

## Follow-up review of banks' transparency in their 2012 Pillar 3 reports

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## Executive summary

### Scope and sample

One of the EBA's regular tasks is to assess Pillar 3 reports of European banks<sup>1</sup> and monitor their compliance with the requirements of the current Capital Requirements Directive (CRD), meaning Directive 2006/48/EC<sup>2</sup>. Pillar 3 are specific regulatory disclosures requirements set out in the Basel 2 framework and incorporated into EU law via Annex XII of the current CRD. Assessments of Pillar 3 reports of EU banks have been carried out annually since 2008. This report focuses particularly on areas where the need for improvement was already identified in the past (scope of application, own-funds, disclosures related to credit exposures under the Internal Ratings Based (IRB) approach, securitisation, market risk and remuneration). It aims to foster improvements in compliance with Pillar 3 disclosures requirements as well as continuous improvement and enhanced consistency of disclosures, especially by identifying best practices in the disclosure publications.

The current analysis was carried out in 2013 and covers the 2012 Pillar 3 reports of nineteen European banks<sup>3</sup>. As in previous years, the EBA has identified examples of best practice that credit institutions are encouraged to follow to improve the quality, consistency and comparability of their disclosures and their compliance with the regulatory requirements.

On top of the compliance assessment in these areas, this report contains a 'thematic study' which this year focuses on regulatory-type information that institutions may provide at interim reporting dates and assesses the similarities and differences found.

### Compliance of 2012 Pillar 3 reports with the provisions of the Capital Requirements Directive

Although some real improvements have been noted in specific areas (like scope of application), **the overall compliance of credit institutions with Pillar 3 requirements remains unchanged since last year as no institution has fully complied with all the requirements assessed.** However, the evolution of compliance may underestimate banks' efforts in strengthening disclosures since not all progress led directly to increased compliance with the CRD requirements.

Credit institutions still tend not to mention cases where requirements are not applicable, despite repeated emphasis by the EBA that this would be useful. **Despite the improvements and as noted in previous years, consistency and comparability of disclosures still need improvement, but this would require common presentation formats and definitions, which are currently not available.**

Small changes were noted this year regarding the **timing of publication** with a slight reduction in the time lag between the publication of annual reports and Pillar 3 reports for some institutions, offset by an increase in this time lag for other institutions, especially when considering remuneration reports. The EBA encourages the reduction of the time lag between the release of annual, Pillar 3 and remuneration reports so as to provide users with a complete set of information on a timely basis. It

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<sup>1</sup> In this report, the word 'banks', "credit institutions" and 'institutions' are used as synonyms.

<sup>2</sup> For UBS – the only bank in the sample incorporated outside the EU – relevant provisions from the Swiss legislation were taken into account when relevant, for instance, if they differed from the CRD.

<sup>3</sup> When reference is made to last year's assessment, this covers analysis done in 2012 of banks' 2011 Pillar 3 reports.

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expects institutions to improve further in this area in the future, as the Capital Requirements Regulation (CRR<sup>4</sup>) will require publication of Pillar 3 disclosures ‘in conjunction with the date of publication of the financial statements’ (article 433 CRR).

Regarding disclosures on the **scope of application of capital requirements**, improvements were seen in the description of the differences between the regulatory and the accounting scopes of consolidation. It was noted however that progress is still needed for around 60% of institution, especially regarding details about whether disclosure requirements are applicable.

**Disclosures on the composition of own-funds have improved** as far as the clarity of the breakdown of capital instruments and the reconciliation between the accounting equity items and regulatory capital components are concerned. Around half of institutions provide adequate disclosures, but **room for improvement remains on the granularity of deductions (the current disclosures is sometimes too aggregated), the identification of instruments under grandfathering, and the information on the main terms and conditions of own-funds instruments**. The entry into force next year of the technical standard on own funds disclosures, the European implementation of the Basel Committee in Banking Supervision (BCBS) *rule text* on the same topic, is expected to reduce greatly current differences in the content and the presentation of information.

The analysis of disclosures provided for credit exposures under the IRB approach also identified **some improvements, although half of institutions still provide improvable or insufficient disclosures. Disclosures could still be made better enhanced in specific areas like information about losses and drivers thereof, or about backtesting**. In addition, although slight improvements were seen, there could still be improvement for a sizeable part of the sample in granularity of disclosures of the rating processes applied for different exposure classes and the breakdown of these exposures by internal grades and model parameters.

**As far as disclosures on securitisation are concerned, improvements have taken place, although there has not been much progress since last year, with virtually all institutions still having room for improvement in their disclosures**. Disclosures about the objectives, roles played and regulatory approaches used have remained adequate, and more institutions now state clearly cases where some requirements are not applicable. Nevertheless most of the time non-applicability is still unclear, and disclosures on risk management still need improvement, as well as more cross-references if relevant information is provided in the annual report instead of the Pillar 3 report. Quantitative disclosures also need improvement, as information provided often does not comply with the requested scope or breakdown required by the CRD.

**Market risk disclosures saw some improvement but more is needed for around 80% of institutions**. More granularity should be provided on the breakdown of capital requirements, especially on internal model and securitisation positions, as well as for methodologies related to internal models, stress-tests and prudent valuation for each of the sub-portfolios/products to which they apply. Noticeable improvements have been made regarding quantitative disclosures, especially in

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<sup>4</sup> Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012

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relation to daily VaR and backtesting exceptions ('overshooting') disclosures but some institutions do not disclose the information required for the specific capital charges or the VaR models. In this latter case, there is insufficient granularity for disclosures or uncertainty as to whether the values disclosed are from the management model or the regulatory model and are actually those used for the computation of capital requirements. More details are also needed on backtesting of internal models and the use of stress-testing.

As last year, **remuneration disclosures were assessed as satisfactory**, especially the qualitative information, although room for improvement remains for two-thirds of institutions. Disclosures about the main elements of the remuneration system and the link between performance and pay are compliant overall, although more granularity could have been provided on how remuneration policies apply to various categories of regulated staff, and on elements like vesting criteria and clawback. The same goes for quantitative disclosures, where information required is generally provided, but room for improvement remains regarding the breakdown of remuneration outstanding by business lines and vested and unvested amounts.

### **Thematic study: regulatory-type information released at interim reporting dates**

The EBA carried out a thematic study on regulatory-type information disclosed at interim reporting dates, and assessed the nature, similarities and differences in this information. The assessment showed that a small number of institutions are requested by their national legislation to release an interim Pillar 3 report, and that most of interim regulatory-type disclosures are channelled to users through presentations to analysts. In the absence of specific interim disclosure requirements in the CRD, generally only basic key indicators such as Common Equity Tier 1 (CET1) capital amounts and ratio, and current RWA and RWA under Basel III-expected are disclosed. Information tends to vary in type and granularity. Complete disclosures of all the CRD annual requirements are only provided by institutions that have legal obligation to do so in an interim Pillar 3 report.

Similarly to disclosures required by regulatory provisions, comparability of voluntary disclosures at interim reporting date, both in terms of content and of presentation, remains an issue.

### **Conclusion and way ahead**

Good quality and compliant disclosures remain absolutely vital to address market uncertainties and encourage market discipline. The EBA's annual review of banks Pillar 3 reports tracks banks' progress in the specific field of Pillar 3 disclosures and highlights areas where improvements are still needed to achieve better and more compliant disclosures. Whilst there has been progress, in a very challenging environment, further work is needed, and the EBA will continue to work with banks to identify good practice and promote high quality and consistent disclosures.

The EBA will also continue to foster the improvement of disclosure consistency via the guidelines and technical standards included in the CRR, also taking into account the outcome of work done on disclosures by other entities, including private sector initiatives noted in this report.

