EUROPEAN CENTRAL BANK

EUROSYSTEM

Comprehensive Assessment

Analyst presentation

Jukka Vesala, Director General Micro-Prudential Supervision III

John Fell, Acting Director General Macro-Prudential Policy & Financial Stability

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1 Comprehensive Assessment results

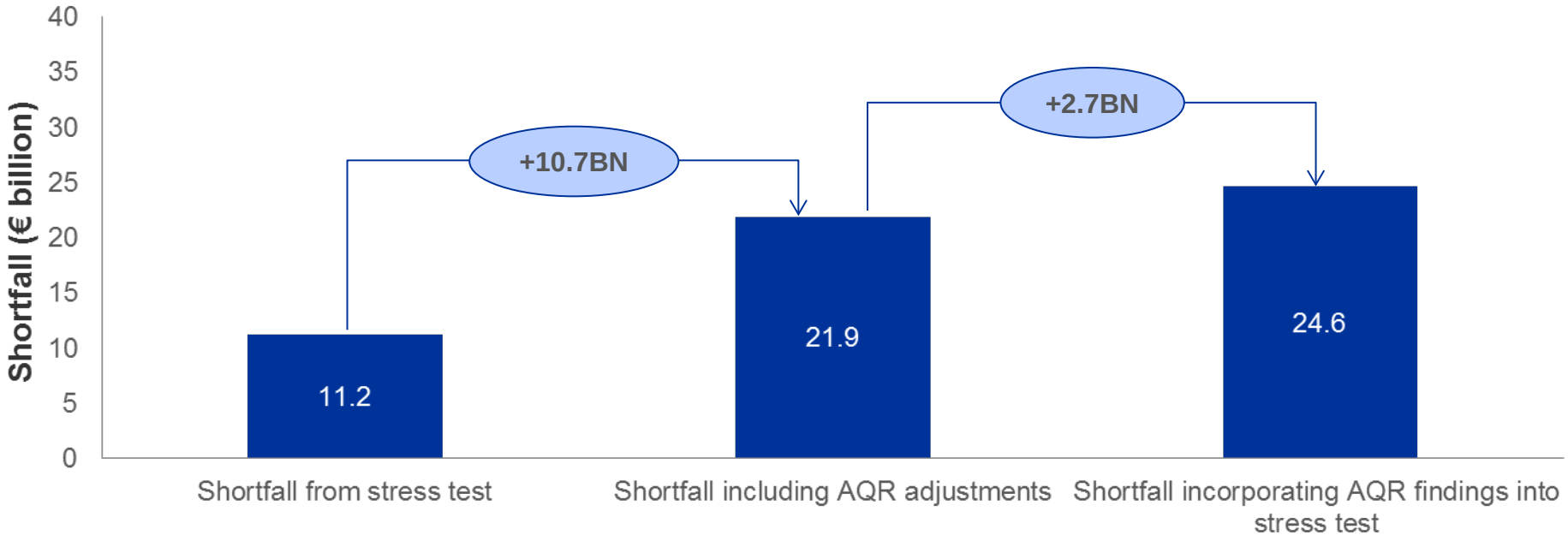
Comprehensive Assessment - key figures

Key results

- The Asset Quality Review (AQR) results in a gross **impact on asset carrying values of €48 billion**
- In total, a **€136 billion increase in non-performing exposure** was identified
- Combining the AQR with the stress test the Comprehensive Assessment results in:
  - **€263 billion capital depletion** over the three-year horizon of the exercise under the adverse stress test scenario
  - Median **4% reduction of the CET1 capital ratio** of in scope banks
- In aggregate, the Comprehensive Assessment resulted in a **€24.6 billion capital shortfall across 25 participant banks**

Comprehensive assessment identified a capital shortfall of €24.6 billion across 25 banks

Comprehensive assessment capital shortfall by driver
SSM level (€ BN)

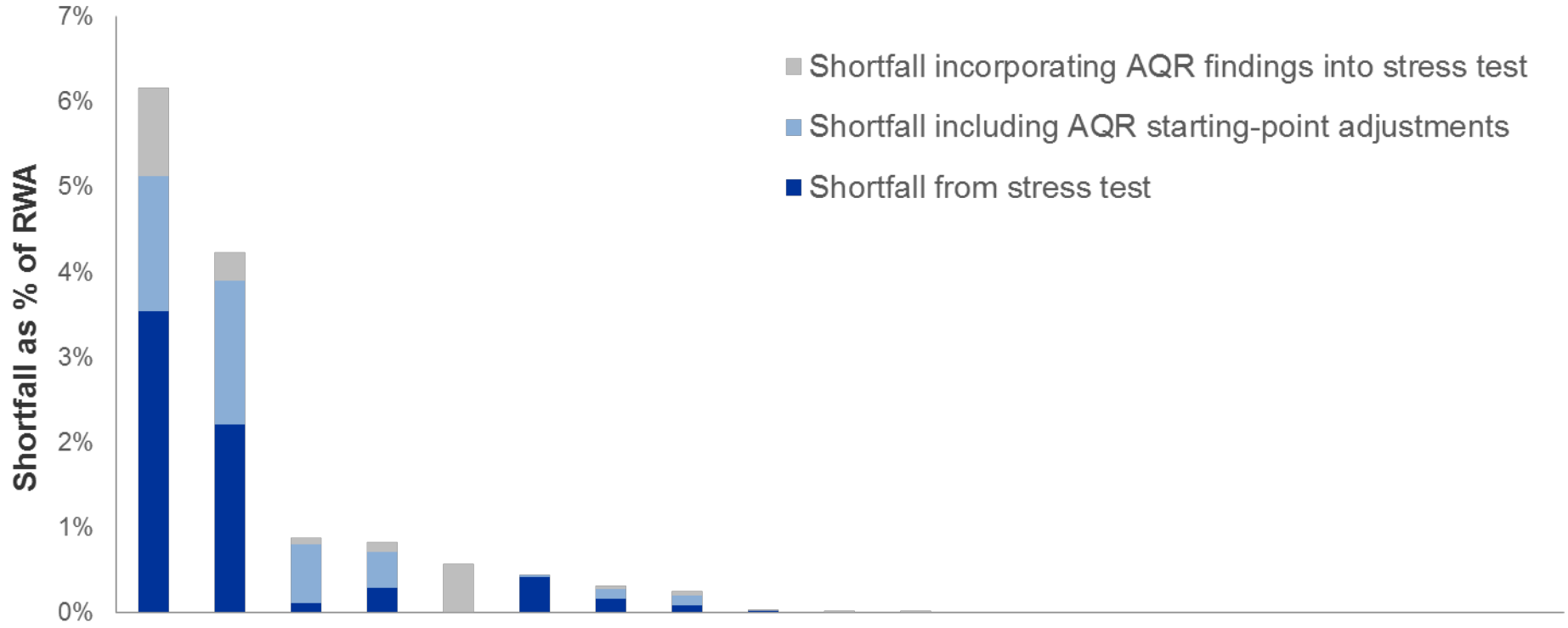


Note: Numbers do not add up due to rounding

Capital shortfall was observed at banks from 11 of the 19 countries in scope of the exercise

Comprehensive assessment capital shortfall by driver

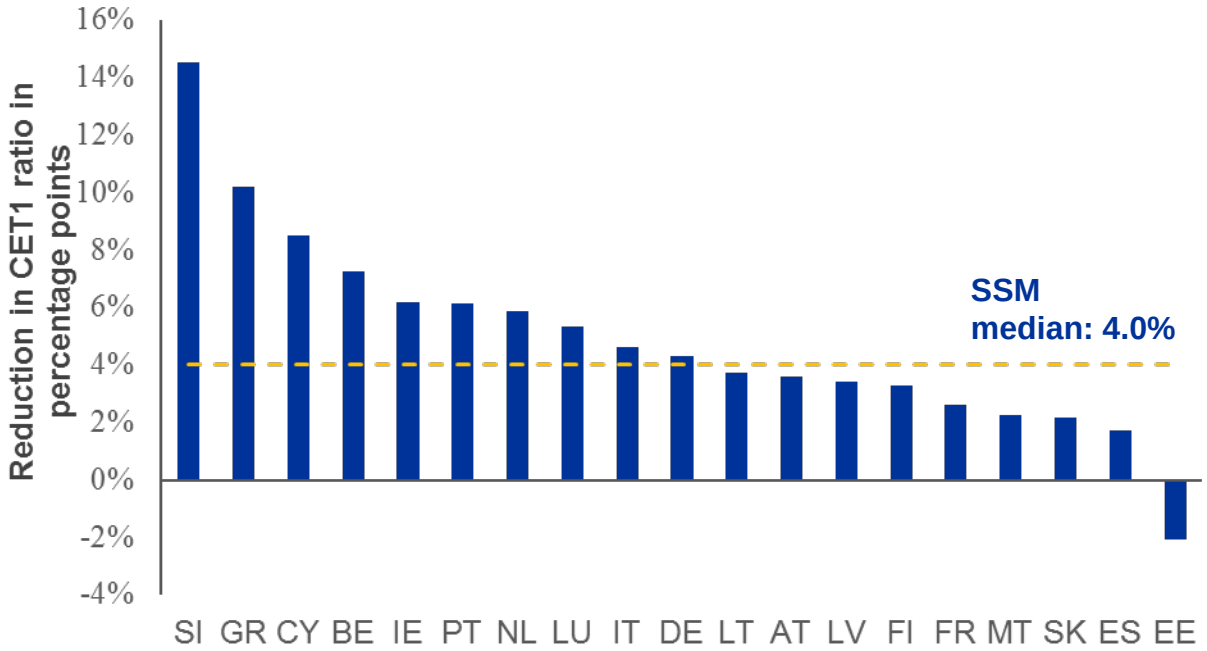
By country, as % RWAs



	CY	GR	PT	IT	SI	IE	AT	BE	DE	FR	ES	EE	FI	LT	LU	LV	MT	NL	SK
Total shortfall (€ BN)	**2.37**	**8.72**	**1.14**	**9.68**	**0.07**	**0.86**	**0.87**	**0.54**	**0.23**	**0.13**	**0.03**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**

