

Final report on the implementation of Capital Plans following the EBA's 2011 Recommendation on the creation of temporary capital buffers to restore market confidence



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1. Executive summary

1. As part of a suite of policy measures to restore confidence in the EU banking sector, the EBA, in December 2011, issued a Recommendation to national authorities that participating EU banks raise their Core Tier 1 ratio (CT1) to 9%, after setting an additional buffer against sovereign risk holdings. The objective of the entire Recommendation was to ensure sufficient capital against unexpected losses if the economic situation deteriorated further.
2. The EBA identified a shortfall for 27 banks of €76bn¹, to be addressed by end-June 2012 via an increase of the capital elements of the highest quality and via a limited set of actions aimed at reducing risk weighted assets (RWAs), without impacting lending into the real economy. Comprehensive measures have subsequently been implemented by banks to comply with the Recommendation by end-June 2012. The relevant banks submitted their capital plans to National Supervisory Authorities (NSAs) in coordination with the EBA. These plans were discussed in supervisory colleges, where host supervisors had the opportunity to raise any concerns on those measures having an impact on their own jurisdictions and credit markets.
3. On 11 July 2012, the EBA published a preliminary report on the implementation of banks' capital plans. The current report presents the final outcome following an extensive collection of actual data² provided by banks based on their financial statements as of 30 June. The outcomes and findings of this final assessment are in line with our July preliminary report.
4. The vast majority of the banks³ involved in the EBA capital exercise show a CT1, as of end of June, above the 9% after accounting for the sovereign buffer. In the case of four banks⁴, backstops are currently being undertaken, with the explicit support formally endorsed by the corresponding governments.

¹ Of the 71 EEA banks involved in the EU 2011 capital exercise, 37 banks showed an initial shortfall of €115bn. However, three banks (Dexia, €6.3bn; Volksbank AG, €1.1bn; West LB €0.2bn) were identified as undergoing such a deep restructuring that their submission of plans was deemed unnecessary. Similarly, the initial shortfall for six Greek banks (€30bn) is being addressed in the Greek Programme; therefore no separate plans were requested. Finally, Bankia (€1.3bn), which initially submitted a capital plan, has subsequently gone into an intensive restructuring in early May 2012 and is being monitored separately by the relevant authorities. The initial shortfall for the remaining 27 banks is €76bn.

² The data collection has been requested to 61 banks involved in the capital exercise that are not under deep restructuring. The process of balance sheet repair is, however, on-going. Following the recapitalisation exercise, NSAs will continue their heightened supervisory monitoring. Where necessary, they will undertake detailed reviews of each bank's asset quality, both assessing the loss contents of loan book-books and revaluing asset collateral on a conservative basis.

³ Note that those 4 banks for which a deep restructuring process was triggered after the publication of the EBA Recommendation are being monitored separately.

⁴ Banca Monte Dei Paschi Di Siena S.p.A, Cyprus Popular Bank Public Co Ltd, Bank of Cyprus Public Co Ltd. and Nova Kreditna Banka Maribor d.d.

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5. *The capital exercise, which triggered a deep restructuring process for 4 of the banks with an initial shortfall, has resulted in an aggregate **€115.7bn** recapitalisation for the 27 banks after the implementation of their respective capital plans.*
 6. *Overall, taking into account the capital strengthening of the remaining banks in the sample, and the capital injection already realised in Greek and Spanish banks involved in the exercise, more than €200bn have been injected between December 2011 and June 2012.*
 7. *Compliance with the Recommendation has been achieved mainly via new capital measures (retained earnings, new equity, and liability management), and to a lesser extent, by releasing capital through measures impacting RWAs.*
 8. *The recapitalisation exercise was a necessary step on the road to repairing EU banks' balance sheets. It is one of a series of coordinated policy measures agreed by the European Council last October. Although the external environment remains very challenging, the recapitalisation has contributed to strengthening the capital base of the banking system and has put banks in a stronger position to continue lending to the real economy. Along with the ensuing ECB long-term refinancing operations, which alleviated the liquidity tail risk of EU banks, the recapitalisation exercise is a major step towards gradually restoring access to market funding.*
 9. *The EBA will now continue to monitor banks' capital levels. The implementation of the CRD IV/CRR framework will change the legal setting for assessing capital levels. To that end, when the final CRD IV/CRR package enters into force, the EBA intends to issue a new Recommendation. That Recommendation will replace the 9% CT1 ratio with a capital conservation requirement. Under this requirement, supervisors will monitor a nominal capital amount (e.g. Euros) which comprises the 9% CT1 as of June 2012. This level will be monitored by the consolidating supervisor, in conjunction with the EBA and Supervisory Colleges to ensure it is maintained. In addition, supervisors will assess banks' capital plans for the transition to CRD IV/CRR implementation, including in stressed scenarios under the EBA's 2013 EU-wide stress test. Further measures to conserve capital, such as restrictions on dividends and other variable payments, may be applied if these plans are in doubt.*

