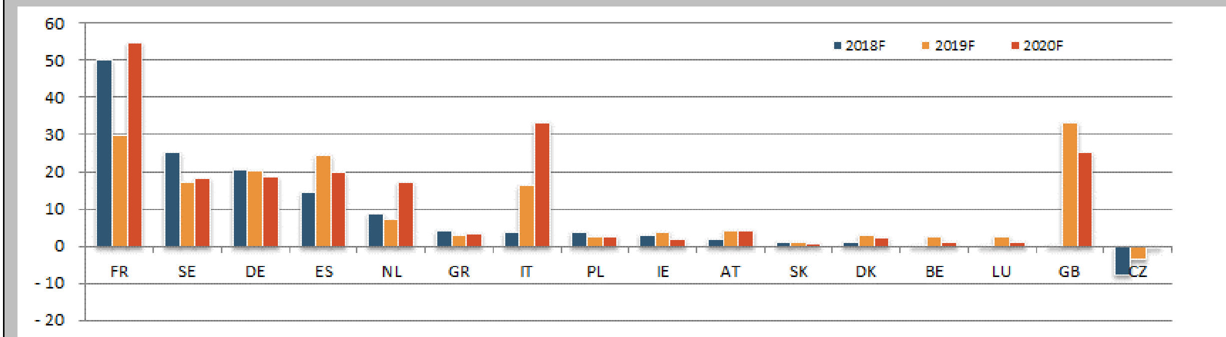
Source: EBA

[25] 2018 projected gross issuance volumes shown for the UK are for H2.

Market-based funding is expected to grow also on a net basis

The following analysis is based on yearly changes in the balances of debt securities issued. It shows the difference between the outstanding volumes at the beginning and end of the year. If this difference is positive, it means that gross issuances are larger than redemptions for that year.[26] Where the volume of issued debt securities goes beyond rollovers, banks have to find investors beyond those that might simply replace their current investment positions. If gross issuances are smaller than redemptions for a year, the assumed net issuance volume is negative, and the outstanding volume decreases during the year.

Figure 25: Net issuance volumes by country and year (short- and long-term debt securities, EUR billions, countries with net issuance volume > EUR 1 billion in at least 1 year)



Source: EBA

The projected data shows a significant growth in net issuance volumes in several countries (France, with the highest net issuance volume over the 3-year horizon, but also Sweden, Germany, Spain, the Netherlands, Italy and the United Kingdom). Only the Czech Republic expects a negative net issuance volume.

Trends in public sector sources of funding in the EU

Public sector sources of funding encompass repo funding programmes, credit guarantee programmes and credit supply incentive schemes. The programmes cover terms longer than 1 year and apply in all cases to many institutions, i.e. programmes that individually support one bank or a restricted number of banks are excluded. Neither direct funding from public sources, such as deposits from state sovereign entities, nor any emergency liquidity assistance measures provided by central banks are part of these data.

[26] As this calculation takes into consideration a year-by-year change in outstanding debt securities, it includes short- and long-term debt securities.

- Repo funding programmes: programmes capturing wholesale term-secured funding via repo transactions. An example of such a programme is the ECB's TLTRO programme.[27]

- Credit guarantee funding programmes: programmes capturing wholesale unsecured term debt issuance support through backstop guarantees from a national and/or supra-national authority in the event of a bank's failure on its obligations. The Credit Guarantee Scheme of the British Ministry of Finance is an example of such a programme.

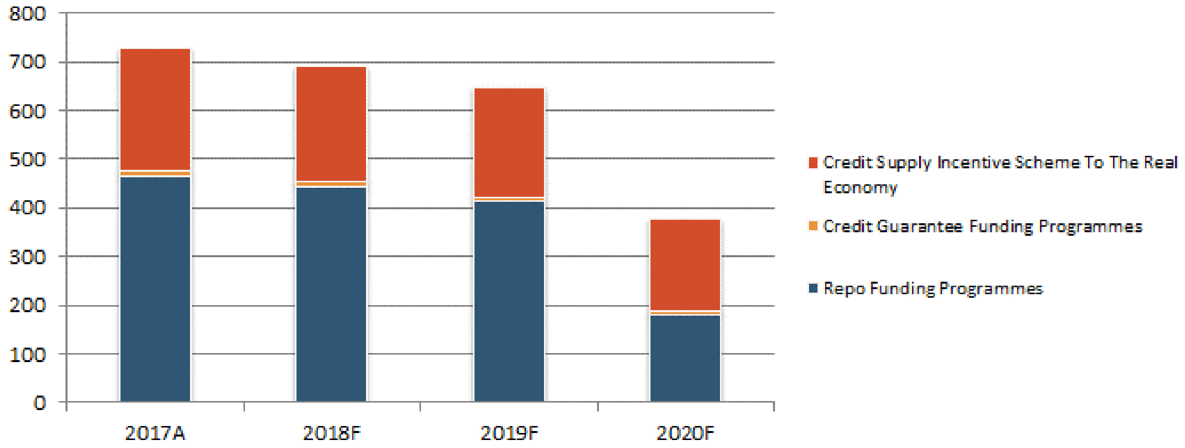
- Credit supply incentive scheme to the real economy: programmes capturing funding support to banks via pricing or quantum incentives from a national and/or supra-national authority. Examples of such a programme are the Bank of England's Funding for Lending Scheme and the Hungarian National Bank's Funding for Growth Scheme.

Based on the funding plan data, in 2017, public sector funding amounted to about EUR 727 billion, which represented around 3.80% of the total funding and less than 3% of total liabilities. The data shows a decrease of almost 50%, to about EUR 376 billion, in 2020. This trend is driven by a sharp drop in repo funding of more than 60%, from EUR 463 billion in 2017 to EUR 180 billion in 2020. Indeed, while in 2017 the volume of repo funding represented 64% of total public sector funding, in 2020 it is expected that it will represent 48% of total public sector funding. Compared to the total repo funding, the public sector repo-based funding amounts to 29% in 2017 and is expected to fall to a share of 12% by 2020.

In parallel, the volumes of credit guarantee funding programmes and credit supply incentive schemes to the real economy (respectively EUR 11 billion and EUR 252 billion in 2017) are projected to decline by approximately 19% and 26%respectively by 2020. However, their shares in total public sector funding are expected to remain roughly steady in 2018 and 2019 and to increase in 2020, in particular in the case of credit supply incentive schemes, which are expected to represent almost 50% of total public funding in 2020.

[27] Short-term repo-based funding by central banks might also have significant volumes, but it is not covered by the funding plans.

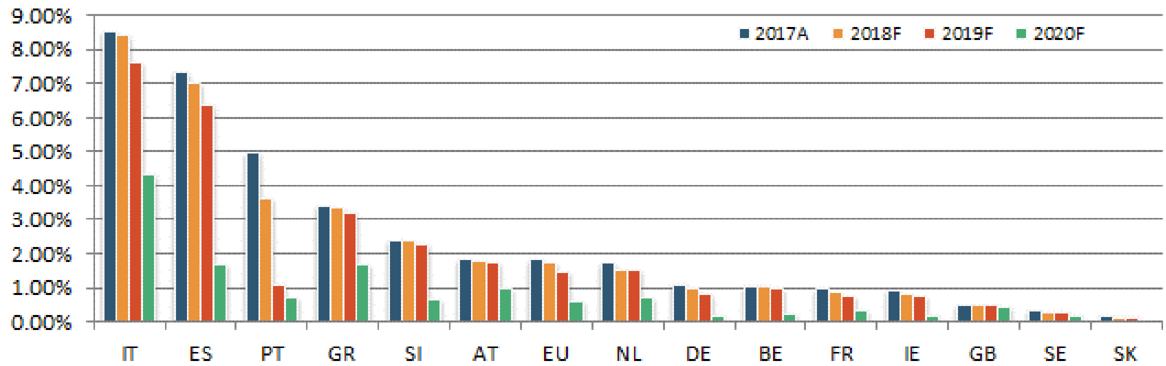
Figure 26: Public sector sources of funding (EU, outstanding volumes, EUR billions)



Source: EBA

The analysis of repo-based funding by country shows that, this support will decrease substantially and gradually to represent less than 1% of total funding of EU banks. Only banks in Italy[28] , Greece and Spain expect the share of repo funding to remain above this threshold in 2020. In 2017, repo funding represented 1.85% of total funding and, based on the projected data, it will decline continuously to reach 0.62% in 2020. This sharp decline in 2020 corresponds with the redemption of the amounts of the TLTRO2 in the euro area, as the main block of central bank funding will mature at the same date.