The median bank's CET1 ratio falls by 4% in the adverse scenario

Comprehensive assessment impact on CET1 ratio under the adverse scenario
Median by country of participating bank, %



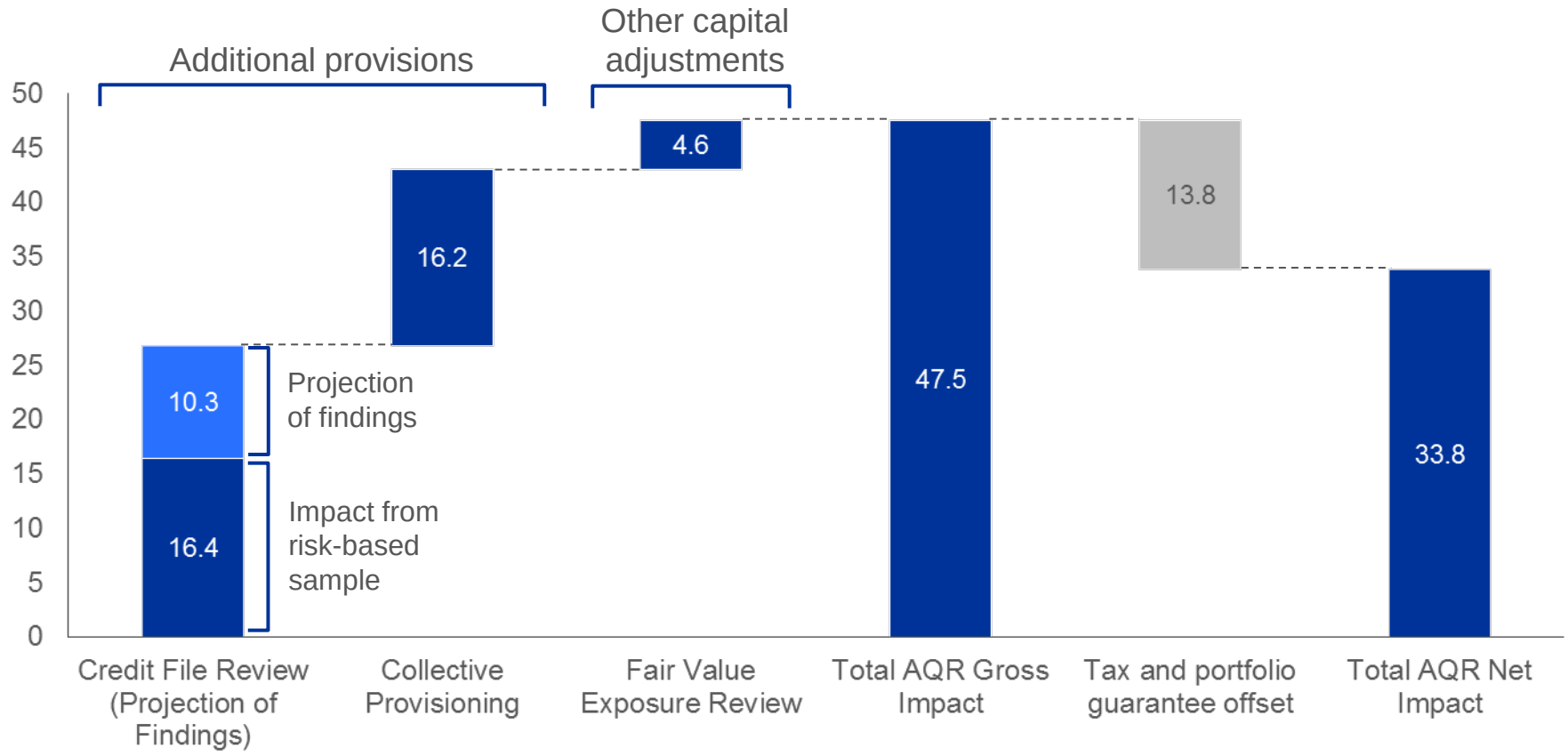
- Median bank's CET1 ratio declines from 12.4% to 8.3%

2 Asset Quality Review results

Across the SSM, the Asset Quality Review (AQR) led to a €48BN adjustment to asset carrying values

Asset Quality Review impact on available CET1 capital

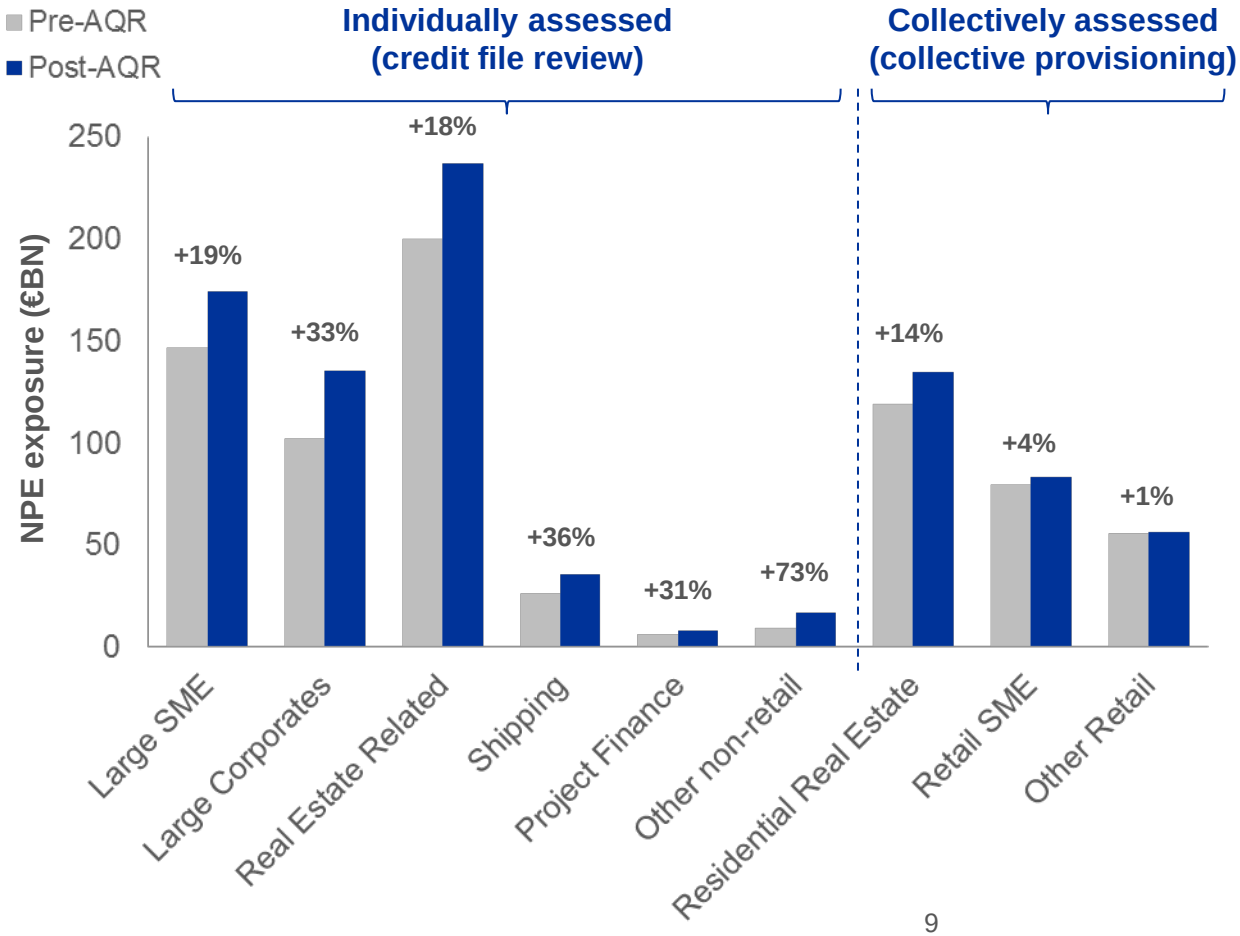
By AQR workblock (€ billion)



The AQR led to an €136 BN increase in non-performing exposure, with increases across all asset segments

Change in NPE exposure, pre- and post-AQR

By asset segment (€ billion)

