

# SRB MREL Dashboard – Q4.2020

May 2021

The minimum requirement for own funds and eligible liabilities (MREL) dashboards are based on bank data reported to the Single Resolution Board (SRB) and cover entities under SRB remit<sup>1</sup>. The first section of the dashboard focuses on the evolution of MREL targets, outstanding stock and shortfalls over 2020 under the BRRD2 framework<sup>2</sup>. It also includes an overview of the gross issuances of MREL instruments during the quarter. The second section highlights recent developments in the cost of funding.<sup>3</sup>

## 1. MREL MONITORING – Q4.2020

**MREL final targets:** In December 2020, the average MREL target for entities in scope represented 22.82% of the total risk exposure amount (TREA) (EUR 1,557 bn), and 26.00% TREA (EUR 1,774 bn) when including the combined buffer requirement (CBR). The latter remained broadly stable compared to June 2020 (26.07% TREA or EUR 1,786 bn)<sup>4</sup> and in slight reduction year-on-year (-0.23% TREA). The average subordination target including CBR (17.08% TREA or EUR 1,165 bn in December 2020) slightly increased year-on-year (+0.29% TREA) (cf. Chart 1).

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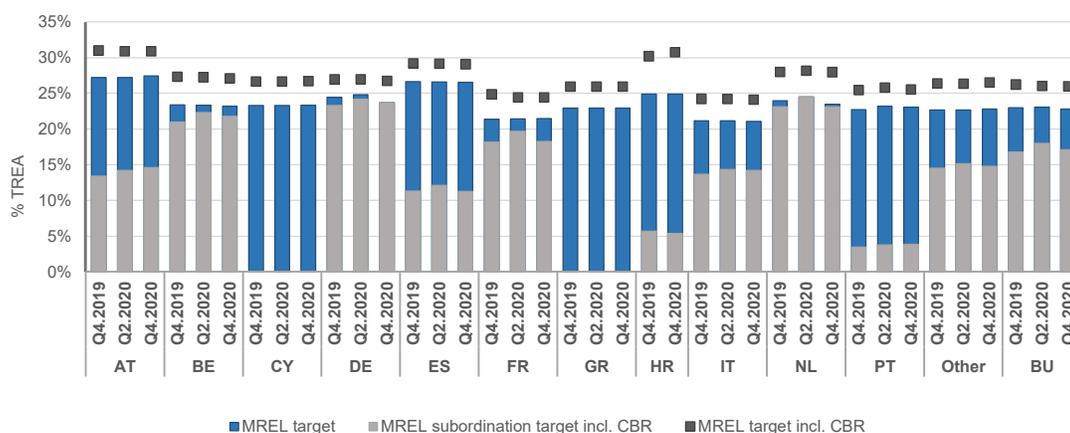
<sup>1</sup> The scope is detailed in the methodological annex.

<sup>2</sup> The results presented in this Dashboard are not directly comparable with the SRB MREL Dashboard for Q3.2020, which presented targets, outstanding stock and shortfalls as of Q3.2020 under the BRRD1 framework.

<sup>3</sup> This publication is based on an SRB proprietary database built upon quarterly and annual reporting received from banks under the SRB remit and SRB staff computations. Coverage and definitions have evolved according to policy enhancements and the new regulatory framework (cf. methodological annex for further details). The data in this publication is provided for information purposes only. This document shall neither be binding nor construed as constituting a commitment by the SRB on how it will exercise its tasks and shall be without prejudice to any stance that the SRB may take with respect to the subject of this publication. The SRB shall not be held liable for any use of the data therein.