Figure 27: Public sector funding (repo-based funding) as a proportion of total funding by country and for the EU

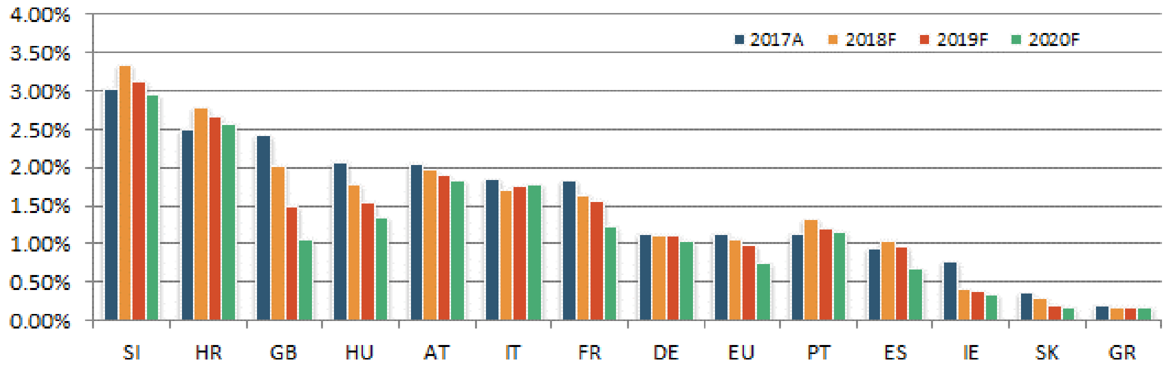


Source: EBA

Data on credit supply incentive schemes provides a mixed picture. While banks in the majority of countries expect a decrease in the share of this type of funding, banks in a few countries assume it will increase in 2018 and remain broadly steady in 2019 and 2020. This is the case for instance in Slovenia, Croatia and Portugal. At EU aggregated level, it is expected to decrease from 1.12% in 2017 to 0.75% in 2020.

[28] In Italy, the share of central bank funding as a source of encumbrance has also been observed. See the EBA's *Report on Asset Encumbrance*, published in July 2018.

Figure 28: **Public sector funding (credit supply incentive schemes) as a proportion of total funding by country and for the EU**



Source: EBA

Assessment of banks' issuance plans

To assess banks' issuance plans, a similar approach to that used in the 2017 funding plan report has been applied.

The funding plan and other supervisory data, as submitted by the banks, do not cover any historical gross issuance volumes. Consequently, direct validation with fully comparable data is not possible. However, the ECB financial market and interest rate statistics ('securities issued') provide information on historical issuance volumes by country. This data is used as a starting point for the validation of planned issuances, assuming that they provide an indication of the volumes banks have been able to place on the markets in recent years in the countries in question.[29]

The ECB's data covers euro area countries as well as several other EU Member States. The following analysis is based on the ECB's gross issuance and outstanding volumes data for 2016 and 2017. It focuses on gross issuances of long-term instruments, without any further differentiation between secured and unsecured instruments, and excludes financial derivatives and shares. As the ECB data covers issuances from more financial institutions than are covered by the funding plans, an adjustment factor has been applied. This factor is based on the ratio of outstanding volumes according to the ECB data and outstanding volumes according to the funding plan data for year-end 2017 (Table 1).

[29] See http://sdw.ecb.int/browse.do?node=9691129. The data does not cover any issuances abroad.

Table 1: Gross issuance volumes (long-term securities) by country and year (*actual average for 2016 and 2017 after adjustment compared with the projected funding plan data for 2018-2020*)

Member State	ECB average gross iss. vol. 2016 / 2017 (after adjustm.)	2018F	2019F	2020F
AT	15.3	6.8	12.6	11.7
BE	7.7	3.7	6.9	4.7
CY	0.1	0.5	0.3	0.5
CZ		0.2	0.2	0.2
DE	171.9	89.7	149.3	149.9
DK	29.2	16.2	33.9	30.4
EE	0.0	0.1	0.5	0.4
ES	65.5	61.7	93.4	95.0
FR	164.1	57.5	138.0	135.4
GB	84.9	71.4	106.8	111.1
GR	1.1	1.3	2.8	3.0
HU		0.1	0.2	0.2
IE		3.1	7.4	5.7
IT	54.4	32.8	63.0	71.2
LT	0.0	0.0	0.0	0.0
LU	0.3	0.0	2.1	1.2
MT	0.0	0.1	0.1	0.1
NL	75.4	30.2	67.4	64.5
PL		0.9	2.5	2.3
PT	2.6	1.7	1.0	2.0
SE	116.4	64.5	129.4	134.0
SI	0.0	0.0	0.3	0.0
SK	1.0	1.0	1.5	1.4

Source: ECB Statistical Data Warehouse, financial market and interest rate data, debt securities issued by monetary financial institutions, and funding plans, billion EUR; EBA calculation

Similarly, to the findings stemming from the funding plan analysis last year, the 2018 analysis shows that, in general, the forecast issuance volumes remains significantly below the volume issued on average over the last 2 years. That is, the funding plan data shows that the volumes planned for 2018 are significantly below the volume issued on average in 2016/2017. The trend stands in contrast to the following 2 years, with gross issuance volumes expected to increase sharply compared with 2018. In 2019 and 2020, the projected volumes exceed the historical average for a few countries (e.g. Denmark, Spain, the United Kingdom, Italy and Sweden). In some other countries, banks plan to remain quite close to their historical level (e.g. Belgium), while in France or Germany banks expect to remain below their 2016/2017 average. This trend can be seen as counterintuitive in a context of normalisation of monetary policies and looming loss-absorbing requirements. In particular, in 2018 the magnitude of the gap between the forecast and historical level is even more unexpected given the banks' responses to the RAQ. Indeed, a majority of banks answered that they intended to focus particularly on long-term funding to build up their loss-absorbing capacity. In contrast, neither banks nor market analysts assume that more central bank funding will be attained, with the winding down of TLTRO2 funding nearing in the euro area, and the final drawdown of the TFS programme in the UK in February.

However, various assumptions may explain this trend. First, the current excess of liquidity in the financial system, with abundant central bank funding, may have been more attractive for some banks. Additionally, in 2017 market participants reported that some banks had started to front-run their funding plans with the aim of building up their loss-absorbing capacity in the context of a benign market environment.

Nevertheless, uncertainty around the subordination levels of specific MREL requirements for a number of banks might contribute to explaining the 2018 dip. In this respect, the RAQ[30] shows that the percentage of banks planning to attain subordinated debt declines from 13% in December 2017 to 5% in June 2018. In the same vein, the respondent banks reported the uncertainties around the eligibility criteria of the instruments, the required amounts that banks have to issue, as well as the pricing of these instruments as main concerns. By contrast, the broad-based growth in the volumes expected in 2019 and 2020 might be interpreted as indicating the intention of banks, mainly G-SIBs, to front-load their TLAC requirements, which will be fully implemented in January 2022. In the meantime, these higher volumes coincide with the redemption of the main block of TLTRO2 funding in 2020 in the euro area, as well as the first tranche of TFS maturities falling due in late 2020 in the United Kingdom, suggesting that some banks may have planned also to replace their central bank funding with market-based funding.

Therefore, the expected increase in volumes over the forecast period suggests that banks plan to focus on bail-in-able instruments to comply with their TLAC/MREL requirements and, in the meantime, they are preparing for the transition from central bank funding to market-based funding.

