Risk Assessment Questionnaire – Summary of the Results

Autumn 2019
Contents

Introduction 3
Summary of the main results 4
Banks’ questionnaire 7
1. Business model / strategy / profitability 7
2. Funding / liquidity 23
3. Asset volume trends 25
4. Asset composition & quality 27
5. Conduct, reputation and operational risk 33
6. FinTech 37
7. Sustainable Finance 39
8. General open question 41
Market analysts’ questionnaire 42
1. Business model / strategy / profitability 42
2. Funding / liquidity 50
3. Asset composition & quality 54
4. General Questions 60
5. General open question 63
Appendix: Risk Assessment Questionnaire for banks 64
Appendix: Risk Assessment Questionnaire for market analysts 65
Introduction

The EBA conducts semi-annual Risk Assessment Questionnaires (RAQs) among banks and market analysts. This booklet presents a summary of the responses to the RAQs carried out in Autumn 2019. The RAQ results are published together with the EBA’s quarterly Risk Dashboard (Q3 2019).

For this edition, 65 banks and 13 market analysts submitted their answers. The sample increased from 53 banks in Autumn 2018 edition and 38 banks in previous editions, resulting in a more balanced sample among countries and providing more representative results across EEA, with the inclusion of relatively smaller banks. This requires however caution in comparing results over time.

The results of the survey are presented in an aggregate form. The questionnaires, for both banks and analysts, can be found in the Appendices. The charts are numbered, with numbers corresponding to the questions in the distributed questionnaires. Answers to the same questions from former questionnaires may be presented where deemed relevant. For questions for which only one answer was permitted, any potential difference between the sum of shown responses and 100% is due to respondents answering either “n/a” or “no opinion”. In the summary of the main results most figures are rounded.

Should you wish to provide your feedback and/or comments on this booklet, please do not hesitate to do so by contacting rast@eba.europa.eu.
Against the backdrop of a deteriorating economic outlook and the prolonged very low interest rate environment, banks and analysts’ responses point to rather bleak outlook for banks’ profitability. Results of the survey indicate that in order to respond to this situation, banks are targeting operating expenses and fee and commission income.

On a positive note, the low interest rate environment has reduced concerns about pricing obstacles to MREL issuance. Similarly, the recent approval of revisions to the CRD V, CRR 2 and BRRD 2 (the “Banking Package”) seem to have reduced the percentage of banks citing regulatory uncertainty about MREL requirements as a concern.

Banks’ search for yield is reflected in the RAQ responses as banks expect to increase among others their SME and consumer lending portfolios. At the same time, banks and analysts appear increasingly pessimistic about asset quality developments, especially for CRE and SME exposures.

Banks and analysts have divergent views on the main drivers of operational risk. While banks point to cyber risk and data security, analysts identify money laundering and terrorist financing as well as conduct and legal risk as the main drivers.

**Business model / strategy / profitability**

- **The share of banks and analysts expecting a rise in profitability has further decreased.** The latest survey shows that only 20% of banks and 10% of analysts (compared to 25% and 20% in the spring RAQ, respectively) expect an overall increase in profitability in the next 6-12 months. The share of banks suggesting their current earnings are covering the cost of equity (CoE) has slightly increased (60% in Autumn 2019 compared to 55% in Spring 2019), which reflects the increasing, compared to last year, percentage of banks reporting a CoE below 8%, and those reporting an ability to operate in longer-term basis with a return on equity (RoE) of less than 10%. (*Questions 3, 4, 8 and 9 for banks and Question 1 for market analysts*)

- **Banks continue to point at operating expenses and net fee and commission income as priority areas they target to increase profitability.** Automation and digitalisation as well as reduction of overhead and staff cost are identified as the main means to trim operating expenses while payment and asset management services are targeted to increase fee income. (*Questions 5 and 6 for banks*)

- **Less than 30% of banks consider M&As as a way to increase profitability.** In line with previous questionnaires, banks identify cost and riskiness of such transactions as the main obstacle to M&As as well as the complexity of these operations. On the other hand, most of the analysts identify regulatory requirements as the main obstacle to such transactions. (*Question 2 and 7 for banks and Question 13 for market analysts*)
With regards to Brexit, 70% of analysts responded that they expect negative implications for the banking sector (down from 80% in spring RAQ). As in previous RAQs, banks are responding or plan to respond to Brexit-related risks mainly by ensuring access to EU-based financial market infrastructures and re-papering existing contracts (80% of the banks for both) and issuances of MREL eligible liabilities under the EU law (65% of the banks). (Question 11 for banks and Question 4 for market analysts)

Funding / liquidity

- Banks mainly intend to attain more senior non-preferred and Holding Company (HoldCo) debt (40%) as well as retail deposits (35%). These shares were rather stable compared to the previous survey (45% and 40%, respectively). Similarly, analysts expect more issuances of senior non-preferred and HoldCo debt. However, in contrast to banks, the percentage of analysts expecting more senior unsecured funding strongly increased to 45% (from 15% in the spring RAQ). (Question 13 for banks and Question 8 for market analysts)

- Banks’ concerns about MREL-eligible issuance have decreased. The percentage of banks pointing to pricing and uncertainty on required MREL amount as constraints for MREL-eligible issuance fell to 50% and 30% respectively (60% and 40% in the previous RAQ). However, the percentage of banks pointing to uncertainties about the eligibility of instruments remain at similar levels (35%). (Question 14 for banks)

Asset volume trends and asset quality

- SME financing, consumer credit, residential mortgage and corporate lending continue to be the portfolios most banks intend to grow in volumes. On the contrary, a heightened compared to other asset categories, albeit stable, percentage of banks plan to reduce their exposures to CRE, sovereign and asset finance. (Question 15 for banks)

- In comparison to the previous RAQ, the percentage of banks expecting a deterioration in asset quality increased for all portfolios except for asset finance exposures. The increase was the largest for SME lending (from 20% to 30%) and CRE lending (from 25% to 35%). In the same vein, the percentage of market analysts expecting a deterioration in SME lending and CRE lending significantly increased. In addition, more analysts also increasingly point to a deterioration in the quality of consumer credit. (Question 16 for banks and Question 10 for market analysts)

- Both banks and analysts agreed in referring to lengthy and expensive judiciary processes as the main impediment to resolve NPLs (60% of banks and 100% of market analysts, both around 70% in the spring RAQ). (Question 18 for banks and Question 11 for market analysts)
Conduct / reputation / operational risk

- The percentage of banks and analysts expecting an increase in operational risk remained roughly unchanged (55% in both cases). However, while banks identified cyber risk and data security as the main operational risk challenge (90%), analysts point to money laundering and terrorist financing, and to conduct and legal risk as the main sources of operational risk (70% of respondents in both cases). *(Question 22 for banks and Question 6 for market analysts)*

FinTech

- The most common and relevant forms of banks engagement with FinTech continue to be (1) the development of in-house their own products/services (85%) and (2) the establishment of commercial partnerships with non-bank FinTech firms/start-ups (80%). With regard to adopted technologies, 70% of banks use cloud computing, and more than 60% use digital or mobile wallets, big data analytics, biometrics and artificial intelligence. 30% of banks also responded that they are pilot-testing smart contracts and distributed ledger technology. *(Question 23 and 25 for banks)*

Sustainable Finance

- Energy-efficient mortgage loans are the most popular green product offered by banks. 80% of banks offer or plan to develop this product. Moreover, 50% of banks offer or plan to offer green commercial building loans. *(Question 26 for banks)*

- As regards funding, half of the banks responded that they had already issued green bonds (up from 40% in the previous RAQ), mainly in the form of green senior unsecured bonds (90%). 90% of the banks indicated the main reason for issuing green bonds is attracting new and diversified investors. *Pricing advantages were only highlighted by 10% of the respondents.* *(Questions 26 and 27 for banks)*

General open question

In the open question on perspective risks, banks and market analysts continue to point to central bank policies and the low interest rate environment along with global economic developments such as trade tensions and the macroeconomic outlook as the main sources of vulnerability for EU banks.
Banks’ questionnaire

1. Business model / strategy / profitability

Question 1: Autumn 2019 results

Q1: You envisage making material changes to your bank’s business model going forward?