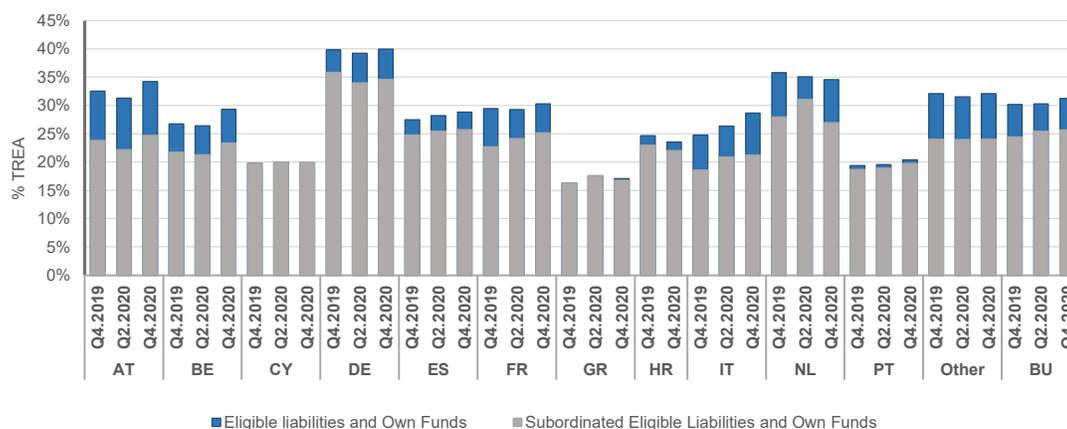
<sup>4</sup> The comparison between Q2.2020 and Q4.2020 does not consider the same sample of banks, due to the inclusion of Bulgarian (BG) and Croatian (HR) entities in the Banking Union at a later stage of the SRB Resolution Planning Cycle.

**Chart 1: BRRD 2 MREL final target (of which subordination), % TREA<sup>5</sup>**



**MREL outstanding stock:** The average stock of MREL eligible liabilities and own funds, in percentage of TREA, rose to 31.24% in December 2020<sup>6</sup> from 30.29% in June 2020 and 30.13% in December 2019. The corresponding absolute value of the outstanding MREL eligible was EUR 2,131 bn in December 2020, EUR 56.6 bn higher compared to June 2020 and EUR 81.1 bn in December 2019. This trend shows that new issuances exceeded outflows over the year. The subordinated liabilities and own funds increased steadily during the year (an increase of 1.2% TREA year-on-year) and amounted to 25.65% TREA (EUR 1,750 bn) in December 2020 (cf. Chart 2).

**Chart 2: BRRD 2 MREL eligible liabilities (of which subordinated) and own funds, % TREA<sup>7</sup>**



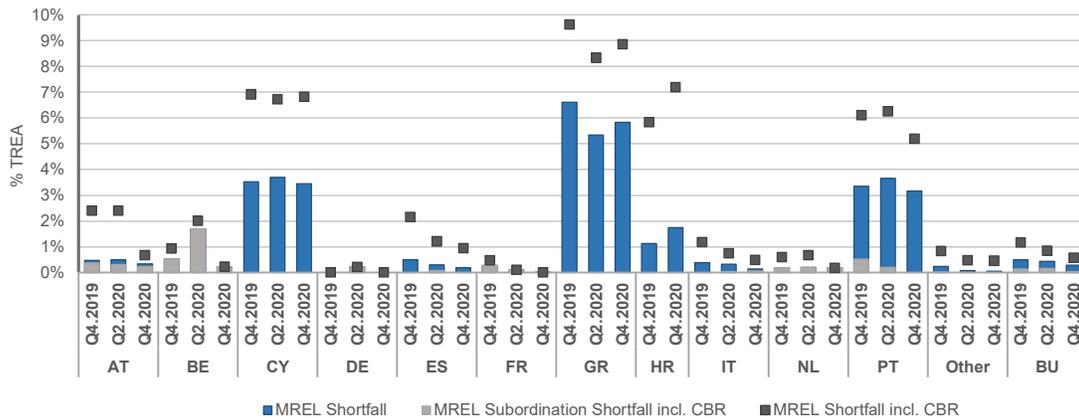
<sup>5</sup> The CBR applicable at the reference date has been used.

<sup>6</sup> The comparison between Q2.2020 and Q4.2020 does not consider the same sample of banks, due to the inclusion of BG and HR entities in the Banking Union at a later stage of the SRB Resolution Planning Cycle.