[30] http://www.eba.europa.eu/documents/10180/2282718/Risk+assessment+questionnaire+-+July+2018.pdf/84cf5f2c-8185-4250-bc01-62c8fb6bc639

Trends in pricing for assets and liabilities

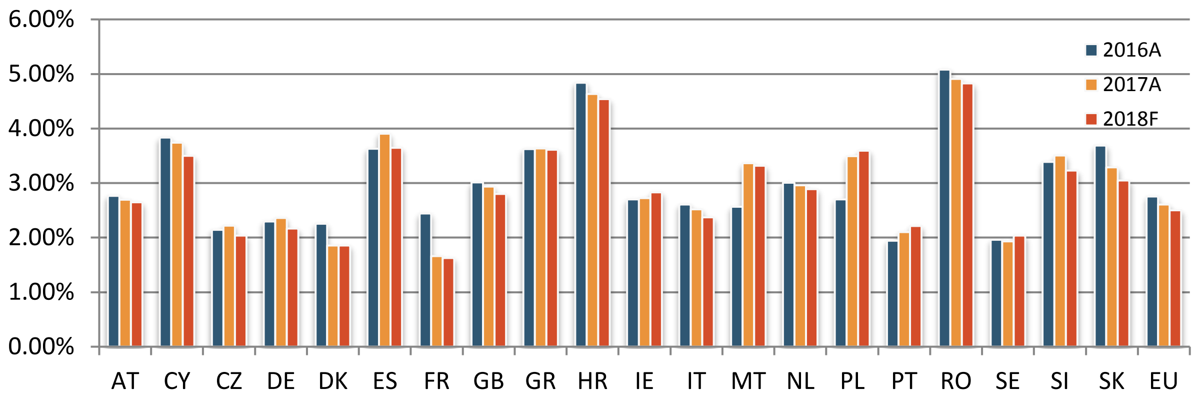
Banks' pricing for loans and deposits

Besides data on trends in asset and liability volumes, funding plan data also provides pricing forecasts for loans as well as deposits and debt securities.

The sample of banks for this analysis was restricted to those banks that reported valid figures in 2016 (actual figures for 2016 and forecast figures for 2017) and in 2017 (actual figures for 2017). Only a common sample of banks that reported for both years was used. The sample of banks for this analysis (104 banks) was smaller than the sample used for previous sections of this report, mainly due to data quality issues.

The data shows that the spread between interest rates for client deposits and for loans to clients has actually reduced in 2017, with the average client spread now being 2.61% compared to 2.75% 1 year earlier. Most banks expect this trend to continue in 2018 and estimate the average spread in 2018 at 2.50%. Figure 29 shows the actual client spreads for 2016 and 2017 as well as the planned client spreads for 2018 by country of incorporation of the bank. The reported pricing forecast figures show a wide dispersion across banks and countries. While the spread is expected to increase by at least 10 basis points for banks in some countries (i.e. Ireland, Poland, Portugal and Sweden), for banks in several other countries, it is expected to decrease by at least 10 basis points (Cyprus, Germany, Italy, Slovenia, Slovakia, Spain and the United Kingdom).

Figure 29: Actual and planned spread between client loans and client deposits (households and NFCs), in percentage points



Source: EBA

Both portfolios that represent banks' client business (i.e. households and NFCs) show similar trends.

The average spread for households reported in 2017 is 2.90% and the average spread for 2018 is expected to be 2.83%, which represents a of reduction of 7 basis points. Of the banks in the sample, 53% expect spreads to reduce, while 38% expect spreads to increase and 10% expect spreads to stay the same.

As regards NFCs, the average spread reported for 2017 is 2.57% and the average spread for 2018 is expected to decrease by 6 basis points to 2.51%. The majority of banks (54%) expect spreads to reduce in 2018, while 35% expect spreads to increase and 12% assume that spreads will remain at the same level as in 2017.

The assumed decrease in client spreads is driven by the asset side through a fall in interest rates on client loans. The average loan rate for NFCs is expect to decrease by 7 basis points to 2.81% in 2018, while the average deposit rate is expected to remain unchanged at 0.31%. As regards households, the average loan rate is expected to decrease by 9 basis points to 3.23% in 2018, while the average deposit rate is expected to decrease by 2 basis points to 0.40% in 2018. This indicates that competition related to banks' client business is driving down rates for loans. At the same time, competition for client deposits is keeping rates up, as banks are trying to keep customers' deposits because they represent a cheap source of funding. Recently published results from the ECB's Bank Lending Survey point in to the same direction and identify competitive pressure as the main contributor to an easing in credit standards in the second quarter of 2018.[31]

A comparison between actual spreads and loan-to-deposit ratios for 2017 supports this view. This comparison shows that banks with a lower loan-to-deposit ratio are often those that assume a contraction in client spreads, as they rely largely on customers' deposits and are more affected by increasing competition in this area.

Banks' pricing for debt securities

Banks' funding plan data shows that the costs of long-term market-based funding actually reduced in 2017 and are expected to remain at 2017 levels for the year ahead.

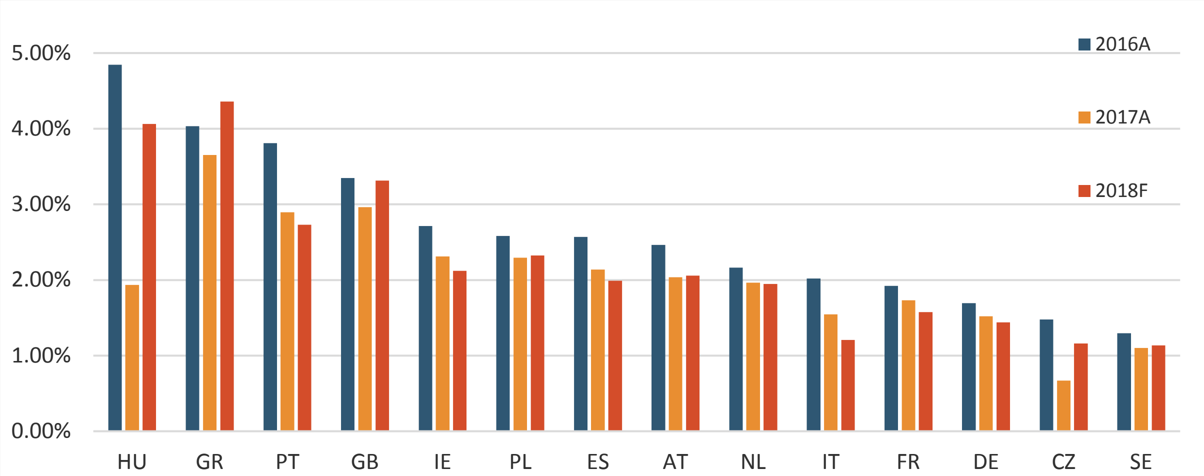
The sample of banks for this analysis was restricted to those banks that reported valid figures in 2016 (actual figures for 2016 and forecast figures for 2017) and in 2017 (actual figures for 2017). Only a common sample of banks that reported for both years was used. The sample of banks for this analysis (97 banks) was smaller than that used for previous sections of this report, mainly due to data quality issues.

Figure 30 shows the actual interest rates of long-term debt securities for 2016 and 2017 as well as the planned rates for 2018 by country of incorporation of the bank. The average actual costs of long-term funding were reported as 2.08% in 2017 and thus have fallen from the average of 2.32% reported in 2016. The reduction in costs in 2017 is evident for 70% of the banks in the sample.

In 2018, 67% of the banks in the sample expect costs for long-term market-based funding to remain at 2017 levels or fall slightly. Exceptions to this general assumption of flat costs are reported by 33% of the banks in the sample, almost halve of which expect rather significant increases in their long-term funding costs of more than 20 bps.

[31] https://www.ecb.europa.eu/stats/ecb_surveys/bank_lending_survey/html/index.en.html

Figure 30: Actual and forecast interest rates of long-term debt securities



Source: EBA

The increase in issuance volumes in 2019 and 2020 (as reported in Table 1) raises concerns regarding the capacity of banks to raise their funding at current spreads. This is of particular concern to banks that have made heavy use of central bank funding measures and banks that are not able to access market-based funding at reasonable costs.

