



EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Ignazio Angeloni
Member of the Supervisory Board

A trans-Atlantic banking divide?

Nineteenth Annual International Banking Conference

“Achieving Financial Stability:

Challenges to Prudential Regulation”

Federal Reserve Bank of Chicago, 4 November 2016

The views expressed here are those of the author and should not be attributed to the ECB

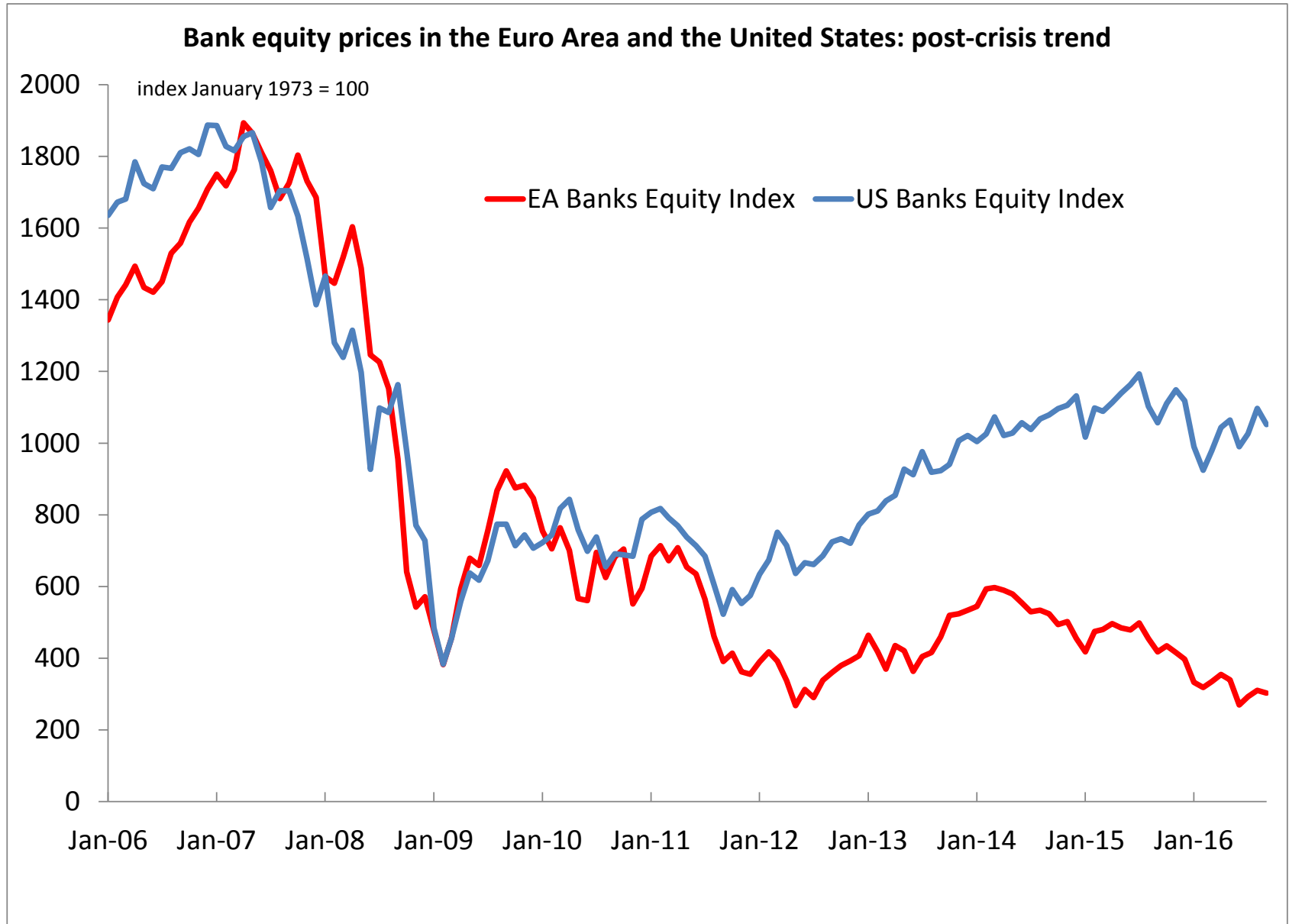
- **New banking legislation (2013)**
- **New pan-euro area banking supervisor (2014)**
- **New crisis management framework (2015-2016) including**
 - Pan-euro area resolution authority (2015)
 - Pan-euro area resolution fund (partly implemented)
 - Pan-euro area deposit insurance (not implemented)
 - Bail-in rules (2016)

All in all: the framework is comprehensive and well advanced, but still incomplete