2. Background

1. In July 2011, the EBA's EU-wide stress test attempted to assess the impact of credit losses and of elevated funding costs on banks' balance sheets. The stress test prompted significant pre-emptive capital-raising action by banks (€50bn for the first four months of 2011) was accompanied by an unprecedented transparency exercise, which addressed longstanding uncertainty about banks' holdings of various asset classes, including government debt. The EBA subsequently recommended capital strengthening for banks with CT1 below 5% and for those above 5% but holding significant amounts of stressed sovereign debt.
2. As the EU financially-stressed sovereigns' situation in the market deteriorated in 2011, the EBA advised on the need to break the link between banks and sovereigns via (i) higher capital buffers (ii) and effective EU-wide bank term debt guarantees.
3. In this context, in December 2011, the EBA issued a Recommendation that all participating EU banks raise their CT1 capital to 9% after accounting for an additional buffer against stressed sovereign risk holdings. This Recommendation was aimed at reassuring the market that the EU banking system as a whole had the ability to withstand a range of credit shocks – including sovereign stresses – and still maintain adequate capital. This requirement for a capital buffer was not the result of a stress test and was not based on an actual asset quality review of each bank.
4. A sample of 71 EEA banks took part in the capital exercise, of which 31 banks, excluding Greek banks, experienced an initial shortfall in meeting a 9% CT1 ratio after including the sovereign buffer. 28 banks out of the 31 provided capital plans to comply with the EBA December Recommendation. The remaining three banks - Dexia, Österreichische Volksbank AG and WestLB AG, Düsseldorf - are currently involved in deep restructuring, with a wind-down of their activity. Bankia, which initially submitted a capital plan, is now undergoing fundamental restructuring and is being monitored separately by the relevant authorities. Therefore, the current report covers the remaining 27 banks, with a shortfall of €76bn.

The capital exercise is a one-off exercise conducted with the aim to restore market confidence in the banking sector. It is not a stress test exercise. No assessment of assets quality was undertaken by the EBA in the framework of the exercise.

5. NSAs submitted banks' capital plans to the EBA at the end of January 2012, in line with the EBA December Recommendation (EBA/REC/2011/1). Following this submission, discussions on the measures designed by banks took place in the framework of colleges, allowing an exchange of views among home and host supervisors.
6. Discussions in supervisory colleges provided the opportunity for all relevant competent authorities to consider the plans more in depth and to understand the viability of the proposed measures and the implications for the markets in the various countries. Host supervisors had the opportunity to raise any concerns during these meetings. For those banks with no college in place, plans were

discussed bilaterally between the EBA and the relative NSA, in order to clarify the eligibility, feasibility and timeline of planned measures, and their possible impact on the real economy.

7. Notwithstanding the fact that formal approval of plans and communication with banks was a matter for Consolidating National Supervisors, the EBA, together with NSAs has monitored the progress in the implementation of plans by banks.
8. During this summer, the EBA launched an extensive collection of actual data similar to the one undertaken as of September 2011. The data collection was addressed to 61 banks involved in the capital exercise that are not undergoing deep restructuring. Banks provided data based on their financial statements as of 30 June 2012. The present report is based on these data, and shows the findings and conclusions stemming from the EBA's final assessment on the EU 2011 Capital Exercise.

3. Final update on the implementation of the capital plans by the 27 banks

3.1 Overall assessment

9. The final outcomes of the capital exercise for those banks that implemented a capital plan are in line with our preliminary report published in July, with the capital position of the 27 banks further strengthened compared to the last estimates included in the July report. Besides the expected deviations between estimates and final actual figures, other differences arise from data classification issues⁵.

The vast majority of the banks are compliant with the EBA Recommendation as of end of June. For the remaining banks, backstops approved before the end of June are being implemented, with the explicit support formally endorsed by governments.

10. As of 30 June 2012, the 27 banks with a shortfall of €76bn reported to have reached a recapitalisation amount⁶ of €115.7bn.

11. The overall figure, taking into account the capital strengthening by the 34 banks in the sample that did not show an initial shortfall, and the capital injection already realised in Greek and Spanish banks involved in the exercise, more than €200bn have been injected between December 2011 and June 2012.

12. Out of the list of 27 banks, 24 show a CT1 above 9% after accounting for the sovereign buffer as of end of June 2012. Regarding the remaining three banks⁷, the necessary backstops have been endorsed by the corresponding governments⁸ and are being implemented.

13. With respect to the other 34 banks that took part in the EBA 2011 capital exercise but did not show any initial shortfall, 33 remain above the 9% CT1 as of end of June, i.e. all except for one. In June 2012, this bank, NOVA KREDITNA BANKA MARIBOR D.D., submitted a detailed capital plan to meet the 9% target. According to this plan, the bank expects to meet the Recommendation by the end of December 2012 through private measures. However, backstops are already in

⁵ e.g. New or existing hybrids that were converted into equity by the 30 of June 2012 have been included under “new equity” measures in the present report, compared to their classification as “CoCos” or “Conversion of existing hybrids into equity” measures in our July 2012 preliminary report. Figures under “Deleveraging other than formally agreed deleveraging” that were part of “Other mitigating measures” in our July report are now showed separately.