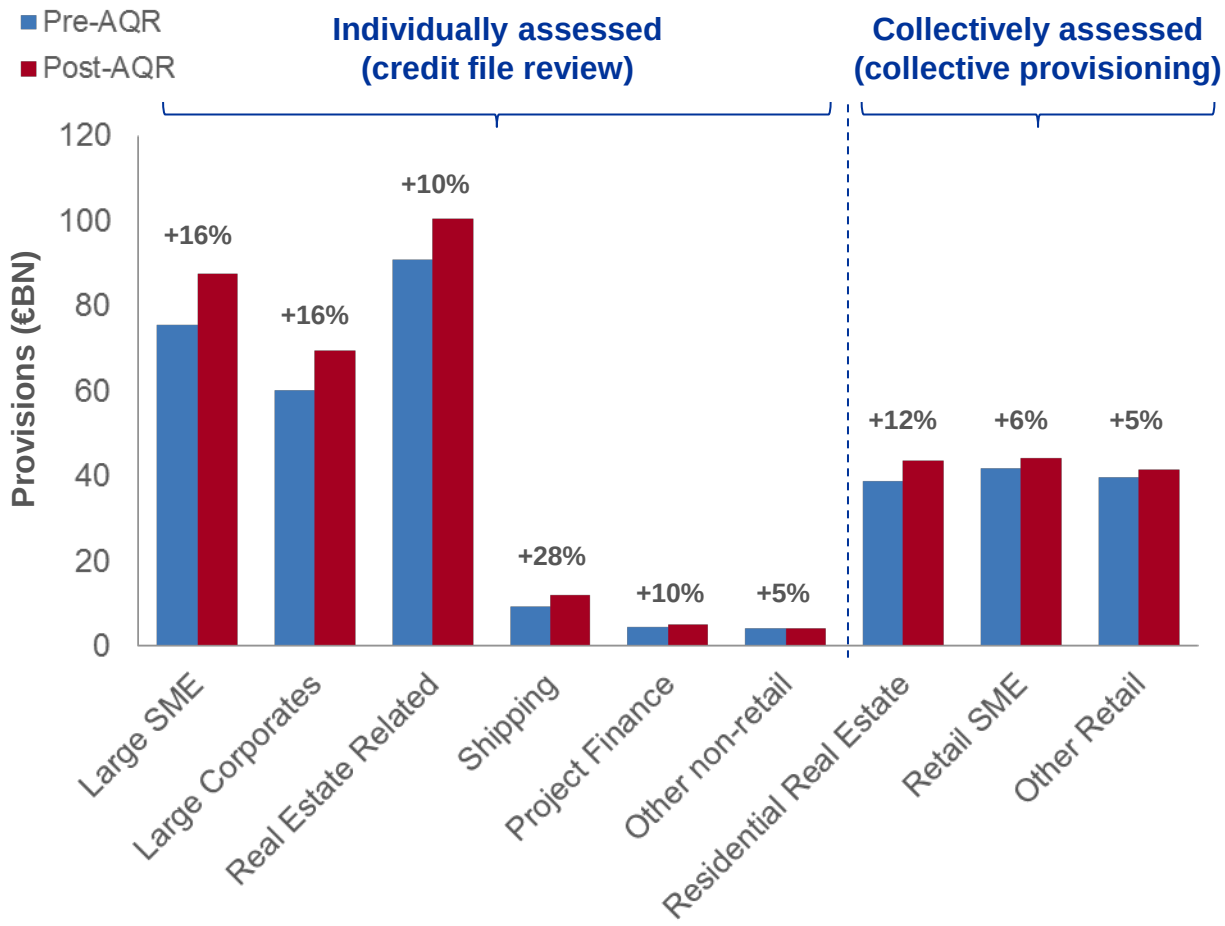


Commentary

- Divergent **bank definitions of non-performing exposures were harmonised** leading to €55 billion added non-performing exposure
- Following harmonisation, an increase in non-performing exposure of €81 billion was observed in the credit file review
- In total, **non-performing exposure increased by €136 billion**, representing a 18% total adjustment

Provisioning increased by a total €43 BN across all asset segments

Change in provisions
By Asset Segment (€ billion)



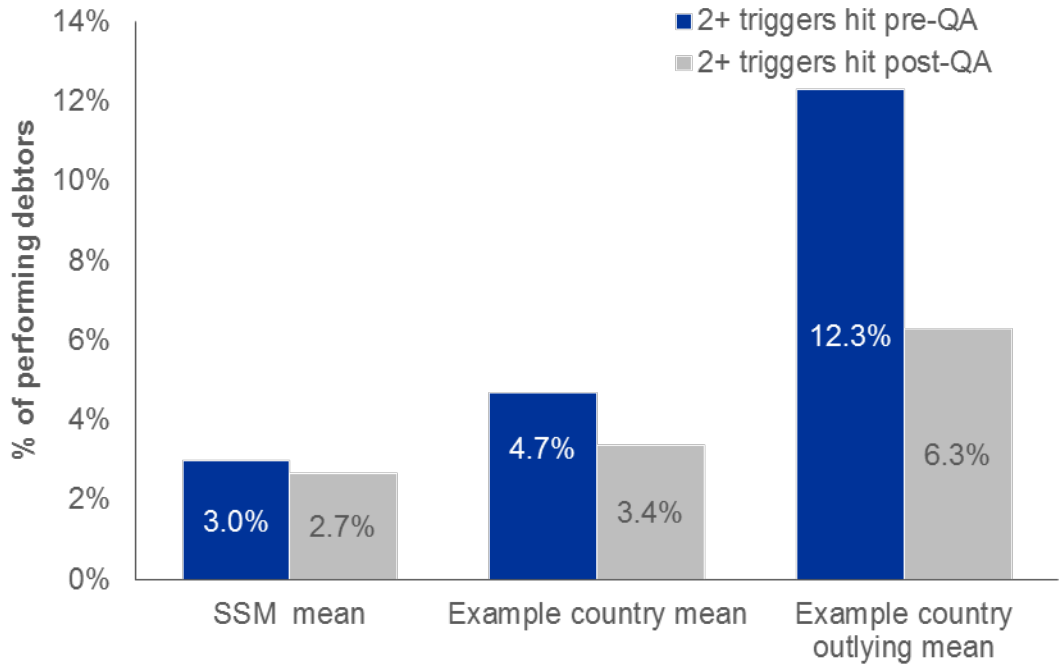
Commentary

- Total **specific provisions increased by €43 billion**, a 12% overall adjustment
- Provisions increased as a result of both the credit file review and collective provisioning workblocks
- Shipping (28%), Large SME (16%) and Large Corporates (16%) experienced largest relative increases

ECB Quality Assurance had a tangible impact on NPE classification, ensuring harmonised treatment

Example of impact of ECB Quality Assurance

Number of performing debtors hitting 2 or more impairment triggers, pre- and post- ECB Quality Assurance (%)



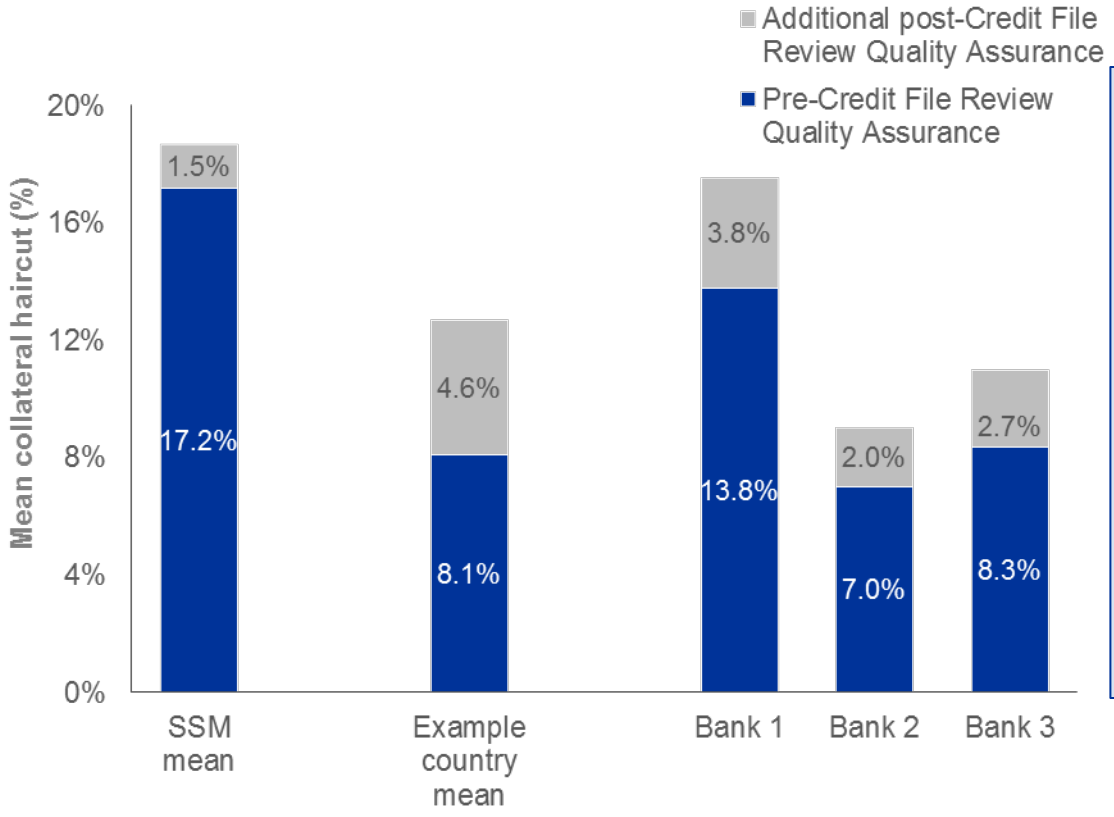
Remedial approach taken

- ECB identified banks in where debtors were hitting triggers but not being classified as NPE
- ECB discussed with NCAs and challenged auditor decisions at the individual debtor level
- In some cases the decision against reclassification was justified
- In a significant number of cases, decision was withdrawn and the debtor reclassified to NPE along with debtors in similar scenarios

ECB Quality Assurance resulted in a significant increase in collateral haircut levels

Example of impact of ECB Quality Assurance

Mean collateral haircuts pre- and post- ECB Quality Assurance (%)