Assessment of banks' pricing assumptions

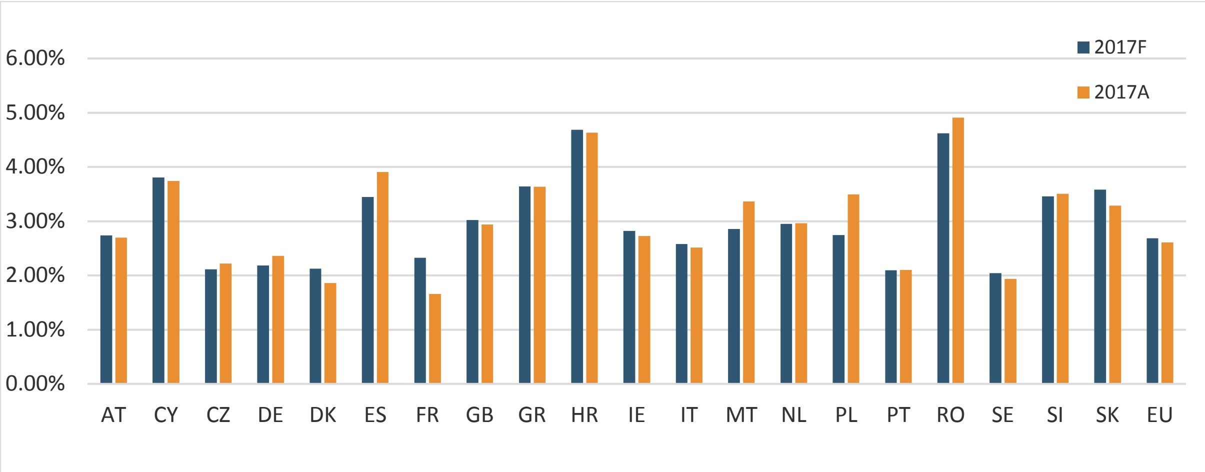
Similarly to in previous sections of this report, a back-testing approach based on data reported by participating banks has been applied. In addition to that, banks' pricing assumptions for 2018 have been compared with expectations expressed by banking experts and market analysts via the EBA's RAQ, which the EBA conducts semi-annually. Responses to the questionnaire launched in spring 2018 have been used for this comparison.

Back-testing banks' pricing assumptions for loans and deposits

Banks' planned spreads between client loans and client deposits for 2017 as reported in December 2016 were compared with the actual spreads for 2017 as reported in December 2017.

As represented in Figure 31, on average, banks managed to achieve the client spread targeted for 2017. On average, the actual client spread for 2017 of 2.61% was just 7 basis points short of the target spread figure of 2.68% set 1 year earlier. Despite this 'on target' landing for the average bank, back-testing results revealed that several banks missed their targets significantly. As for the household category, 11% of the banks in the sample missed their targets by more than 50bps while 13% of the banks significantly beat their targets by more than 50bps. Similar results were found for the corporate category with 13% of the banks missing their targets by more than 50bps while 11% of the banks beating their targets by more than 50bps.

Figure 31: Back-testing client spreads for 2017



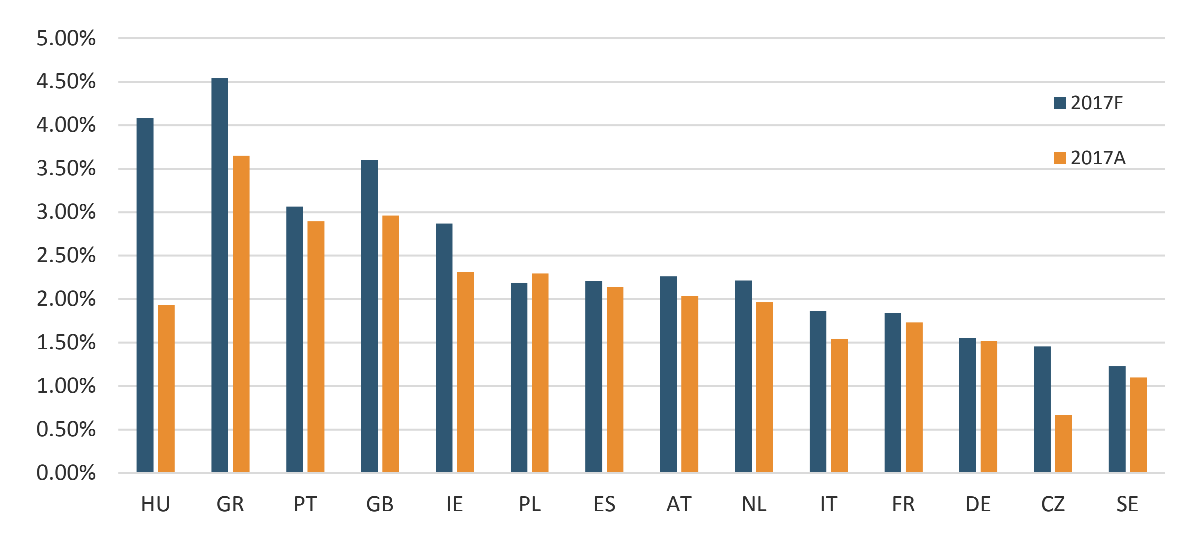
Source: EBA

Decreasing client spreads in several countries indicate that there will be further pressure on banks' net interest income. In the case of banks' more optimistic views that there will be an increase in client spreads driven by rising loan pricing, it is questionable if banks will be in a position to realise these forecasts given the increasing competition.

Back-testing banks' pricing assumptions for debt securities

Banks' planned costs of long-term market-based funding for 2017 as reported in December 2016 were compared with the actual costs for 2017 as reported in December 2017. Figure 32 shows that, on average, banks achieved lower costs for market-based funding in 2017 than they had planned for 1 year earlier. With the average cost of funding reported in 2017 as 2.08%, banks beat their average target (2.20%, as reported in 2016) by 12 basis points. 33% of the banks in the sample reported actual funding costs in 2017 of at least 20 bps below their own targets, while 19% of the banks faced actual funding costs of at least 20 bps above the target rate. 28% of the banks in the sample missed their targets significantly by more than 50bps.

Figure 32: Back-testing pricing for debt securities issued in 2017



Source: EBA

Lower than expected pricing of debt securities might have been feasible due to continued support from central banks' asset purchase programmes. Banks' assumption of stable or decreasing pricing for debt securities issued in 2018 might benefit from being reassessed in the light of a need to issue further MREL-eligible instruments, which are in general more expensive than ineligible senior unsecured instruments. Even if costs for market-based funding stay flat or decrease in 2018 (for which funding plan data shows low levels of debt issuance volumes), costs are likely to go up in future years when issuance volumes are expected to rise.

Market-based funding costs and the impact of central banks' support measures

Potential pressure on funding costs is also likely to arise from the winding down of central banks' funding support measures, such as the ECB's TLTRO. Such funding is cheaper than other sources of funding, which means that funding costs are likely to increase for banks that currently make use of TLTRO. An analysis of banks' net issuances against maturing TLTRO volumes shows that the latter remain significantly higher than the former (Table 2).

Table 2: Net issuance volumes of short- and long-term debt securities (euro area banks only) versus outstanding TLTRO volumes

	2018	2019	2020
Debt securities: net issuances	EUR 108 billion	EUR 114 billion	EUR 155 billion
Maturing TLTRO volumes	EUR 12.4 billion[32]	0	EUR 503 billion[33]

Source: EBA, Bloomberg (outstanding ECB open-market operations[34])

Over the forecast period (2018-2020), banks plan net issuances of debt securities reaching EUR 378 billion. This compares with total outstanding TLTRO volumes of EUR 503 billion maturing in 2020. This comparison suggests that banks plan to replace 72% of outstanding TLTRO with debt securities, with the remaining 28% unexplained. Since costs are bound to be higher for market funding than for TLTRO funding, banks will probably face pressure on their net interest income.

