EUROPEAN CENTRAL BANK

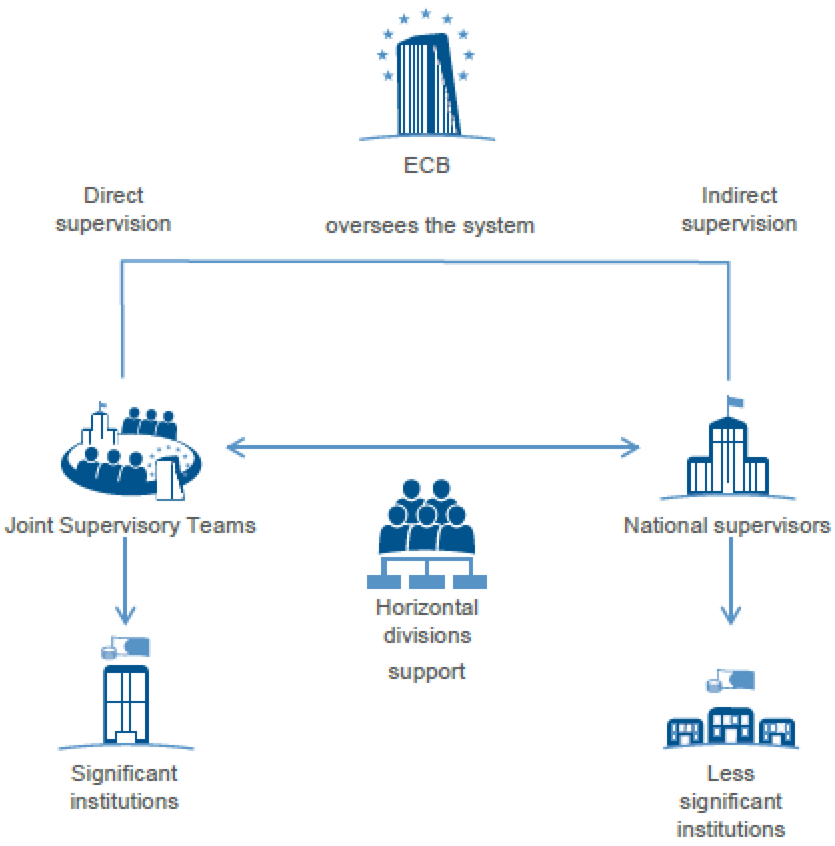
BANKING SUPERVISION

ECB Report on supervisory activities

Meeting with AIIR

European banking supervision is based on co-operation between the ECB & national supervisors

Distribution of tasks within the SSM



Key SSM facts

1. The Single Supervisory Mechanism (SSM) is the **largest banking supervisory authority of the world.**
2. Currently **127 banking groups (~1,200 banks)** in 19 countries under direct ECB supervision. More than **80 %** of euro-area banking assets under direct ECB supervision.
3. Around **3,200 smaller institutions** are directly supervised by the national competent authorities (NCAs), with the ECB being responsible for the system at large.
4. Banking assets under direct and indirect ECB supervision amount to **more than 26 trillion Euros →** about **2.6 times euro-area GDP.**

The Supervisory Priorities for 2016 define how the identified key risks will be addressed

Supervisory Priorities		Activities[1]	
Business models and profitability drivers	2015	Challenge banks' business models	
	2015	Assess banks' profitability drivers (thematic review)	2017
		Investigate banks' IRRBB approaches across business models	
Credit risk		Implement a consistent approach to non-performing loans (NPLs)	
	2015	Evaluate impact of IFRS 9 on provisioning (thematic review)	2017
		Track sovereign and real estate exposure concentrations	
Capital adequacy	2015	Follow-up on capital quality and implementation of harmonised SSM OND approach	
		Harmonise supervisory approach to banks' ICAAP including stress testing	2017
		Examine banks' preparedness for gone-concern scenarios (MREL/ TLAC)	
Risk governance and data quality	2015	In-depth analysis on risk governance for selected SIs (follow up on "internal governance and risk appetite" 2015 thematic review)	
		Assess compliance with BCBS principles on risk data aggregation and risk reporting (thematic review)	
Liquidity		Harmonise supervisory approach to banks' ILAAP	2017

https://www.bankingsupervision.europa.eu/press/speeches/shared/pdf/se160314_slides.pdf