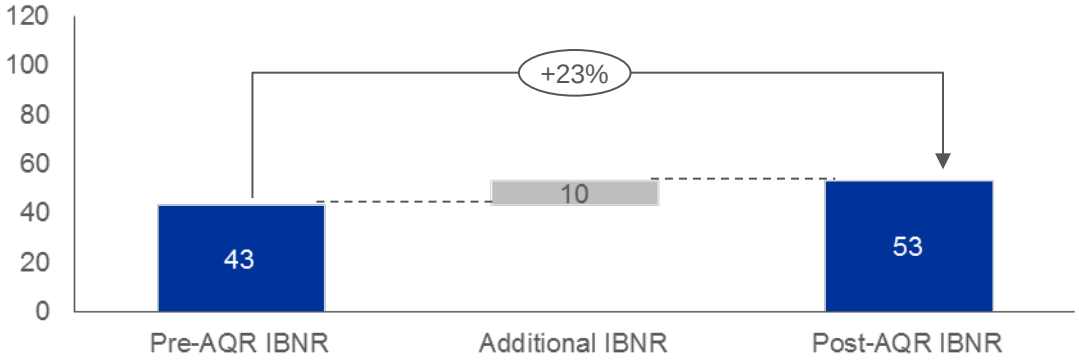
Remedial approach taken

- ECB reviewed haircut levels across NCAs for each asset segment
- ECB discussed with NCAs and challenged auditor decisions at the individual debtor level
- In some cases the ECB accepted the NCA submission
- In others additional haircuts were agreed and applied

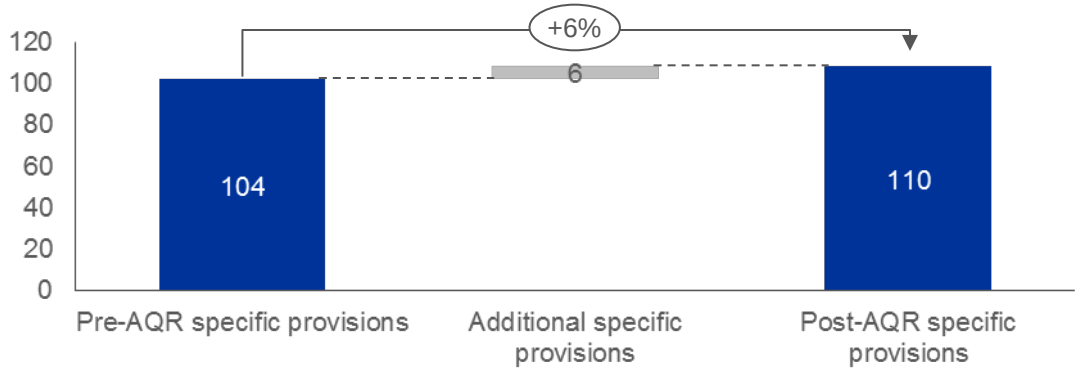
Note: The exhibited number of banks is not necessarily exhaustive for the example NCA

In total, collective provisioning led to an increase in provisions of €16BN, of which 62% was IBNR

Collective provisioning adjustment – IBNR
SSM-level, € billion



Collective provisioning adjustment – specific provisions
SSM-level, € billion

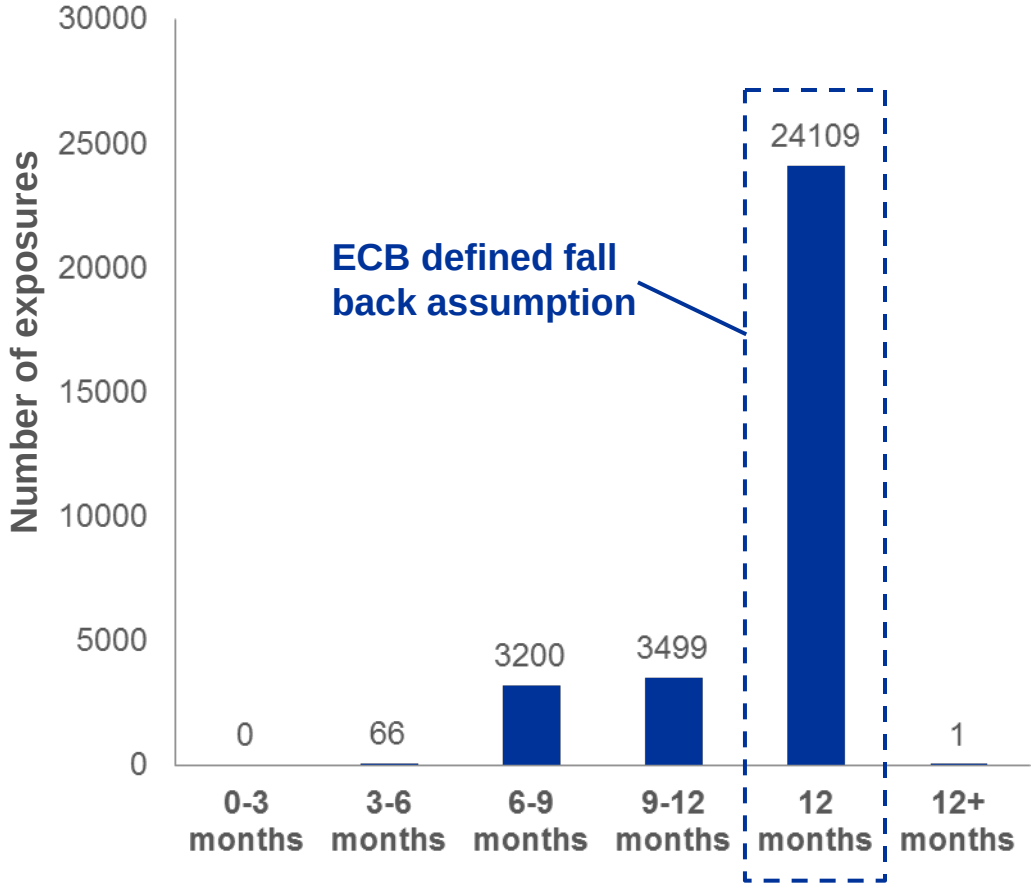


- In total, more than 800 portfolios across most AQR asset classes were assessed
- Collective Provisioning workblock identified the need for additional collective provisions of €16 billion,
  - €6 billion of retail specific provisions
  - €10 billion of additional IBNR
- Key drivers included
  - Application of EBA simplified NPE definition
  - Credit file review findings leading to adjustments in LGI parameter
  - Adjustments to RRE collateral values impacting LGL
  - Bank use of non point-in-time parameters

Collective provisioning Quality Assurance aligned parameters to ECB defined fall back assumptions

Collective provisioning parameter distribution – emergence period

Distribution of performing exposures by emergence period

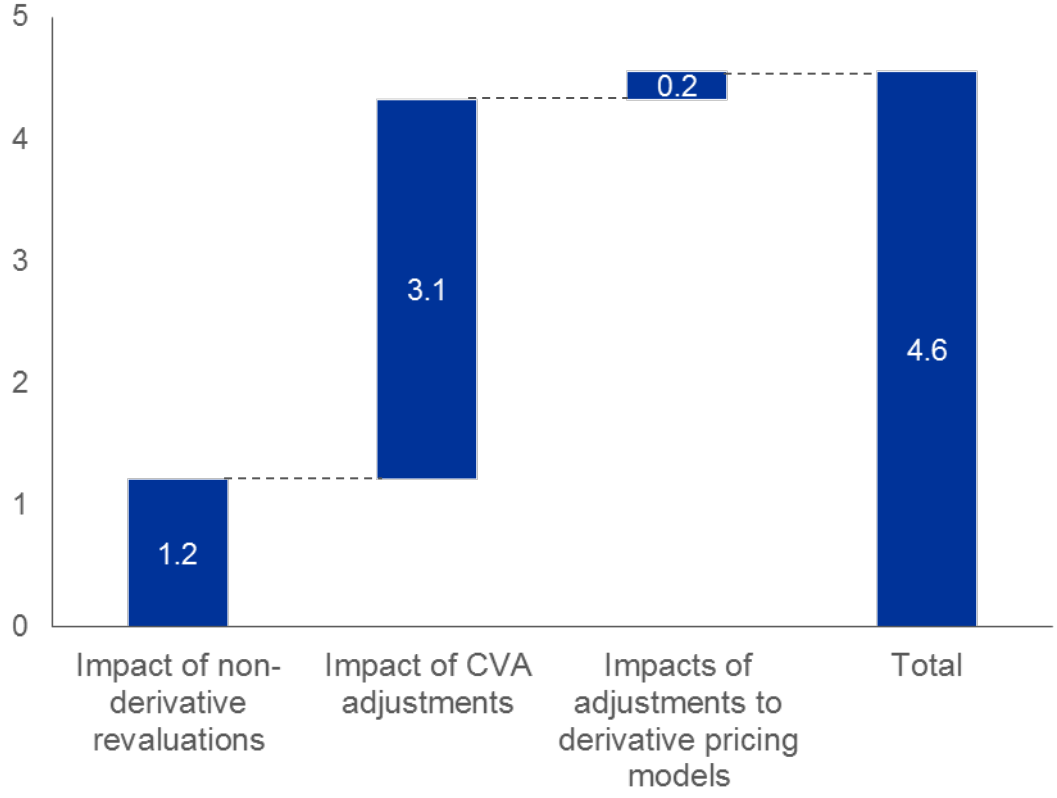


Comparison of other fall back parameters

Parameter	Fall back assumption	Observed average
LGL secured	60%	50.4%
LGL unsecured	90%	86.9%
Original effective interest rate	4%	3.6%
Sales ratio	75%	78.0%
Sales ratio volatility	18%	21.6%
Appraiser discount	5%	5.4%