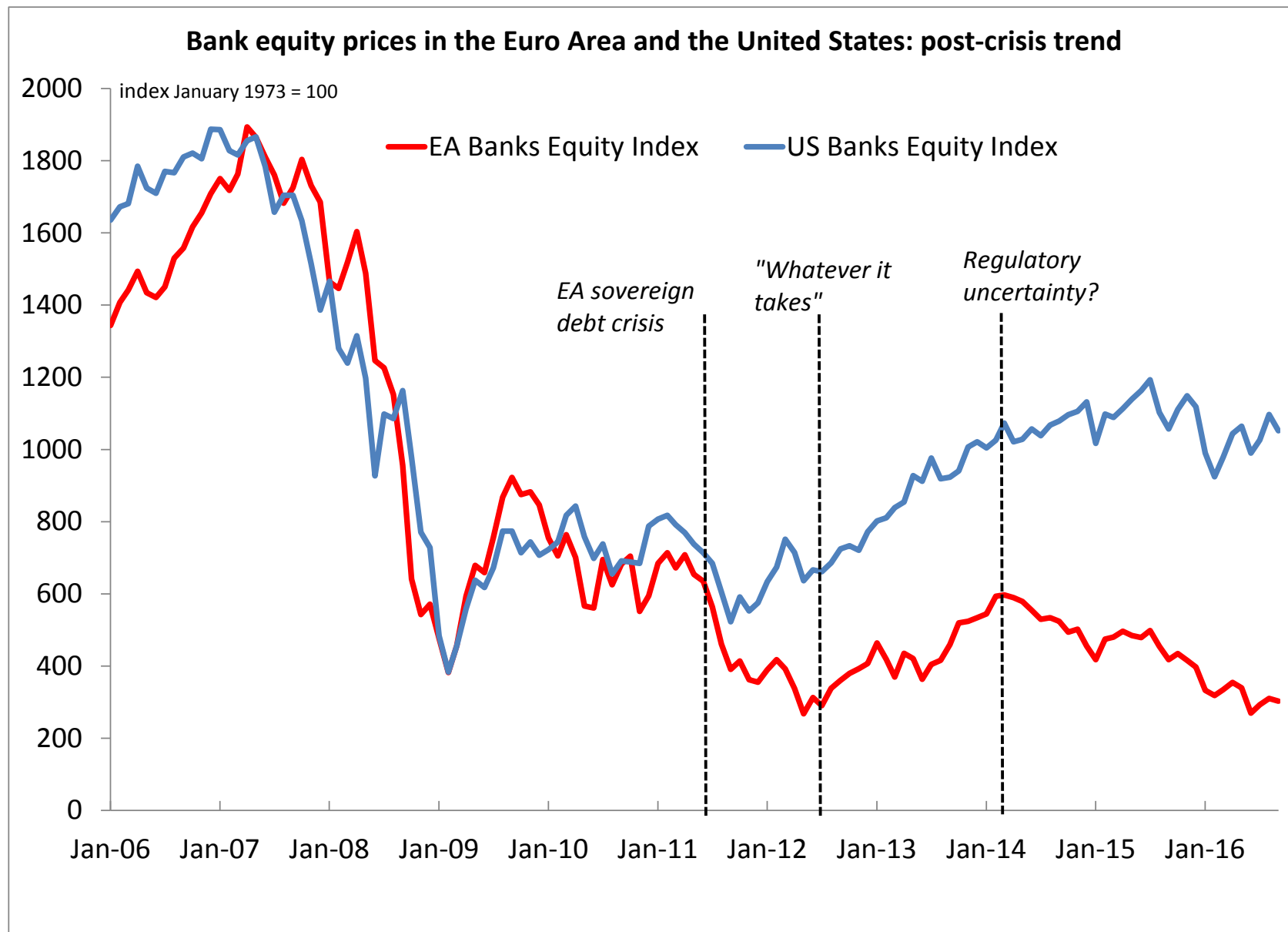
- **The immediate impact of the 2007-2008 crisis was limited**
- **A second crisis (euro-sovereign, 2010-2011)**
- **Bank-sovereign nexus; protracted effects of the second crisis**
- **Since then, persistently weak bank performance on average**
- **Few isolated “problem cases”**