Supervisory priorities for 2016 and 2017

Priorities 2016

- Business models & profitability drivers
- Credit risk
- Capital adequacy
- Risk governance & data quality
- Liquidity

Priorities 2017		Supervisory activities for 2017 & beyond	Likely to be continued in 2018
Business models & profitability drivers		Assess banks' business models and profitability drivers	○
	NEW	Brexit preparations – dialogue with banks	✓
	NEW	Non-bank competition / FinTech	✓
Credit risk focus on NPLs and concentrations		Consistent approach to NPLs/ forborne exp. (e.g. deep dives / OSIs)	✓
		Evaluate banks' preparedness for IFRS 9	○
		Track exposure concentrations (e.g. shipping/ real estate)	✓
Risk management		Assess compliance with BCBS 239 - Basel principles on risk data aggregation and risk reporting	○
		TRIM[1]: Credit risk, market risk and counterparty credit risk models	✓
		Improvement of banks' ICAAP[2] and ILAAP[3]	✓
		Outsourcing	✓

1 Targeted review of internal models
2 Internal Capital Adequacy Assessment Process
3 Internal Liquidity Adequacy Assessment Process
Note: Thematic reviews are highlighted by a dark blue border.

The Supervisory Review and Evaluation Process (SREP) – The basics

- **The SREP is the main instrument of banking supervision**
- **Sound risk assessment of each institution:**
  - Combination of quantitative and qualitative elements
  - Holistic assessment of institutions' viability taking into account their specificities
  - Forward-looking perspective
- **High and harmonised standards**
  - SREP in 2015 for the first time conducted according to a harmonised methodology
  - Draws on leading practices within the SSM and as recommended by international bodies (including EBA guidelines on SREP)
  - Contributes to a level playing field for banks in the entire euro area
- **The outcome:** additional capital requirements based on each bank risk profile, and other supervisory measures on liquidity, risk management, …

How does the SREP work?

SREP methodology at a glance: four key elements

SREP Decision

- Quantitative capital measures
- Quantitative liquidity measures
- Other supervisory measures