⁶ The recapitalisation amount stands for the additional amount of capital reached as a result of the capital plans through the implementation of capital measures plus the amount of capital released through the implementation of RWA measures.

⁷ Banca Monte Dei Paschi Di Siena S.p.A, Cyprus Popular Bank Public Co Ltd and Bank of Cyprus Public Co Ltd.

⁸ Through the approval of a Decree-Law establishing the government support in one case and through the government’s decision to request the EFSF support in the other two cases.

place, and, if necessary, an ultimate and eventual recapitalisation has been committed by the Republic of Slovenia, with a deadline of 31 December 2012.

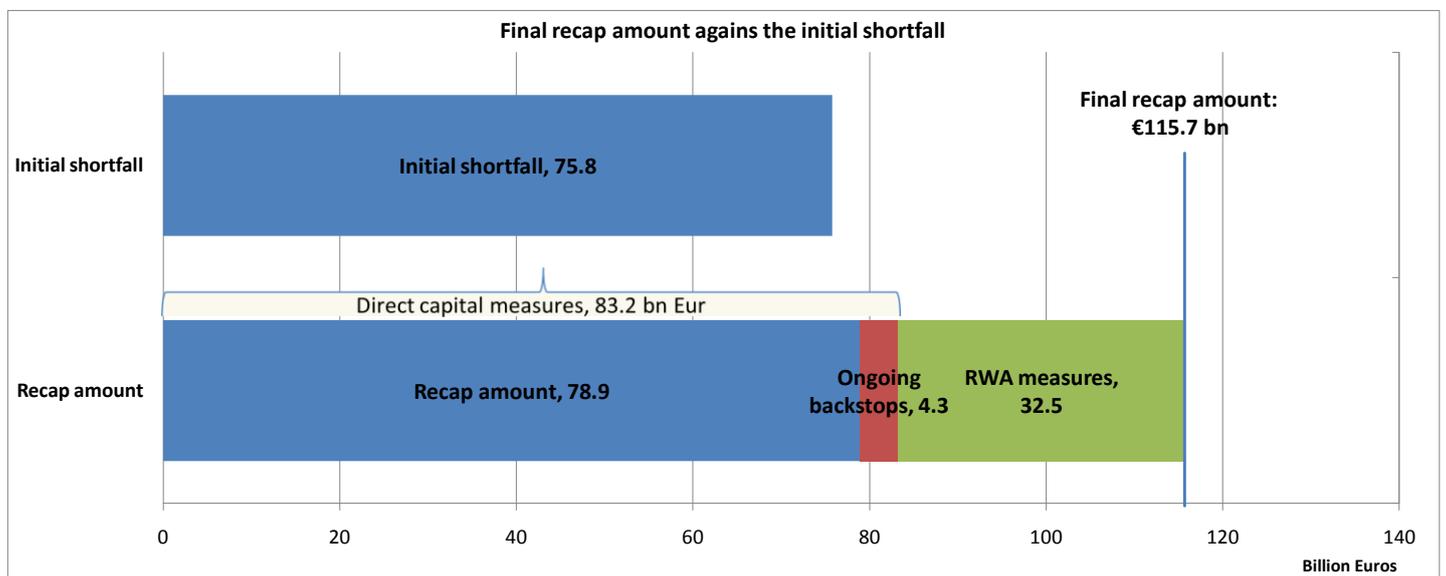
14. The backstops now being implemented lead all the banks to a CT1 above the 9%.

Capital measures clearly predominate over RWA measures. Banks have strengthened their capital positions mainly increasing eligible own funds, and to a lesser extent, releasing capital through measures impacting the RWAs

15. The 27 banks have built their recapitalisation amount of €115.7bn through the implementation of both direct capital measures, that have strengthened the capital levels of the bank, and RWA measures, that have decreased the banks' capital requirements. The breakdown of the recapitalisation amount is as follows:

- Direct capital measures rise to €83.2bn, 72% of the recapitalisation amount and 108.5% over the initial shortfall.
- Capital impact of RWA measures rises to €32.5bn, 28% of the recapitalisation amount. On top of the direct capital measures, RWA measures contribute to a surplus of €39.9bn over the 9% CT1 after sovereign buffer.

