EUROPEAN CENTRAL BANK
BANKING SUPERVISION

2017 SREP for 2018
2018 Supervisory Priorities
2018 Stress tests

Frankfurt, 18 December 2017

Main takeaways

- **Banks are broadly resistant and stable** as shown in the ECB's annual assessment of banks' risk and capital (SREP 2017)
- **Remaining risks** centre around **profitability and non-performing loan issues**
- **Average supervisory capital demand stable, but with different outcomes for individual banks**
- **Supervisory priorities in 2018 follow through with earlier initiatives**: Focus remains on banks' risks stemming from non-performing loans, and how they manage capital and liquidity
- **2018 stress tests will follow the same approach as in** 2016 and be conducted in close cooperation with EBA. **Results will inform 2018 SREP to be applied in 2019**

Overview of topics to be covered/not covered in this call

- **SREP 2017 for 2018** methodological developments, main takeaways, aggregated result overview
- Overview of the **SSM supervisory priorities for 2018**
- Overview of **2018 Stress test**

- **Disclosure** or **discussion** of individual banks' SREP results, and capital requirements
- **Discussion** of individual **bank** risk drivers

Three different publications on ECB Banking Supervision Website (on 18 December 2017)

1. SSM SREP 2017 Methodology Booklet

https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.srep_methodology_booklet_2017.en.pdf

2. SSM Supervisory Priorities 2018

https://www.bankingsupervision.europa.eu/banking/priorities/html/index.en.html

3. 2018 Stress Test

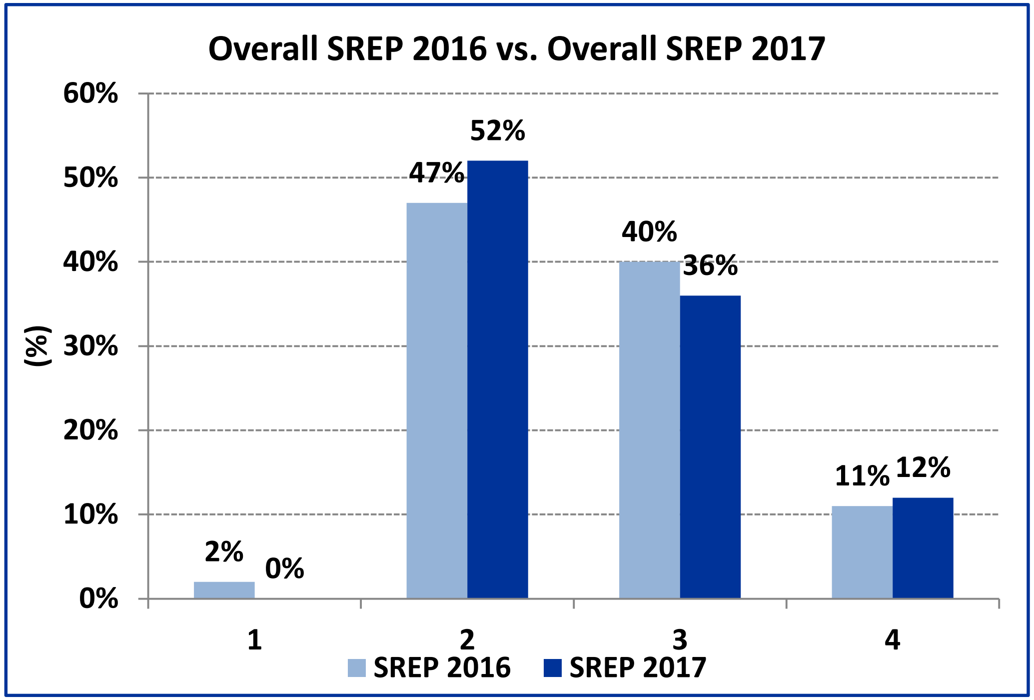
Launching expected for end of January with the publication of the scenarios and the opening of the helpdesk by the EBA

In 2017 the SSM carried out its third SREP cycle for SIs in 19 countries

Risks fairly stable compared to last year, leading to a relatively stable aggregate risk profile, but:

- Profitability remains an issue
- High Level of NPL is still a point of attention
- ICAAP and ILAAP to be further improved by banks

SREP Outcome 2016/2017



Notes:

- *SREP 2017 values based on 105 banks with SREP 2017 decisions finalised as of 30 November 2017.*
- *SREP 2016 values based on 106 banks with SREP 2016 decisions finalised as of 30 November 2016 and presented in the SSM SREP Methodology Booklet – 2016 edition.*

Page 4 of the 2017 SREP Booklet

1. SREP 2017 Outcome – Key facts: Capital measures (1/2)

Overall consistency in CET1 demand from SREP 2016 to SREP 2017

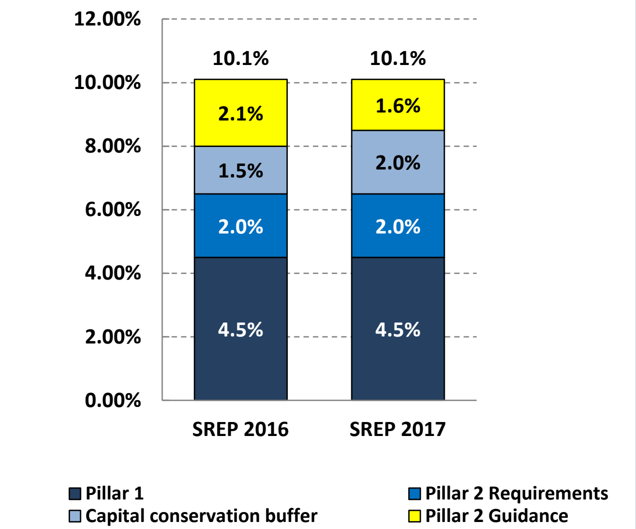
- Overall, envisaged CET1 demand (excluding systemic buffers) is stable compared to last year (10.1%).
- Beyond the stability of the overall CET1 capital demand, there is a significant number of idiosyncratic changes up and down

Notes:

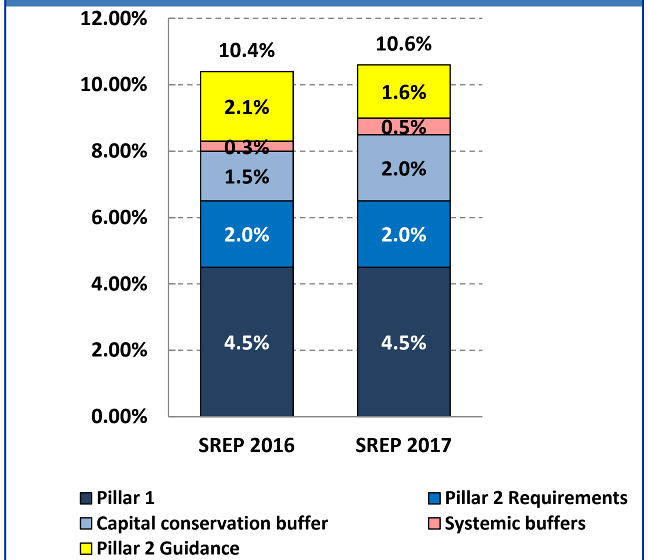
- *Simple averages. Using RWA weighted averages, CET1 demand, excl. systemic buffers, increases also by 10 bp, from 9.5% to 9.6%.*
- *CET1 demand is computed without taking into account the need to cover also Pillar 1 AT1/T2 in case of shortage of AT1 and T2.*
- *SREP 2017 values based on SREP 2017 decisions finalised as of 30 November 2017.*
- *SREP 2016 values based on SREP 2016 decisions finalised as of 30 November 2016 and presented in the SSM SREP Methodology Booklet – 2016 edition.*

Page 5 of the 2017 SREP Booklet

CET1 demand (excl. systemic buffers)



CET1 demand (incl. systemic buffers)