- Agree
- Disagree
- No opinion

Q1b: If you agree with Q1:

- a) Due to increasing competition arising from banking disintermediation (e.g., FinTech, shadow banking...)
- b) Due to regulatory requirements on resolvability
- c) Due to internal strategies and planning
- d) Due to other reasons not mentioned here

Question 1: Comparison with earlier results

Q1: You envisage making material changes to your bank’s business model going forward?

- Spring 17
- Autumn 17
- Spring 18
- Autumn 18
- Spring 19
- Autumn 19

Appearance of graph showing percentage changes over time.
Question 2: Autumn 2019 results

Q2. What are the main obstacles to M&A (multiple choice question):

- a) Complexity
- b) Cost and riskiness of such transactions
- c) Cultural aspects
- d) Lack of transparency on asset quality of the potential partner
- e) Regulatory requirements and supervisory stance/assess ment view
- f) Lack of business case/opportunities
- g) No opinion

Q2b. If you agree with e) regulatory requirements:

i. From national waivers on liquidity and capital not being exercised
- 0% 10% 20% 30% 40% 50% 60% 70% 80% 90%

ii. From other regulatory requirements/supervisory stance/assessment/view
- 0% 10% 20% 30% 40% 50% 60% 70% 80% 90%
Question 2: Comparison with earlier results

Q2: What are the main obstacles to M&A (multiple choice question):

<table>
<thead>
<tr>
<th>Question</th>
<th>Spring 20</th>
<th>Autumn 20</th>
<th>Spring 20</th>
<th>Autumn 20</th>
<th>Spring 20</th>
<th>Autumn 20</th>
<th>Spring 20</th>
<th>Autumn 20</th>
<th>Spring 20</th>
<th>Autumn 20</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Complexity</td>
<td>30%</td>
<td>50%</td>
<td>40%</td>
<td>50%</td>
<td>40%</td>
<td>50%</td>
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<td>50%</td>
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<td>50%</td>
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<tr>
<td>b. Cost and niceness of such transactions</td>
<td>15%</td>
<td>25%</td>
<td>20%</td>
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<tr>
<td>c. Cultural aspect</td>
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<td>15%</td>
<td>10%</td>
<td>15%</td>
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<td>15%</td>
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<tr>
<td>d. Lack of transparency on state of the art</td>
<td>10%</td>
<td>15%</td>
<td>10%</td>
<td>15%</td>
<td>10%</td>
<td>15%</td>
<td>10%</td>
<td>15%</td>
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<td>15%</td>
</tr>
<tr>
<td>e. Regulatory requirements</td>
<td>20%</td>
<td>10%</td>
<td>20%</td>
<td>10%</td>
<td>20%</td>
<td>10%</td>
<td>20%</td>
<td>10%</td>
<td>20%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Q2b: If you agree with a) regulatory requirements:

<table>
<thead>
<tr>
<th>Question</th>
<th>Autumn 19</th>
<th>Spring 19</th>
<th>Autumn 19</th>
<th>Spring 19</th>
<th>Autumn 19</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. From national supervisors on liquidity and capital not being exercised</td>
<td>10%</td>
<td>15%</td>
<td>10%</td>
<td>15%</td>
<td>10%</td>
</tr>
<tr>
<td>ii. From other regulatory requirements/ supervisory stance/actions/view</td>
<td>20%</td>
<td>25%</td>
<td>20%</td>
<td>25%</td>
<td>20%</td>
</tr>
</tbody>
</table>
Risk Assessment Questionnaire (RAQ) – Summary of the results

Question 3: Autumn 2019 results

Q3 Your bank can operate on a longer-term basis with a return on equity (ROE):

- a) Below 8%
- b) Between 8% and 10%
- c) Between 10% and 12%
- d) Between 12% and 14%
- e) Above 14%

Question 3: Comparison with earlier results

Q3 Your bank can operate on a longer-term basis with a return on equity (ROE):
Question 4: Autumn 2019 results

Q4 You expect an overall increase in your bank's profitability in the next 6-12 months.

- Agree
- Somewhat agree
- Somewhat disagree
- Disagree
- No opinion

Question 4: Comparison with earlier results

Q4 You expect an overall increase in your bank's profitability in the next 6-12 months:

- Autumn 17
- Spring 18
- Autumn 18
- Spring 19
- Autumn 20
Question 5: Autumn 2019 results

Q5 You primarily target this area for increasing profitability in your bank in the next months (ranking according to priority with 1-High Priority and 4-Low Priority):  

- a) Net interest income  
- b) Net fees and Commissions income  
- c) Other operating income  
- d) Operating expenses / costs reduction  
- e) Impairments  
- f) Other

Q5b If you rank b) Net Fees and Commissions Income with (1) or (2), what is the main area to increase net fees and commission income?

- i. from payment services  
- ii. from asset management services  
- iii. from insurance products  
- iv. Investment banking fees  
- v. Other
Question 5: Comparison with earlier results

Q5a) You primarily target this area for increasing profitability in your bank in the next months

Q5b) If you rank b) Net Fees and Commissions Income with (1) or (2), what is the main area to increase net fees and commission income?
Question 6: Autumn 2019 results

Q6 You primarily aim to reduce operating expenses / costs through (multiple choice question)

- a) Overhead and staff costs reduction
- b) Outsourcing
- c) Off-shoring or near-shoring
- d) Reducing business activities (business lines and locations, incl. branches)
- e) Increasing automation and digitalisation
- f) Other

Question 6: comparison with earlier results

Q6 You are reducing operating expenses / costs through (multiple choice question)
Question 7: Autumn 2019 results

Q7 Are you considering M&A as a mean to improve profitability?

- Yes: [Bars]
- No: [Bars]
- No Opinion: [Bars]

Q7b if you agree with option a) are you potentially considering M&A transactions with/of

- i) Domestic credit institutions: [Bars]
- ii) Other EU/EEA credit institutions: [Bars]
- iii) Credit institutions based outside the EU/EEA: [Bars]
- iv) Fintech companies: [Bars]
- v) Others: [Bars]
Risk Assessment Questionnaire (RAQ) – Summary of the results

Question 8: Autumn 2019 results

Q8 Your current earnings are covering the cost of equity

<table>
<thead>
<tr>
<th>0%</th>
<th>10%</th>
<th>20%</th>
<th>30%</th>
<th>40%</th>
<th>50%</th>
<th>60%</th>
<th>70%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td></td>
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<tr>
<td>Disagree</td>
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</tbody>
</table>

Question 8: comparison with earlier results

Q8 Your current earnings are covering the cost of equity

- Spring 17
- Autumn 17
- Spring 18
- Autumn 18
- Spring 19
- Autumn 19

The results show an increase from Spring 17 to Autumn 19, with Autumn 19 having 58% of respondents agreeing.
Question 9: Autumn 2019 results

Question 9: comparison with earlier results
Question 10: Autumn 2019 results

Q10 Do you expect material adverse implications for your bank’s business from current political and economic developments?

- Agree
- Disagree
- No opinion

10b If you agree: which are the current international developments that mainly affect your bank’s business (multiple choice question):

- a) Brexit
- b) Economic and political challenges in EU member states
- c) Potential adverse developments in emerging market economies
- d) Resurgence of global protectionism
- e) Other adverse international trends
- g) Monetary policy of major central banks (e.g., ECB, Fed, BoE)
Question 10: comparison with earlier results

10b If you agree: which are the current international developments that mainly affect your bank’s business (multiple choice question):
Question 11: Autumn 2019 results

Q11 How have you responded / are you aiming to respond to current and future risks related to the UK withdrawal from the EU (Brexit)

- Relocation of business activities to the EU
- Establishment of new subsidiary or branch in the UK or EU
- Reduce exposure to UK counterparties
- Diversifying access to funding and becoming less reliant on UK wholesale funding market
- Re-papering existing contract (including derivatives) to EU entities
- Ensuring access to UK-based financial market infrastructures, including moving derivatives clearing to EU-based CCPs
- Issuing MREL eligible liabilities under the EU law or with contractual bail-in clauses
- Other

Question 11: comparison with earlier results
Question 12: Autumn 2019 results

Q12 Your bank is working on solutions for the replacement of IBOR benchmark rates (EURIBOR / Eonia, LIBORs etc.).