Overall SREP assessment - Holistic approach

→ Score + Rationale/main conclusions

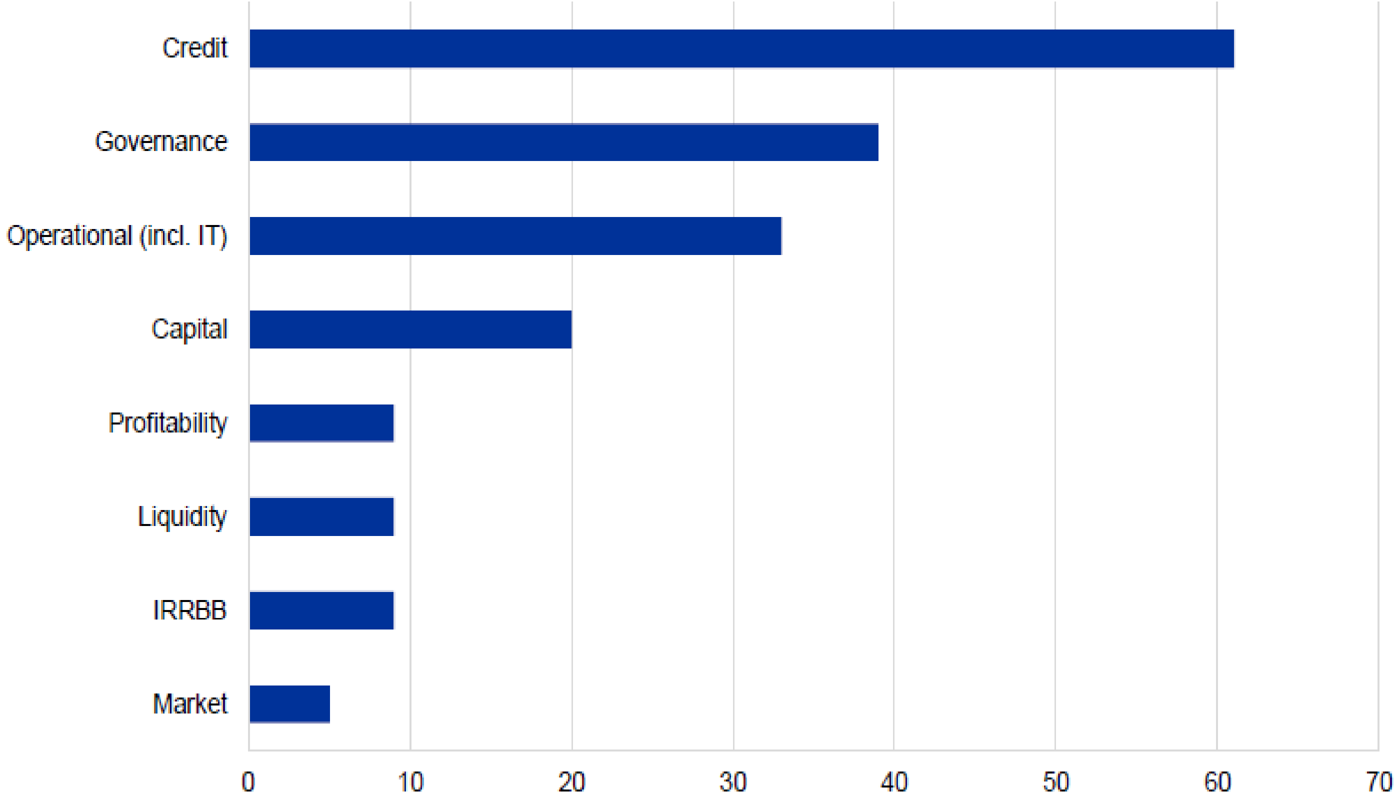
Viability and Sustainability of Business Model	Adequacy of Governance and Risk Management	Categories: e.g. Credit, Market, Operational Risk	Categories: e.g. Short Term Liquidity Risk, Funding Sustainability
1. Business model assessment	**2. Governance and Risk Management assessment**	**3. Assessment of risks to Capital**	**4. Assessment of risks to Liquidity and Funding**

Feeds into the Supervisory Examination Programme (SEP)

On-site supervision

On-site inspections mainly focused on credit risk, governance and operational risks