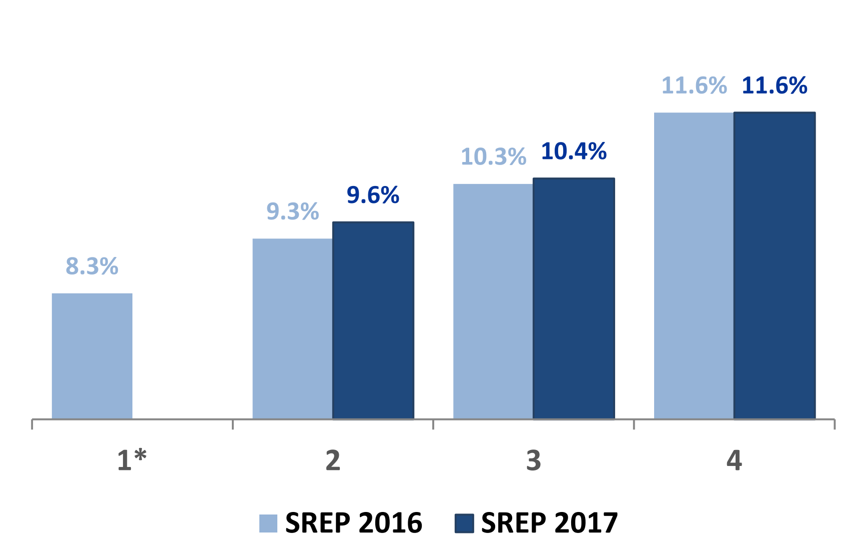
SREP CET1 demand per score comparable to 2016

- In line with SREP 2016 achievements, SREP 2017 CET1 demand increases consistently with higher SREP scores

Notes:

- [1] Pillar 1 + Pillar 2 Requirement + Capital conservation buffer + Pillar 2 Guidance. Excludes systemic buffers (G-SII, O-SII and systemic risk buffer)

SREP CET1 demand[1] by overall SREP score



Notes:

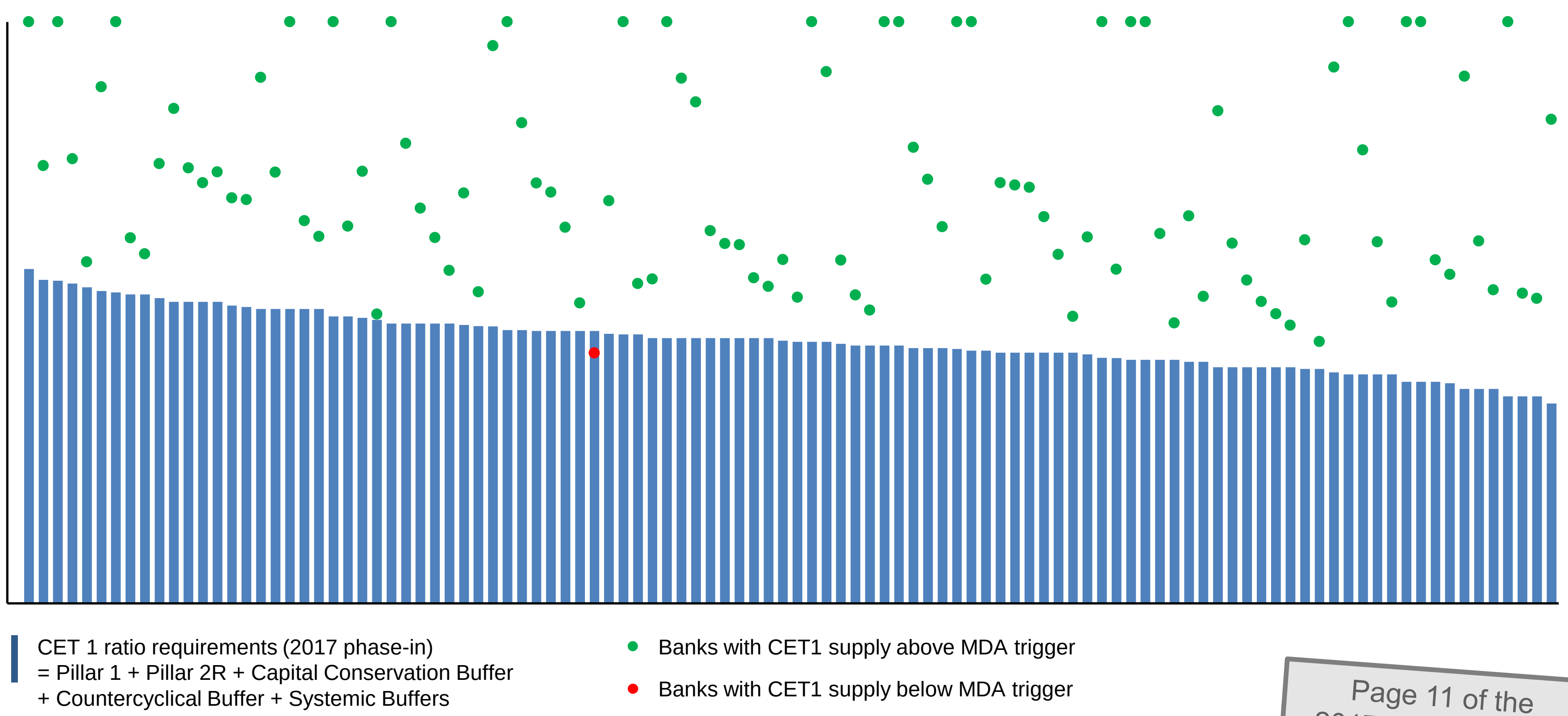
- *SREP 2017 values based on SREP 2017 decisions finalised as of 30 November 2017.*
- *SREP 2016 values based on SREP 2016 decisions finalised as of 30 November 2016 and presented in the SSM SREP Methodology Booklet – 2016 edition.*