POST-CRISIS STOCK MARKET PERFORMANCE

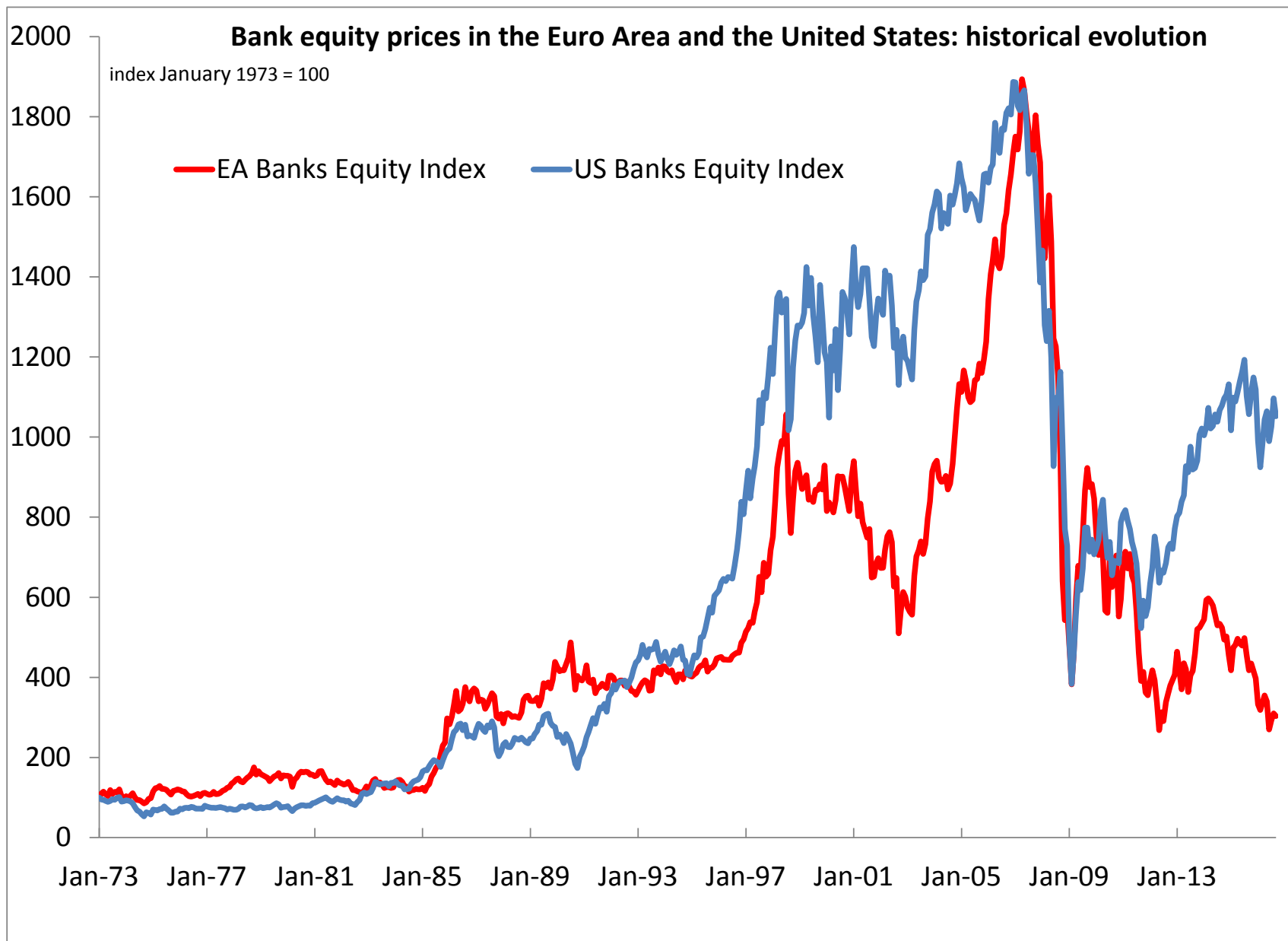
Post-crisis trends in equity prices



Post-crisis trends in equity prices



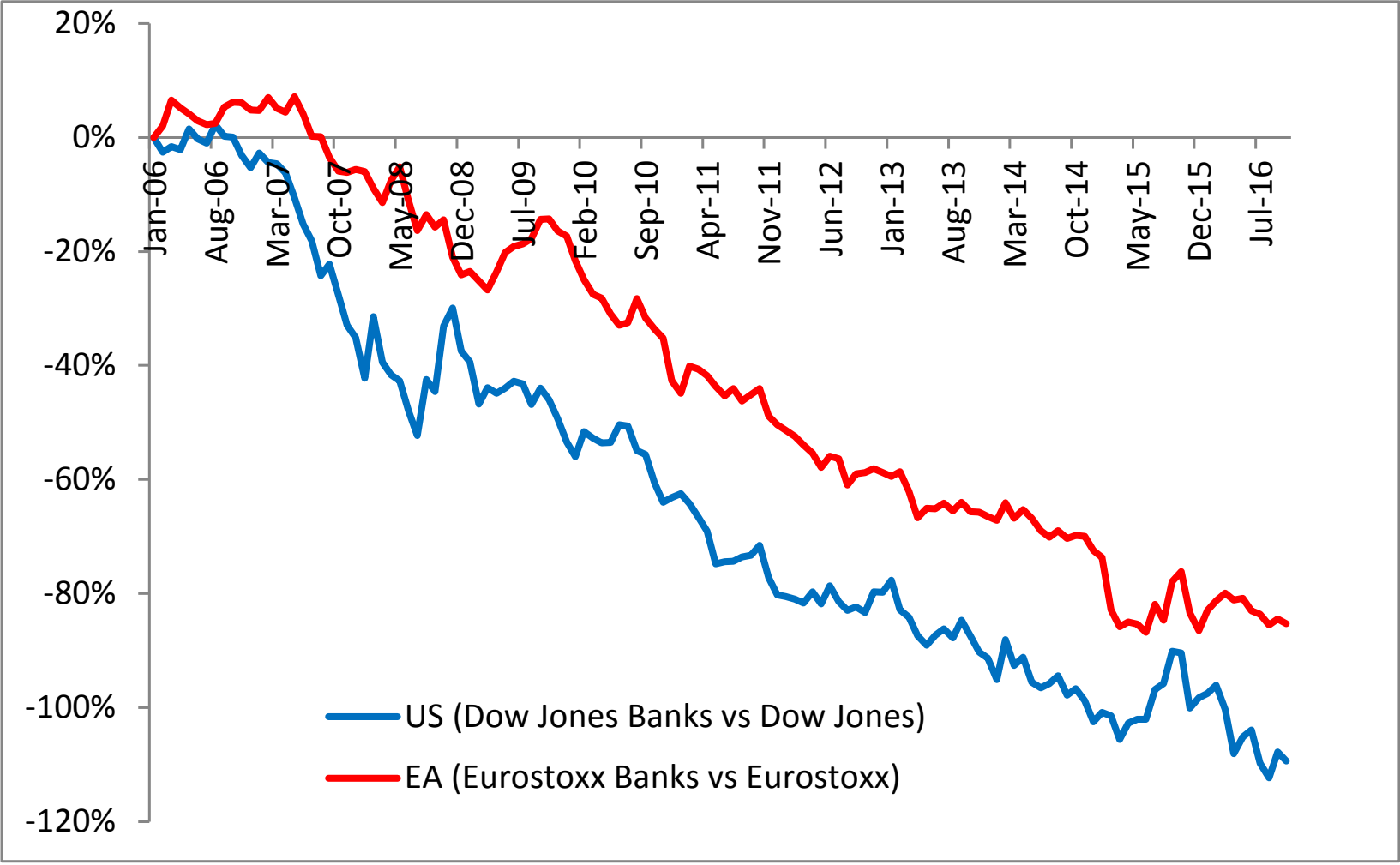
Long-term trends in equity prices



Post-crisis trends in equity prices (deviations from broad index)