In addition, central banks' asset purchase programmes are assumed to end in the near future. These programmes currently absorb significant amounts of outstanding covered bonds both on primary and secondary markets. When these markets are no longer supported by the purchase programmes, the pricing of these instruments is likely to increase.

[32] This amount comprises all the outstanding amounts allotted between September 2014 and June 2016 maturing in 2018

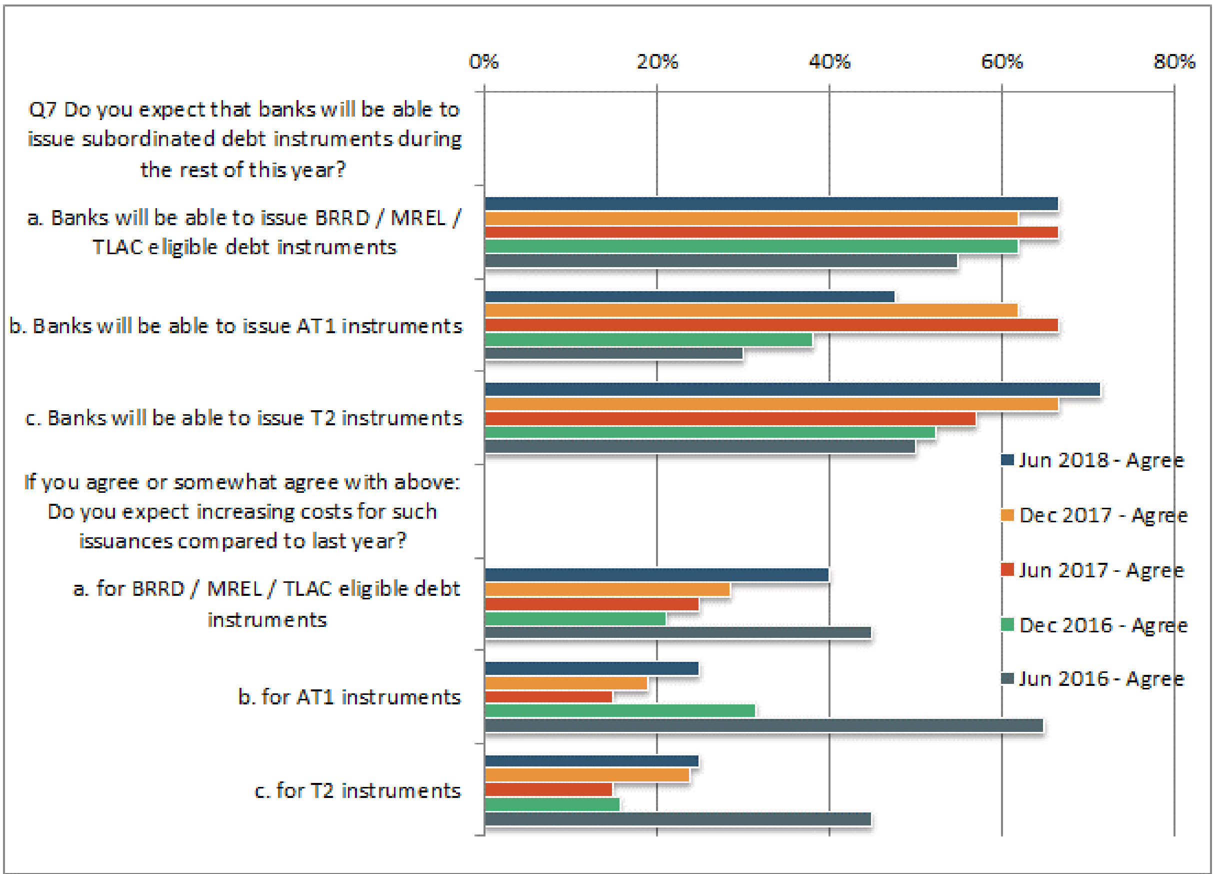
[33] This amount comprises the three TLTRO2 operations settled in 2016 and maturing in 2020. It does not take into account the EUR 233 billion settled in 2017 and maturing in March 2021.

[34] See https://www.ecb.europa.eumopo/implement/omo/html/top_history.en.html.

Comparison with market expectations

Banks' assumption of stable or declining costs for market-based funding is in contrast to the views expressed by market analysts via the EBA's RAQ. Figure 33 shows the analysts' views on banks' issuances of debt instruments in 2018 and the related costs of such issuances. Counting analysts responses that either 'agree' or 'somewhat agree' to the question on increasing costs for debt issuances, 60% of analysts expect that banks will face higher costs in 2018 when issuing debt instruments.

Figure 33: Analysts' expectations on issuances of debt securities in 2018



Source: EBA RAQ

Higher costs are expected for all types of instruments (T2 instruments, AT1 instruments and MREL-eligible instruments) but analysts are particularly concerned about MREL-eligible instruments, which are expected to be more expensive than ineligible instruments.

Conclusions

Banks expect growth in both assets and liabilities over the next 3 years. The back-testing of last year's plans shows that banks tend to miss their targets. While some of these misses are due to specific circumstances and measures taken by the banks, these discrepancies may be an indicator of management forecasting errors or misreporting. Therefore, competent authorities should be careful about the quality of data provided by banks, as the accuracy and reliability of the data are essential to ensure a sound data quality framework. In this regard, as part of the assessment related to banks' governance and risk management, competent authorities should investigate further the reasons for these discrepancies and challenge banks' forecasts.

The data shows that the spread between interest rates for client deposits and for loans to clients has actually reduced in 2017 (2.61% compared with 2.75% in 2016) and most banks expect the spread to reduce even further in 2018. The expected reduction in client spreads is most likely driven by increased competition (identified by the ECB's bank lending survey as the most important driver for an easing of lending standards), which drives down interest rates for loans while keeping interest rates for deposits up. This will affect banks' interest income, with some banks already under pressure to increase profitability.

On cost of funding, banks seem optimistic, as they assume that the costs of long-term market-based funding in 2018 will remain at 2017 levels. This assumption might be reasonable given that banks' planned issuances in 2018 are well below issuance volumes seen on average for 2016 and 2017. However, market analysts' expectations contradict banks' views and indicate an increase in funding costs in 2018. Additionally, in the light of changes in the monetary policy stance, supervisors should treat banks' forecasts with caution. Indeed, the assumption of stable costs of funding does not look viable in the longer term given that banks plan to increase significantly their issuance volumes in 2019 and 2020 and that support from central banks is expected to be phased out. Supervisors should therefore continue to monitor the evolution of banks' interest spreads and market-based funding costs, in particular for those banks that are under pressure to increase profitability or that do not have access to market-based funding at reasonable rates.

Furthermore, while banks have projected a high level of issuances in 2019 and 2020, anticipating plausibly higher volumes of bail-in-able instruments,[35] many of them are still waiting for the communication of their final minimum requirements. Therefore, meeting the projected volumes might require adjustments to banks' funding plans. Consequently, the capacity of the market to absorb the total volume to be issued is also a source of concern, and could lead to restricted access to funding for some banks.

The sharp decrease in the public sector funding projected by banks in some countries, in particular in 2020, raises the question of how this source of funding is to be replaced. In a context of high level of

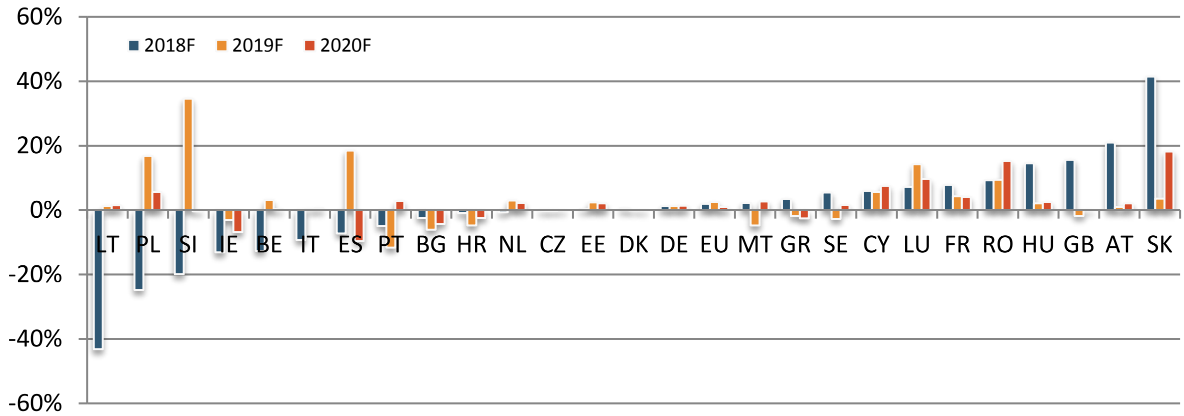
[35] The funding plan data does not provide information regarding the subordination level of debt instruments expected to be issued.

uncertainties in the financial environment, a normalisation of monetary policies with the winding down of central bank funding in the EU, the strategies of banks in this respect have to be closely monitored.