- Agree
- Disagree
- No opinion

Q12a If you agree: In which areas is your bank working on such solutions (multiple choice question):

- i. Related to new business (e.g. issuance of new funding instruments with variable rates referring to new / alternative risk free rates)
- ii. Related to existing business (e.g. preparing the change of existing contracts, replacing existing IBOR references to alternative ones)
- iii. Related to the bank’s internal operations, capabilities and systems (e.g. valuation models)

12b In which area would you currently see the biggest challenges and potentially the biggest risks in your preparations in view of the IBOR replacements?

- i. Related to existing business on the asset side (e.g. variable rate loans)
- ii. Related to existing funding (e.g. debt securities issued with variable rates)
- iii. Related to other existing instruments / business (e.g. derivatives)
- iv. Related to new business (e.g. newly issued debt securities, variable rate loans or derivatives)
- v. Related to changes in the bank’s internal operations, capabilities and systems (e.g. valuation models)
- vi. I would not see any big challenges / big risks related to the IBOR replacements
Question 12: comparison with earlier results

Q12 Your bank is working on solutions for the replacement of IBOR benchmark rates (EURIBOR / EONIA, LIBOR etc.)

100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%

Autumn 18
Spring 19
Autumn 19

97%

12a If you agree: In which areas is your bank working on such solutions:

1. Related to new funding (e.g. issuance of new funding instruments with variable rates reflecting new alternative risk free rates)
2. Related to existing business (e.g. preparing the change of existing contracts, including existing IBOR references to alternative rates)
3. Related to the bank’s internal operations, capabilities and systems (e.g. valuation models)

12b In which area would you currently see the biggest challenges and potentially the biggest risks in your preparations in view of the IBOR replacements?
2. Funding / liquidity

Question 13: Autumn 2019 result

Q13 You intend to attain more (multiple choice question):

- a) Senior unsecured funding
- b) Senior non-preferred / Senior HoldCo funding
- c) Subordinated debt including AT1/AT2
- d) Secured funding (covered bonds)
- e) Securitisations
- f) Deposits (from wholesale clients)
- g) Deposits (from retail clients)
- h) Central bank funding
- i) Short-term interbank funding
- j) CET1 instruments
- k) Not applicable

Question 13: comparison with earlier results

Q13 You intend to attain more (multiple choice question):
Question 14: Autumn 2019 results

Q14 Which are the main constraints to issue subordinated instruments eligible for MREL (multiple choice question)?

- a) Pricing (e.g. spread between MREL-eligible and MREL-ineligible instruments) - 50%
- b) No sufficient investor demand (e.g. these instruments are not attractive in risk-return considerations) - 40%
- c) No sufficient investor demand due to regulatory and supervisory uncertainty - 20%
- d) Uncertainty on required MREL amounts - 10%
- e) Uncertainty on eligibility of instruments for MREL - 10%

Question 14: comparison with earlier results

Q14 Which are the main constraints to issue subordinated instruments eligible for MREL (multiple choice question)?

- a) Pricing (e.g. spread between MREL-eligible and MREL-ineligible instruments) - 60%
- b) No sufficient investor demand (e.g. these instruments are not attractive in risk-return considerations) - 20%
- c) No sufficient investor demand due to regulatory and supervisory uncertainty - 10%
- d) Uncertainty on required MREL amounts - 10%
- e) Uncertainty on eligibility of instruments for MREL - 0%
- f) There are no constraints - 0%
3. Asset volume trends

Question 15: Autumn 2019 results

Q15 Which portfolios do you plan to increase/decrease in volume during the next 12 months? (multiple choice question)

- a) Commercial Real Estate
- b) SME
- c) Residential Mortgage
- d) Consumer Credit
- e) Corporate
- f) Trading
- g) Structured Finance
- h) Sovereign and institutions
- i) Project Finance
- j) Asset Finance (Shipping, Aircrafts etc.)
- k) Other

Increase
Decrease
Question 15: Comparison with earlier results

Q15a Which portfolios do you plan to increase in volume during the next 12 months? (multiple choice question)

Q15b Which portfolios do you plan to decrease in volume during the next 12 months? (multiple choice question)
4. Asset composition & quality

Question 16: Autumn 2019 results

Q16 Which portfolios do you expect to improve/deteriorate in asset quality in the next 12 months? (multiple choice question)

- a) Commercial Real Estate
- b) SME
- c) Residential Mortgage
- d) Consumer Credit
- e) Corporate
- f) Trading
- g) Structured Finance
- h) Sovereign and Institutions
- i) Project Finance
- j) Asset Finance (Shipping, Aircrafts etc.)
- k) Other

[Diagram showing the percentage of respondents expecting improvement and deterioration for each category]
Question 16: Comparison with earlier results

Q16a Which portfolios do you expect to improve in asset quality in the next 12 months? (multiple choice question)

Q16b Which portfolios do you expect to deteriorate in asset quality in the next 12 months? (multiple choice question)
Question 17: Autumn 2019 results

Q17 What are your most commonly applied strategies for NPL reduction? (multiple choice question)

- a) Hold and forbearance based strategies (i.e. holding NPLs and applying suitable workout strategies and forbearance options)
- b) Active portfolio reductions: sales (e.g. NPL portfolio transactions)
- c) Active portfolio reductions: NPL securitisations
- d) Change of type of exposure or collateral (e.g. foreclosure, debt to equity / debt to asset swaps, collateral substitution)
- e) Legal options (e.g. insolvency proceedings, out-of-court solutions)

Question 17: comparison with earlier results

Q17 What are your most commonly applied strategies for NPL reduction? (multiple choice question)
### Question 18: Autumn 2019 result

**Q18 What are the impediments to resolve non-performing loans? (multiple choice question)**

- a) Lack of capital
- b) Lack of qualified human resources
- c) Tax incentives to provision and write off NPLs
- d) Inefficient legal framework and judiciary process to resolve insolvency and enforce on collateral
- e) Lack of out-of-court tools for settlement of minor claims
- f) Lack of a market for NPLs/collaterals
- g) Lack of public or industry-wide defaulsance structure (bad bank)
- h) Other
- i) There is no impediment

**Q18b If you agree with option d)**

- i) Mainly due to lengthy duration of court procedures etc.
- ii) Mainly due to complexity of the process
- iii) Mainly due to expensive proceedings (also due to lack of out-of-court tools)
- iv) Mainly due to rules allowing postponement or delay of enforcing collateral
- v) Other
Question 18: comparison with earlier results

The chart shows the percentage of respondents who faced specific impediments to resolve non-performing loans over different quarters from Autumn 2017 to Autumn 2019. The impediments include:

- Lack of capital
- Lack of qualified human resources
- Inefficient legal framework and judiciary processes to resolve insolvency and enhance collateral
- Tax disincentives to provision and write-off NPLs
- Lack of out-of-court tools for settlement of minor claims
- Lack of a market for NPLs to tertiary entities
- Lack of public or regulatory wide defaulters structures
- Any other

The chart indicates the percentage of respondents facing each impediment in each quarter.
Question 19: Autumn 2019 results

Q19 What are the main drivers of the reduction in NPL levels during the past few years?
(please do not agree with more than 2 options)

- [ ] a) Accommodative macro environment (e.g. positive economic growth, decreasing unemployment)
- [ ] b) Investors' appetite (including due to low interest environment and search for yield)
- [ ] c) Development of secondary markets for NPLs (e.g. market entrance of service providers, establishment of NPL transaction platforms and introduction of securitisation laws or schemes)
- [ ] d) Efficiency of banks' NPL workout units and applied strategies for NPL reduction
- [ ] e) Changes to the legal framework (e.g. improved insolvency and foreclosure procedures and judicial system (e.g. out of court procedures, more judges))
- [ ] f) Other
5. Conduct, reputation and operational risk

Question 20: Autumn 2019 results

Question 20: comparison with earlier results
Question 21: Autumn 2019 results

Q21 Looking at your bank, you expect litigation and misconduct costs in the next 6-12 months:

- a) To be heightened
- b) To stay at current levels
- c) To decrease

Question 21: comparison with earlier results

Q21 Looking at your bank, you expect litigation and misconduct costs in the next 6-12 months:

- a) To be heightened
- b) To stay at current levels
- c) To decrease

Autumn 18 | Spring 19 | Autumn 19
---|---|---
a) To be heightened | 23% | 63%
b) To stay at current levels | 63% | 23%c) To decrease | 14% | 0%
Question 22: Autumn 2019 results

Q22 You see an increase in operational risk in your bank?