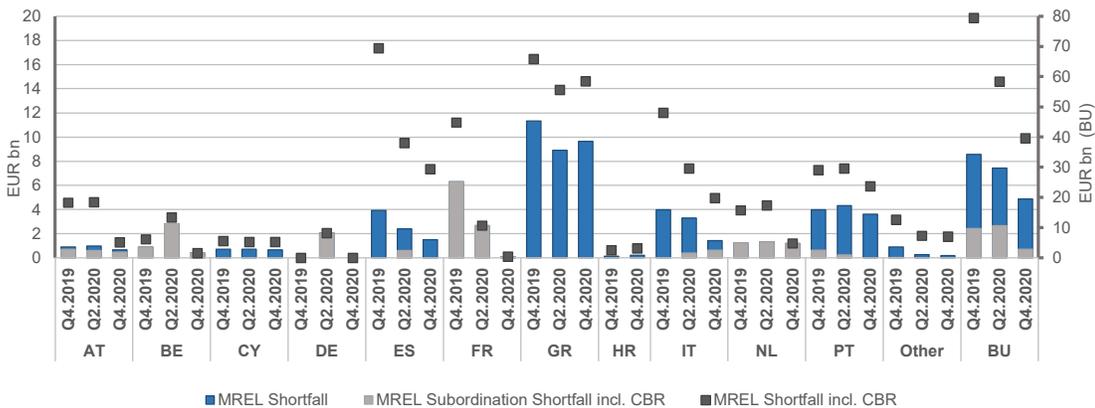
<sup>7</sup> The CBR applicable at the reference date has been used.

**Shortfalls:** Average MREL shortfalls amounted to 0.29% TREA in December 2020, decreasing from 0.43% in June 2020 and 0.50% in December 2019. Average MREL shortfalls including CBR followed the same trend, shrinking to 0.58% TREA in December 2020, from 0.85% in June and 1.17% in December 2019 (a reduction of 0.59% TREA year-on-year). This is mostly due to the increase in eligible amounts between the reporting periods (cf. section above). In absolute values, the overall shortfall dropped to EUR 19.5 bn in December 2020 from EUR 29.7 bn in June 2020 and EUR 34.2 bn in December 2019. When considering the CBR in addition to the risk-based MREL, the overall shortfall decreased to EUR 39.6 bn in December 2020 from EUR 58.3 bn in June 2020 and EUR 79.5 bn in December 2019. The average subordination shortfalls including CBR increased slightly between December 2019 and June 2020 (+0.01%), before reducing by 0.11% in December 2020, when it stood at 0.04% TREA. (cf. Charts 3 and 4).

**Chart 3: BRRD 2 MREL shortfall (of which subordination) against final targets, % TREA<sup>8</sup>**



**Chart 4: BRRD 2 MREL shortfall (of which subordination) against final targets, EUR bn<sup>9</sup>**



<sup>8</sup> The CBR applicable at the reference date has been used.

<sup>9</sup> The CBR applicable at the reference date has been used.

**MREL binding intermediate targets and shortfalls:** In December 2020, the average MREL binding intermediate target represented 22.02% TREA or EUR 1,502 bn (25.19% TREA, equal to EUR 1,718 bn when including CBR). These values slightly reduced compared to June 2020 (22.30% TREA and 25.25% TREA, respectively). The average binding subordination target including CBR decreased to 16.92% TREA (or EUR 1,154 bn) in December 2020 from 17.80% TREA (or EUR 1,219 bn) in June 2020, remaining above the level from December 2019. The average MREL shortfalls against the binding intermediate targets amounted to 0.02% TREA (or EUR 1.1 bn) in December 2020, lower than in June 2020 (0.03% TREA or EUR 2.0 bn) and December 2019 (0.04% TREA or EUR 3.0 bn). Average MREL shortfalls including CBR followed the same trend, shrinking during the year to 0.07% TREA (EUR 5.0 bn) in December 2020. In Q4.2020, the average subordination shortfalls including CBR decreased steadily during the year to 0.01% TREA (EUR 992 mn) in December 2020.