Annex 1

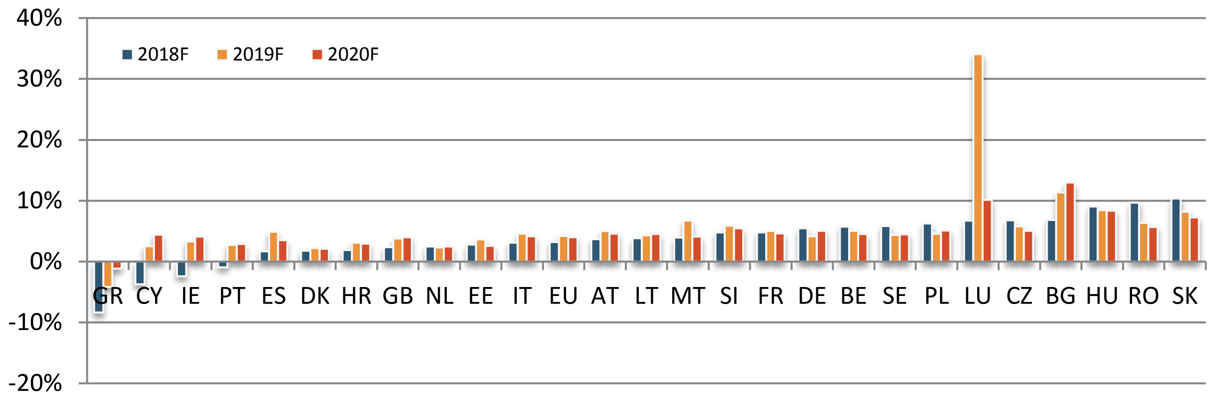
Funding plans: additional charts including country data

Figure 34: Growth in loans to financial corporates by country and for the EU, per year



Source: EBA

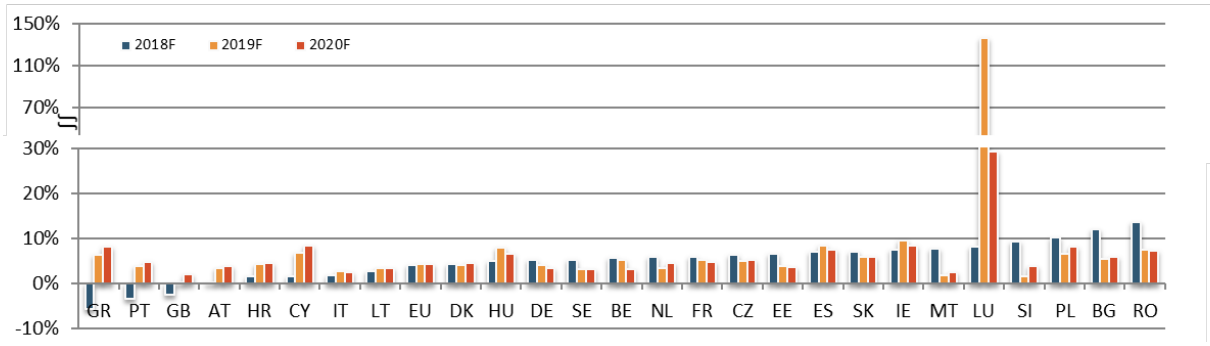
Figure 35: Growth in loans to households by country and for the EU, per year[36]



Source: EBA

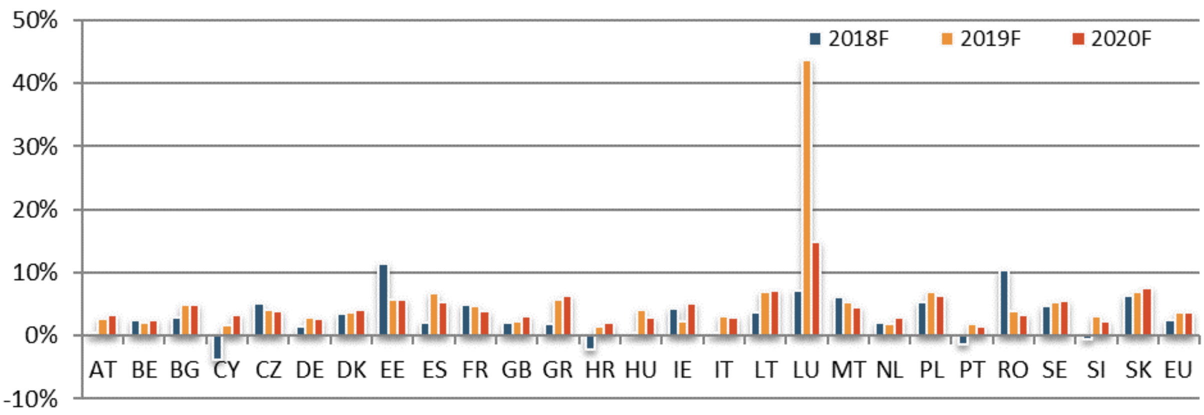
[36] The high level of the planned growth in loans to households in Luxembourg in 2019 is due to the development of a European hub by an international banking group.

Figure 36: Growth in loans to NFCs by country and for the EU, per year[37]



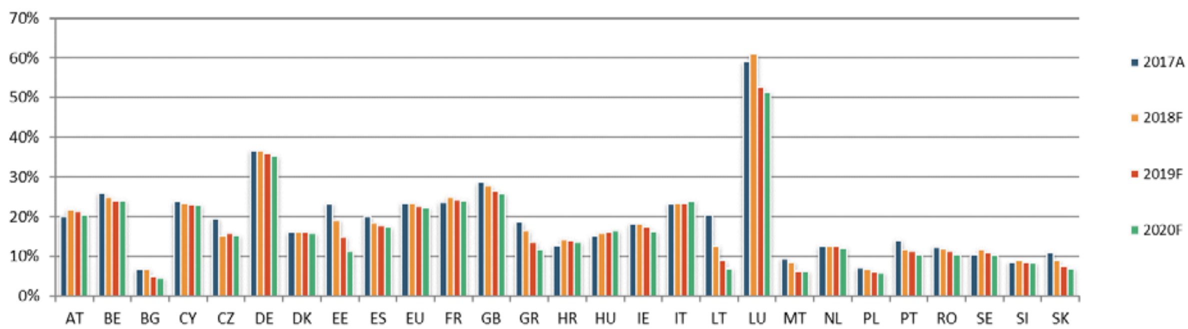
Source: EBA

Figure 37: Growth in deposits from households and NFCs by country and for the EU[38]



Source: EBA

Figure 38: Share of repos and deposits from financial corporations in total funding by country



Source: EBA

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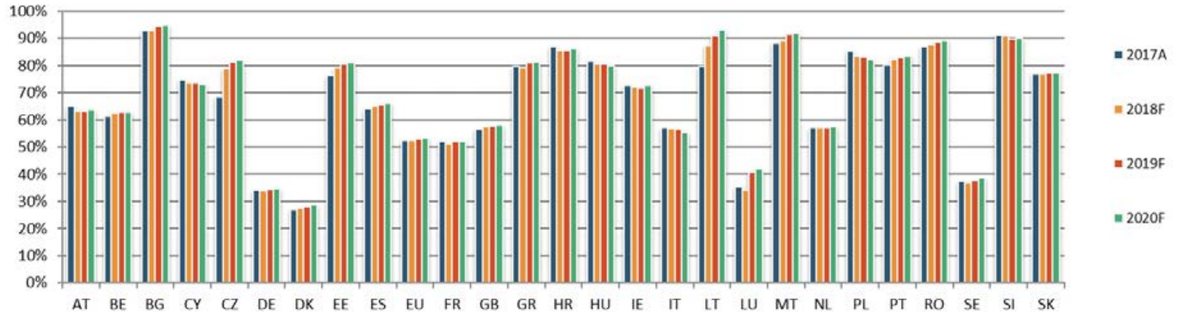
[37] The high level of the planned growth in loans to NFCs in Luxembourg in 2019 is due to the development of a European hub by an international banking group.