Agree

Disagree

Q22b If applicable, the main driver for increasing operational risk is (multiple choice question):

- a) Cyber risk and data security
- b) IT failures
- c) Outsourcing
- d) Regulatory initiatives
- e) Conduct and legal risk
- f) Geopolitical risk
- g) Organisational change
- h) Money laundering, terrorist financing and sanctions non-compliance
- i) Fraud
- j) Other
Question 22: comparison with earlier results

Q22: You see an increase in operational risk in your bank?

Q22b: If applicable, the main driver for increasing operational risks (multiple choice question):
6. FinTech

Question 23: Autumn 2019 results

Q23: What is your current form of engagement with FinTech?

- a) You form commercial partnerships (e.g., joint ventures) with non-bank FinTech firms/start-ups to offer new products/services
- b) You directly/indirectly invest in FinTech (e.g., venture capital)
- c) You launched a stand-alone digital-only bank
- d) You develop own products/services in-house using new technologies without cooperating with non-bank FinTech firms/start-ups
- e) You set-up/operate FinTech incubators/accelerators

Answer options: Agree, Disagree, No Opinion

Question 24: Autumn 2019 results

Q24 (a) Please indicate the amount spent (as %) in 2018 on the investment in non-bank FinTech firms/start-ups (e.g., acquisitions, participations, venture capital) as % of total equity investments?
Risk Assessment Questionnaire (RAQ) – Summary of the results

**Question 25: Autumn 2019 results**

*Question 24 b (1)* Please indicate the amount spent (as %) in 2018 on the total IT spending (e.g. IT upgrade/maintenance, automation, innovation) - as a % of "other administrative expenses" reported in FINREP 02.00

*Question 24 b (2)* Please indicate the amount spent (as %) in 2018 on the proportion allocated to digital innovation/new technologies?
7. Sustainable Finance

Question 26: Autumn 2019 results

Q26 Do you currently offer or plan to develop products and services based on:

- a. Green mortgages and energy efficient mortgages
- b. Green commercial building loans
- c. Green car loans, e.g. preferential loans to encourage the purchase of cars that demonstrate high fuel efficiency
- d. Green cards, e.g. debit and credit cards linked to environmental activities
- e. Other types of green loans for retail customers
- f. Not applicable
Question 27: Autumn 2019 results

Q27 Have you already issued a green bond?

Yes
No

Q27a If yes, what are the main reasons? (multiple choice question)

a) Attracting new and/or diversified investors
b) Pricing advantage
c) Reputational benefits
d) Other

Q27b If yes, in which form?

a) Green securitisation bond
b) Green covered bond
c) Green ordinary bond

Q27c If not, what are the main reasons? (multiple choice question)

a) Lack of definition of what is green
b) Insufficient transparency and data quality issue
c) Increased costs and no pricing advantage in green bonds
d) Lack of investor appetite
8. General open question

Q26 Looking at the EU banking sector, if you expect other sources of risk or vulnerabilities to increase further in the next 6-12 months, please indicate them.

- Central bank policy, low interest rate environment
- Political risk within the EU (e.g. Brexit)
- Regulatory impact (MiFID II, TLAC, consumer protection, prudential provisioning, NPLs, etc.)
- Geopolitical developments (e.g. growth, China, protectionism, trade wars, competition)
- Cyber risk, Fintechs, shadow banking and conduct risk
Market analysts’ questionnaire

1. Business model / strategy / profitability

Question 1: Autumn 2019 results

Q1 Short term earnings expectations for banks are:

- a) Overall profitability will improve
- b) Overall cost efficiency will improve
- c) Total revenues will increase
- d) Net interest margin will increase
- e) Provisions/Impairments will increase
- f) No change expected in any of the above categories

Question 1: Comparison with earlier results
Risk Assessment Questionnaire (RAQ) – Summary of the results

Question 2: Autumn 2019 results

Q2: The current market sentiment is positively influenced by the following factors (multiple choice question):

- Adjustments in business models and strategies with expectations of effective delivery (65%)
- Improved risk metrics for banks (capital, funding, liquidity, asset quality, etc.) (62%)
- Stronger earnings (62%)
- Changing governance and risk culture (incl. lower risk appetite) (51%)
- Improved market sentiment due to regulatory and policy steps (OE, ESM, banking union, finalization of Basel III, etc.) adjusting downward tail risk (54%)
- Regulatory easing through competition between countries/ regions? (82%)
- Expectation of increasing benchmark interest rates (82%)
- More transparency and visibility in banks’ financial disclosures, such as Pillar 3 (68%)
- Macroeconomic fundamentals (82%)

Question 2: comparison with earlier results

Q2: The current market sentiment is positively influenced by the following factors (multiple choice question):

- Adjustments in business models and strategies with expectations of effective delivery
- Improved risk metrics for banks (capital, funding, liquidity, asset quality, etc.)
- Stronger earnings
- Changing governance and risk culture (incl. lower risk appetite)
- Improved market sentiment due to regulatory and policy steps (OE, ESM, banking union, finalization of Basel III, etc.) adjusting downward tail risk
- Regulatory easing through competition between countries/ regions?
- Expectation of increasing benchmark interest rates
- More transparency and visibility in banks’ financial disclosures, such as Pillar 3
- Macroeconomic fundamentals
Question 3: Autumn 2019 results

Q3 The current market sentiment is negatively influenced by the following factors (multiple choice question):

- a) Monetary policy divergence between the EU and other countries
- b) Monetary policy trends in the EU
- c) Emerging market risks (e.g., fast decrease in asset quality, higher volatility of asset and FX markets in emerging countries, capital outflow)
- d) IT/cyber risks
- e) Litigation risks of banks
- f) Decreasing market liquidity
- g) Risks of increasing volatility, e.g., in FX and financial markets
- h) Asset re-pricing
- i) Re-emergence of the Eurozone crisis
- j) Regulatory and supervisory uncertainty: risk weights (for credit, market and operational risks, TRIM and similar effects, BRRD/MREL/TLAC)
- k) Regulatory easing through competition between countries / regions
- l) Commodity and energy prices / markets
- m) Geopolitical risks and political uncertainty in the EU (Realization of the Banking Union, regional independence etc.)
- n) Geopolitical risks and political uncertainty outside the EU
- o) Uncertainties about the implications of the UK’s decision to leave the EU
Question 3: The current market sentiment is negatively influenced by the following factors (multiple choice question):

- 62% agreed on the importance of the [factor or question not specified]
- 54% agreed on the importance of the [factor or question not specified]
- 46% agreed on the importance of the [factor or question not specified]
- 34% agreed on the importance of the [factor or question not specified]
- 28% agreed on the importance of the [factor or question not specified]
- 22% agreed on the importance of the [factor or question not specified]
- 18% agreed on the importance of the [factor or question not specified]
- 14% agreed on the importance of the [factor or question not specified]
- 10% agreed on the importance of the [factor or question not specified]
- 6% agreed on the importance of the [factor or question not specified]
- 2% agreed on the importance of the [factor or question not specified]
Question 4: Autumn 2019 results

Q4 Do you expect negative implications on the European Banking Sector due to the uncertainties about future relations between the EU 27 and the UK?