Number of inspections by main risk category



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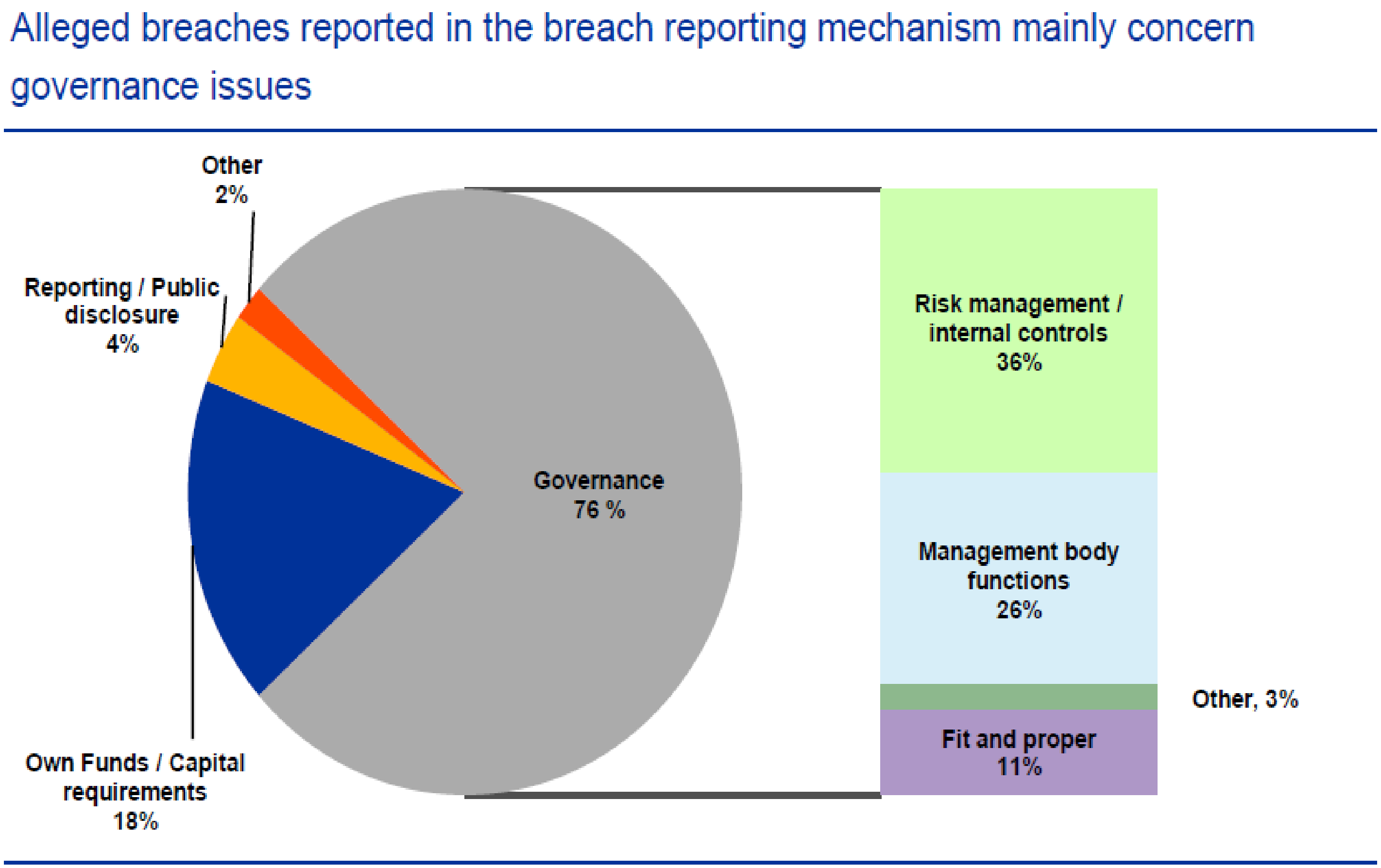
Experience with reporting on breaches under Article 23 of the SSM Regulation