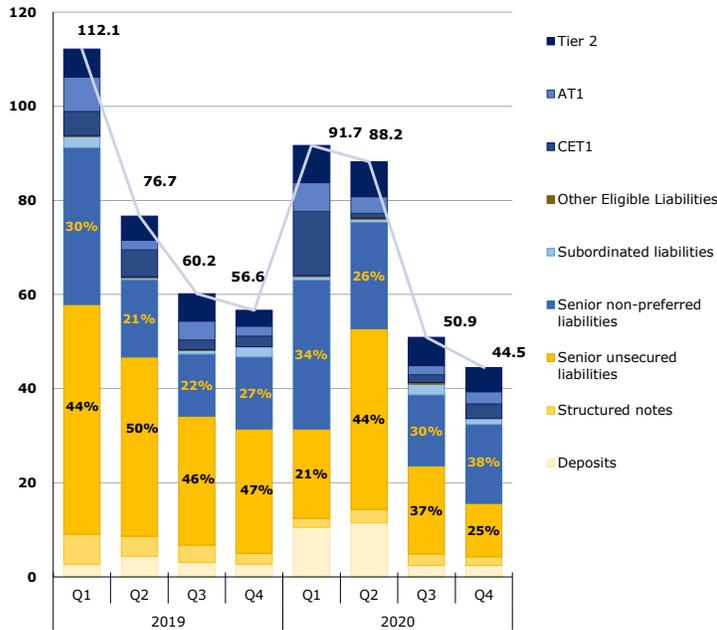
**MREL gross issuances:** Overall, in 2020 banks have issued EUR 275.2 bn of MREL eligible liabilities and own funds (a reduction by 10% year-on-year)<sup>10</sup>. The issuance activity was more pronounced in the first half-year (EUR 179.9 bn) compared to the second half-year (EUR 95.3 bn). The lower issuance activity in the second part of the year can be attributed to the availability of additional central bank funding provided in the context of Covid-19. In Q4.2020, MREL issuances amounted to EUR 44.5 bn, a decrease of 13% (EUR 6.4 bn) in comparison to Q3.2020<sup>11</sup>. The banks in scope showed some heterogeneity in the volume of issuances during the quarter, with smaller banks taking advantage of large issuers' lower primary market activity and being more active than previous quarters. The average MREL issuances in percentage of TREA decreased to 0.6% TREA in December 2020 from 0.7% in September 2020. During this quarter, issuers' preference was towards senior non-preferred liabilities (38% of total issuances), while in the previous quarter issuances of senior bonds were predominant (cf. Charts 5, 6 and 7). In Q4.2020, issuances by G-SIIs accounted for 38% of the total, broadly in line with the share observed in Q3.2020 (share of 39%). The share of issuances by Top Tier banks decreased to 46% of the total banks' issuances in December 2020 from 49% in September 2020.

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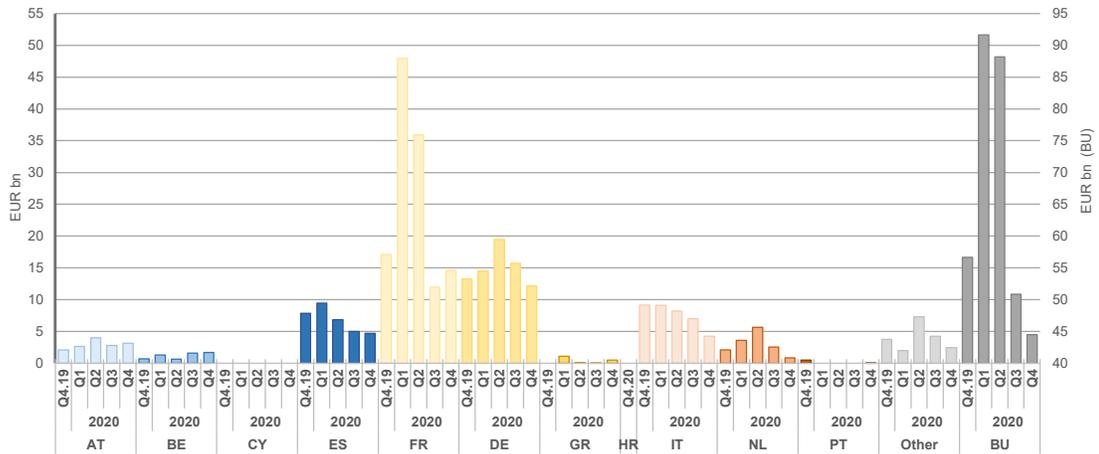
<sup>10</sup> Comparisons between year 2019 and year 2020 do not consider the same sample of banks. For Q1.2019, Q2.2019 and Q3.2019, data are reported at the consolidated level for all the entities in sample, thus the yearly reduction might be overestimated.

<sup>11</sup> Comparisons between Q4.2020 and Q3.2020 do not consider the same sample of banks, due to the inclusion of BG and HR entities under SRB remit during 2020 resolution planning cycle. Lithuanian (LT) entities were included in the exercise for the first time during the quarter.