- Agree
- Disagree
- No opinion

Question 4: comparison with earlier results

Q4 Do you expect negative implications on the European Banking Sector due to the uncertainties about future relations between the EU 27 and the UK?
### Question 5: Autumn 2019 results

<table>
<thead>
<tr>
<th>Agreement</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>20%</td>
</tr>
<tr>
<td>Disagree</td>
<td>40%</td>
</tr>
<tr>
<td>No Opinion</td>
<td>40%</td>
</tr>
</tbody>
</table>

**Q5 Looking at the EU banking sector, you expect heightened litigation costs in the next 6-12 months?**

### Question 5: comparison with earlier results

**Q5 Looking at the EU banking sector, you expect heightened litigation costs in the next 6-12 months?**

- Autumn 17: 10%
- Spring 18: 15%
- Autumn 18: 45%
- Spring 19: 55%
- Autumn 20: 35%

Graph showing the trend over time from Autumn 17 to Autumn 20.
Question 6: Autumn 2019 results

Q6 You see an increase in EU banks’ operational risk?

- Agree
- Disagree
- No Opinion

Q6b If applicable, the main driver for increasing operational risk is (multiple choice question):

a) Cyber risk and data security
b) IT failures
c) Outsourcing
d) Regulatory initiatives
e) Conduct and legal risk
f) Geopolitical risk
g) Organisational change
h) Money laundering, terrorist financing and sanctions non-compliance
i) Fraud
j) Other
Question 6: comparison with earlier results

Q6 You see an increase in EU banks’ operational risk?

Q6b If applicable, the main driver for increasing operational risk is (multiple choice):

d) Cyber risk and data security
f) IT failures
i) Outsourcing
j) Regulatory initiatives
l) Conduct and tepid risk
m) Operational risk
p) Organisational change
b) Money laundering, terrorist financing and sanctions non-compliance
2. Funding / liquidity

Question 7: Autumn 2019 results

Q7 Do you expect that banks will be able to meet their subordinated debt instruments issuance plans during the next 12 months?

- a. Banks will be able to issue BRRD / MREL / TLAC eligible debt instruments
- b. Banks will be able to issue AT1 instruments
- c. Banks will be able to issue Tier 2 instruments

Q7b If you agree or somewhat agree with above: Do you expect increasing costs for such issuances compared to last year?

- i. For BRRD / MREL / TLAC eligible debt instruments
- ii. For AT1 instruments
- iii. For Tier 2 instruments
Question 7: comparison with earlier results

Q7 Do you expect that banks will be able to meet their subordinated debt instruments issuance plans during the next 12 months?

Q7b If you agree or somewhat agree with above: Do you expect increasing costs for such issuances compared to last year?
Question 8: Autumn 2019 results

Q8 You expect banks to attain more (multiple choice question):

- a) Senior unsecured funding
- b) Senior non-preferred/Senior HoldCo funding
- c) Subordinated debt (including AT1/AT2)
- d) Secured funding (e.g., covered bonds)
- e) Securitisation
- f) Deposits (from wholesale clients)
- g) Deposits (from retail clients)
- h) Central Bank funding
- i) Short term interbank funding
- j) CET3 instruments
Question 8: comparison with earlier results
3. Asset composition & quality

Question 9: Autumn 2019 results

Q9 Portfolios you expect to increase/decrease in volumes during the next 12 months (on a net basis, multiple choice question):

- a. Commercial Real Estate
- b. SME
- c. Residential Mortgage
- d. Consumer Credit
- e. Corporate
- f. Trading
- g. Structured Finance
- h. Sovereign and Institutions
- i. Project Finance
- j. Asset Finance (Shipping, Aircrafts etc.)
Question 9: comparison with earlier results

Q9a Portfolios you expect to increase in volumes during the next 12 months (on a net basis, multiple choice question):

Q9b Portfolios you expect to decrease in volumes during the next 12 months (on a net basis, multiple choice question):
Question 10: Autumn 2019 results

Q10: For which sectors do you expect an improvement/deterioration in asset quality in the following 12 months?

- a. Commercial Real Estate
- b. SME
- c. Residential Mortgage
- d. Consumer Credit
- e. Corporate
- f. Trading
- g. Structured Finance
- h. Sovereign and Institutions
- i. Project Finance
- j. Asset Finance (Shipping, Aircrafts etc.)

Improvement | Deterioration
**Question 10: comparison with earlier results**

Q10a For which sectors do you expect an improvement in asset quality in the following 12 months?

Q10b For which sectors do you expect a deterioration in asset quality in the following 12 months?
Risk Assessment Questionnaire (RAQ) – Summary of the results

Question 11: Autumn 2019 results

Q11. What are the impediments for banks to resolve their non-performing loans (multiple choice question):

- a) Lack of capital
- b) Lack of qualified human resources
- c) Tax disincentives to provision and write off NPLs
- d) Lengthy and expensive judiciary process to resolve insolvency and enforce on collateral
- e) Lack of out-of-court tools for settlement of minor claims
- f) Lack of a market for NPLs/collaterals
- g) Lack of public or industry-wide defaillance structure (bad bank)
- h) Other
- i) There is no impediment

Question 11: comparison with earlier results
Question 12: Autumn 2019 results

Q12 What are the main drivers of the reduction in NPL levels during the past few years? (multiple choice)

<table>
<thead>
<tr>
<th>Option</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Accommodative macroenvironment (e.g., positive economic growth, decreasing unemployment)</td>
<td>80%</td>
</tr>
<tr>
<td>b) Investors’ appetite (including due to low interest environment and search for yield)</td>
<td>70%</td>
</tr>
<tr>
<td>c) Development of secondary markets for NPLs (e.g., market entrance of servicers, establishment of NPL transaction platforms and introduction/update in securitisation laws or schemes)</td>
<td>60%</td>
</tr>
<tr>
<td>d) Efficiency of banks’ NPL workout units and applied strategies for NPL reduction</td>
<td>40%</td>
</tr>
<tr>
<td>e) Changes to the legal framework (e.g., improved insolvency and foreclosure procedures) and judicial system (e.g., out of court procedures, more judges)</td>
<td>20%</td>
</tr>
<tr>
<td>f) Other</td>
<td>0%</td>
</tr>
</tbody>
</table>
4. General Questions

Question 13: Autumn 2019 results

Q13 What are the main obstacles to M&A (multiple choice question)?

- a) Complexity
- b) Cost and riskiness of such transactions
- c) Cultural aspect
- d) Lack of transparency or asymmetric quality of the potential partners
- e) Regulatory requirements and supervisory stance/actions/view
- f) Lack of business cases/opportunities
- g) No opinion

Q13b If you agree with e) Regulatory requirements and supervisory stance/actions/view

- i. From national waivers on liquidity and capital not being exercised
- ii. From other regulatory requirements/supervisory stance/actions/view
Question 13: Autumn 2019 results

Q13 What are the main obstacles to M&A (multiple choice question)?

Q13b If you agree with e) Regulatory requirements and supervisory stance/actions/view

- From national laws on liquidity and capital not being exercised
- From other regulatory requirements/supervisory stance/actions/view
Question 14: Autumn 2019 results

Q14 You expect that the proportion of green products / investments (asset and liability side) in banks overall product / investment portfolios in the coming year will:

- Increase Rapidly
- Increase Slowly
- Stay Steady
- Decrease Slowly
- Decrease Rapidly

Question 14: comparison with earlier results

Q14 You expect that the proportion of green products / investments (asset and liability side) in banks overall product / investment portfolios in the coming year will:

- Decrease Rapidly
- Decrease Slowly
- Increase Rapidly
- Increase Slowly
- Stay Steady
## 5. General open question

Q14 Looking at the EU banking sector, if you expect other sources of risks or vulnerabilities to increase further in the next 6-12 months, please indicate them.

<table>
<thead>
<tr>
<th>Source of Risks</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central bank policy, low interest rate environment</td>
<td>40%</td>
</tr>
<tr>
<td>Poliozymes within the EU (e.g. Brexit)</td>
<td>20%</td>
</tr>
<tr>
<td>Regulatory risks (MREL, TLAC consumer protection, prudential provisioning, NPLs, etc.)</td>
<td>10%</td>
</tr>
<tr>
<td>Economic developments (e.g. growth, China, Protectionism, trade wars, competition)</td>
<td>50%</td>
</tr>
</tbody>
</table>

0% 10% 20% 30% 40% 50% 60%
Appendix: Risk Assessment Questionnaire for banks

[added on the following pages]
Risk Assessment Questionnaire for Banks
Autumn 2019

Fields marked with * are mandatory.