Finally the EBA will pursue the work it has undertaken to facilitate direct disclosure of specific exposures and capital breakdowns via a transparency exercise in late 2013.

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## 1. Introduction, objectives and methodology

### 1.1 The context of this report

This report presents the results of the EBA's annual assessment of banks' Pillar 3 disclosures and monitors how banks comply with the Pillar 3 disclosure requirements of Directive 2006/48/EC, specifically with regard to Title V, Chapter 5 of this Directive, 'Disclosure by credit institutions' and Annex XII of this Directive 'Technical criteria on transparency and disclosures'<sup>5</sup>. The same analysis has been carried out since 2008<sup>6</sup>.

Over time, the EBA has noted a slow but real improvement in disclosures by some banks in its sample. Nevertheless, last year's report identified the need for further improvement in compliance with disclosure requirements, especially in areas where new requirements had entered into force, like market risk and securitisation, and the report also stressed the enduring nature of comparability and consistency issues.

This year's report assesses the progress made by financial institutions in their compliance with selected areas of Pillar 3 disclosure requirements as applicable in the European Union.

### 1.2 This report and other recent disclosure-related initiatives

Since the release of the last report, there has been renewed interest in disclosure topic from national and international organisations, both public and private<sup>7</sup>. This has led to various initiatives either by regulators or directly by the industry (users, preparers, auditors of financial information) to make disclosures more effective in fulfilling their role as market discipline instrument. These initiatives sometimes considered some findings of the EBA transparency related work although some of them are directed to improvements in both regulatory and accounting disclosures requirements. This EBA report should be seen as one of the established EBA and European contributions to the on-going disclosure debate.

In addition to the EBA initiatives, the BCBS set up a Working Group on Disclosures late in 2012, to carry out a comprehensive assessment of Pillar 3 disclosure requirements and to propose structural enhancements, both in terms of content and presentation, where needed. The EBA will take the results of the Basel Working Group on Disclosures into account in its future work on transparency issues.

Apart from these efforts of public authorities, the work by EDTF has emerged as one of the main initiatives from the private sector. It has formulated recommendations and proposed templates to reduce the expectation gap between preparers and users of financial information, which is a broader

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<sup>5</sup> These disclosures requirements have been integrated in Part Eight of the CRR on disclosures by institutions.

<sup>6</sup> This report follows up on the disclosures assessment reports released by the Committee of European Banking Supervisors and then the EBA, as part of the international efforts by regulators, banks or preparers of financial information, triggered by the 2007-2008 financial crisis to strengthen transparency of financial institutions.

<sup>7</sup> These initiatives include, but are limited, to the Basel Working Group on Disclosures, the European Systemic Risk Board (ESRB), the International Accounting Standards Board (IASB), the Eurofi principles and the Enhanced Disclosure Task Force (EDTF) sponsored by the Financial Stability Board (FSB).

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scope than this EBA report, as recommendations and templates are intended to apply to disclosures, regardless of whether they are considered of a financial nature (financial statements/annual report) or regulatory nature (Pillar 3 report). The EDTF results have some similarities to the disclosures principles and examples of good practice that have been advocated by the EBA since 2008, and the EBA also observed some banks assessed this year have implemented some EDTF recommendations.

Nevertheless, the EDTF recommendations were not formulated using a regulatory compliance assessment and their primary objective is not to enhance compliance with disclosure requirements, nor are they, by definition, legally-binding requirements. This EBA report thus does not highlight whether banks have complied with EDTF recommendations, while some of them may have been identified as examples of good practices in this report.

The EBA report focuses on the compliance of banks' disclosures with Pillar 3 requirements. While this focus may be narrower than that of other initiatives, the regulatory compliance test is an essential part of the broader objective of making sure that bank's disclosures are relevant. Therefore the EBA and the other initiatives all aim to improve the information delivered to markets and reduce the information expectation gap.

### 1.3 Sample for the 2013 assessment

The exercise was based on the Pillar 3 information disclosed by 19 European banks with cross-border activities (see Annex I)<sup>8</sup>.

### 1.4 Scope of the 2013 assessment

As last year, the 2013 assessment focuses on areas where a need for improvement was identified in last year's assessment, including those areas where new requirements were introduced last year. It was considered especially appropriate to assess progress made in these areas, as banks have had more time to adjust their disclosures and in particular take note of the last EBA report to improve their compliance.

This report therefore concentrates on the following disclosure areas:

- scope of application;
- own funds;
- credit risk (IRB approach);
- securitisation;
- market risk;
- remuneration.

### 1.5 Thematic study

As in the previous reports, this issue includes a thematic study which, unlike the overall assessment of disclosures provided in the rest of the report, is not a compliance assessment but rather a fact-finding exercise.

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<sup>8</sup> The sample of banks used for the 2013 assessment is the same as for 2012.



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This year's report looks at regulatory-related information which may be published on a voluntary basis at an interim reporting date in interim financial and management reports, presentations to analysts, press releases or an interim Pillar 3 report, although there is no EU requirement for this. The report focuses on a comparison between the regulatory-related information provided in these interim publications and the Pillar 3 information, in terms of nature of information, frequency and comparability. It also covers the similarities and differences noted between the banks in the Thematic Study<sup>9</sup> sample regarding the inclusion of regulatory-type information outside Pillar 3.

The findings of this thematic study will provide the EBA with useful information for drafting the guidelines on frequency of disclosures as prescribed by Article 433 CRR.

## 1.6 Assessment methodology

The assessment methodology remained the same as in the previous Follow-up reports. It involves both an analysis at individual bank level carried out by national supervisors, and a thematic ("horizontal") assessment across each disclosure area for all credit institutions in the sample, carried out by dedicated small teams of two or three national supervisors.

National supervisors discuss the final assessments and scores with the institutions from their jurisdiction covered in the assessment. This provides direct and immediate feedback about the outcome of the analysis and also gives the supervisors an opportunity to understand any specific issues facing particular banks (e.g. applicability of specific disclosure requirements).

The purpose of this approach was to reduce potential bias implicit in any assessment and to promote greater consistency in the assessment of the banks sampled. Nonetheless, a degree of judgement is inherent in the nature of the assessment.

## 1.7 Scoring scale and other issues considered

The same scoring scale used in last year's assessment also applies for this year's analysis, meaning that a disclosure area only received an 'adequate' score (a score of 3) when all items and sub-items deemed to be applicable to that area, were provided.

The scores were as follows:

- n/a = Item is not applicable. It is then expected that no information would be provided for this item/sub-item.
- 0 = No information is provided (if information is regarded as immaterial, proprietary or confidential, and as such it is not disclosed, then the lack of disclosure should not be penalised).
- 1 = Insufficient information is provided. The disclosure is non-compliant with the CRD requirements, considering that this assessment remains a matter of judgement.
- 2 = Sufficient information is provided, but disclosures could be improved. The disclosures are largely compliant but some disclosure items or sub-items are missing to the extent there is no

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<sup>9</sup> Two banks from the assessment sample were not covered by the Thematic Study.

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explicit statement regarding the non-applicability of this requirement or sub-requirement – see section below.

- 3 = Information provided is adequate. The disclosure is compliant with the CRD requirements;
- 3\* = Information that are compliant with the letter and the spirit of the CRD. It often goes beyond the CRD requirements or leads to disclose information in a meaningful and useful way, thus being regarded as best practice disclosures)<sup>10</sup>.

Appropriate and extensive/detailed disclosures can therefore be awarded a score of 2, despite their quality, if one or some disclosure items or sub-items are not provided. Similarly, a disclosure area with a score of 2 does not exclude individual items or sub-items of this disclosure area being regarded as an example of best practice.