Bank equity prices in the Euro Area and the United States: comparison relative to benchmark indices

(Jan 2006 = 100%)



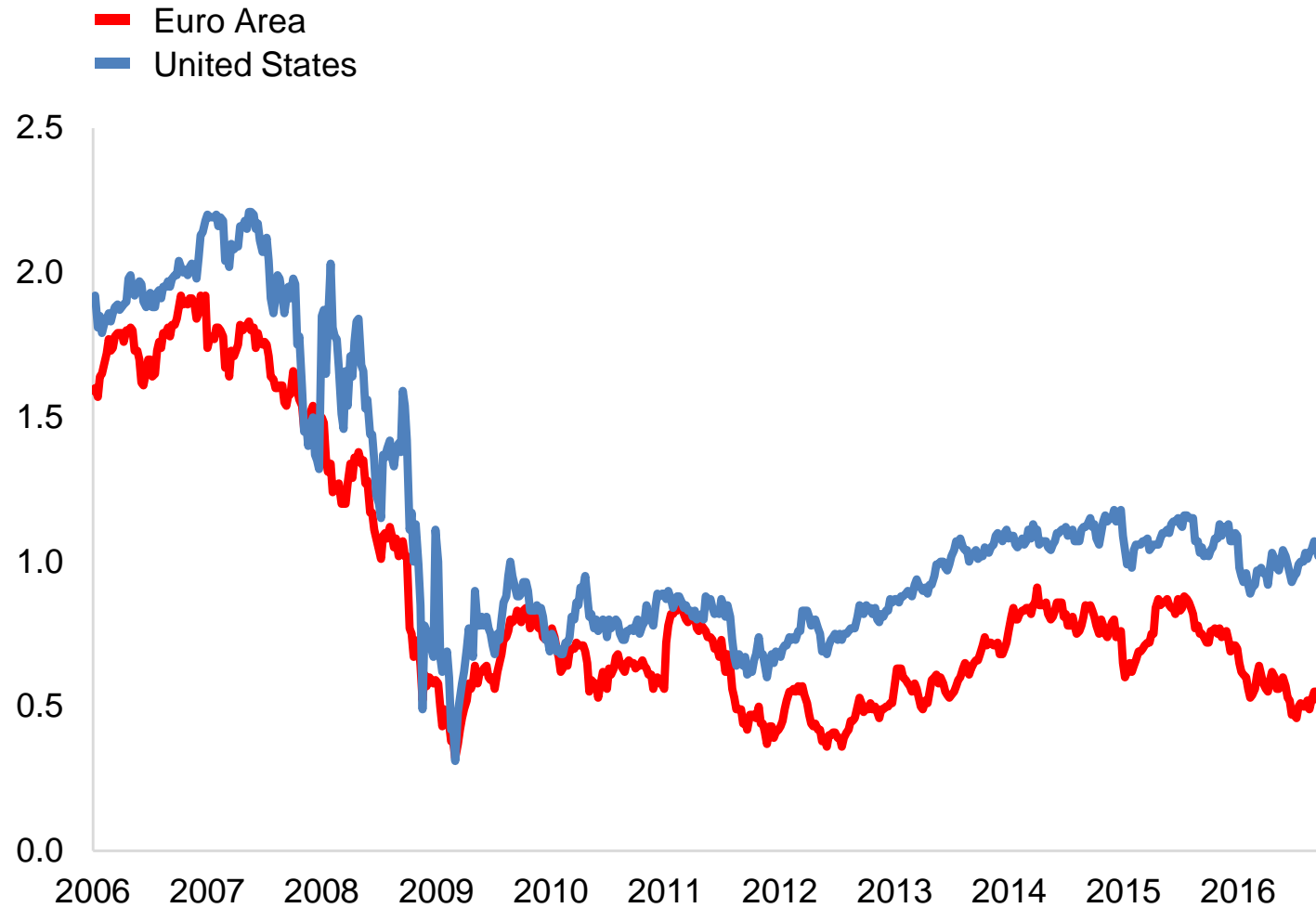
Note: negative values indicate underperformance of banks compared to its benchmark.

Values computed on relative performance based on January 2006 =100%

Source: Bloomberg.