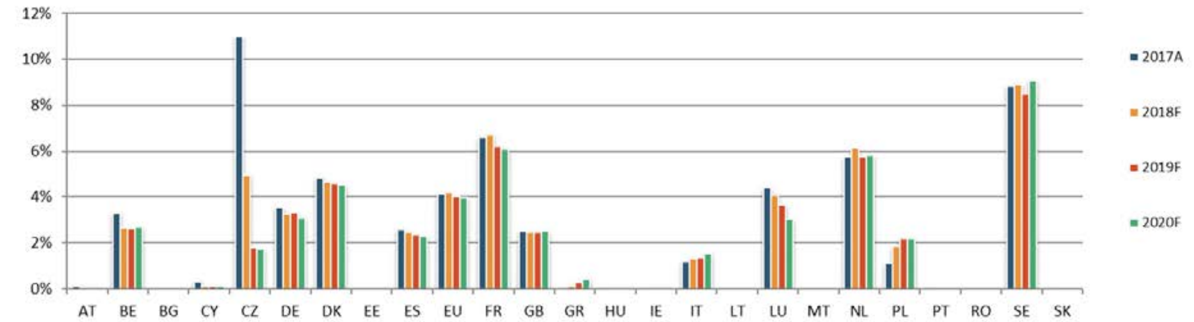
[38] The high level of the planned growth in deposits from households and NFCs in Luxembourg in 2019 is due to the development of a European hub by an international banking group.

Figure 39: Share of client deposits (households and NFCs) in total funding by country



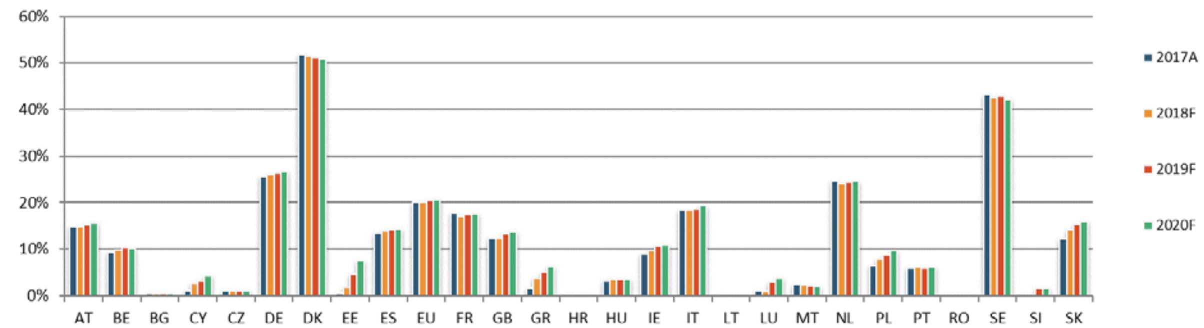
Source: EBA

Figure 40: Share of short-term debt instruments in total funding by country



Source: EBA

Figure 41: Share of long-term debt instruments (secured and unsecured) in total funding by country



Source: EBA

Annex 2

List of participating banks

Table 3: List of banks (including subsidiaries) submitting funding plan data

Entity name	Country	Is the bank included in the analysis?		
		Asset/ liability analysis	Interest spread analysis	Debt rate analysis
BAWAG Group AG	Austria	Yes	No	Yes
Erste Group Bank AG	Austria	Yes	Yes	Yes
Raiffeisen Bank International AG	Austria	Yes	No	No
Raiffeisenbankengruppe OÖ Verbund eGen	Austria	Yes	No	Yes
Raiffeisen-Holding Niederösterreich-Wien registrierte Genossenschaft mit beschränkter Haftung	Austria	Yes	No	Yes
Sberbank Europe AG	Austria	Yes	Yes	Yes
UniCredit Bank Austria AG	Austria	Yes	No	No
Volksbanken Verbund	Austria	Yes	Yes	Yes
AXA Bank Belgium SA	Belgium	No	No	No
Belfius Banque S.A.	Belgium	Yes	No	Yes
BNP Paribas Fortis SA	Belgium	Yes	No	No
Investeringsmaatschappij Argenta NV	Belgium	Yes	Yes	Yes
KBC Group N.V.	Belgium	No	No	No
The Bank of New York Mellon S.A.	Belgium	Yes	No	No
DSK Bank Bulgaria	Bulgaria	Yes	Yes	No
First Investment Bank	Bulgaria	Yes	No	No
UniCredit Bulbank Bulgaria	Bulgaria	Yes	Yes	No
Erste & Steiermärkische Bank d.d.	Croatia	Yes	Yes	Yes
Privredna Banka Zagreb d.d.	Croatia	Yes	Yes	No
Zagrebacka Banka d.d.	Croatia	Yes	Yes	No
Bank of Cyprus Holdings Public Limited Company	Cyprus	Yes	Yes	No
Cyprus Cooperative Bank Ltd	Cyprus	Yes	Yes	No
Hellenic Bank Public Company Limited	Cyprus	Yes	Yes	No
RCB Bank LTD	Cyprus	Yes	Yes	Yes
Ceská sporitelna, a.s.	Czech	Yes	Yes	Yes
Ceskoslovenská obchodní banka, a.s.	Czech	Yes	Yes	Yes
Komercní banka, a.s.	Czech	Yes	Yes	Yes
Danske Bank A/S	Denmark	Yes	Yes	Yes
Jyske Bank A/S	Denmark	Yes	Yes	No

Nykredit Realkredit A/S	Denmark	Yes	No	Yes
Sydbank A/S	Denmark	Yes	Yes	No
AS SEB Pank	Estonia	Yes	Yes	No
Luminor Bank AS	Estonia	Yes	No	No
Swedbank AS	Estonia	Yes	Yes	No
Kuntarahoitus Oyj	Finland	Yes	No	No
OP Osuuskunta	Finland	Yes	Yes	Yes
BNP Paribas	France	Yes	Yes	Yes
Bpifrance S.A. (Banque Publique d'Investissement)	France	Yes	No	No
C.R.H. – Caisse de Refinancement de l'Habitat	France	Yes	No	No
Confédération Nationale du Crédit Mutuel	France	Yes	Yes	Yes
Groupe BPCE	France	Yes	Yes	Yes
GROUPE GCA	France	Yes	No	No
HSBC France	France	Yes	No	No
La Banque Postale	France	Yes	No	Yes
RCI Banque SA	France	Yes	No	No
SFIL S.A.	France	Yes	No	Yes
Société générale S.A.	France	Yes	Yes	No
Aareal Bank AG	Germany	Yes	Yes	Yes
Bayerische Landesbank	Germany	Yes	Yes	Yes
COMMERZBANK Aktiengesellschaft	Germany	Yes	No	No
DekaBank Deutsche Girozentrale	Germany	Yes	Yes	Yes
Deutsche Apotheker- und Ärztebank EG	Germany	Yes	Yes	Yes
Deutsche Bank AG	Germany	Yes	Yes	Yes
Deutsche Pfandbriefbank AG	Germany	Yes	Yes	Yes
DZ BANK AG Deutsche Zentral- Genossenschaftsbank	Germany	Yes	Yes	Yes
Erwerbsgesellschaft der S-Finanzgruppe mbH & Co. KG	Germany	Yes	Yes	Yes
HASPA Finanzholding	Germany	Yes	Yes	Yes
HSH Beteiligungs Management GmbH	Germany	Yes	Yes	Yes
Landesbank Baden-Württemberg	Germany	Yes	Yes	Yes
Landesbank Hessen-Thüringen Girozentrale	Germany	Yes	Yes	Yes
Landeskreditbank Baden-Württemberg- Förderbank	Germany	Yes	No	Yes
Landwirtschaftliche Rentenbank	Germany	Yes	No	Yes
Münchener Hypothekenbank EG	Germany	Yes	Yes	Yes
Norddeutsche Landesbank -Girozentrale-	Germany	Yes	Yes	No
NRW.Bank	Germany	Yes	Yes	Yes
State Street Europe Holdings Germany S.à.r.l. & Co. KG	Germany	Yes	No	No
Volkswagen Bank Gesellschaft mit beschränkter Haftung	Germany	Yes	No	No
Alpha Bank, S.A.	Greece	Yes	Yes	Yes
Eurobank Ergasias, S.A.	Greece	Yes	Yes	Yes
National Bank of Greece, S.A.	Greece	Yes	Yes	Yes