Respondent information

* First Name

* Last Name

* Position

* Division

* Financial Institution

* Country

* Email address

Business model/strategy/profitability
For the purposes of this survey, business model relates to the business mix underpinning the capacity of a bank to preserve and grow sustainable and predictable risk-adjusted earnings in markets and sectors in which it maintains a material presence. In view of this:

• Q1 You envisage making material changes to your bank’s business model going forward.
  - Agree
  - Disagree
  - No Opinion

If you agree:
  - a) Mainly due to increasing competition arising from banking disintermediation (e.g. FinTech, shadow banking, infrastructure finance by insurance companies)
  - b) Mainly due to regulatory requirements on resolvability
  - c) Mainly due to internal strategies and planning
  - d) Mainly due to other reasons not mentioned here

• Q2 What are the main obstacles to M&A? (please do not agree with more than 2 options): at most 2 choice(s)
  - a) Complexity
  - b) Cost and riskiness of such transactions
  - c) Cultural aspects
  - d) Lack of transparency on asset quality of the potential partners
  - e) Regulatory requirements and supervisory stance/actions/view
  - f) Lack of business cases/opportunities
  - g) No Opinion

If you agree with e)
  - i. Mainly from national waivers on liquidity and capital not being exercised
  - ii. Mainly from other regulatory requirements / supervisory stance/actions/view
  - iii. Other

• Q3 Your bank can operate on a longer-term basis with a return on equity (ROE):
  - a) Below 8%.
  - b) Between 8% and 10%.
  - c) Between 10% and 12%
  - d) Between 12% and 14%
  - d) Above 14%

• Q4 You expect an overall increase in your bank’s profitability in the next 6-12 months:
  - Agree
  - Somewhat Agree
Q5 You primarily target this area for increasing profitability in your bank in the next months (ranking according to priority with 1-High Priority and 4-Low Priority):

<table>
<thead>
<tr>
<th>Area</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Net interest income</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
</tr>
<tr>
<td>b) Net Fees and Commissions income</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
</tr>
<tr>
<td>c) Other operating income</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
</tr>
<tr>
<td>d) Operating expenses / costs reduction</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
</tr>
<tr>
<td>e) Impairments</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
</tr>
<tr>
<td>f) Other</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
<td>⬜</td>
</tr>
</tbody>
</table>

*If you rank b) with (1) or (2), what is the main area to increase net fees and commission income? (please do not agree with more than 2 options)

at most 2 choice(s)

- i. From payment services
- ii. From asset management services
- iii. From insurance products
- iv. Investment banking fees
- v. Other

Q6 You primarily aim to reduce operating expenses / costs through (please do not agree with more than 3 options):

at most 3 choice(s)

- a) Overhead and staff costs reduction
- b) Outsourcing
- c) Off-shoring or near-shoring
- d) Reducing business activities
- e) Increasing automatisation and digitilisation
- f) Other

Q7 Are you considering M&A as a mean to improve profitability?

- a) Yes
- b) No
- c) No Opinion

If you agree with option a) are you potentially considering M&A transactions with/of:

at least 1 choice(s)

- i) Domestic credit institutions
- ii) Other EU/EEA credit institutions
iii) Credit institutions based outside the EU/EEA
iv) Fintech companies
v) Others

Q8 Your current earnings are covering the cost of equity (CoE):
- Agree
- Disagree
- No Opinion

Q9 You estimate your CoE at:
- a) Below 6%
- b) Between 6% and 8%
- c) Between 8% and 10%
- d) Between 10% and 12%
- e) Above 12%

Q10 Do you expect material adverse implications for your bank’s business from current political and economic developments?
- Agree
- Disagree
- No Opinion

If you agree: which are the current international developments that mainly affect your bank’s business (please do not agree with more than 2 options):

- a) Brexit
- b) Economic and political challenges in EU member states
- c) Potential adverse developments in emerging market economies
- d) Resurgence of global protectionism
- e) Other adverse international trends
- g) Monetary policy of major central banks (e.g. ECB, Fed, BoE)

Q11 How have you responded / are you aiming to respond to current and future risks related to the UK withdrawal from the EU (Brexit)?

<table>
<thead>
<tr>
<th>Risk Description</th>
<th>Agree</th>
<th>Somewhat agree</th>
<th>Somewhat disagree</th>
<th>Disagree</th>
<th>No Opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td>* a) Relocation of business activities to the EU</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>* b) To establish new subsidiary or branch in the UK or EU</td>
<td></td>
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<tr>
<td>* c) Reduce exposure to UK counterparties</td>
<td></td>
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</tr>
<tr>
<td>Q12 Preparations in view of the replacements of IBOR based reference rates and implementation of alternative risk free reference rates:</td>
<td></td>
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<tr>
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</tr>
<tr>
<td>a) Your bank is working on solutions for the replacement of IBOR benchmark rates (EURIBOR / EONIA, LIBORs etc.).</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agree</td>
<td>Disagree</td>
<td>No Opinion</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>b) In which area would you currently see the biggest challenges and potentially the biggest risks in your preparations in view of IBOR replacements?</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Agree</td>
<td>Somewhat Agree</td>
<td>Somewhat Disagree</td>
<td>Disagree</td>
<td>No Opinion</td>
<td></td>
</tr>
<tr>
<td>i. Related to existing business on the asset side (e.g. variable rate loans)</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>ii. Related to existing funding (e.g. debt securities issued with variable rates)</td>
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<td></td>
</tr>
</tbody>
</table>
- iii. Related to other existing instruments / business (e.g. derivatives)
- iv. Related to new business (e.g. newly issued debt securities, variable rate loans or derivatives)
- v. Related to changes in the bank’s internal operations, capabilities and systems (e.g. valuation models)
- vi. Do not see any big challenges / big risks related to the IBOR replacements.

## Funding/liquidity

**Q13 You intend to attain more (please do not agree with more than 2 options):**

*at most 2 choice(s)*

- a) Senior unsecured funding
- b) Senior non-preferred / Senior HoldCo funding
- c) Subordinated debt including AT1/T2
- d) Secured funding (covered bonds)
- e) Securitisations
- f) Deposits (from wholesale clients)
- g) Deposits (from retail clients)
- h) Central Bank funding
- i) Short-term interbank funding
- j) CET1 instruments
- k) Not applicable

**Q14 Which are the main constraints to issue subordinated instruments eligible for MREL (please do not agree with more than 2 options)?**

*at most 2 choice(s)*

- a) Pricing (e.g. spread between MREL-eligible and MREL-ineligible instruments)
- b) No sufficient investor demand (e.g. these instruments are not attractive in risk-return considerations)
- c) No sufficient investor demand (due to regulatory and supervisory uncertainty)
- d) Uncertainty on required MREL amounts
- e) Uncertainty on eligibility of instruments for MREL
- f) There are no constraints

## Asset volume trends

Q15 Which portfolios do you plan to increase/decrease in volume during the next 12 months?
<table>
<thead>
<tr>
<th>*</th>
<th>a) Commercial Real Estate (including all types of real estate developments)</th>
<th>Increase</th>
<th>Decrease</th>
<th>No Opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td>*</td>
<td>b) SME</td>
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<tr>
<td>*</td>
<td>c) Residential Mortgage</td>
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<tr>
<td>*</td>
<td>d) Consumer Credit</td>
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<tr>
<td>*</td>
<td>e) Corporate</td>
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<td></td>
</tr>
<tr>
<td>*</td>
<td>f) Trading</td>
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<tr>
<td>*</td>
<td>g) Structured Finance</td>
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<td>*</td>
<td>h) Sovereign and institutions</td>
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<tr>
<td>*</td>
<td>i) Project Finance</td>
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<tr>
<td>*</td>
<td>j) Asset Finance (Shipping, Aircrafts etc.)</td>
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<tr>
<td>*</td>
<td>k) Other</td>
<td></td>
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</tbody>
</table>