Trends in price-to-book ratios

Price-to-book ratios for US and Euro Area banks

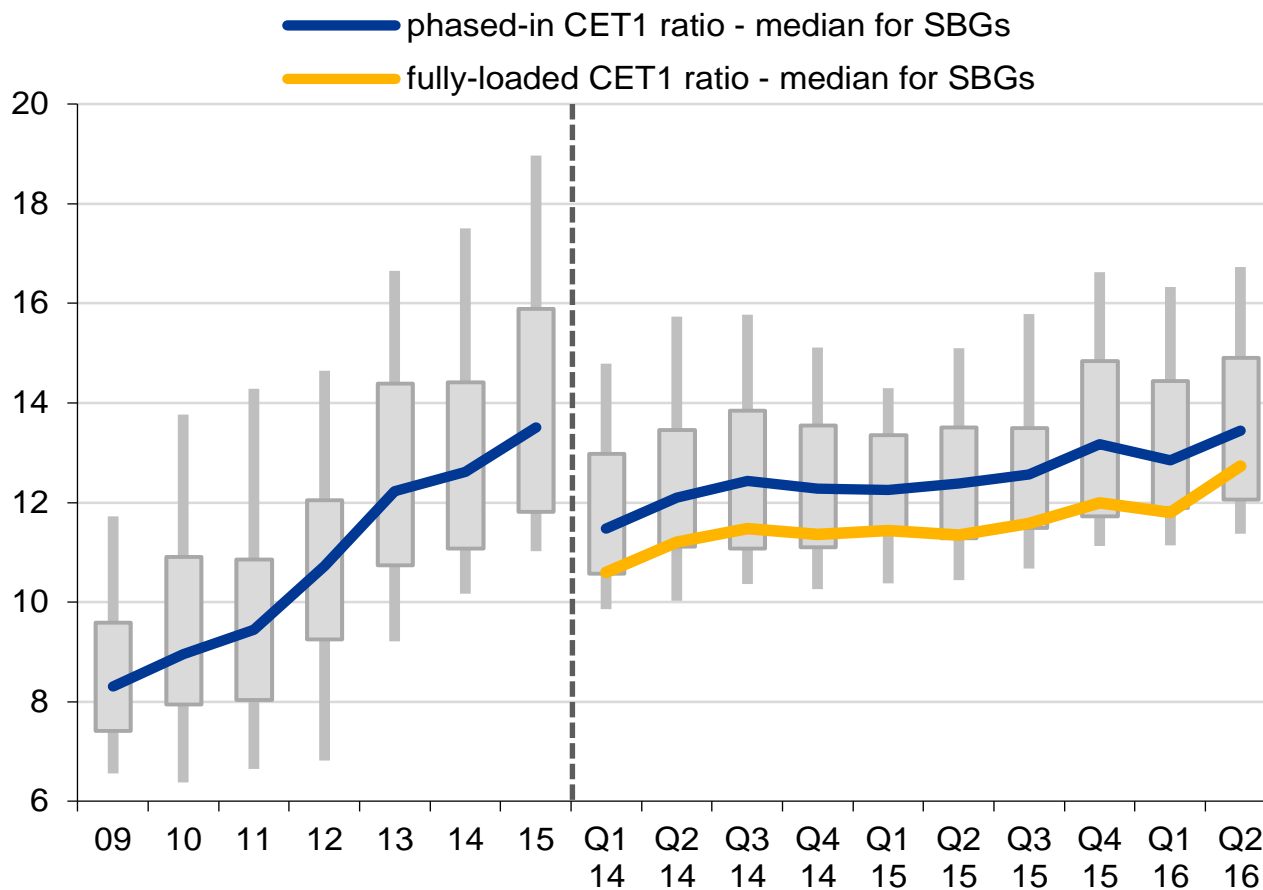


Sources: Bloomberg, Thomson Reuters Datastream and ECB.

THE PROGRESS SO FAR

Phased-in and fully-loaded common equity Tier 1 (CET1) ratios of euro area significant banking groups

(2009 – Q2 2016; percentages; phased-in CET1 ratio: 10th and 90th percentile and interquartile range distribution across SBGs; fully-loaded CET1 ratio: median)