This approach enhances consistency and reduces subjectivity in the assessment of disclosures. However, it also means that all disclosure improvements noted since the last assessment will not automatically lead to an upgrade due to better compliance, as disclosures may be of higher quality without improvement in overall compliance (i.e. more details and granularity can be provided on a specific disclosure requirement, but there are still other disclosure requirements that are not complied with). The improvement in disclosure quality is however taken into account by the EBA in its assessment, and often leads to an increase in identified examples of best practice or in the number of institutions identified as using them.

#### 1.7.1 Immaterial, proprietary or confidential information – applicability of information

As last year, for the assessment of information as immaterial, proprietary or confidential and the applicability of information provided in each item, the following approach was adopted:

- The score will be lower than 3:
  - if information is not disclosed because it is immaterial, proprietary or confidential, but there is no specific reference to this;
  - if information is not provided, but the national supervisor has confirmed that it is applicable.
- The score will be 3 when information is not disclosed because it is immaterial, proprietary or confidential and there is specific reference to this.

#### 1.7.2 Disclosure of Pillar 3 information in English

Although nothing is specified in the CRD about this matter, the EBA considers that for internationally active banks, providing an English translation of Pillar 3 information would allow a wider range of stakeholders to access the information. Pillar 3 disclosures not provided in English were therefore given a score lower than 3.

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<sup>10</sup> The examples of best practice are not intended to be exhaustive or exclusive. Rather, they are considered to be particularly useful and conducive to increasing comparability and in promoting disclosures that are deemed to be compliant with the spirit of Directive 2006/48/EC.

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### 1.7.3 Examples of best practices

As in its previous assessments, the EBA has identified examples of best practice. These are separately identified in each section of the report.

The EBA sees the adoption of these best practices by most institutions as a way of enhancing both compliance and the scope and consistency of disclosures.

## 2. General observations

The complementary character of Pillar 3 and the nature of market discipline lead many supervisors to adopt a non-prescriptive approach for practical aspects of the publication of Pillar 3 information, such as timing, presentation formats or verification of disclosures.

### 2.1 Timeframe and frequency

Directive 2006/48/EC does not give a specific deadline for publication of Pillar 3 disclosures, but expects financial institutions to publish them as soon as practicable.

The actual publication dates of Pillar 3 disclosures still varied significantly between the banks in the sample, ranging from end February 2013 to mid May 2013. Nonetheless, most banks published their Pillar 3 reports before the end of April and quite close to the date of their annual reports.

The efforts made by banks in this respect are important in the context of Article 433 in Part Eight CRR, where it is explicitly stated that 'Annual disclosures shall be published in conjunction with the date of publication of the financial statements'. These requirements will apply from 1 January 2014.

### 2.2 Presentation and location

As last year, a majority of banks in the sample produced a stand-alone Pillar 3 report. The other banks opted either for a Pillar 3 disclosures in their annual reports or for a hybrid approach by producing a separate Pillar 3 document with various cross-references to the annual report. One bank moved from a stand-alone report to the inclusion of Pillar 3 disclosures in its annual report. Some banks in the sample chose to publish remuneration related disclosures in a separate remuneration report.

The CRD only requires Pillar 3 information to be disclosed publicly. All the banks included in the sample published the Pillar 3 information on their website, which is currently the best way to make information easily accessible.

Irrespective of the format chosen, Article 434 CRR states that '[...] To the degree feasible, all disclosures shall be provided in one medium or location. If a similar piece of information is disclosed in two or more media, a reference to the synonymous information in the other media shall be included within each medium. [...] If disclosures are not included in the financial statements, institutions shall unambiguously indicate in the financial statements where they can be found'.

The EBA has never advocated one presentation format over another, especially since all of them have their pros and cons. Nevertheless, complying with this new requirement should lead credit institutions to consolidate and/or enhance the readability of information via cross-referencing.

### 2.2.1 Other considerations

Regarding the provision of the Pillar 3 information in English, one bank in the sample did not provide translations into English. This may however be justified by the mostly national/regional character of this bank’s business activity. Institutions are however advised to consider the needs of disclosure users when choosing the language for their disclosures: a diverse investor or funding base may make it relevant to provide information in both the national language(s) and English.

### 2.3 Verification of the disclosures

According to Article 149 (d) CRD, Member States shall empower the competent authorities to require credit institutions to use specific means of verification for the disclosures not covered by statutory audit.

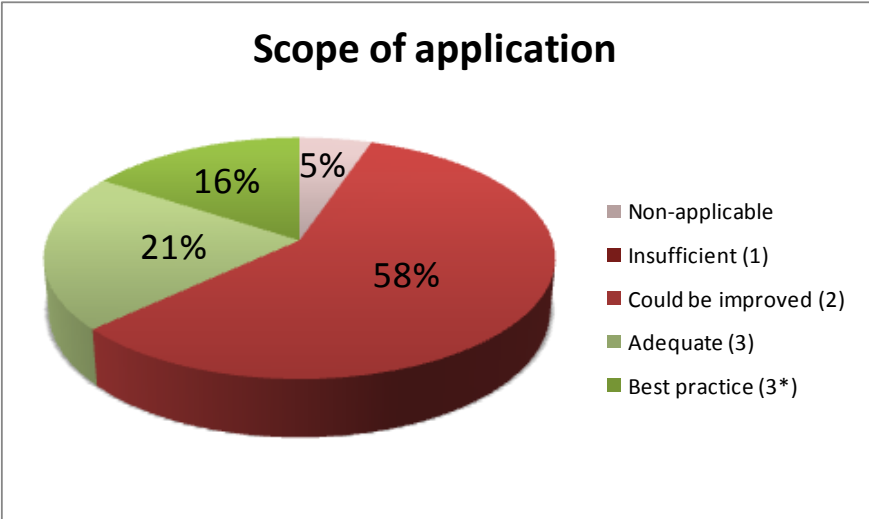
In all countries but one<sup>11</sup>, Pillar 3 disclosures do not have to be externally audited.

## 3. Findings on specific Pillar 3 disclosure areas

### 3.1 Scope of application and own funds

#### 3.1.1 Scope of application

Findings and observations



<sup>11</sup> In Germany, an external audit of the processes for the determination and disclosures of Pillar 3 information (not equivalent to a certification of the content) is formally required. In Austria, the external auditor is required to perform similar tests, but in the broader context of the review of the overall control environment of the bank, thus including procedures to comply with the Basel capital requirements. Nevertheless, the results of this audit work, both in the case of Germany and Austria, are not disclosed to the public, but only to the national supervisor.

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For one credit institution in the sample these disclosure requirements are not applicable as its Pillar 3 disclosures are performed on an individual basis. The degree of compliance among banks in the sample is quite high and has improved slightly compared to last year: A total of 36% (last year: 28%) provide all the required disclosures, plus, in some cases, some additional useful information. No bank this year failed to provide the information required (last year: 22%).

The degree of compliance could have been even higher as it is likely that some cases of non-compliance stem from non-applicability of the requirements. The EBA believes it would be helpful to inform users if items subject to disclosures requirements are not provided because these requirements are not applicable.

Very useful supplementary information was provided with some disclosures, even from the institutions which failed to provide some of the disclosures required. Compared to last year, improvements were noted for instance in terms of reconciliation between accounting and regulatory scopes (Directive 2006/48/EC Annex XII Part 2 point 2(b)), and in terms of explanations about changes in the basis of consolidation within these scopes.

A vast majority of banks in the sample provide an appropriate outline of the differences in the basis of consolidation for accounting and prudential purposes, describing (to a greater or lesser extent) the types of entities that are fully consolidated; proportionally consolidated; deducted from own funds; or neither consolidated nor deducted.