** No institution with SREP overall score of 1 in SREP 2017.*

Page 6 of the 2017 SREP Booklet

Most significant institutions currently have capital levels above CET1 requirements and buffers*

Capital supply compared to MDA trigger



Page 11 of the 2017 SREP Booklet

* Based on capital supply in Q2 2017 (CET1 after covering shortfall of Pillar 1 AT1/T2 shortages)

For 2016 results please refer to the 2016 SREP Booklet on the web site: https://www.bankingsupervision.europa.eu/ecb/pub/pdf/srep_methodology_booklet_2016.en.pdf

Liquidity measures

39 banks with envisaged **liquidity related measures** have been identified

- There are 35 banks with only qualitative liquidity SREP requirements. The requirements are diverse and relating to a broad area of topics within liquidity risk management e.g. improvement of the ILAAP
- There are 2 banks with both qualitative and quantitative liquidity SREP requirements (e.g. FX-denominated liquidity buffers)
- There are 2 banks with only quantitative liquidity SREP requirements

Other qualitative measures

84 banks with envisaged **qualitative measures**

- Qualitative measures are envisaged for most banks scored 4 in SREP 2017, while other supervisory actions have been implemented for the remaining banks
- The envisaged measures cover the whole range of assessed banks
- They cover a wide range of weaknesses (*e.g.* NPL, Internal Governance, IFRS 9, BCBS 239, Data Quality, Operational risk, IRRBB)

On top of qualitative measures in SREP, JSTs often apply various supervisory actions such as operational acts or follow-up letters e.g. on IRRBB

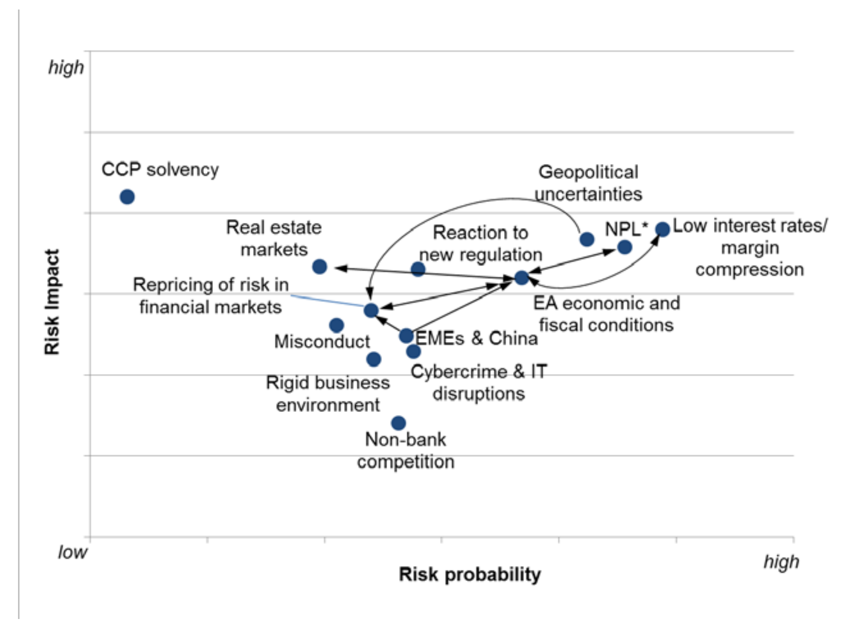
Page 7 of the 2017 SREP Booklet

2017 SREP cycle highlighted challenges regarding profitability and capital adequacy

- Continued period of **low interest rates** puts pressure on interest rate margins challenging banks' profitability.
- **NPL** ratios declined over the last year, however the number of high-NPL banks in the euro area remains substantial.
- While **euro area economic and fiscal conditions** improved, some countries still face debt sustainability concerns, making them vulnerable to a potential repricing in bond markets.
- This is particularly relevant against historically high levels of **geopolitical uncertainty** which could lead to a sudden repricing of risk in financial markets. Political uncertainty around Brexit creates additional challenges, including business continuity and transitional risks, as well as macroeconomic and regulatory risks.