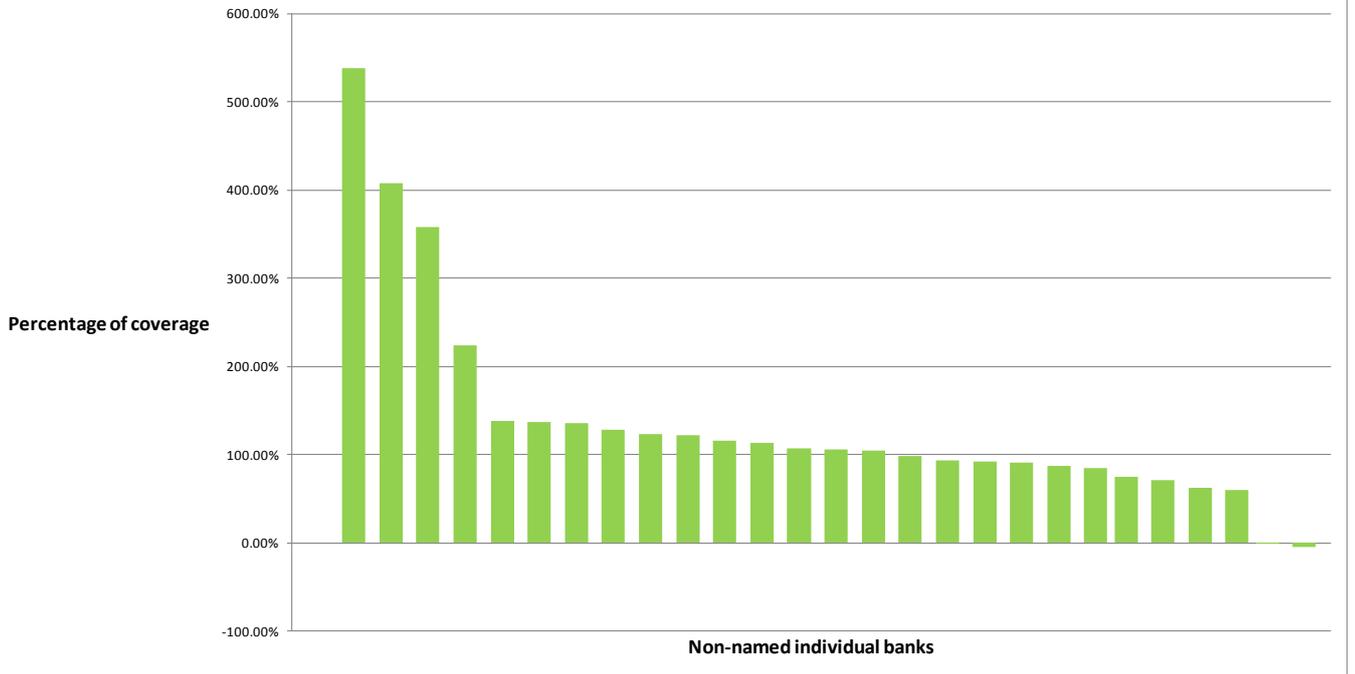
16. Aggregate data shows that capital measures deployed by banks have been more than enough to cover the initial shortfall.



17. Backstop measures mainly consist of new issuances of capital instruments. These instruments will be underwritten by governments directly or through the support of the European Financial Stability Facility (EFSF).

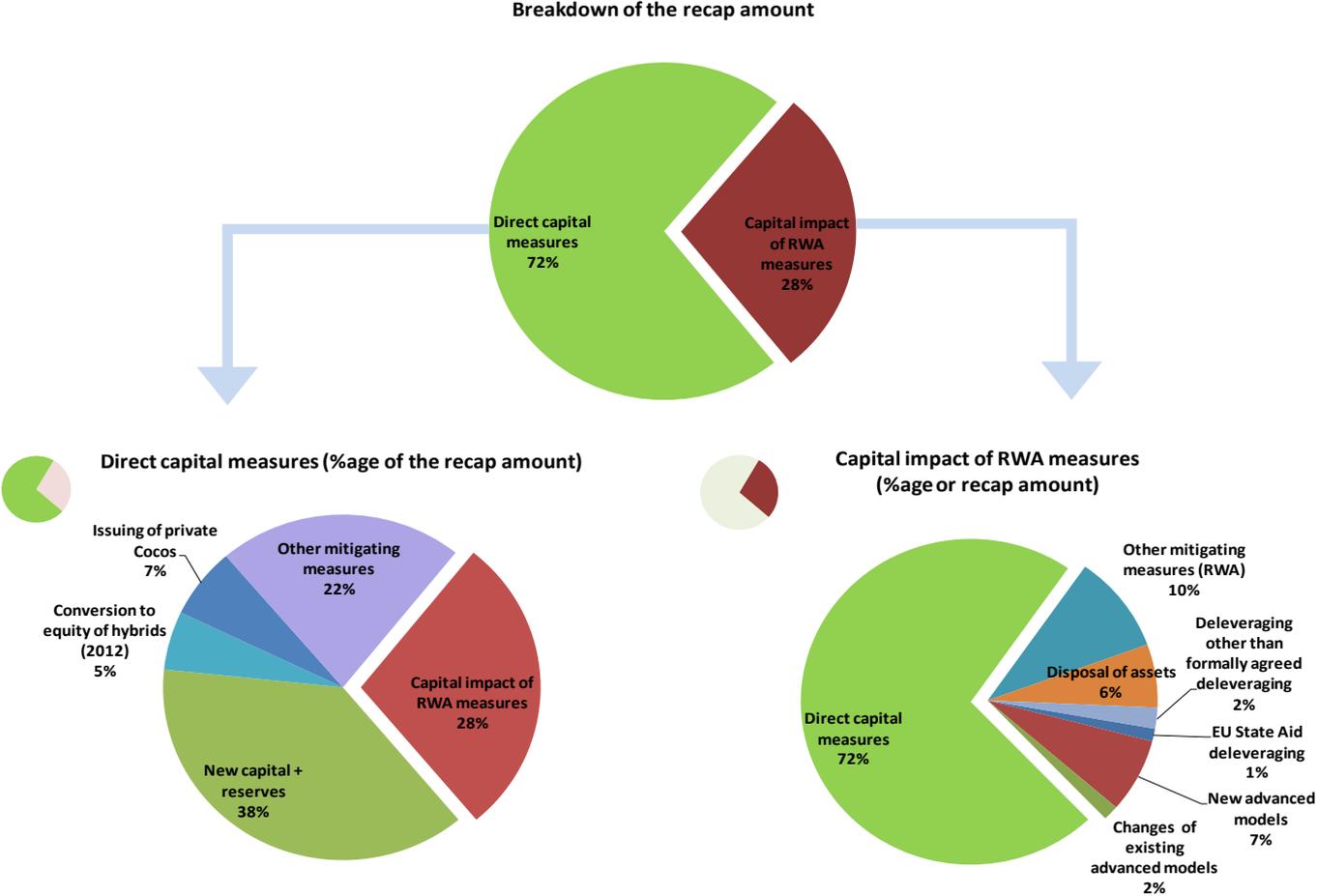
18. As far as individual banks are concerned, a large majority of the 27 banks have covered at least 80% of the initial shortfall through the implementation of direct capital measures:

Percentage of initial shortfall covered through direct capital measures, including public backstops



3.2 Measures taken – Breakdown

19. The charts below show the breakdown of the recapitalisation amount as at 30 June 2012, distinguishing between measures which directly enhanced capital and those impacting RWAs.



The 27 banks have broadly strengthened their capital positions with new ordinary capital and reserves, and have raised own funds by 12.6% since September 2011.

3.2.1 Direct capital measures

20. Since September 2011, and as result of their capital plans, the 27 banks have increased their core capital position (ordinary equity plus reserves) by €43.6bn through the issuance of new ordinary shares, the payment of dividends in shares, retained earnings and conversion of hybrids into common capital. As of 31 October, ordinary capital will have increased by an additional €6.4bn, taking into account the scheduled conversion into shares of hybrid instruments on that date.

Therefore, by 31 October 2012, the 27 banks will have increased their core capital by €50bn, a 12.6% increase compared to September 2011⁹.

21. Furthermore, banks have issued a number of Buffer Convertible Capital Securities compliant with the EBA Common Term Sheet. The total amount issued is €7.64bn¹⁰. These bonds are not CT1 instruments but are eligible to meet the EBA Recommendation. With these new instruments, banks have strengthened their capital position by a further 2% compared to September 2011.

22. Finally, other mitigating measures directly impacting banks' capital position amount to €25.5bn¹¹. These impacts stem from:

- lower deductions from CT1 capital (depreciation/disposal of goodwill and intangible assets, disposal of securitisation portfolios, reduction in the difference between expected losses and specific provisions in case of IRB models, disposal of non consolidated subsidiaries/stakes on financial firms);
- consolidation impacts on capital (e.g., increase on minority interests);
- changes to reserves stemming from FX rates;
- other impacts on capital: consolidation effects (e.g., increase on minority interests) and others.

3.2.2 Release of capital stemming from RWA reductions

In line with the Recommendation, capital plans have not led directly to a significant reduction of lending into the real economy. A deleveraging process had already started before the capital exercise and will need to continue in an orderly fashion.

23. Measures related to a decrease in lending led to a reduction of just 0.87% of total RWAs at September 2011¹² (reduction in RWAs by €42.9bn). Moreover, this deleveraging was focused on a small number of banks that are in specific agreements with international and EU organisations in the framework of formal restructuring plans and state aid injections.