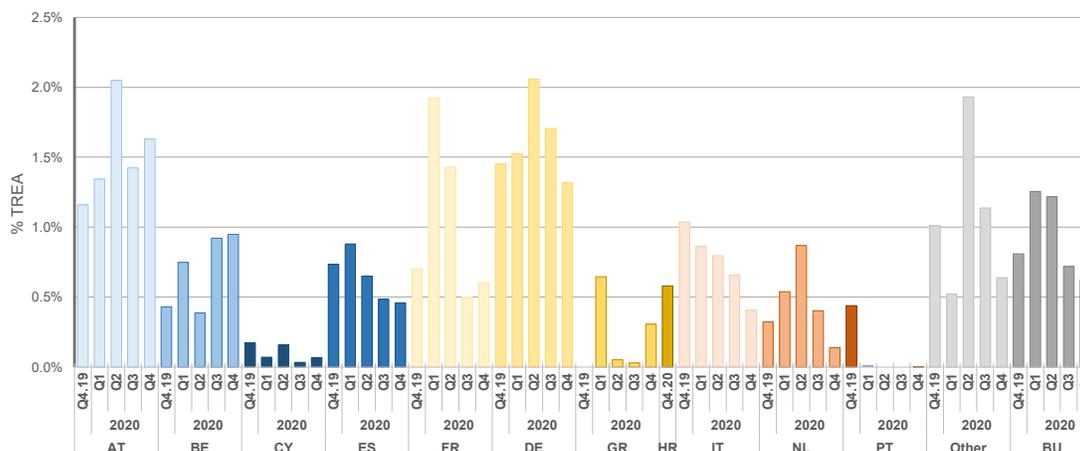
**Chart 5: MREL gross issuances by type of instrument, EUR bn**



**Chart 6: MREL gross issuances by country, EUR bn**



**Chart 7: MREL gross issuances by country, % TREA**



**Table 1. Q4.2020 key MREL metrics<sup>1213</sup>**

Country	MREL target incl. CBR	MREL subordination target incl. CBR	Outstanding Amount at 31/12/2020		Amount Issued during Q4.2020		MREL Shortfall incl. CBR		Subordination Shortfall incl. CBR	
	%TREA	%TREA	EUR mn	%TREA	EUR mn	%TREA	EUR mn	%TREA	EUR mn	%TREA
AT	30.93%	14.59%	65,469	34.23%	3,135	1.63%	1,278	0.67%	473	0.25%
BE	27.10%	21.79%	50,003	29.33%	1,678	0.95%	389	0.23%	389	0.23%
CY	26.70%	0%	3,839	19.88%	13	0.07%	1,317	6.82%	0	0%
DE	26.73%	23.68%	368,363	39.94%	12,146	1.32%	0	0%	0	0%
ES	29.10%	11.28%	224,172	28.80%	4,719	0.46%	7,336	0.94%	0	0%
FR	24.45%	18.25%	734,376	30.29%	14,597	0.60%	86	0%	86	0%
GR	25.94%	0%	28,212	17.08%	500	0.31%	14,617	8.85%	0	0%
HR	30.77%	5.35%	2,531	23.57%	62	0.58%	773	7.20%	0	0%
IT	24.14%	14.18%	287,771	28.67%	4,264	0.41%	4,947	0.49%	633	0.06%
NL	27.97%	23.13%	218,656	34.55%	874	0.14%	1,185	0.19%	1,185	0.19%
PT	25.56%	3.84%	23,219	20.39%	0	0%	5,912	5.19%	0	0%
Other	26.51%	14.79%	124,873	32.07%	2,481	0.64%	1,764	0.45%	0	0%
<b>BU</b>	<b>26.00%</b>	<b>17.08%</b>	<b>2,131,484</b>	<b>31.24%</b>	<b>44,469</b>	<b>0.62%</b>	<b>39,604</b>	<b>0.58%</b>	<b>2,766</b>	<b>0.04%</b>