The adjustment of the Fair value exposures review was €4.6 billion, with 66% from CVA adjustments

Fair value exposures review adjustment
By workblock (€ billion)

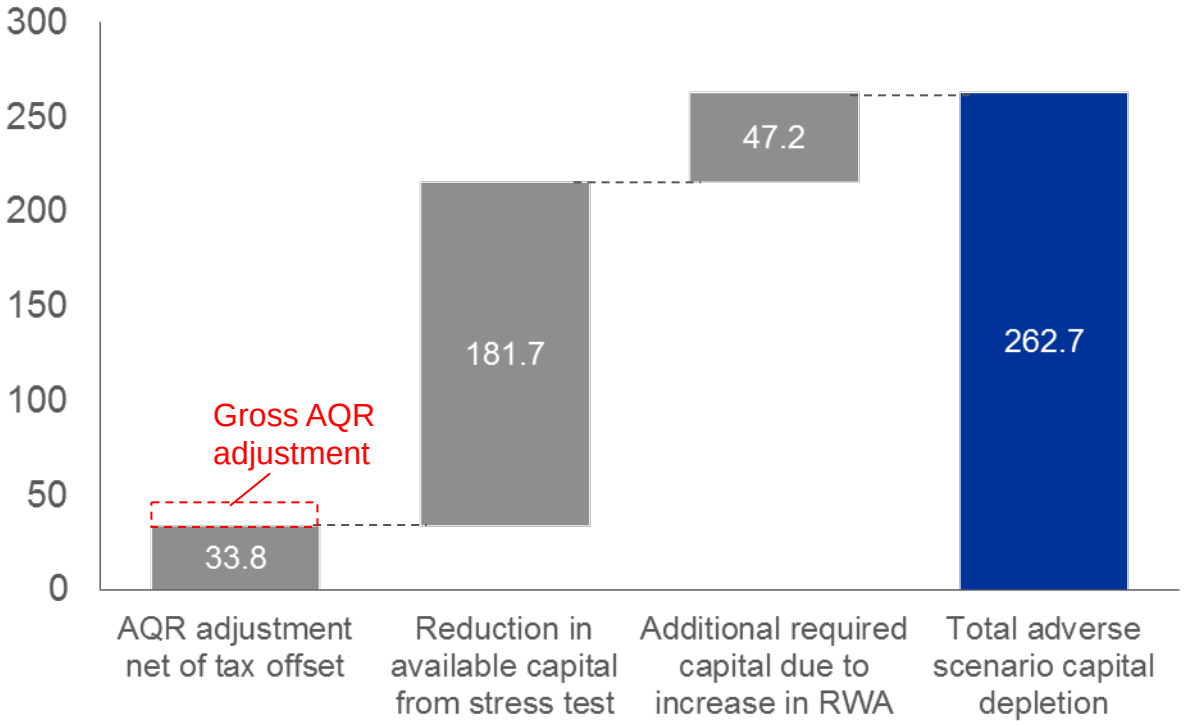


- Non-derivative positions were assessed through independent revaluations **leading to a €1.2 billion adjustment**
- Adjustment on CVA reserves was significant, with a 27% increase of **€3.1 billion** identified
- Complex derivative pricing models were also reviewed, with modelling errors or inappropriate assumptions leading to a **further €0.2 billion adjustment**

3 Stress Test & Join-up results

Overall, total adverse scenario capital depletion is €263 billion

Comprehensive assessment adverse scenario capital depletion
SSM level, (€ BN)



Key drivers

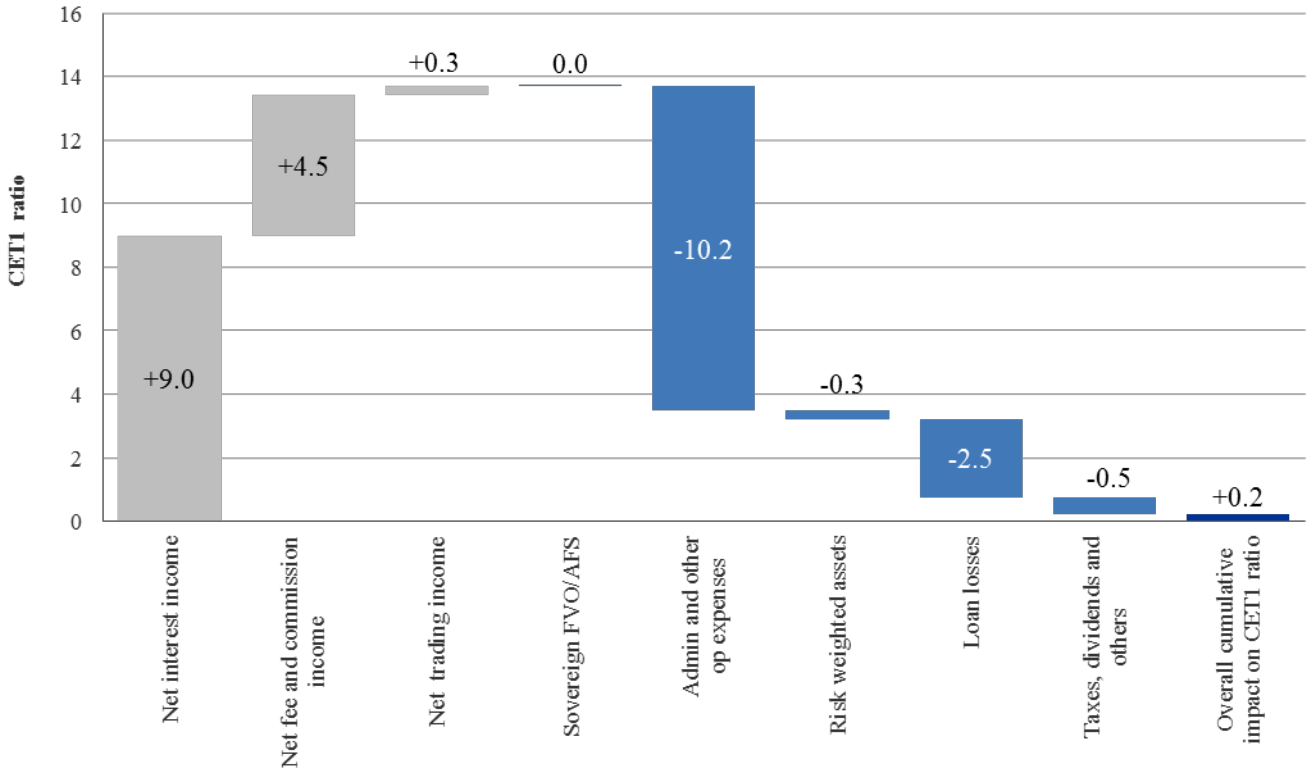
- Total gross AQR adjustment of **€48 billion, and €34 billion net of tax offset**
- The stress test (and Join-up with AQR results) led to a capital depletion of **€182 billion in the adverse scenario**
- In addition, the increase in RWA in the adverse scenario increases capital requirements in the amount of **€47 billion**

[1]Stress Test results include the impact of the Join-Up

Note: Scenario capital depletion and the effect on required capital are based on the 2016 adverse scenario

SSM banks' average CET1 ratio is projected to increase from 11.8% to 12.0% in the baseline

Aggregate post-JU stress test effect[1] by risk drivers under the baseline scenario



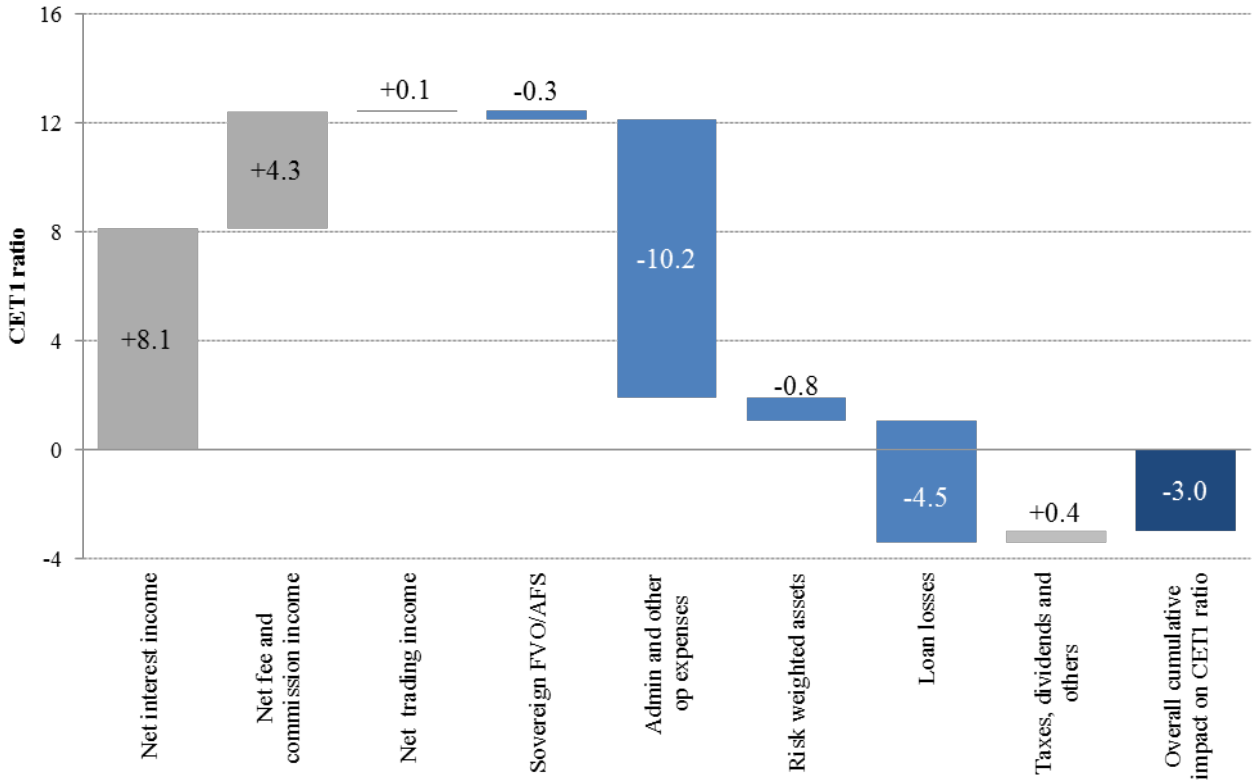
Key drivers

- Improvement in the solvency position under the baseline mainly reflects
  - Projected accumulation of pre-provision profits (3.6 percentage point contribution to the change in the CET1 ratio)
  - Projected loan losses (-2.5 percentage point contribution)
- The average development of participating banks' solvency positions, however, masks variations across individual institutions and countries