### Asset composition & quality

**Q16 Which portfolios do you expect to improve/deteriorate in asset quality in the next 12 months?**

<table>
<thead>
<tr>
<th>*</th>
<th>a) Commercial Real Estate (including all types of real estate developments)</th>
<th>Improve</th>
<th>Deteriorate</th>
<th>No Opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td>*</td>
<td>b) SME</td>
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<tr>
<td>*</td>
<td>c) Residential Mortgage</td>
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<td>*</td>
<td>d) Consumer Credit</td>
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<td>*</td>
<td>e) Corporate</td>
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<tr>
<td>*</td>
<td>f) Trading</td>
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<tr>
<td>*</td>
<td>g) Structured Finance</td>
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<td>*</td>
<td>h) Sovereign and institutions</td>
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<tr>
<td>*</td>
<td>i) Project Finance</td>
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<tr>
<td>*</td>
<td>j) Asset Finance (Shipping, Aircrafts etc.)</td>
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<td>*</td>
<td>k) Other</td>
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</tbody>
</table>
**Q17 What are your most commonly applied strategies for NPL reduction (please do not agree with more than 2 options)?**

*at most 2 choice(s)*
- a) Hold and forbearance based strategies (i.e. holding NPLs and applying suitable workout strategies and forbearance options)
- b) Active portfolio reductions: sales (e.g. NPL portfolio transactions)
- c) Active portfolio reductions: NPL securitisations
- d) Change of type of exposure or collateral (e.g. foreclosure, debt to equity / debt to asset swaps, collateral substitution)
- e) Legal options (e.g. insolvency proceedings, out-of-court solutions)

**Q18 What are the main impediments to resolve non-performing loans (please do not agree with more than 3 options):**

*at most 3 choice(s)*
- a) Lack of capital
- b) Lack of qualified human resources
- c) Tax incentives to provision and write off NPLs
- d) Inefficient legal framework and judiciary process to resolve insolvency and enforce on collateral
- e) Lack of out-of-court tools for settlement of minor claims
- f) Lack of market for NPLs/collaterals
- g) Lack of public or industry-wide defeasance structure (bad bank)
- h) Other
- i) There is no impediment

- d) Inefficient legal framework and judiciary process to resolve insolvency and enforce on collateral

*at most 2 choice(s)*
- i) Mainly due to lengthy duration (due to rules allowing postponement or delay of enforcing collateral)
- ii) Mainly due to complexity of the process
- iii) Mainly due to expensive proceedings (also due to lack of out-of-court tools)
- iv) Mainly due to rules allowing postponement or delay of enforcing collateral
- v) Other

**Q19 What are the main drivers of the reduction in NPL levels during the past few years? (please do not agree with more than 2 options)**

*at most 2 choice(s)*
- a) Accommodative macroenvironment (e.g. positive economic growth, decreasing unemployment)
- b) Investors’ appetite (including due to low interest rate environment and search for yield)
- c) Development of secondary markets for NPLs (e.g. market entrance of servicers, establishment of NPL transaction platforms and introduction/update in securitisation laws or schemes)
- d) Efficiency of banks’ NPL workout units and applied strategies for NPL reduction
- e) Changes to the legal framework (e.g. improved insolvency and foreclosure procedures) and judicial system (e.g. out of court procedures, more judges)
- f) Other

**Conduct, Reputational and Operational risk**
• Q20 Since the end of the Financial Year 2007/8, your firm has paid out in the form of compensation, redress, litigation and similar payments [converted to EUR] an aggregate amount of:
  - a) Below EUR 100m.
  - b) Between EUR 100m and EUR 500m.
  - c) Between EUR 500m and EUR 1bn.
  - d) Between EUR 1bn and EUR 5bn.
  - e) Between EUR 5bn and EUR 10bn.
  - f) Between EUR 10bn and EUR 20bn.
  - g) More than EUR 20bn

• Q21 Looking at your bank, you expect litigation and misconduct costs in the next 6-12 months
  - a) To be heightened
  - b) To stay at current levels
  - c) To decrease

• Q22 You see an increase in operational risk in your bank.
  - Agree
  - Disagree
  - No Opinion

• If applicable, the main driver for increasing operational risk is (please do not agree with more than 3 options):
  at most 3 choice(s)
  - a) Cyber risk and data security
  - b) IT failures
  - c) Outsourcing
  - d) Regulatory initiatives
  - e) Conduct and legal risk
  - f) Geopolitical risk
  - g) Organisational change
  - h) Money laundering, terrorist financing and sanctions non-compliance
  - i) Fraud
  - j) Other

**FinTech**

*Please note that for the purposes of this questionnaire FinTech is defined as ‘Technologically enabled financial innovation that could result in new business models, applications, processes, or products with an associated material effect on financial markets and institutions and the provision of financial services’ (Financial Stability Board).

Q23 What is your current form of engagement with FinTech*?

<table>
<thead>
<tr>
<th>Agree</th>
<th>Disagree</th>
<th>No opinion</th>
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<tbody>
<tr>
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</tbody>
</table>
• a) You form commercial partnerships (e.g. joint ventures) with non-bank FinTech firms/start-ups to offer new products/services

• b) You directly/indirectly invest in FinTech (e.g. venture capital):
  (1) digital-only/challenger banks
  (2) non-bank FinTech firms/start-ups

• c) You launched a stand-alone digital-only bank

• d) You develop own products/services in-house using new technologies without cooperating with non-bank FinTech firms/start-ups

• e) You set-up/sponsor FinTech incubators/accelerators

**Q24 Please indicate the amount spent (as %) in 2018 on the following:**

• a) Investment in non-bank FinTech firms/start-ups (e.g. acquisitions, participations, venture capital) - as a % of total equity investments

  *Only values of at least 0 are allowed*

  %

• b(1). Total IT spending (e.g. IT upgrade/maintenance, automation, innovation) - as a % of ‘Other administrative expenses’ reported in FINREP F02.00 (row 380)

  %

• b) 2). What proportion of b(1) was allocated to digital innovation/new technologies?

  %

**Q25 What is the level of involvement of your institution with the application of the following technologies?**

<table>
<thead>
<tr>
<th></th>
<th>In use / launched</th>
<th>Pilot testing</th>
<th>Under development</th>
<th>Under discussion</th>
<th>No activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Cloud computing</td>
<td></td>
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<tr>
<td>b) Digital/Mobile wallets</td>
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<tr>
<td>c) Distributed Ledger Technology</td>
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<td>d) Big Data analytics (defined as the use of advanced analytic techniques such as machine learning, against very large, diverse data sets from different sources, and in different sizes.)</td>
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<tr>
<td>e) Biometrics</td>
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</tbody>
</table>
Sustainable Finance

**Q26 Do you currently offer or plan to develop products and services based on:**
- [ ] a) Green mortgages and energy-efficient mortgages
- [ ] b) Green commercial building loans
- [ ] c) Green car loans, e.g. preferential loans to encourage the purchase of cars that demonstrate high fuel efficiency
- [ ] d) Green cards, e.g. debit and credit cards linked to environmental activities
- [ ] e) Other types of green loans for retail customers
- [ ] f) Not applicable

**Q27 Have you already issued a green bond?**
- [ ] Yes
- [ ] No

**Q27a If yes, what are the main reasons? (please do not select more than 2 options)?**
*at most 2 choice(s)*
- [ ] a) Attracting new and/or diversified investors
- [ ] b) Pricing advantage
- [ ] c) Reputational benefits
- [ ] d) Other

**Q27b If yes, in which form?**
- [ ] a. Green securitisation bond
- [ ] b. Green covered bond
- [ ] c. Ordinary Green bond

**Q27a If not, what are the main reasons? (please do not agree with more than 2 options)?**
*at most 2 choice(s)*
- [ ] a) lack of definition of what is green
- [ ] b) insufficient transparency and data quality issue
- [ ] c) increased costs and no pricing advantage in green bonds
- [ ] d) lack of investor appetite
- [ ] e) other

General issues

*
Q28 Looking at the EU banking sector, you expect other sources of risk or vulnerabilities to increase further in the next 6-12 months. Please indicate possible additional sources of risks and vulnerabilities.
Appendix: Risk Assessment Questionnaire for market analysts

[added on the following pages]
Risk Assessment Questionnaire for Market Analysts
Autumn 2019

Fields marked with * are mandatory.