These banks also disclose the current or foreseen impediments to the prompt transfer of own funds or repayment of liabilities among parent and subsidiaries (Directive 2006/48/EC Annex XII Part 2 point 2(c)), or the absence thereof. This requirement however remains one of those with the highest rate of non-compliance among institutions.

As last year, disclosures of banks in the sample were also marked by high level of non-compliance for disclosures related to the existing of capital shortfall for non-consolidated subsidiaries (Directive 2006/48/EC Annex XII, Part 2 point 2(d)) and the use of provisions of article 69 and 70 (Directive 2006/48/EC Annex XII, Part 2 point 2(e)).

### Examples of best practice

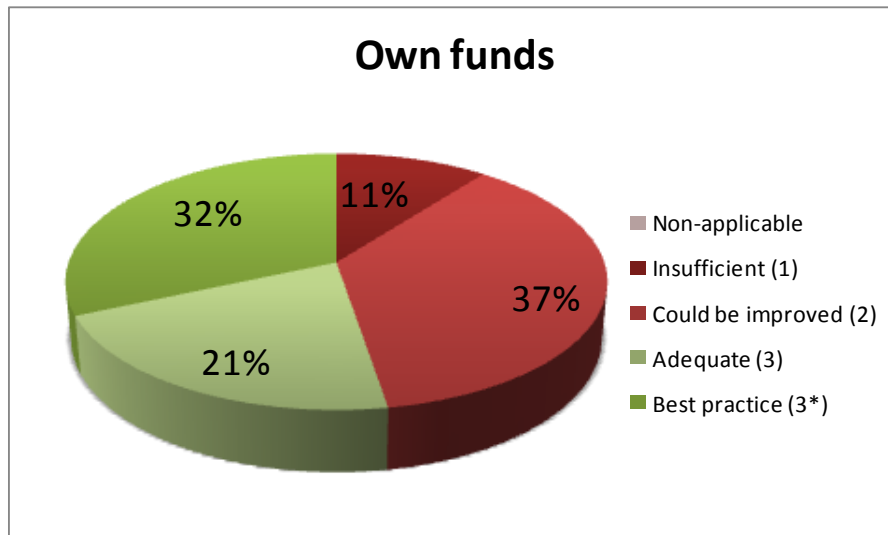
The following examples of best practice were in some institutions, irrespective of their score, and these are especially useful for users:

- Description of change in the scope of consolidation and/or regulatory scope due to changes in the perimeter and corporate transactions (BBVA, BNP Paribas, Erste Bank, RZB, HSBC, ING, Intesa San Paolo, Santander)
- Reconciliation of accounting scope balance sheet to regulatory scope balance sheet (Barclays, BNP Paribas, HSBC, Societe Generale)
- Relative importance of prudential consolidation/de-consolidation in relation to accounting scope (Barclays, HSBC, RBS)

- Consolidation/derecognition of securitised assets (Barclays, BNP Paribas, Commerzbank, Credit Agricole SA, DZ Bank, HSBC, ING, Intesa San Paolo, Rabobank, Royal Bank of Scotland, RZB, Santander, Societe Generale, UBS, Unicredit)

### 3.1.2 Own funds

#### Findings and observations



A majority of the credit institutions in the sample were assessed as fully compliant with the requirements of Directive 2006/48/EC (last year: 47%), but a couple were assessed as falling short of these requirements.

Most of the banks compliant with Directive 2006/48/EC rules provide a satisfactory level of disclosure, with information grouped in a single section and quantitative data presented in a very comprehensive and clear way. Many banks use a single table to disclose all the main capital items; in some cases, this table includes the capital ratio so as to give a comprehensive picture of the capital adequacy of the bank.

In some cases, information was not included in the Pillar 3 section on 'capital structure', but was spread over different sections of the annual report. This was mostly the case when the Pillar 3 report was not a stand-alone document, but is part of the annual report.

As last year, the high degree of compliance in the disclosures on own funds and the meaningfulness of this information has benefited from the recent supervisory developments on own-funds disclosures requirements, i.e. the BCBS rule text as well as the equivalent EBA binding implementing technical standard on own-funds disclosures. Although the EU implementing technical standard is not in force, it has likely encouraged credit institutions to provide a comprehensive picture of their capital items:

- A reconciliation between accounting equity items and regulatory capital items, meaning disclosures or presentation of disclosures that allow to show where the own funds elements in published financial statements flow under the regulatory rules, is provided by more than half of the banks in the sample, especially between accounting own funds and Tier 1 capital.

- Some banks have provided a flow statement for regulatory capital with reconciliation of the opening and closing amount and the explanation of the sources of changes that occurred during the reporting period in the regulatory capital amounts.
- Some banks have provided, in the capital structure section, information on Basel III impacts with pro-forma capital disclosure based on new regulation. In some cases, banks use Basel III notions (like Common Equity Tier 1) also in the disclosure of current regulatory capital.

On the other hand, some qualitative and quantitative areas of disclosures regarding own funds still need to be improved.

### *Qualitative requirements*

The main terms and conditions of capital instruments (Directive 2006/48/EC, Annex XII Part 2 point 3(a)) are not always provided, and disclosures in this field lack a common presentation format, despite the uniform template from the abovementioned BCBS rule text and EBA binding implementing technical standard on own funds disclosures. Also, few institutions specifically identify grandfathered instruments in their disclosures.

### *Quantitative requirements*

The main observation relates to the information on capital items or deductions (Directive 2006/48/EC Annex XII Part 2 point 3(b)), where the capital structure is too aggregated, leaving deductions not individually identified, for instance for the deduction due to the excess of expected losses (EL) over provisions (Directive 2006/48/EC Annex XII Part 2 point 3(d)). Moreover, instruments with grandfathering provisions are rarely presented separately, although in some cases this lack of disclosure may come from the non-applicability of the requirement (Directive 2006/48/EC Annex XII Part 2 point 3(b)).