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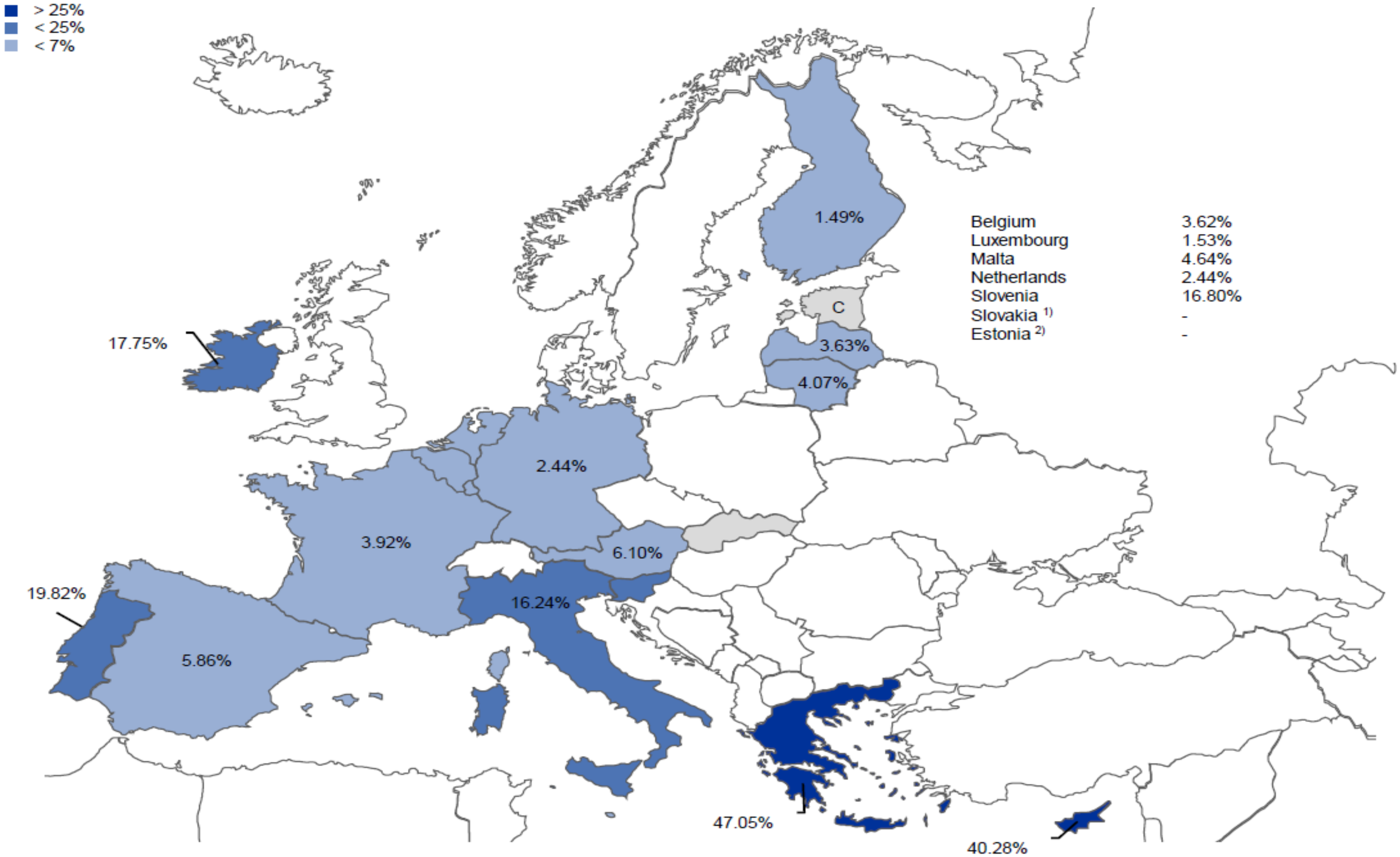
NPL Guidance

The ECB published a guidance to banks on how they should tackle non-performing loans - addressing key aspects regarding the strategy, governance and operations.

Guidance also requests banks to define and implement plans to reduce NPLs in a realistic but ambitious manner.

Guidance to banks on non-performing loans

Ratio of non-performing loans in the euro area



Source: ECB.
Notes: Data as of the third quarter of 2016; significant institutions at the highest level of consolidation for which common reporting (COREP) and financial reporting (FINREP) are available.
1) There are no significant institutions at the highest level of consolidation in Slovakia.
2) The value is suppressed for confidentiality reasons owing to the limited size of the sample.