Piraeus Bank, S.A.	Greece	Yes	Yes	Yes
Kereskedelmi és Hitelbank Zrt.	Hungary	Yes	Yes	Yes
OTP Bank Nyrt.	Hungary	Yes	No	Yes
UniCredit Bank Hungary Zrt.	Hungary	Yes	Yes	Yes
Arion banki hf	Iceland	No	No	No
Íslandsbanki hf.	Iceland	No	No	No
Landsbankinn	Iceland	No	No	No
AIB Group plc	Ireland	Yes	Yes	Yes
Bank of Ireland Group plc	Ireland	Yes	Yes	Yes
Citibank Holdings Ireland Ltd	Ireland	Yes	Yes	No
DePfa Bank plc	Ireland	Yes	No	Yes
Permanent TSB Group Holdings Plc	Ireland	Yes	Yes	Yes
Ulster Bank Ireland Designated Activity Company	Ireland	Yes	Yes	No
Banca Carige S.p.A. – Cassa di Risparmio di Genova e Imperia	Italy	Yes	Yes	Yes
BANCA MONTE DEI PASCHI DI SIENA S.P.A.	Italy	Yes	Yes	Yes
Banca Popolare di Sondrio, Società Cooperativa per Azioni	Italy	Yes	Yes	Yes
Banco BPM SpA	Italy	Yes	Yes	Yes
BPER Banca S.p.A.	Italy	Yes	Yes	Yes
Credito Emiliano Holding S.p.A.	Italy	Yes	Yes	Yes
ICCREA Banca S.p.A. – Istituto Centrale del Credito Cooperativo	Italy	Yes	No	Yes
Intesa Sanpaolo S.p.A.	Italy	Yes	Yes	Yes
Mediobanca – Banca di Credito Finanziario S.p.A.	Italy	Yes	Yes	Yes
UniCredit S.p.A.	Italy	Yes	Yes	Yes
Unione di Banche Italiane Società per Azioni	Italy	Yes	Yes	Yes
ABLV Bank, AS	Latvia	No	No	No
AS SEB banka	Latvia	Yes	No	No
Swedbank AS	Latvia	Yes	No	No
AB SEB bankas	Lithuania	Yes	No	No
Luminor Bank AB	Lithuania	Yes	No	No
Swedbank AB	Lithuania	Yes	No	No
Banque et Caisse d'Epargne de l'Etat, Luxembourg	Luxembourg	Yes	No	No
J.P. Morgan Bank Luxembourg S.A.	Luxembourg	Yes	No	No
Precision Capital S.A.	Luxembourg	Yes	Yes	Yes
RBC Investor Services Bank S.A.	Luxembourg	Yes	No	No
State Street Bank Luxembourg S.C.A.	Luxembourg	Yes	No	No
Bank of Valletta Plc	Malta	Yes	Yes	Yes
Commbank Europe Ltd	Malta	Yes	No	No
HSBC Bank Malta p.l.c.	Malta	Yes	Yes	No
MDB Group Limited	Malta	Yes	Yes	Yes
ABN AMRO Group N.V.	Netherlands	Yes	Yes	Yes
Bank Nederlandse Gemeenten N.V.	Netherlands	Yes	No	No

Coöperatieve Rabobank U.A.	Netherlands	Yes	Yes	No
de Volksholding B.V.	Netherlands	Yes	Yes	Yes
ING Groep N.V.	Netherlands	Yes	Yes	Yes
Nederlandse Waterschapsbank N.V.	Netherlands	Yes	No	Yes
Bank Polska Kasa Opieki SA	Poland	Yes	Yes	Yes
Bank Zachodni WBK SA	Poland	Yes	Yes	Yes
Powszechna Kasa Oszczednosci Bank Polski SA	Poland	Yes	Yes	Yes
Banco BPI, SA	Portugal	Yes	No	Yes
Banco Comercial Português, SA	Portugal	Yes	Yes	Yes
Caixa Central - Caixa Central de Crédito Agrícola Mútuo, CRL	Portugal	Yes	Yes	No
Caixa Económica Montepio Geral	Portugal	Yes	Yes	Yes
Caixa Geral de Depósitos, SA	Portugal	Yes	Yes	Yes
Novo Banco, SA	Portugal	Yes	No	Yes
Banca Comerciala Romana SA	Romania	Yes	Yes	Yes
Banca Transilvania	Romania	Yes	Yes	Yes
BRD-Groupe Société Générale SA	Romania	Yes	Yes	No
Slovenská sporitelna, a.s.	Slovakia	Yes	Yes	Yes
Tatra banka, a.s.	Slovakia	Yes	Yes	No
Všeobecná úverová banka, a.s.	Slovakia	Yes	Yes	Yes
Abanka d.d.	Slovenia	Yes	Yes	Yes
Biser Topco S.à r.l.	Slovenia	Yes	Yes	No
Nova Ljubljanska Banka d.d. Ljubljana	Slovenia	Yes	Yes	No
UniCredit Banka Slovenija d.d.	Slovenia	Yes	Yes	No
ABANCA Holding Financiero, S.A.	Spain	Yes	Yes	No
Banco Bilbao Vizcaya Argentaria, S.A.	Spain	Yes	Yes	Yes
Banco de Crédito Social Cooperativo, S.A.	Spain	Yes	Yes	Yes
Banco de Sabadell, S.A.	Spain	Yes	Yes	Yes
Banco Santander, S.A.	Spain	Yes	Yes	Yes
Bankinter, S.A.	Spain	Yes	No	No
BFA Tenedora de Acciones, S.A.	Spain	Yes	Yes	Yes
CaixaBank, S.A	Spain	Yes	No	No
Ibercaja Banco, S.A.	Spain	Yes	Yes	Yes
Kutxabank, S.A.	Spain	Yes	No	Yes
Liberbank, S.A	Spain	Yes	Yes	Yes
Unicaja Banco, S.A.	Spain	Yes	Yes	Yes
AB Svensk Exportkredit - group	Sweden	Yes	No	No
Kommuninvest - group	Sweden	Yes	No	No
Länförsäkringar Bank AB (publ)	Sweden	Yes	Yes	Yes
Nordea Bank - group	Sweden	Yes	Yes	Yes
SBAB Bank AB - group	Sweden	Yes	Yes	Yes
Skandinaviska Enskilda Banken - group	Sweden	Yes	Yes	Yes
Svenska Handelsbanken - group	Sweden	Yes	No	Yes

Swedbank - group	Sweden	Yes	Yes	Yes
Barclays Plc	United Kingdom	Yes	Yes	Yes
HSBC Holdings Plc	United Kingdom	Yes	Yes	Yes
Lloyds Banking Group Plc	United Kingdom	Yes	No	No
Nationwide Building Society	United Kingdom	Yes	Yes	Yes

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