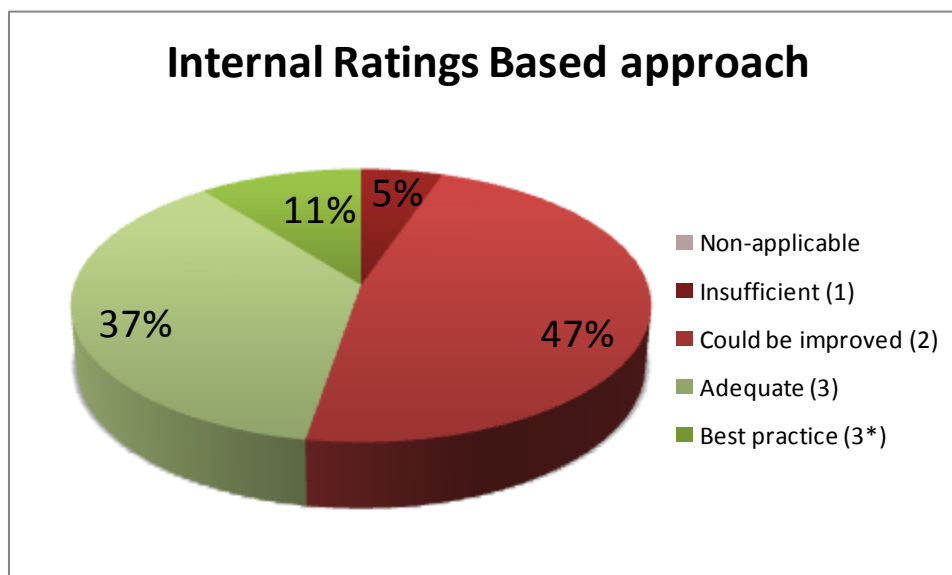
### Examples of best practice

- Reconciliation of regulatory capital with accounting equity (BBVA, Commerzbank; Credit Agricole SA Deutsche Bank; Intesa San Paolo; Erste Bank; UBS; Barclays, RBS; HSBC ING, Societe Generale);
- Possibility of reconciling subordinated debt amounts in notes to the financial statements with Tier 2 amounts (Barclays)
- Detailed disclosures of revaluation reserves linked to AFS exposures (Intesa San Paolo; Unicredit)
- Flows for regulatory capital (Barclays, Deutsche Bank, ING, Unicredit) or regulatory deductions (BNP Paribas)
- Comprehensive information on Basel III impacts (Barclays; HSBC; Royal Bank of Scotland; UBS);
- Informative disclosures on regulatory capital and its components - Core Tier 1, Tier 1, Tier 2 and Tier 3, if any (BBVA, Commerzbank, Credit Agricole SA, Deutsche Bank, Erste, HSBC, Intesa San Paolo, RZB, Societe Generale)
- Comments on changes compared with previous years (BCEE, Credit Agricole SA, Deutsche Bank, HSBC, UBS)

## 3.2 Credit risk

### 3.2.1 Internal Ratings Based approach

#### Findings and observations



As shown in the graph above, more than half of the institutions (last year: almost two-thirds) in the sample could still improve their disclosures.

Improvements noted compared to last year included additional details provided for the qualitative disclosures about rating processes, or an increased granularity in the quantitative disclosures. Nevertheless, there was continued non-compliance with some requirements in half of the sample.

Therefore, the EBA encourages institutions to take account of explanations it provided in Annex II of last year's report to improve the compliance of their disclosures with applicable requirements. Improvement in disclosures remains essential to improve users' understanding of banks' risk-weighted assets and of their variations between institutions, thereby strengthening confidence in the IRB approach, as stated in recent EBA's works on this issue<sup>12</sup>.

This year, the EBA identified the following shortcomings (some were already covered in last year's report, the findings of which still apply):

#### *Qualitative requirements*

- Description of the internal ratings process (Directive 2006/48/EC Annex XII Part 3 point 1(c))

<sup>12</sup> Interim results update of the EBA review of the consistency of risk-weighted assets - August 2013 < <https://www.eba.europa.eu/documents/10180/15947/EBA+Report+-+Interim+results+update+of+the+EBA+review+of+the+consistency+of+risk+weighted+assets.pdf/adebd77e-6d93-499d-a4ec-381d102923d5> > and Interim results of the EBA review of the consistency of risk-weighted assets. Top-down assessment of the banking book – February 2013 < [https://www.eba.europa.eu/documents/10180/15947/Interim-results-EBA-review-consistency-RWAs\\_1.pdf/ca66e71f-7f91-40ad-9d76-8425fbc73473](https://www.eba.europa.eu/documents/10180/15947/Interim-results-EBA-review-consistency-RWAs_1.pdf/ca66e71f-7f91-40ad-9d76-8425fbc73473) >



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For the majority of the credit institutions, disclosures on the rating processes by exposure classes need to be improved. A description of the rating processes and models is usually provided but often without breakdown of the processes by exposure classes or with little detail about how these processes and models apply by exposure class, as only a few institutions provide extensive details on the implementation of their processes and models by exposure classes. This sometimes makes the description of the rating processes quite generic. In a couple of cases, the description provided was even insufficient to comply with the CRD requirements. More detail, especially on EAD and LGD estimations, would be welcome, including from institutions that comply with the requirements.

### *Quantitative requirements*

- Value adjustments (Directive 2006/48/EC Annex XII Part 3 points 1(g) and (h))

More than half of credit institutions in the sample did not disclose the actual value adjustments for each of exposure class and how they differ from past experience. Institutions which do not provide value adjustment by exposure class may fail to break down the amount of IRB value adjustments by exposure classes or more often fail to differentiate between adjustments related to IRB and Standard exposures. Variety was noted in the use of the notion of value adjustments: some credit institutions used the stock of impaired or defaulted assets, others used impairment losses, and still others used impairment losses plus other losses (especially provisions on commitments and fair-value adjustments on derivatives).

As for the disclosure of the factors that had an impact on the loss experience, there were some cases where the information was not provided, even by credit institutions disclosing IRB value adjustments. Moreover when provided the information was often too generic.

- Breakdown between Foundation (FIRB) and Advance IRB (AIRB) models (Directive 2006/48/EC Annex XII Part 3 point 1(d))

In some cases it was not easy to find out whether the credit institutions used Foundation or Advanced IRB approaches or both, because some banks did not provide separate breakdowns of exposures and model parameters by internal grade for their exposures under Foundation and Advanced IRB Approaches. As a result, where only one breakdown was provided, it was not always clear whether it mixed AIRB and FIRB figures, and therefore whether figures disclosed for model parameters like loss-given default (LGD) and credit-conversion factor (CCF) might not reflect model values but might be a mixture of model and regulatory values. Where a credit institution has both FIRB and AIRB exposures, the EBA emphasises that both the exposure values and the model parameters (at least LGD and CCF) must be disclosed separately.

- Internal grades (Directive 2006/48/EC Annex XII Part 3 points 1(e) and (f))

As last year, variability was noted in the number of internal grades used for the breakdown of exposures, and model parameters across internal grades tended to vary between institutions (from 3 to 22), due to the lack of specification of a minimum number of internal grades to be used for disclosures. The CRD only specifies a minimum number of grades (six plus default) that an internal model must have for it to be approved by the supervisor. A slight improvement was noted, with a couple of institutions disclosing a higher number of internal grades than last year. Nevertheless in some cases, the breakdown by internal grades, regardless of the number of grades used, did not identify those exposures under the default grade, which thus does not comply with the disclosure requirement.

While the granularity is diverse, another of the few improvements seen relates to the increased use of tables to compare internal and external ratings (58% compared to 31% last year). The EBA also noted an increased provision of the probability of default (PD), average PD or PD range associated with the internal grade (80% compared to 58% last year), sometimes directly in the mapping table or in the breakdown of exposures by internal grades and model parameters. In a couple of cases the PD

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floors applied were also mentioned. The EBA encourages this use of tables and references to PD values as it makes the comparison between internal and external ratings clearer, and also facilitates comparisons between banks.

- Counterparty credit risk (Directive 2006/48/EC Annex XII Part 3 points 1(e) and (f))

The EBA noted that, as previous years, credit institutions tended to adopt various approaches for their breakdown of exposures by model parameters, with some including the counterparty credit risk in the breakdown and others not. The EBA stresses that regardless of their practice, credit institutions should clearly state whether their quantitative disclosures on IRB models include counterparty credit risk, since specifying this enhances comparability of disclosures across institutions.

- Backtesting of model parameters (Directive 2006/48/EC Annex XII Part 3 point 1(i))

The backtesting of model parameters, and especially Expected Losses (EL) against actual losses, remains the requirement with the highest level of non-compliance (37%). The situation has however improved compared to last year (53%), as two credit institutions provided disclosures of EL and PD backtesting, and another provided quantitative data rather than just the qualitative disclosures of last year.

As last year, a couple of credit institutions – regardless of whether or not they disclosed backtesting information – explained that a comparison between expected losses (EL) and realised losses was not relevant, as the parameters of EL calculation provide estimations throughout the cycle, whereas the realized loss presents a piece of accounting information pertaining to a particular year.