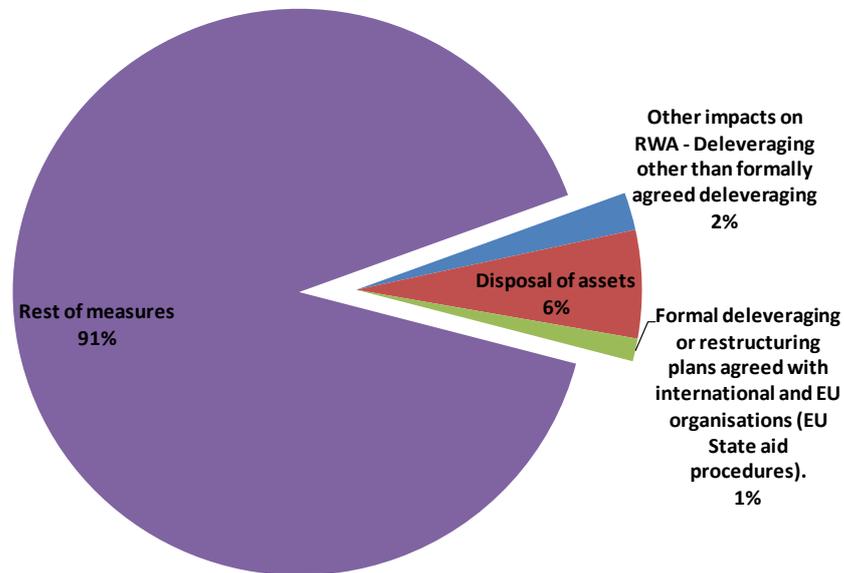
⁹ This represents 43% of the total recapitalisation amount (€115.7bn) and 66% of the initial shortfall of €76bn for the 27 banks.

¹⁰ 7% of the recap amount and 10% of the initial shortfall. The differences with the data included in our July report stem from those CoCos that were converted into capital as of end of June. In our July preliminary report, this figure was classified as CoCos. Now, after the conversion, it is new equity.

¹¹ 22% of the recap amount and 33.6% of the initial shortfall.

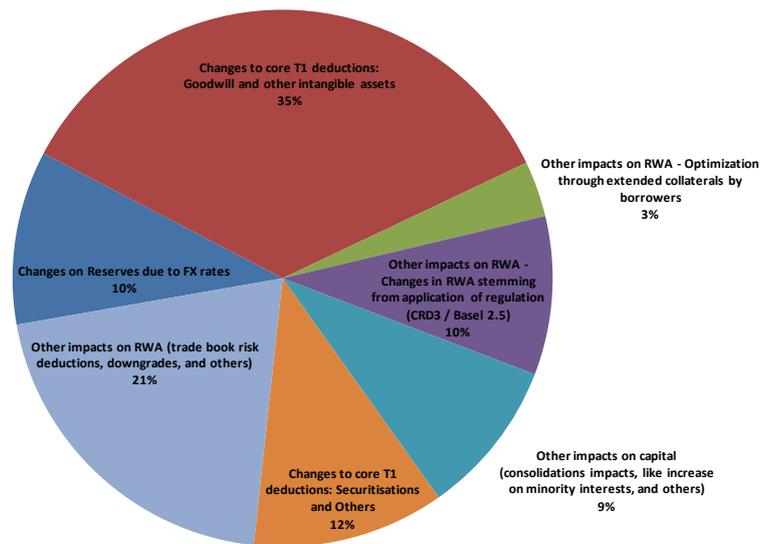
¹² RWA as at Sept 2011: €4,922bn. Deviations compared to our July report stem from deleveraging other than state aid deleveraging figures, which were included under "Other mitigating measures" in our July report and are now showed separately.

Recap amount - Disposal of assets and reduction in lending measures



24. Disposals of assets had a positive impact on capital by €6.9bn, and led to a RWA reduction of €77bn, or 1.6% of RWAs as at September 2011. Such disposals focused on a small number of banks and mainly on non-core assets, especially US dollar denominated assets held outside the EU, in relation to the drying-up of US dollar funding in the last part of 2011.
25. Both the measures related to deleveraging, and the disposal of assets, were broadly discussed in the framework of colleges, where host supervisors had the opportunity to raise any concerns on those measures having an impact on their own jurisdictions.
26. As stated on the EBA Recommendation, reductions in RWAs due to the validation, roll-out and changes of internal models were only allowed as a means of addressing the capital shortfall in those cases where changes had already been planned and were under consideration by the competent authority.

Breakdown of "Other mitigating measures"



27. Finally, other mitigating measures have reduced the RWAs by €124.7.bn, 2.5% of RWAs at end September 2011. These measures consist mainly of: reduction of the trading book risk, improvement in collaterals and guarantees, and impacts stemming from the application of CRD 3¹³.

28. The following chart shows the type of measures reported under "Other mitigating measures", and include both the capital and the RWA measures:

3.3 Backstops and asset quality assessments

In those cases where Governments have committed to supporting banks to meet the EBA Recommendation, adherence to some common principles has been ensured.

29. Government commitments to provide public backstops to those banks that would otherwise not comply with the Recommendation had to meet common principles. A written statement, detailing the amount committed and drawing a clear timeline within 2012, was requested in order to show the government's willingness to underwrite the new issuance. Furthermore, the competent National Supervisor should keep the EBA informed on the progress of the plans and on any change or contingency in this respect.

¹³ More accurate estimations on the impact on RWAs of the implementation of CRD3 have led in some cases to downward adjustments on the RWA figures.

3.3.1 Backstops already implemented - Capital injected

30. By the end of June 2012, the recapitalization operations of three Portuguese banking groups were concluded.

The Slovenian NOVA LJUBLJANSKA BANKA D.D. has reached the 9% target thanks to government support, after an issuance of contingent convertible instruments underwritten and fully paid by the Republic of Slovenia by the end of June 2012, amounting to €0.32bn.