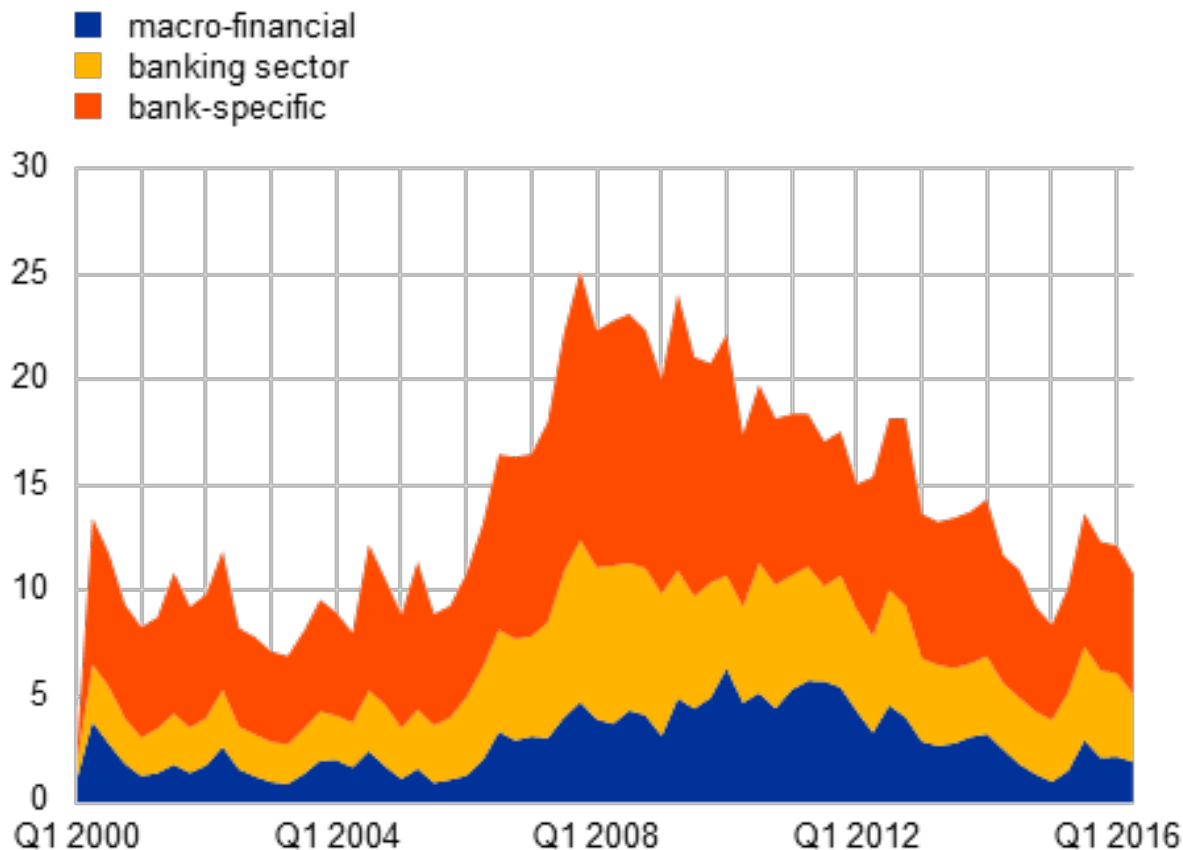


Source: SNL Financial.

Note: Quarterly data are based on a sample of 52 (phased-in) and 45 banks (fully-loaded).

Aggregate distress probability for euro area banks

(Q1 2000 – Q2 2016; percentage probability 1-8 quarters ahead; y-axis: weighted average distress probability)

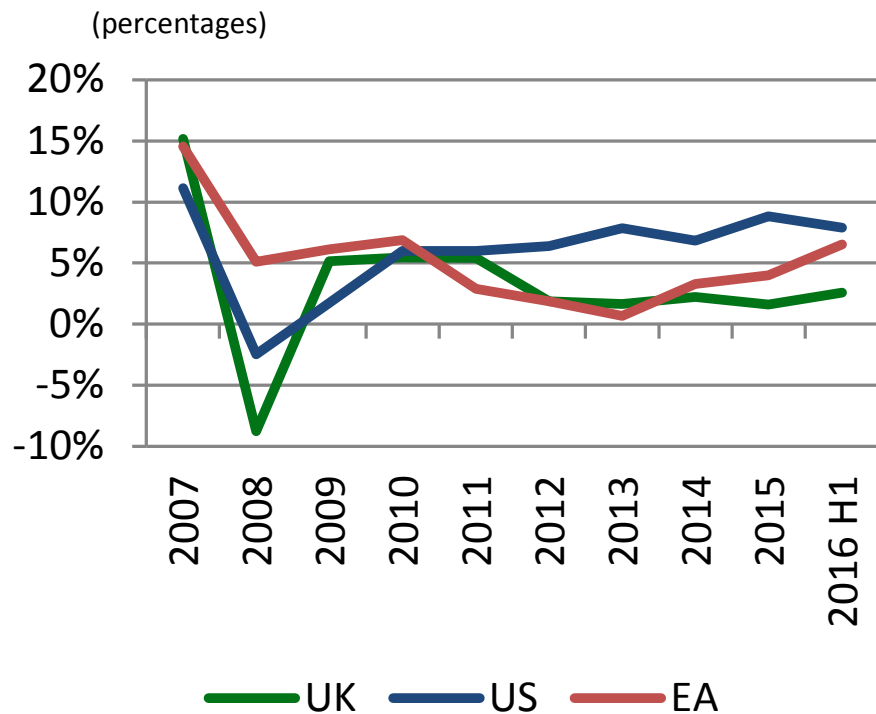


Source: ECB calculations.

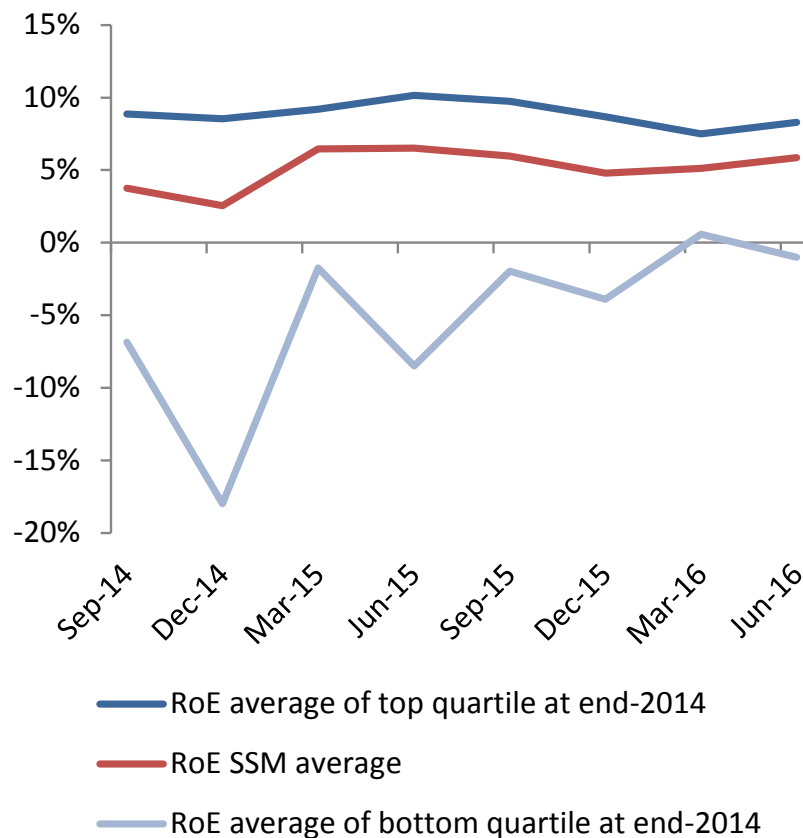
Notes: The results are based on a bank-level logit model with 11 risk drivers, built to indicate bank distress probabilities with a prediction horizon of one-to-eight quarters ahead. Bank distress events encompass bankruptcies, defaults, liquidations, state-aid cases and distressed mergers. The aggregation is done by weighting the bank-specific distress probabilities by the respective banks' shares in aggregate euro area bank assets. The decomposition of individual distress probabilities into the different factors is done by using the (relative) distress probabilities that would prevail if all other variable blocks were set to their mean values. All results are derived from publicly available information. Further details about the underlying method and dataset can be found in Lang, J. H., Peltonen, T. and Sarlin, P., "A framework for early-warning modeling with an application to banks", Working Paper Series, ECB, forthcoming.