However, if provided, disclosures on backtesting should be enhanced, as most of banks provided only a comparison for the period under review and the previous period, whereas the EBA advocates a comparison for at least three years (provided by only four credit institutions). In the case of longer-period disclosures, comments on methodology changes that have affected the level of EL would be helpful to understand the changes in figures over the period. The granularity of disclosures also tended to vary: most institutions provided backtesting information at the exposure class level, but some also adopted a more or less granular level of disclosures, using sub-portfolio or total IRB exposure level.

Similar to value adjustments, actual losses have different meaning for different credit institutions (impairment charges, impairment allowances, utilisation of impairment allowances, impairment charges plus write-offs and value adjustments on defaulted derivatives). Part of this variability is a result of the lack of standard definition of actual losses in Directive 2006/48/EC, and how it relates to the concept of value adjustments used in its Annex XII Part 2 point 6(b) and Part 3 point 1(g). The type of exposures to which the backtested data related were moreover not always clear: some institutions provided separate disclosures for the EL on the defaulted and non-defaulted portfolios, while other simply provided unspecified EL figures.

Lastly, the CRD requires backtesting of the other model parameters, such as PD, LGD and CCF, as appropriate. As with the EL backtesting, only a few credit institutions (21% of the sample, identical to last year) complied with this requirement, although there has been a slight improvement in this field. Indeed, it was observed that another 16% (last year: 5%) provided backtesting information on some (but not all) model parameters. Furthermore, two credit institutions, as last year, provided backtesting information on some or all model parameters except EL.

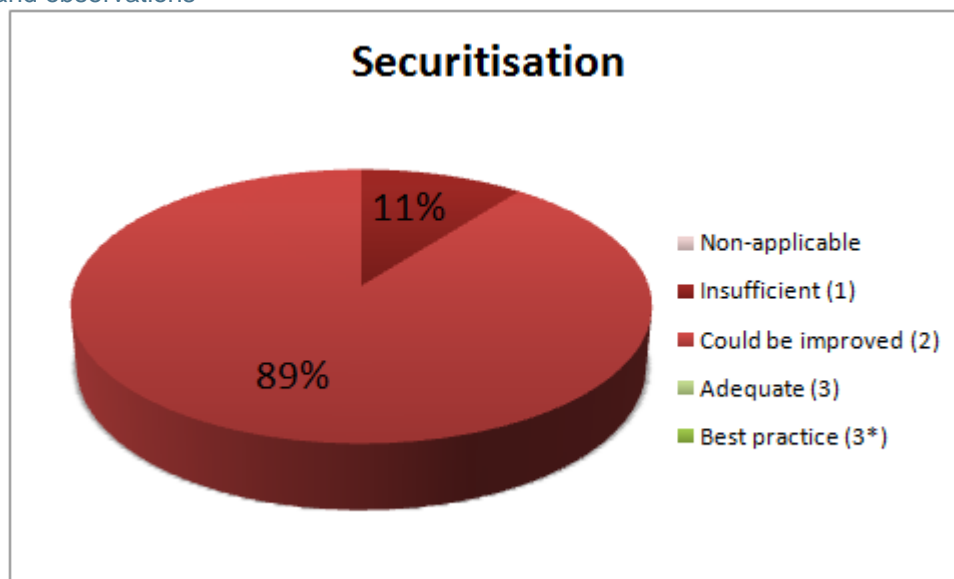
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## Examples of best practice

- Clear information on the scope of the application of the IRB approach and user-friendly presentation (often in table form) of the internal rating processes, types of parameters or types of models used by exposure class (BBVA, Barclays, BCEE, Commerzbank, DZ Bank, RZB, Erste, Intesa San Paolo, Unicredit).
- Definition of concepts including EAD, PD, LGD, CCF (Credit Agricole SA, Royal Bank of Scotland, Societe Generale)
- Provision of both the accounting (balance sheet value or off-balance sheet pre-CCF value) and the EAD exposure value (BBVA, Santander, Unicredit, Société Générale, BNP Paribas, Credit Agricole SA);
- Separate disclosure of exposures and model parameters for AIRB and FIRB exposures (Barclays, Deutsche Bank, Santander)
- Exposures at default, defaulted exposures or risk-weighted assets split by geographical region, industry sector or business segments (Barclays, BBVA, BCEE, BNP Paribas, , Credit Agricole SA, HSBC, Royal Bank of Scotland, Societe Generale)
- Risk-weighted assets by internal grade (Barclays, BBVA, BNP Paribas, Credit Agricole SA, Deutsche Bank, HSBC, ING Rabobank, Societe Generale, Unicredit)
- Clear presentation of the parameters by exposure classes including PD (average, median or range) facilitating the comparison between internal grades (Barclays, BBVA, BNP Paribas, Commerzbank, Credit Agricole SA, Deutsche Bank, HSBC, ING, Intesa San Paolo, Rabobank, Royal Bank of Scotland, Santander, Societe Generale, Unicredit)
- Breakdown of backtesting of estimates against actual outcome by geographical regions (HSBC)
- Predicted probability of default, actual default rates and EAD outcomes versus predictions for 3 years period (Barclays, Santander).
- Presentation of EL/EAD ratio as per the European Banking Federation report 'Driving alignment of Pillar 3 disclosures' (Credit Agricole SA, Santander, Societe Generale).
- Validation results of risk parameters used in the advanced IRBA (Deutsche Bank)

### 3.2.2 Securitisation

#### Findings and observations



Although this is the second year that enhanced CRD III requirements on securitisation have been in force, and despite the promotion of best practice and provision of explanations about the purpose and expected content of Pillar 3 disclosures related to securitisation, there has not been a significant improvement in disclosures since the last report. The improvements seen were not related to every requirement and came only from a couple of institutions. As a result scores remained broadly stable.

This lack of improvements may be because some credit institutions have significantly scaled-back securitization activities or are in the process of winding them down (at least for the activities to which the securitisation disclosures apply), as evidenced by statements or the disclosure about the volume of securitisation activities and assets awaiting securitisation (few transactions seem to have taken place or to be planned, and most of them did not fulfill the criteria to be included in the securitisation framework).

The sections below provide further details on areas where improvement in the disclosures practices is needed. Some of these were also covered in last year's report, the findings of which still apply.

#### *Qualitative requirements*

- Accounting policies and their implementation (Directive 2006/48/EC Annex XII Part 2 point 14(j))

Disclosures are as last year generally provided by credit institutions, or at least cross-referenced to the notes to the financial statements on accounting policies. However, in both cases, credit institutions tended to sum-up the applicable provisions of IAS 39 without specifying how they were applied to their securitisation activity. For example, very few credit institutions mentioned the consequences on their credit and securitisation exposures of having different regulatory and accounting consolidation rules for Securitisation Special Purpose Entities (SSPE).

- Risks for securitisation and re-securitisation activity (Directive 2006/48/EC Annex XII Part 2 points 14(c), (d) and (g))

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Some improvements were noted in a couple of institutions but in general, as last year, a few credit institutions provided details about the underlying assets for re-securitisation activity (in most of cases credit institutions referred to the seniority of their exposures) but no credit institution in the sample was fully compliant with this requirement due to their lack or brevity of disclosures. In the same vein, some credit institutions disclosed small pieces of information about their hedging policy, but information about guarantors was rare. In addition, while most of the credit institutions described, the monitoring process for credit and market risk of securitisation and re-securitisation positions or made cross-references to disclosures about this aspect of securitisation, these disclosures had varying levels of detail and were not comprehensive enough, being often short statements (with, for instance, a note that the processes did not differ from those applied to other assets, but without further description of these processes). Only a handful of institutions provided detailed information about these aspects. As a result, few credit institutions can be considered truly compliant with the corresponding disclosure requirements.