1. Weighted means; excluding the AQR impact on starting point capital

SSM banks' average CET1 ratio is projected to decrease from 11.8% to 8.8% in the adverse

Aggregate post-JU stress test effect by risk drivers under the adverse scenario



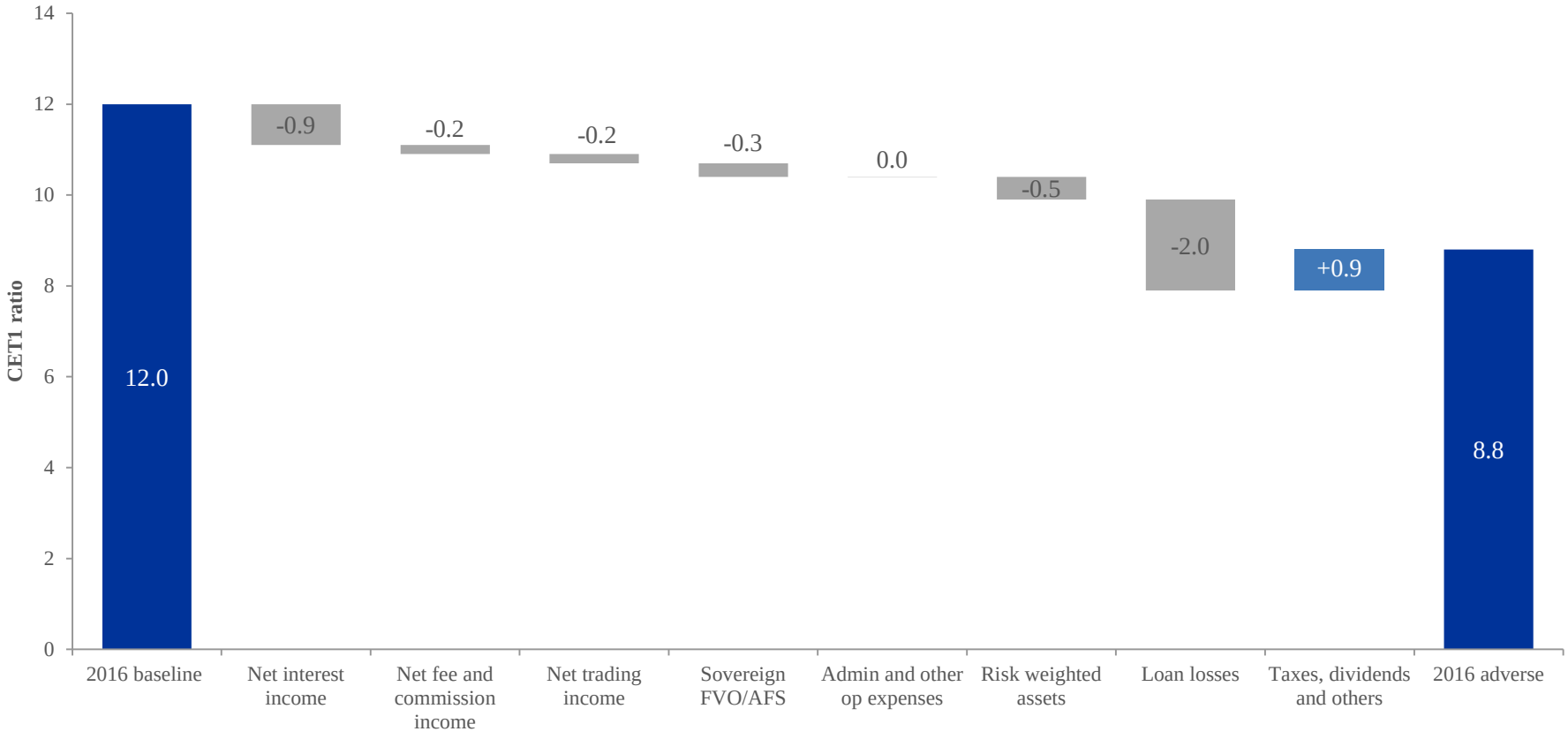
Key drivers

- Increase in loan losses (-4.5 percentage point contribution to the change in the CET1 ratio)
- Lower pre-provision profits compared to the baseline (corresponding to a 1.3 percentage point lower positive contribution the change in the CET1 ratio)
- "Administrative and other expenses" have an impact on the overall results; however, they remain largely unchanged between the baseline and adverse scenario and mainly reflect staff and other administrative costs that regardless of the scenario have a negative impact on banks' loss absorption capacity

1. Weighted means; excluding the AQR impact on starting point capital

Loan losses and net interest income are key drivers of divergence from baseline to adverse

Aggregate post-JU stress test effect by risk drivers under the adverse scenario

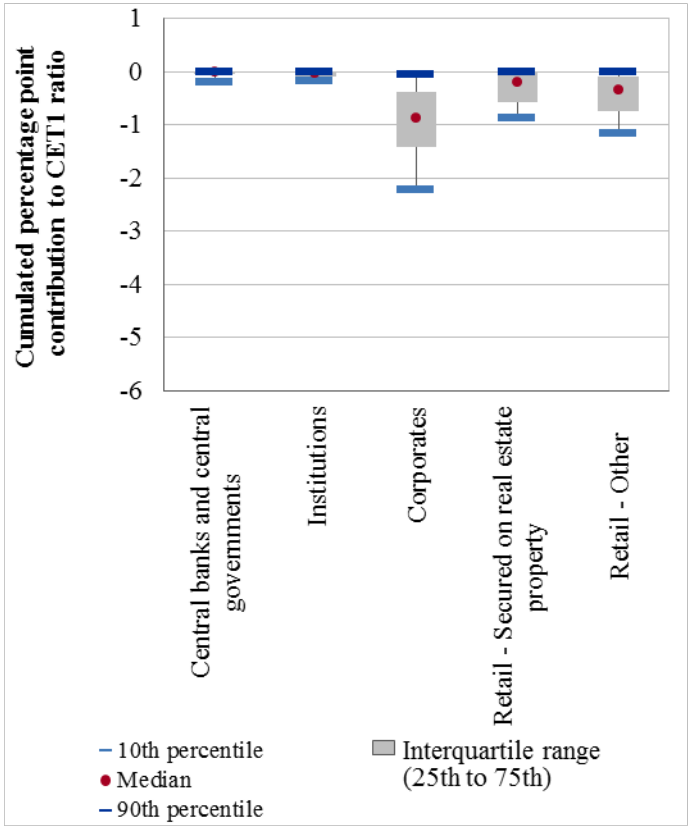


1. Weighted means; excluding the AQR impact on starting point capital

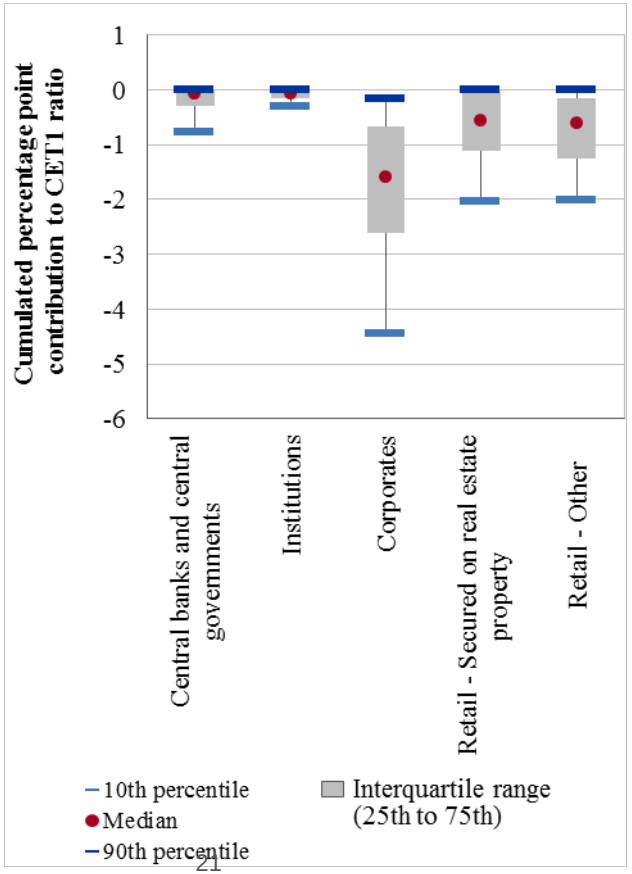
Corporate and retail portfolios are the key drivers of loan losses in both scenarios

Decomposition of loan losses across portfolios and banks under the baseline and adverse scenario