3.3.2 Ongoing backstops

31. Banca Monte dei Paschi di Siena will be supported by the Italian government based on the Decree-Law n. 87/2012 establishing a form of government support in order to cover the residual shortfall of MPS according to the decisions of the European Council of 26th October 2011. The decree law 87/92 was converted into law 135 on August, 7th. According to the law, the Ministry of Economy and Finance (MEF) is authorised to underwrite MPS's subordinated convertible instruments eligible for CT1 capital up to an amount of €2bn by December 31. The Italian authorities are in contact with the EU Commission so as to ensure compliance of the operation with State aid rules.
32. Nova KBM d.d., another Slovenian bank, which was above the 9% target as of end of September 2011, subsequently experienced a shortfall due to the recognition of further credit risk impairments. The bank has eventually submitted a detailed capital plan to the EBA in order to meet the 9% target. The capital plan envisages an expected main scenario to be completed before the end of December 2012. If this scenario does not materialise, the ultimate and eventual recapitalisation by the Republic of Slovenia will take place, with a deadline of 31 December 2012.

3.3.3 Assets quality assessments

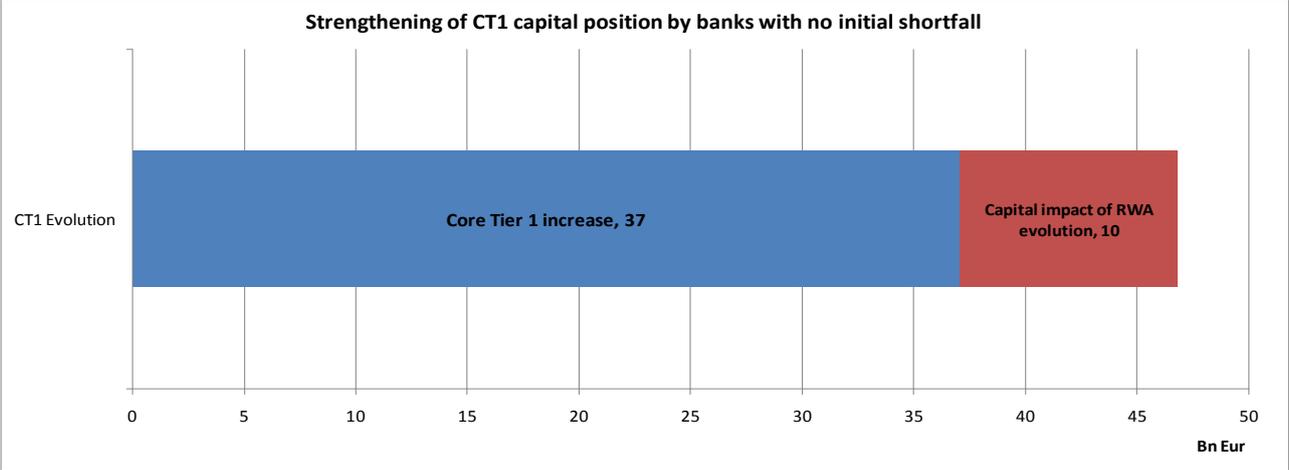
33. In Cyprus and Spain, in depth asset quality reviews are currently ongoing or starting where EU funding may be required and in which the EBA has a specific role.
34. In the case of Cyprus, the banks in the sample, Cyprus Popular Bank and Bank of Cyprus, were not able to reach the 9% CT1 target in the private market. In June 2012, the Cypriot authorities announced their request for financial support from euro area Member States, through the EFSF/ESM, and international support from the IMF, in the framework of a full assistance programme. The programme will encompass measures to ensure the stability of the financial sector, actions to carry out the fiscal adjustment to support the ongoing process of fiscal consolidation and structural reforms.
35. After the announcement made by the Cypriot authorities, the Troika delegation, comprising the EC, the ECB and the IMF, has visited the country. Preliminary discussions leading to a MoU have already taken place and further discussions are expected during October in order to finalise and sign the MoU.