- Securitisation Special Purpose Entity – SSPE (Directive 2006/48/EC Annex XII Part 2 point 14(i))

Regarding disclosures about the type of SSPE sponsored by credit institutions, institutions tended, as last year, to name the SSPE or state that they used a variety of structures with different legal forms. However, the information disclosed did not always clearly state the nature of involvement of the credit institution with, or the extent of its exposures to, SSPEs. Indeed, as last year, only around half of credit institutions supplemented qualitative information with quantitative information on exposures. Moreover, the consolidation status of the SSPE was often unclear, especially when information was split between annual and Pillar 3 reports.

- Other issues

As last year, credit institutions provided adequate disclosures on the objectives and roles played in securitisation transactions (Directive 2006/48/EC Annex XII Part 2 point 14(a) and (d)), with some improvements (for instance, one institution provided a graph) and there were also generally adequate disclosures on the approaches to calculating risk weighted exposure amounts (Directive 2006/48/EC Annex XII Part 2 point 14(h)), although only around one-third of institutions specified the types of securitisation exposures to which each approach applied.

While a slight improvement was seen in the nature of other risks inherent in securitised assets (Directive 2006/48/EC Annex XII Part 2 point 14(b)), for which some credit institutions provided additional information (liquidity, market, legal, or reputational risk), there is still significant room for improvement.

Finally, as last year, around 90% of credit institutions in our sample resort to the IAA approach, including a couple of them which could provide users with clarification on their extent of use of this approach. Nevertheless the description of the internal assessment approach (Directive 2006/48/EC Annex XII Part 2 Point 14l) is not sufficient to give a comprehensive view about the soundness of the process, particularly in terms of control mechanisms, as most credit institutions limited their disclosures to short statements on the IAA approach. A couple of institutions did not even provide disclosures although they actually used this approach.

### *Quantitative requirements*

- Scope (Directive 2006/48/EC Annex XII Part 2 point 14(n))

A misunderstanding persists about the exact scope and the content, especially in terms of expected breakdown, of the requirements despite the explanations in the last EBA report. In particular, a lack of

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clarity was noted in disclosures of securitisation exposures and securitisation outstanding. First of all, some institutions disclosed information predominantly on securitisation transactions that were not derecognised, and therefore that were not in the scope of the securitisation disclosure requirements (these transactions could be disclosed as best practice but not to comply with disclosures requirements). Moreover in some cases, the information requested on securitisation activity was either not provided or was mixed up with the information requested for retained and purchased exposures.

Very few credit institutions provided information on the scope of their securitisation disclosures, and for some the scope was different depending on the disclosure item (securitised exposures or retained and purchased exposures), which did not help to address the uncertainties. These uncertainties remained despite the effort made by some credit institutions to clarify their scope of disclosures by including a graph. Indeed these uncertainties were also fuelled by the comparison between Pillar 3 securitisation disclosures with figures for securitisation exposures disclosed in the credit risk section or in the financial statements. Differences were unexplained most of the time or on the contrary there were identical amounts despite the different rules applicable to securitisation transactions in the accounting and regulatory frameworks on the one hand, and to the inclusion of the transactions under the securitisation or credit risk frameworks on the other.

- Breakdown of exposures (Directive 2006/48/EC Annex XII Part 2 points 14(n) and (o))

In addition to this lack of clarity, some specific quantitative disclosure requirements were most often poorly complied with or not complied with at all by credit institutions. As last year, around one-third of credit institutions did not provide capital requirements by risk-weight bands (in these cases the breakdown by risk-weight band often relate to exposure values only), and those which provided such disclosures failed in some cases to provide granular disclosures broken down by risk weight or broken down separately for banking and trading book exposures. As last year, variability was indeed observed in the number of risk-weight bands used (from four to up to seventeen).

As for the specific breakdown related to re-securitisation positions in terms of hedging impact, it was very rarely provided, and in most cases, the non-applicability of this requirement has to be inferred from other disclosures in the securitisation section (such as the absence of re-securitisation exposure class in the other quantitative breakdowns).

- Trading book exposures (Directive 2006/48/EC Annex XII Part 2 points 14(n) and (q))

One of the only improvements compared to last year was where an institution disclosed its trading book exposures whereas it previously provided no information about them. Nevertheless 20% of credit institutions did not provide any figures for exposures, although they might have disclosed the associated capital requirements or disclosed some exposure figures in their annual report.

In addition, the figures for trading book exposures sometimes varied between the disclosures requirements (outstanding securitised, retained and purchased exposures, exposures securitized and subject to a capital requirement for market risk). Only a couple of institutions provided information on the reasons behind these differences in exposure values (during a transitional phase, not all the trading securitisation attract capital requirements).

For the capital requirements, some institutions clearly stated that the figures did not include exposures included in correlation trading portfolios (CTP) while others remained silent on this point.



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### *Presentation issues*

Although more credit institutions referred to the non-applicability of some disclosure requirements, this was still not common practice for all institutions and all requirements. As a result, it was not always possible to understand why information was not provided (non-applicability or deliberate choice) in particular regarding revolving exposures (Directive 2006/48/EC Annex XII Part 2 point 14(n)), assets awaiting securitisation (Directive 2006/48/EC Annex XII Part 2 Points 14 (j) and (n)), hedging policy of securitisation and re-securitisation positions and associated guarantor concentrations (Directive 2006/48/EC Annex XII Part 2 Point 14(g) and (o)). These disclosures items are indeed among those the least complied with by institutions (with for instance only roughly 30% of credit institutions disclosing information about hedging of re-securitisation positions).

Consequently, the applicability or not of those disclosure requirements often has to be inferred using other information provided in the Pillar 3 or annual report (for instance, disclosures on credit risk mitigation), which sometimes can be contradictory (for instance, statement that credit default swaps – CDS – are not used but information on credit default swaps or monolines exposures related to securitisation positions are provided elsewhere in the Pillar 3 or in the annual report).

The EBA noted that as last year, compliance with disclosure requirements could be enhanced by cross-references when relevant information, in particular on hedging of securitisation positions or on their valuation (Directive 2006/48/EC Annex XII Part 2 point 14(j) and (n)), is provided in the annual report.