Respondent information

• First Name

• Last Name

• Position

• Division

• Company

• Email address

Please select your choice for every box.
Your response should reflect the degree of agreement to the statement made.

A. Business model/strategy/profitability
Q1 Short term earnings expectations for banks are:

<table>
<thead>
<tr>
<th></th>
<th>Agree</th>
<th>Somewhat agree</th>
<th>Somewhat disagree</th>
<th>Disagree</th>
<th>No Opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Overall profitability will improve</td>
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<td></td>
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<tr>
<td>b) Overall cost efficiency will improve</td>
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<td>c) Total revenues will increase</td>
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<td>d) Net interest margin will increase</td>
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<tr>
<td>e) Provisions/Impairments will increase</td>
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<td>f) No change expected in any of the above categories</td>
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</tbody>
</table>

• Q2 The current market sentiment for banks is positively influenced by the following factors (please do not agree with more than 3 options):

  at most 3 choice(s)
  - a) Adjustments in business models and strategies with expectations of effective delivery
  - b) Improved risk metrics for banks (capital, funding, liquidity, asset quality).
  - c) Stronger earnings
  - d) Changing governance and risk culture (incl. lower risk appetite)
  - e) Improved market sentiment due to regulatory and policy steps (QE, ESM, banking union, finalisation of Basel III, etc.) adjusting downward tail risk.
  - f) Regulatory easing through competition between countries / regions
  - g) Expectation of increasing benchmark interest rates
  - h) More transparency and visibility in banks’ financial disclosures, such as Pillar 3
  - i) Macroeconomic fundamentals

• Q3 The current market sentiment for banks is negatively influenced by the following factors (please do not agree with more than 4 options):

  at most 4 choice(s)
  - a) Monetary policy divergence between the EU and other countries
  - b) Monetary policy trends in the EU
  - c) Emerging market risks (e.g. fast decrease in asset quality, higher volatility of asset and FX markets in emerging countries, capital outflows)
  - d) IT/cyber risks
  - e) Litigation risks of banks
  - f) Decreasing market liquidity
  - g) Risks of increasing volatility, e.g. in FX and financial markets
  - h) Asset re-pricing
  - i) Re-emergence of the Eurozone crisis
  - j) Regulatory and supervisory uncertainty: risk weights for credit, market and operational risks, TRIM and similar effects, BRDD/MREL/TLAC
  - k) Regulatory easing through competition between countries / regions
l) Commodity and energy prices / markets
m) Geopolitical risks and political uncertainty in the EU (finalisation of the Banking Union, regional independence etc.)
n) Geopolitical risks and political uncertainty outside the EU (incl. resurgence of protectionism, currency tensions, elections, political instability, conflicts or standstill in emerging and developed countries)
o) Uncertainties about the implications of the UK’s decision to leave the EU

**Q4 Do you expect negative implications on the European Banking Sector due to the uncertainties about future relations between the EU 27 and the UK?**
- Yes
- No
- No Opinion

**Q5 Looking at the EU banking sector, you expect heightened litigation costs in the next 6-12 months:**
- Agree
- Disagree
- No Opinion

**Q6 You see an increase in EU banks' operational risk.**
- Agree
- Disagree
- No Opinion

*If applicable, the main driver for increasing operational risk is (please do not agree with more than 3 options):*

- a) Cyber risk and data security
- b) IT failures
- c) Outsourcing
- d) Regulatory initiatives
- e) Conduct and legal risk
- f) Geopolitical risk
- g) Organisational change
- h) Money laundering, terrorist financing and sanctions non-compliance
- i) Fraud
- j) Other

**B. Funding/liquidity**

**Q7 Do you expect that banks will be able to meet their subordinated debt instruments issuance plans during the next 12 months?**

<table>
<thead>
<tr>
<th>Agree</th>
<th>Somewhat agree</th>
<th>Somewhat disagree</th>
<th>Disagree</th>
<th>No Opinion</th>
</tr>
</thead>
</table>
**Q8 You expect banks to attain more (please do not agree with more than 2 options):**

* a) Senior unsecured funding
* b) Senior non-preferred/Senior HoldCo funding
* c) Subordinated debt including AT1/AT2
* d) Secured funding (e.g. covered bonds)
* e) Securitisation
* f) Deposits (from wholesale clients)
* g) Deposits (from retail clients)
* h) Central Bank funding
* i) Short-term interbank funding.
* j) CET1 instruments
* k) Not applicable

---

**C. Asset composition & quality**

**Q9 Portfolios you expect to increase/decrease in volumes during the next 12 months (on a net basis):**

<table>
<thead>
<tr>
<th>Portfolio</th>
<th>Increase</th>
<th>Decrease</th>
<th>No Opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td>* a) Commercial Real Estate (including all types of real estate developments)</td>
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<tr>
<td>* b) SME</td>
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</table>
Q10 For which sectors do you expect an improvement/deterioration in asset quality in the following 12 months?  

<table>
<thead>
<tr>
<th>Sector</th>
<th>Improvement</th>
<th>Deterioration</th>
<th>No Opinion</th>
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</thead>
<tbody>
<tr>
<td>a) Commercial Real Estate (including all types of real estate developments)</td>
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<tr>
<td>b) SME</td>
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<td>c) Residential Mortgage</td>
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<tr>
<td>d) Consumer Credit</td>
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<tr>
<td>e) Corporate</td>
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<tr>
<td>f) Trading</td>
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<tr>
<td>g) Structured Finance</td>
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<tr>
<td>h) Sovereign and institutions</td>
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<tr>
<td>i) Project Finance</td>
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<tr>
<td>j) Asset Finance (Shipping, Aircrafts etc.)</td>
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<tr>
<td>k) Other</td>
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</table>

Q11 What are the impediments for banks to resolve their non-performing loans (please do not agree with more than 3 options):

- a) Lack of capital
- b) Lack of qualified human resources
- c) Tax disincentives to provision and write off NPLs
- d) Lengthy and expensive judiciary process to resolve insolvency and enforce on collateral
e) Lack of out-of-court tools for settlement of minor claims
f) Lack of a market for NPLs/collaterals
g) Lack of public or industry-wide defeasance structure (bad bank)
h) Other
i) There is no impediment

if h) Other: please provide the key impediments

Q12 What are the main drivers of the reduction in NPL levels during the past few years? (please do not agree with more than 2 options)

- Accommodative macroenvironment (e.g. positive economic growth, decreasing unemployment)
- Investors’ appetite (including due to low interest environment and search for yield)
- Development of secondary markets for NPLs (e.g. market entrance of servicers, establishment of NPL transaction platforms and introduction/update in securitisation laws or schemes)
- Efficiency of banks’ NPL workout units and applied strategies for NPL reduction
- Changes to the legal framework (e.g. improved insolvency and foreclosure procedures) and judicial system (e.g. out of court procedures more judges)
- No opinion

General Questions

Q13 What are the main obstacles to M&A for banks (please do not agree with more than 2 options):

- Complexity
- Cost and riskiness of such transactions
- Cultural aspect
- Lack of transparency on asset quality of the potential partners
- Regulatory requirements and supervisory stance/actions/view
- Lack of business cases/opportunities
- No opinion

If you agree with e):

- Mainly from national waivers on liquidity and capital not being exercised
- Mainly from other regulatory requirements / supervisory stance/actions/view
- Other

Q14 You expect that the proportion of green products / investments (asset and liability side) in banks’ overall product / investment portfolios in the coming year will:

- Increase Rapidly
- Increase Slowly
- Stay Steady
- Decrease Slowly
- Decrease Rapidly
Q15 Looking at the EU banking sector, you expect other sources of risk or vulnerabilities to increase further in the next 6-12 months. Please indicate possible additional sources of risks and vulnerabilities.