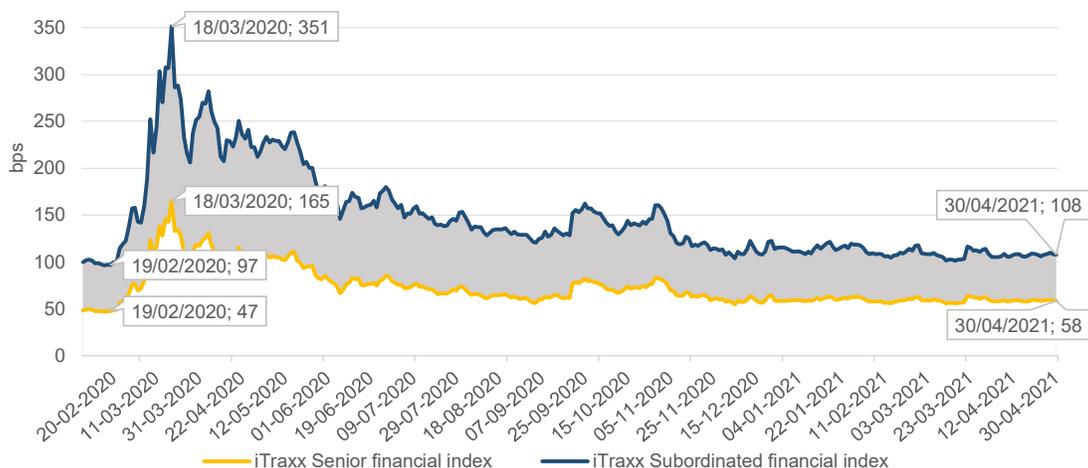
<sup>12</sup> Four Spanish entities are currently subject to mergers and have been excluded from the sample.

<sup>13</sup> The CBR applicable at the reference date has been used.

## 2. COST OF FUNDING AND MARKET ACCESS

**Cost of funding:** Funding costs stabilised slightly above pre-pandemic levels between January 2021 and April 2021. The iTraxx indexes on subordinated and senior financial debt showed a stable trend, correcting the progressive downward path experienced at the end of 2020. However, the pattern observed showed some hick-ups: the indexes rose in January on investors' considerations that credit valuations were stretched when significant parts of Europe went into lockdowns, and decreased in February fuelled by favourable market conditions, rising again during March. As of end-April 2021, the indexes' values were about 1.1 and 1.2 times those registered before the COVID-19 outbreak, respectively (cf. Chart 8).

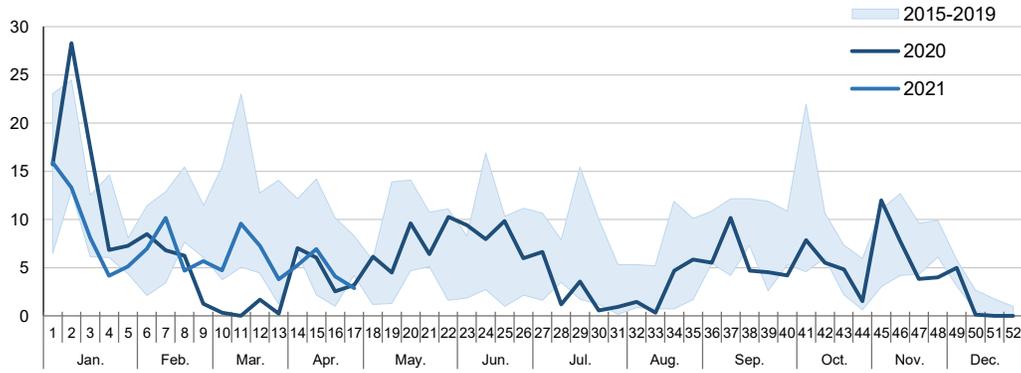
**Chart 8: Cost of funding (iTraxx Europe Financials)**



Source: Bloomberg Finance L.P.

**Gross issuances:** Between January and April 2021 issuance activity remained weak if compared to pre-pandemic years. In January, banks' gross bond issuance volume dropped below the 2015-2019 average issuance corridor. Issuance volume started recovering at the end of January, reaching the 2015-2019 average issuance corridor in February. Since then, issuances remained low compared to previous years, but slightly better than the volume registered during the spreading of Covid19 pandemic. Among other factors, market developments (i.e. central bank funding, investors' demand) enabling banks not to frontload future funding needs contributed to the low issuances volume observed during the first four months of 2021 (cf. Chart 9).