Profitability thus far

Return on Equity - Global Systemically Important Banks



Return on Equity for Euro Area banks based on end 2014 ranking

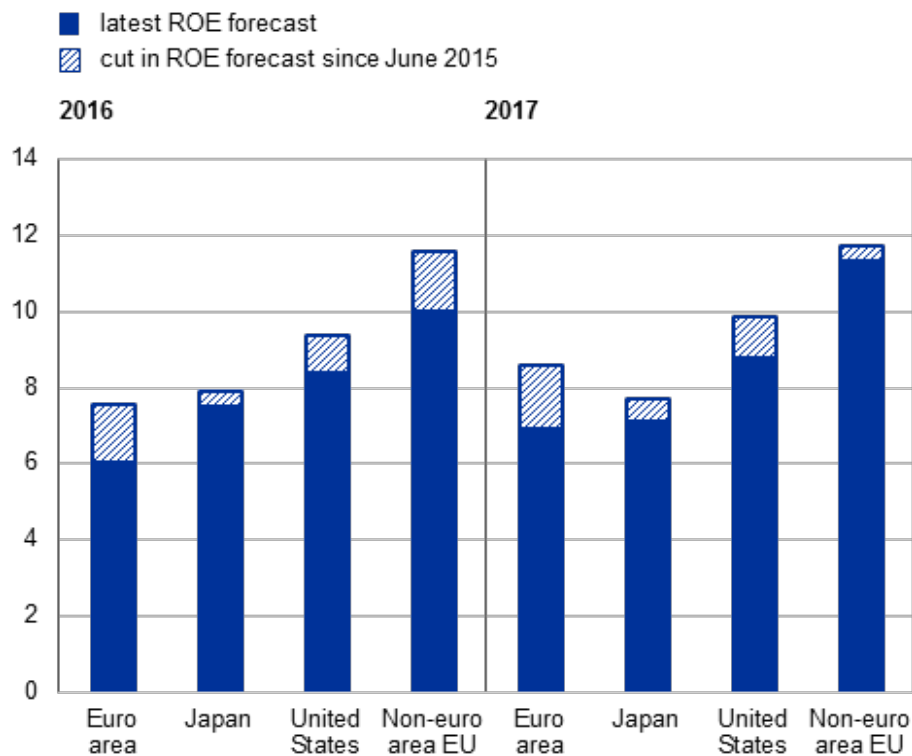


Sources: Bloomberg, FINREP and ECB calculations. Notes: for the chart on the left, aggregate figures for the 4 UK, 8 US and 8 Euro Area GSIBs. Profits for 2016H1 have been doubled to annualize the figures. For the chart on the right, top and bottom quartile banks were kept fix based on end-2014 RoE. The chart then tracks the evolution of the average RoE for these two groups as well as the average for the entire sample of Euro Area banks (93 significant institutions for the SSM). Subsidiaries of foreign institutions have been excluded from the sample.

Earnings prospects

Profitability expectations

Analyst forecasts for 2016 and 2017 return on equity by region (2016-17; percentages and percentage changes since June 2015)



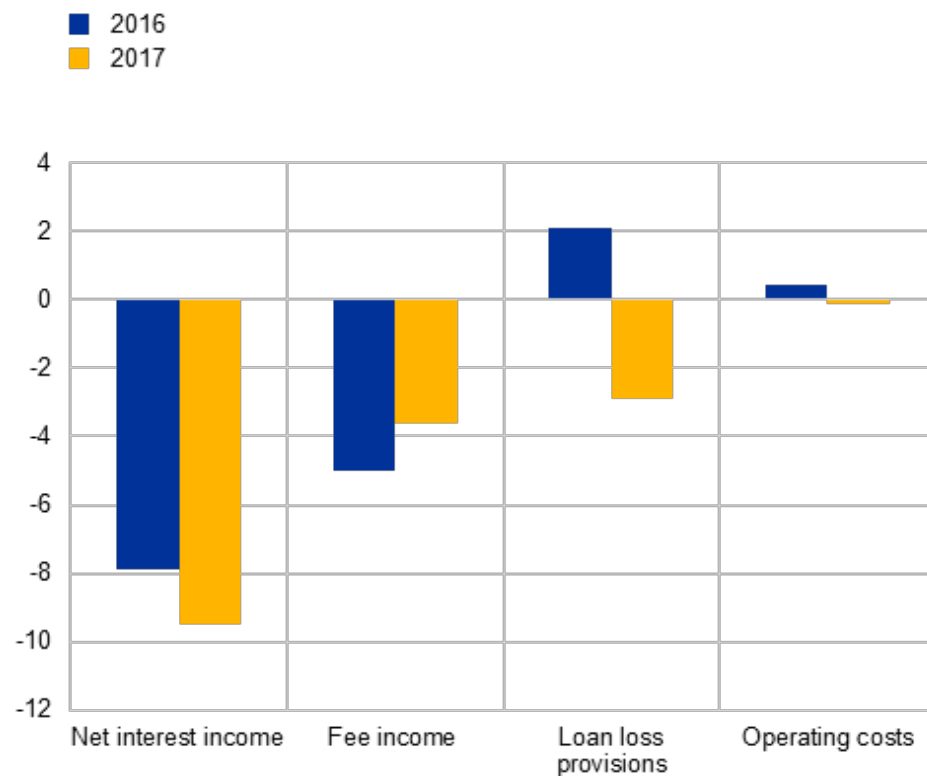
Sources: Bloomberg and ECB calculations.