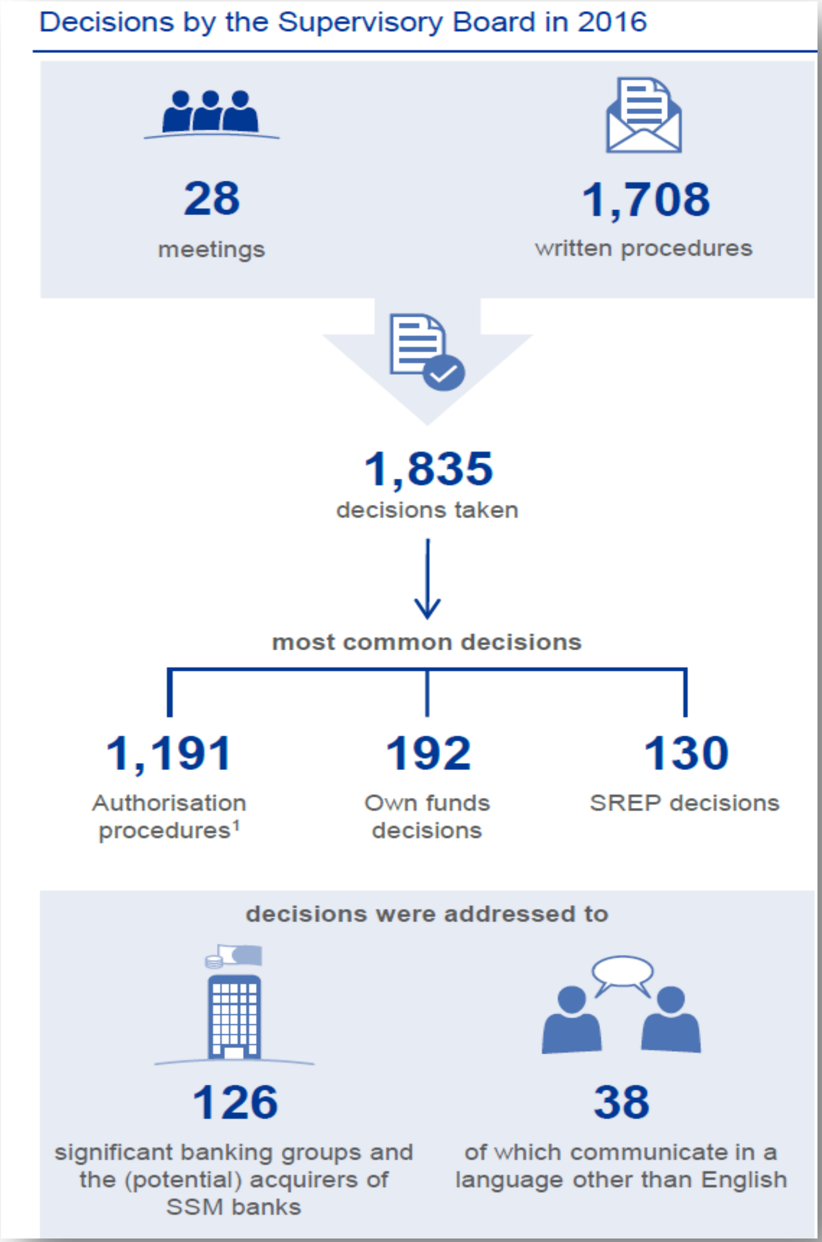
https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssmar2016.en.pdf?e6209395b9450c2655f04a4e24ffa463.

The interaction of supervision with resolution of Significant Institutions

Preparation and planning	Early intervention	Resolution trigger	Resolution
Recovery planning & assessment of recoverability • ECB responsible • SRM to be consulted **Resolution planning and assessment of resolvability** • SRM responsible • SSM to contribute	**Early intervention** • ECB responsible • Notification to the SRB	**Assessment of 'failing or likely to fail' (FOLTF)** • ECB in consultation with SRB • SRB after informing ECB and if the ECB does not assess FOLTF in 3 calendar days • SRB to be notified	**Determination of conditions for resolution** • SRB in cooperation with ECB **Choice of resolution scheme** • SRB **Implementation of resolution measures** • NRAs • Supported by ECB/NCAs

Development of stress level

Business as usual — Distressed situation — Failure or likely failure



Decision-making

- Supervisory Board and Steering Committee
- In addition to bank-specific decisions, the Supervisory Board decided on several horizontal issues, most notably the application of common methodologies and frameworks in specific areas of its supervision.

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