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36. Under the EU/IMF programme, an asset quality review of the Cypriot banks will start very shortly, including a stress test exercise, with the aim to determine the eventual capital needs of the banks. The EBA is part of the steering committee of the assessment of Cypriot banks' capital needs.
37. In the case of Spain, in June 2012 the Spanish Government requested external financial assistance in the context of the ongoing restructuring and recapitalisation of the Spanish banking sector. The assistance is sought under the terms of the Financial Assistance for the Recapitalisation of Financial Institutions by the EFSF. On Friday 28 September 2012 the Spanish Authorities published the results of the evaluation of the Spanish banking system's capital needs on the basis of the stress tests performed under the sector's recapitalisation and restructuring process (Stress Test Exercise), as envisaged in the Memorandum of Understanding agreed on 20 July 2012 by the Spanish and European authorities. An asset quality review was carried out as part of the bank-by-bank stress test. The process further benefited from the oversight of the European Commission, the European Central Bank, the European Banking Authority and the International Monetary Fund.
38. The five Spanish banking groups involved in the EU 2011 Capital Exercise have been assessed in the framework of the stress test exercise, with the following results: Banco Santander, BBVA and Caja de Ahorros y Pensiones de Barcelona do not show additional capital needs under any scenario. In the case of Bankia, additional capital needs for €24bn have been calculated. These funds will shortly be injected into the bank through the EU ESFS/ESM mechanism. In the case of Banco Popular, the Stress Test Exercise shows additional capital needs regarding the capacity of the bank to absorb losses over the next three years under the adverse scenario. This bank, which has strengthened its capital position by €2.5bn since September 2011 and now complies with the EBA Recommendation, shows a surplus in the base scenario of the Spanish Stress Test Exercise amounting to € 0.7bn. However, the shortfall identified under the adverse scenario is €3.2bn and, according to the MoU, the bank will present a recapitalisation plan showing the measures they intend to implement in order to cover the adverse shortfall.

4. Capital position of the banks participating in the capital exercise as of end of June

39. The average CT1 ratio after accounting for the sovereign buffer of the 61 banks in the sample of the capital exercise that have taken part in the data collection exercise as of 30 June increases to 10.7%, with the following breakdown:
- The 27 banks with an initial shortfall report an average CT1 ratio of 9.7% after accounting for the sovereign buffer.
 - The remaining 34 banks report an average CT1 of 11.5% after sovereign buffer.

40. As mentioned above, the 27 banks with an initial shortfall have strengthened their CT1 capital positions by €115.7bn after the implementation of their capital plans. Furthermore, and as regards the 34 banks involved in the capital exercise but that did not show any initial shortfall, their CT1 capital positions as of 30 of June 2012 were enhanced by €47bn, with the following breakdown:



41. Finally, a capital amount of €18bn has been injected in the Greek banks involved in the sample after the capital exercise, in the framework of the EU/IMF financial assistance programme. Furthermore, in the case of Bankia, one the Spanish banks in the sample, the bank will receive an injection of €24bn of capital in the framework of the EFSF financial assistance for the recapitalisation of financial institutions programme.

5. Transition to the CRD IV/CRR

42. The EBA Recommendation, as part of a comprehensive suite of policy measures, was a necessary step towards restoring confidence in the EU banking system. Moreover, as it was made clear from the outset, this measure was not designed as a permanent shift in the regulatory landscape and should not have a direct impact on the planned roll out of the new banking regulations contained in CRDIV/CRR. The introduction of the CRDIV/CRR package in 2013 will change the legal setting for assessing capital levels. Although the EBA's definition of CT1 used in the Recapitalisation exercise is very similar to the CRDIV/CRR definition, there are a number of transitional arrangements which may differ.

43. To that end, when the CRDIV/CRR package is finally adopted, the 2011 Recommendation will be replaced with a new Recommendation stating that the formal 9% level under the EBA definition of capital be replaced with a requirement for banks to maintain a nominal amount of CT1 capital corresponding to the amount identified of 9% as of June 2012 RWAs. The definition of capital will be the EBA definition agreed for the 2011 stress test and Recapitalisation Recommendation.

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44. Banks in the sample would be required to conserve this amount of capital, which would be monitored by consolidating supervisors, in conjunction with the EBA and within colleges of supervisors, to ensure it is not used for dividend payments, variable compensation or for strategic purposes.
45. In specific cases, consolidating supervisors may, after discussion in the relevant colleges and with the EBA, allow banks to go below this level of capital, in order to use it as part of restructuring plans and for specific de-risking programmes.
- For example, sales of subsidiaries agreed as part of a restructuring plan would be accompanied by a reduction in the need to hold capital against that subsidiary.
 - Similarly, supervisory prescribed measures to increase provisions against asset classes may lead to a reduction in the nominal amount required, although at all times sufficient capital to absorb potential future losses should be conserved.
46. As part of their ongoing work to monitor capital under Pillar 2, consolidating supervisors shall take steps towards preserving capital to ensure i) a smooth convergence to the phased-in CRDIV/CRR regulatory requirements; ii) that the existing volume of actual capital is conserved during the phase-in.
47. Guidance will be provided by the EBA on the format of such capital plans and the method of assessment.
48. Banks will be expected to refrain from using capital for strategic purposes or dividend payments and variable remuneration unless they have agreed with their supervisors that such measures are compatible with the compliance of CRDIV/CRR capital plans. Assessments of the viability and progress of CRDIV/CRR capital plans should be coordinated at an EU level to ensure consistency and thus should be shared and discussed within colleges and with the EBA.
49. In considering their viability, capital plans they should be assessed in normal and stressed conditions. The EBA stress test exercises will ensure a coordinated and consistent oversight of this process.
50. The sovereign buffer will be considered separately. If circumstances change, it could be withdrawn.