Baseline scenario



Adverse scenario

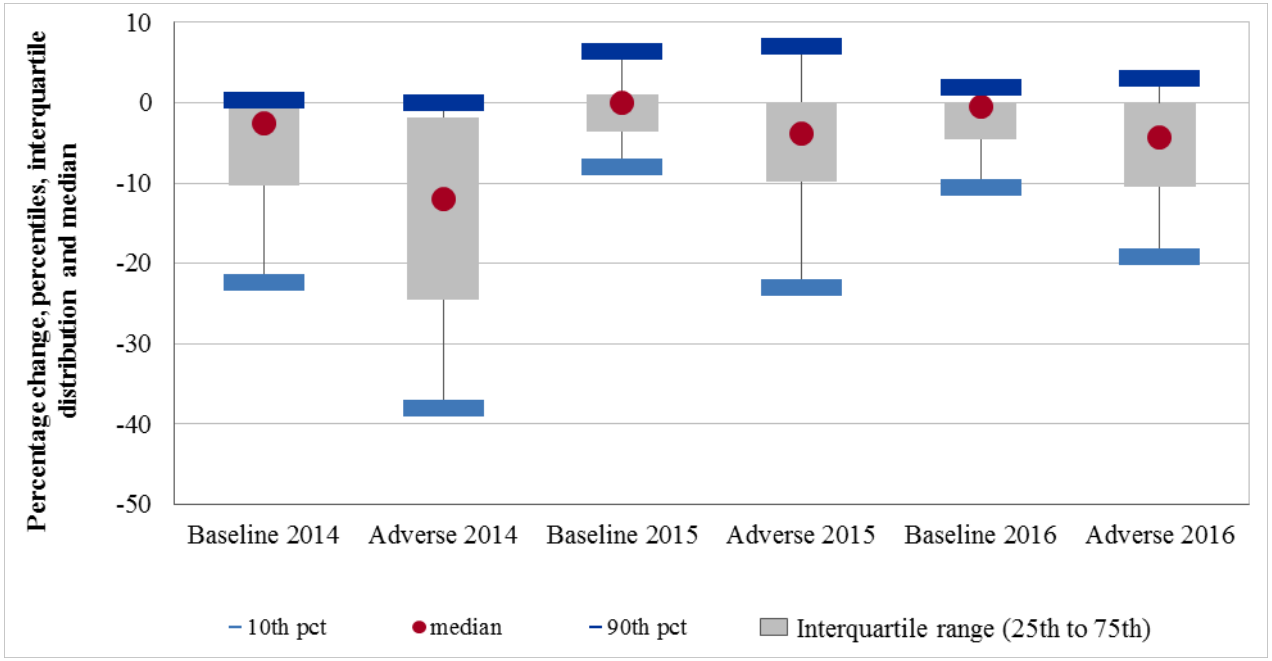


Key drivers

- Loan losses across banks are mainly driven by the corporate and retail portfolios, both under the baseline and adverse scenarios
- Under the baseline scenario, the median CET1 percentage point reduction due to losses is:
  - 0.9% in the corporate segment
  - 0.5% in the retail segment
- Results under the adverse scenario are, however, more severe with a median CET1 percentage point reduction of
  - 1.6% in the corporate segment
  - 1.1% in the retail segment

Under the adverse scenario, the median decline in NII is larger and more varied across banks

Net interest income development across banks under the baseline and adverse scenario, year-on-year % changes

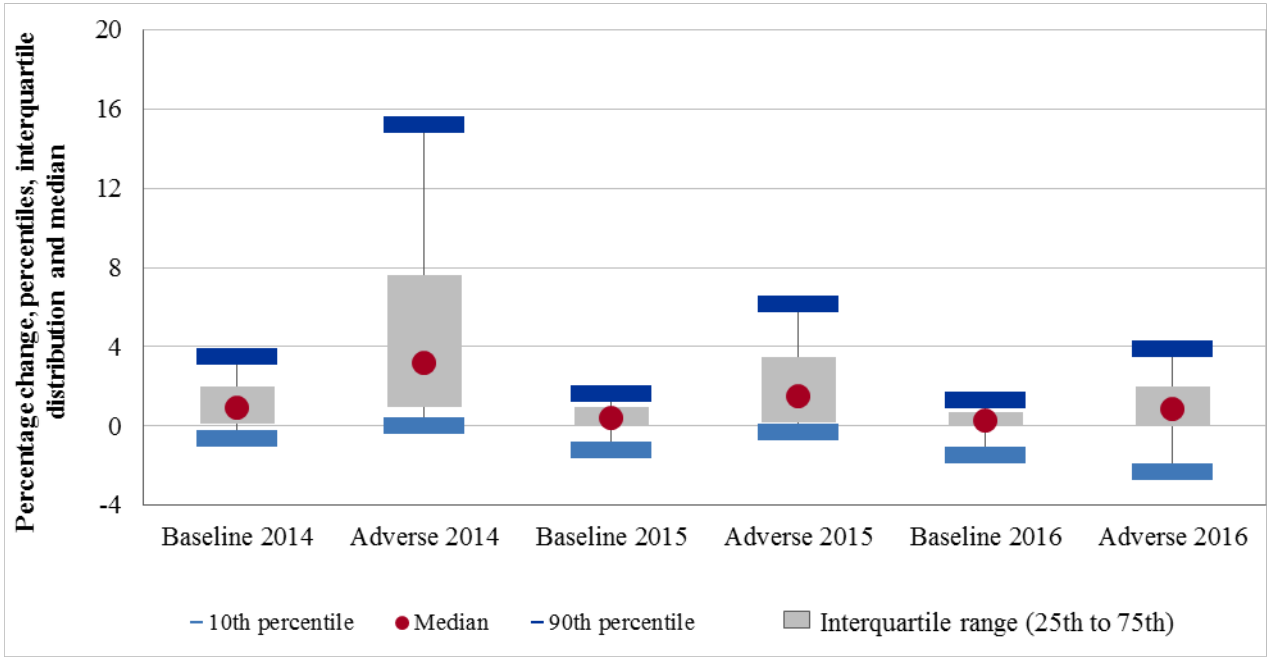


Key drivers

- While the picture is heterogeneous across banks, the median decline in net interest income is larger under the adverse than the baseline scenario
- Moreover, the distribution of changes in net interest income across banks is in general wider under the adverse scenario

RWAs grow in net terms across the horizon, resulting in higher capital requirements

RWA development across banks under the baseline and adverse scenario, year-on-year % changes

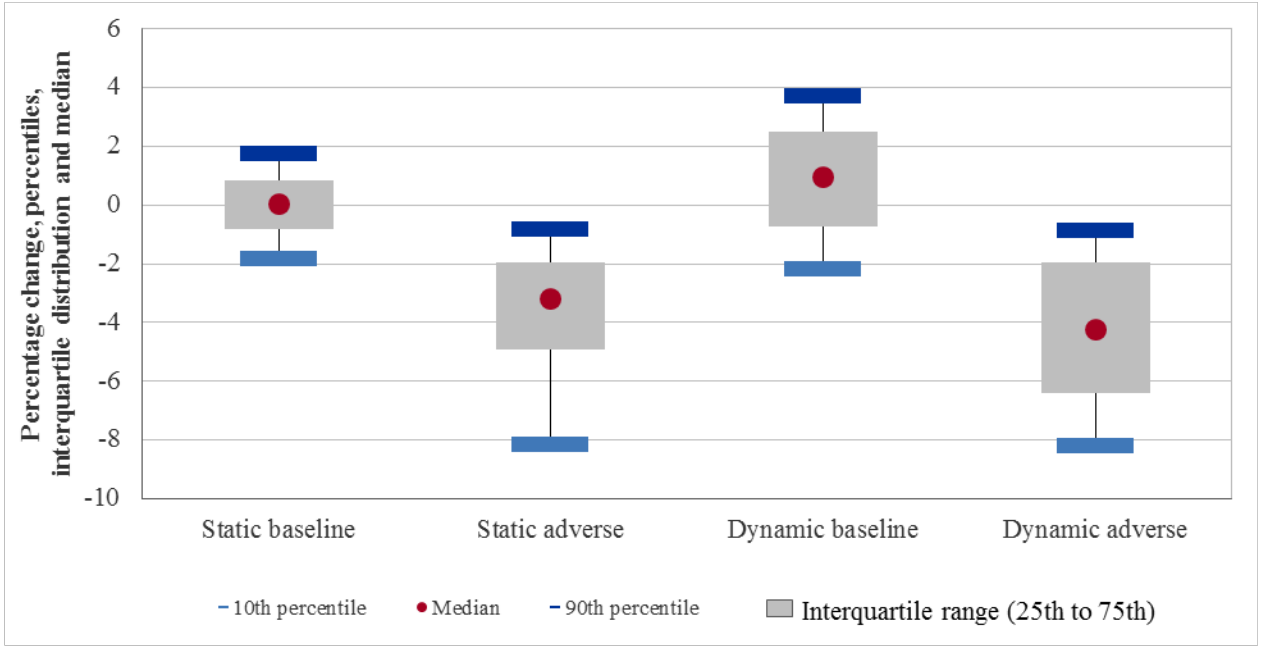


Key drivers

- Risk-weighted assets experience net growth across the horizon, albeit at a declining rate
- For the large majority of banks under the static balance sheet assumption, the nominal balance sheet size remains the same by design
- Risk weights for the median bank grow under the baseline scenario from 1.0% in the first year to 0.7% in the third year, and under the adverse scenario 3.2% in the first year to 0.9% in the third year
- Increased RWAs result in higher capital requirements