Note: Based on consensus forecasts for listed banks by region.

Earnings forecasts

Analyst forecasts for the main components of euro area banks' net income for 2016 and 2017

(2016-17; percentage changes since June 2015)



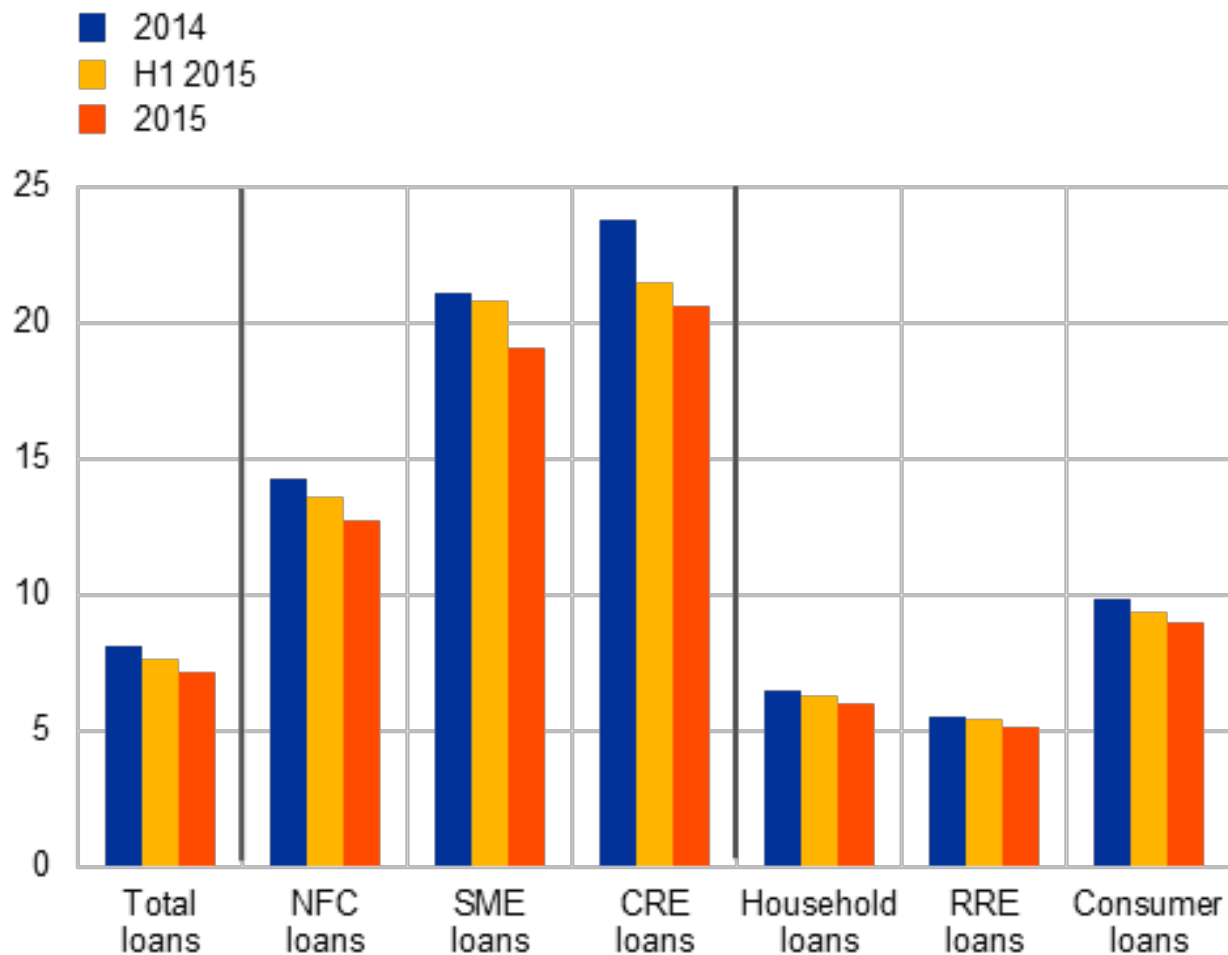
Sources: Bloomberg and ECB calculations.

Note: Based on consensus forecasts for listed banks by region.

Non-performing loans

Non-performing loan ratios of significant banking groups in the EA by sector and loan type

(2014-15; percentage of loans; weighted average across SBGs)



Source: ECB.

Notes: Non-performing loan ratios are shown only for selected sectors/loan types. CRE and RRE stand for commercial real estate and residential real estate respectively.

WHERE TO FROM HERE?

(priorities for euro area banking sector)

1. Restructuring, consolidation, NPLs.
2. New cost efficiency standards.
3. Rethinking business models.
4. Completing the banking union: internalise resolution processes, bail-in rules, gone-concern requirements. Deposit insurance.