Page 8 of the 2017 SREP Booklet

Key risks for SSM banks in 2018



Source: ECB and national supervisory authorities.

Note: Risks are not independent and might trigger or reinforce each other – indicated by arrows on the chart which represent the main transmission channels.

(*) NPLs: this risk driver is only relevant for euro area banks with high NPL ratios

Evolution of SREP scores per element 2016 and 2017

- **Profitability remains an issue**
  - stable number of loss-making institutions; 7 institutions not profitable since SSM inception;
  - on the positive side, 24 institutions from 12 different countries have been showing a relatively good level of profitability for the last 3 years
- **Many institutions still with challenges in risk management**
  - Especially in risk infrastructure, data aggregation and reporting capabilities, and internal audit

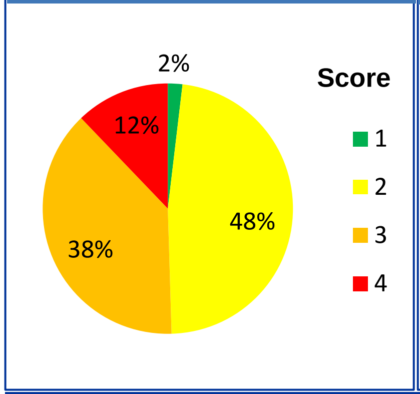
Notes:

- *SREP 2017 values based on SREP 2017 decisions finalised as of 30 November 2017.*
- *SREP 2016 values based on SREP 2016 decisions finalised as of 30 November 2016 and presented in the SSM SREP Methodology Booklet – 2016 edition.*

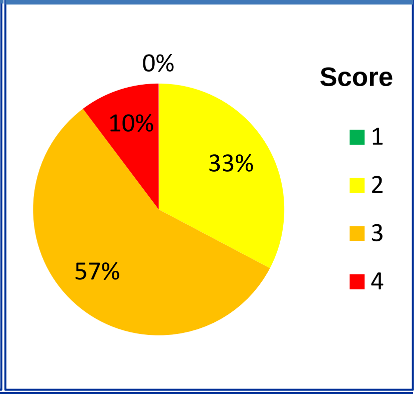
Page 9 of the 2017 SREP Booklet

SREP Elements scores SREP 2017

Business Model assessment

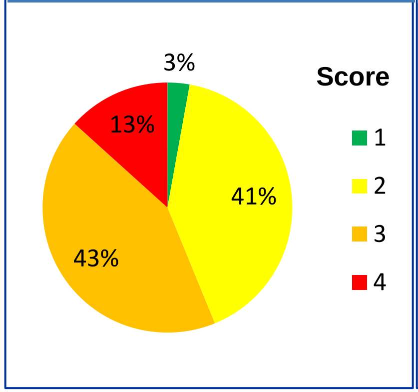


Governance & risk management

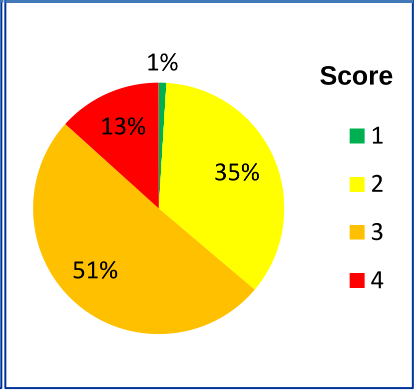


SREP Elements scores SREP 2016

Business Model assessment



Governance & risk management



Evolution of SREP scores per element 2016 and 2017

- **In terms of Risks to Capital high Level of NPL is still a point of attention**
  - notably the 34 institutions whose reporting on the matters requested in the SREP 2016 letters show remaining issues

- **In terms of Risks to Liquidity and Funding, the risk management framework of a number of banks needs to be improved e.g. in terms of ILAAP**