The stress test impact differs across banks under the static and dynamic balance sheet assumption

Distribution of changes to CET1 ratios across banks following the static vs. dynamic balance sheet assumption under the baseline and adverse scenario, cumulative % changes

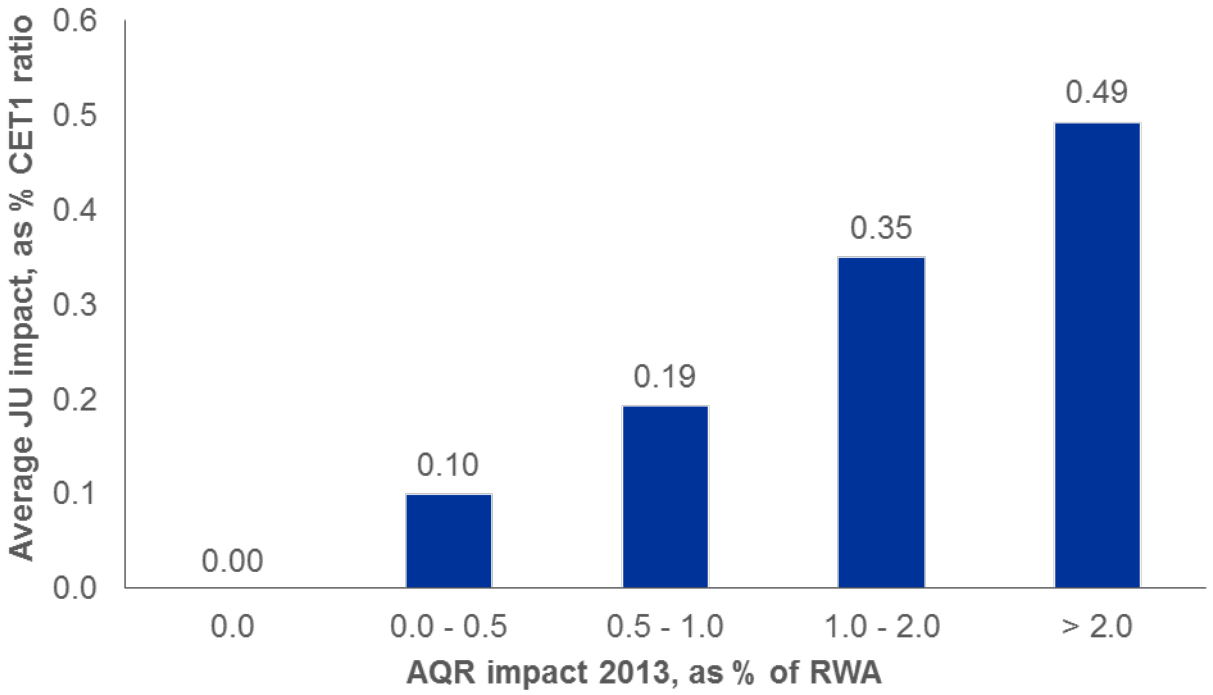


Key drivers

- Banks under the dynamic balance sheet assumption are less heavily affected under the baseline scenario
- In the adverse scenario larger CET1 ratio declines are observed for banks under the dynamic balance sheet assumption. This could reflect that restructuring banks
  - Are generally weaker and more vulnerable to stress tests
  - May be located in countries with relatively more severe scenarios
- In cases where banks provided both, static and dynamic templates, the dynamic version generally resulted in less severe effects

Join up effect varies by bank but is driven by bank AQR impact

Join-up effect by bank in relation to AQR impact

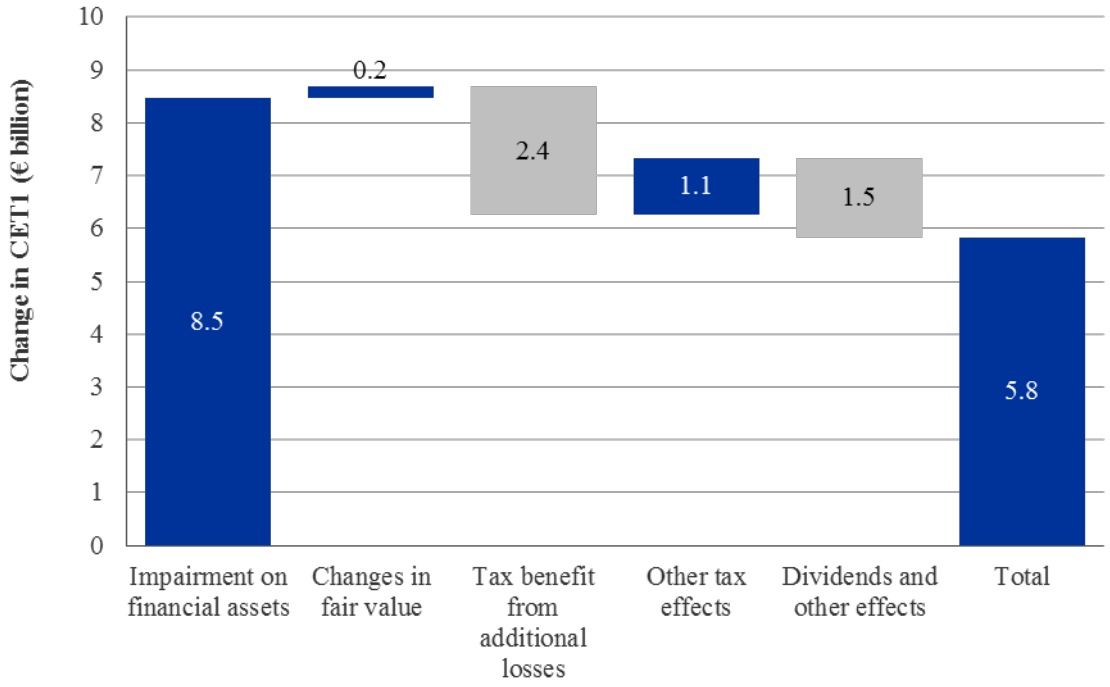


Key drivers

- Join up effect is highly correlated with the magnitude of AQR findings
- The strongest join-up effect (above 1% of RWA) is observed for banks where AQR had a major impact
- For banks with small or negligible AQR findings, the join-up effects on average were similarly small (<0.2% of RWA)

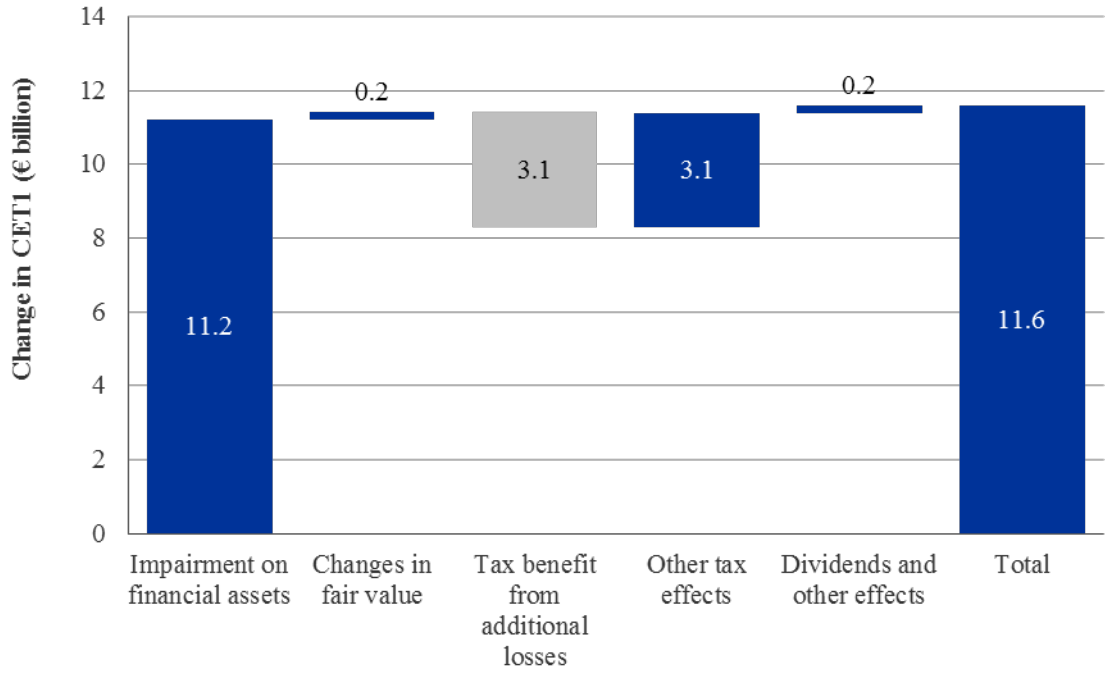
Impairments are the major driver of join-up effect by change in CET1 in the baseline scenario

CET1 effect of join-up by type (credit vs. other effects) under the baseline scenario



Distribution of join-up effect by type is similar, but for greater impacts overall, in the adverse scenario

CET1 effect of join-up by type (credit vs. other effects) under the adverse scenario



The post-JU impact of the Stress Test is 0.2% in the baseline and -3.0% in the adverse

Stress test component (€ billion)	Stress test results (post-JU)	
	Baseline	**Adverse**
NII	760	686
Net fee and commission income	377	362
Net trading income	25	6
Sovereign FVO/AFS	-1	-28
Admin. and other expenses	-865	-865
Loan losses	-209	-378
Taxes, dividends and other	-45	38
Total CET1 impact (€ billion)	**43**	**-181**
Total CET1 ratio change (percentage points)	**0.2%**	**-3.0%**
of which: Join-up CET1 impact (€ billion)	-6	-12