**Chart 9: Gross bond issuances volume of euro-area banks (weeks start on Wednesdays and end on Tuesdays)**



Source: Dealogic, ECB computations

## METHODOLOGICAL ANNEX

Section	Sample <sup>14</sup>	Reference Date	Data Sources
MREL monitoring	<p><b>BRRD2 metrics</b></p> <p>Resolution groups under SRB remit for which an external BRRD2 MREL target was set (or is about to be set) in 2020 RPC, excluding groups whose preferred strategy is liquidation and banks subject to mergers</p>	Q4.2019, Q2.2020, Q4.2020	MREL quarterly data collection, Additional Liability Report (ALR), and SRB survey to banks
	<p><b>Issuances</b></p> <p>Resolution groups under SRB remit for which a consolidated BRRD1 MREL target was set in previous cycles and/or an external BRRD2 MREL target was set (or is about to be set) in 2020 RPC, excluding groups whose preferred strategy is liquidation</p>	Q1.2019 - Q4.2020	MREL quarterly data collection
Cost of funding	-	Until Q1.2021	Bloomberg Finance L.P., Dealogic, ECB

<sup>14</sup> BU subsidiaries of third country groups and groups with European Resolution College are not in scope.

Country	Number of groups		Number of groups (Issuances metrics)
	Q4.2019 and Q4.2020	Q2.2020	Q4.2020
AT	7	7	7
BE	3	3	4
BG	1	0	1
CY	3	3	3
DE	8	8	8
EE	1	1	1
ES	8	8	12
FI	2	2	2
FR	6	6	6
GR	4	4	4
HR	3	0	3
IE	2	2	2
IT	10	10	11
LT	1	1	1
LU	2	2	2
LV	1	1	1
MT	1	1	1
NL	4	4	4
PT	4	4	4
SI	2	2	2
SK	2	2	2
<b>BU</b>	<b>75</b>	<b>71</b>	<b>81</b>

### **MREL monitoring**

The targets considered are BRRD2 external binding MREL targets (%TREA and %LRE) set (or about to be set) by the SRB under the 2020 resolution planning cycle at December 2019 reference date<sup>15</sup>. To obtain targets in EUR amounts, the targets were multiplied by TREA and LRE at the respective date, and expressed as percentages of TREA. Aggregated MREL targets (%TREA) are the weighted average of targets of resolution entities in the same country.

MREL outstanding stock is calculated over the sample of banks under BRRD2 framework, excluding banks going under restructuring process and banks whose preferred strategy is liquidation.

MREL shortfalls and subordination shortfalls are calculated over the sample of banks under BRRD2 framework, considering the binding MREL targets and subordination targets,

<sup>15</sup> For one entity the reference data was 31 March 2020 and for one entity 30 June 2020.

excluding banks going under restructuring processes and banks whose preferred strategy is liquidation. MREL shortfalls and subordination shortfalls are calculated with respect to the most binding targets between TREA-based targets (including CBR on top) and LRE-based targets. MREL shortfalls (%TREA) and subordination shortfalls (%TREA) are the weighted average of shortfalls of resolution entities in the same country. The results may be subject to changes for the banks in case of resubmission of relevant reports.

MREL issuances are calculated over the sample of resolution entities for which a consolidated BRRD1 MREL target was set in previous cycles and/or an external BRRD2 MREL target was set (or is about to be set) in 2020 RPC, including banks going under restructuring process and excluding banks whose preferred strategy is liquidation – issuances registered under BRRD1 framework are used as proxies for issuances under BRRD2 framework.

### ***Cost of funding***

The chart on cost of funding plots the iTraxx subordinated financial index (ticker ITRXEUE Curncy, 5y daily) and the iTraxx senior financial index (ticker ITRXESE Curncy, 5y daily), from Bloomberg. The iTraxx financials indexes are standardized credit derivatives used to hedge credit risk. Each index is composed of 25 investment-grade entities from the European financial sector.

### ***Confidentiality criteria***

Country data are presented only when there are at least three institutions in the same country. Countries that do not meet this criterion have been grouped and labelled in graphs as “Other”.

## ABBREVIATIONS

<b>AT1</b>	Additional Tier 1
<b>BRRD</b>	Bank Recovery and Resolution Directive
<b>BU</b>	Banking Union
<b>CBR</b>	Combined Buffer Requirement
<b>CET1</b>	Common Equity Tier 1
<b>ECB</b>	European Central Bank
<b>FY</b>	Fiscal year
<b>LRE</b>	Leverage Ratio Exposure Measure
<b>MREL</b>	Minimum Requirement for Own Funds and Eligible Liabilities
<b>MS</b>	Member State(s)
<b>SNP</b>	Senior Non-Preferred Instruments
<b>SRB</b>	Single Resolution Board
<b>TREA</b>	Total Risk Exposure Amount