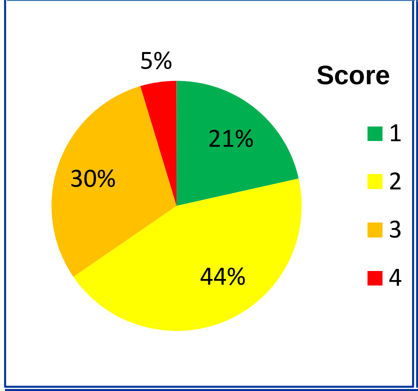
Notes:

- *SREP 2017 values based on SREP 2017 decisions finalised as of 30 November 2017.*
- *SREP 2016 values based on SREP 2016 decisions finalised as of 30 November 2016 and presented in the SSM SREP Methodology Booklet – 2016 edition.*

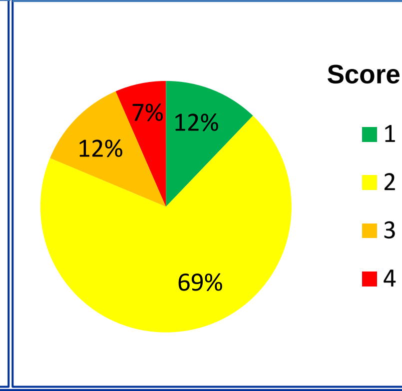
Page 10 of the 2017 SREP Booklet

SREP Elements scores SREP 2017

Risks to Capital

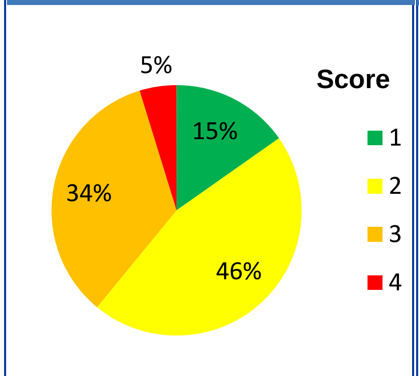


Risks to Liquidity and Funding

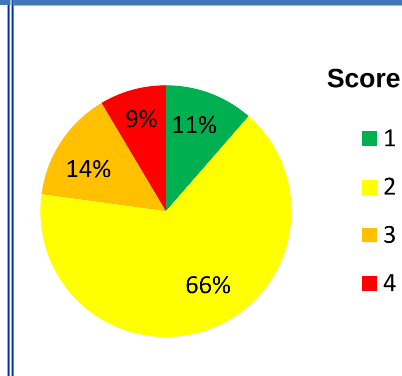


SREP Elements scores SREP 2016

Risks to Capital



Risks to Liquidity and Funding



SSM Supervisory Priorities 2018

Priorities 2018	Activities for 2018 & beyond		2018	2019	2020
Business models	Interest rate risk implications for banks' business models/ profitability				
Credit risk	Consistent approach to NPLs/ forborne exposures (e.g. deep dives / OSIs)				
	Exposure Concentrations & Collateral Management and Valuation (e.g. real estate)				
Risk management	TRIM	Credit risk, market risk and counterparty credit risk models			
	Improvement of banks' ICAAP and ILAAP approaches				
	Evaluate banks' preparedness for IFRS 9 and other regulatory changes				
Multiple risk dimensions	Brexit preparations				
	EU-wide (biennial) and SSM-wide stress test exercises				

**Timelines are indicative*

2018 stress tests will follow the same approach as in 2016

EU-wide EBA stress test

- **~35** SSM Significant Institutions
- EU-wide exercise under **EBA coordination**, in cooperation with EU-COM, ESRB, ECB and NCAs

SSM SREP stress test

- **~65** other SSM Significant Institution[1]
- Under **ECB/SSM coordination**

Objectives

- Assess the **resilience of financial institutions** to adverse market developments.
- **Contribute to the overall SREP** to ensure adequate levels of capital and liquidity in institutions, comprehensive coverage of risks, and sound internal processes.
- Ensure a **consistent treatment** of all SSM SIs.

Both exercises follow the timeline published by the EBA

1. Combined number of SIs included in EBA and SSM SREP stress test samples does not equal total number of SIs under SSM supervision, as some exceptions apply (e.g. banks that were subject to a comprehensive assessment in 2017 or will be in 2018; or SIs that are subsidiaries of other SSM SIs, already covered at the highest level of consolidation).