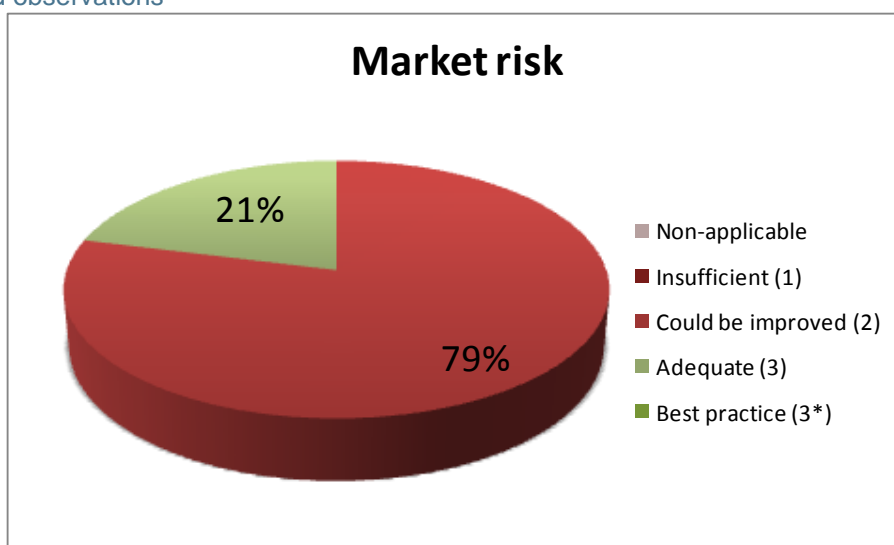
### Examples of best practice

- Information provided on prudential de-recognition criteria and regulatory treatment of securitisation exposures (HSBC, Royal Bank of Scotland, BNP Paribas, ING);
- Risk management disclosures not limited to credit and market risk (Royal Bank of Scotland, Rabobank).
- Detailed disclosure of the retained exposures with some additional breakdowns such as geographical, sector or maturity breakdown (UniCredit Group, Intesa SanPaolo, BNP Paribas, Royal bank of Scotland, ING, Deutsche Bank, Societe Generale);
- Detailed disclosure on the extent of involvement in the transactions originated (Intesa SanPaolo, UniCredit Group) and quantitative information on the extent of risk exposure to SSPEs (Barclays, Intesa San Paolo UniCredit Group, Royal Bank of Scotland, HSBC, DZ Bank, ING, Commerzbank, Societe Generale, Credit Agricole SA, BNP Paribas);
- Geographical breakdown of securitised exposures (Intesa SanPaolo, UniCredit Group, Société Générale, Barclays) and impaired exposures (BNP Paribas);
- Disclosure of RWAs associated with securitisation positions by underlying exposure classes (Santander, Société Générale);
- Definition on the terms and concepts relating to securitisation transactions (Royal Bank of Scotland, Crédit Agricole SA, HSBC, Santander);

- Tables of movements in the year of securitisation exposures by role and underlying assets including re-securitisation (HSBC)
- Separate disclosures of transactions that have not led to risk transfer and are outside the scope of the securitisation framework (BBVA, Rabobank, Societe Generale)

### 3.3 Market risk

#### Findings and observations



Only 21% of credit institutions (last year: 26%) in the sample complied with all market risk disclosure requirements while 79% (last year: 47%) provided adequate information but their disclosures could be improved. No credit institution was considered as falling short of the requirements (last year: 16%).

New disclosures requirements were implemented for the first time last year and 2012 Pillar 3 reports saw a marginal but uneven improvement in terms of the number and quality of the disclosures. However, a significant number of banks in the EBA's sample failed to provide some or most of these disclosures, despite explanations provided in Annex II of last year report. The findings of the latter still apply and this year the following needs for improvement were identified.

#### *Qualitative requirements*

- Descriptions of methodologies and techniques to monitor and measure market risk (Directive 2006/48/EC Annex XII Part 2 point 10(a))

Nearly all credit institutions in the sample provided at least a brief description of the models used to measure market risks and information on how models are back-tested for accuracy. In most cases, credit institutions also added qualitative information about stress testing and the calculation of the incremental risk charge (capital charge for default and migration risk for debt securities) and the comprehensive risk measure (capital charge for securitisation positions in correlation trading portfolios), which complement the measurement accuracy of the internal models.

Nevertheless, qualitative disclosures on methodologies remain an area of disclosures where significant improvements in descriptions provided by the credit institutions can be made, in particular with regard to descriptions of stress testing (see below) and additional requirements introduced in



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2011. The amount of information provided on the methodologies related to the capital charges for default and correlation trading portfolios varied significantly. While some credit institutions did not go beyond a description of basic elements of the models and techniques commonly used by the financial industry, others provided more detailed, informative and tailored disclosures, for instance regarding models used.

As last year, most credit institutions did not provide the required breakdown of the qualitative information per individual sub-portfolio. Where methodologies do not vary per sub-portfolio, it would be very helpful if this was clarified in the disclosures. Where methodologies do vary from sub-portfolio to sub-portfolio, clarification of any differences in methodologies should be provided. There was a lack of improvement in this part of the requirements. Around a third of credit institutions provide disclosures on Value at Risk (VaR) or stressed VaR by subsidiary or business lines, but these disclosures were more often quantitative disclosures than qualitative disclosures on the specificities, if any, of the models used by these subsidiaries. A couple of institutions clearly disclosed the number of different models they used.

Lastly, as with quantitative disclosures, more clarity about the type of VaR model that is described (management VaR model or regulatory VaR model, when different) could be provided.

- Disclosures about stress testing (Directive 2006/48/EC Annex XII Part 2 point 10(a))

The significant diversity in the disclosures provided on stress testing observed last year was confirmed. For example, some credit institutions provided detailed descriptions of the stress scenarios applied, whilst others were more generic or simply limited their disclosure to descriptions of stress testing as a technique. In addition, although some credit institutions continued to disclose additional quantitative information about the outcomes of their stress testing, like the average losses by scenarios, or results by risk factors or geography, the majority of the banks in the sample did not add this element to their disclosures, sometimes cautioning that such information would lack in comparability due to the different assumptions used by institutions. Around 10% of credit institutions have slightly improved their backtesting disclosures compared to last year by providing more details on their processes and methodologies

- Disclosures about valuation models and adjustments to achieve prudent valuation (Directive 2006/48/EC Annex XII Part 2 point 10(c))

As last year, one third of the credit institutions provided insufficient disclosures on the extent of the use of valuation models and the different types of adjustments carried out to achieve prudent valuation. Where credit institutions partially complied with this requirement, they often only included accounting information or references to such information. In addition, in many instances a clear reference to the types of products these valuation techniques relate to was missing.

### ***Quantitative requirements***

In general, it was noted that market risk disclosures would benefit from additional information making clear the linkage between the balance sheet, the income statement and the reported regulatory figures.

Specifically regarding Directive 2006/48/EC disclosures requirements, the following was noted:

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- Breakdown of market risk capital requirements (Directive 2006/48/EC Annex XII Part 2 point 9)

Some credit institutions did not provide a breakdown of the capital requirement by risk type for portfolios under the standardised approach. However, a few credit institutions provided an adequate breakdown of the capital requirement for portfolios under the internal models approach.

Almost one third did not disclose the capital requirements for specific interest rate risk of securitisation positions (compared to more than 40%) last year. As last year however, there was a lack of uniformity in the location of this information (found either in the market risk or in the capital adequacy section of reports depending on the institution), as well as a lack of cross-reference to and interaction with the securitisation section. Indeed, only a couple of credit institutions explain the difference, if any, between these capital requirements for specific position risk and the capital requirement figures disclosed for retained and purchased trading book securitisation exposures.

- New incremental risk charge (IRC), comprehensive risk measure (CRM) and stressed VaR measure (Directive 2006/48/EC Annex XII Part 2 Point 10(d) and (e))

Although notable improvements have been made, almost half of the credit institutions using internal models to calculate the market risk capital requirement again did not disclose adequate quantitative information relating to the IRC (highest, lowest and mean of the capital charge, or amount of capital), CRM (highest, lowest and mean of the capital charge, or amount of capital) and stressed VaR. Although more credit institutions this year disclosed the capital changes at year end (the rate of non-disclosures has fallen from around half to around one third), a subset of these banks failed to disclose the information on the variation in these estimates throughout the year (minimum, maximum, average). Conversely, some institutions disclosed the capital requirements associated with the IRC and CRM but did not disclose the capital charge, while the existing floor on IRC and CRM means capital requirements may differ from capital charges. Some credit institutions, regardless their provision of the capital charge, also disclosed the amount of risk-weighted assets (RWA) drawn from the capital requirements.

Moreover, some quantitative disclosures of VaR and stressed VaR related to the management VaR and not to the regulatory VaR used to compute capital requirements and in other cases, especially when market risk disclosures were referred to annual report, no information tended to be provided about the nature of the models. Where management VaR were used (or where it could be assumed that they were used), no information was provided on how capital requirements were derived from these management VaR figures.

- Backtesting of internal models used to calculate market risk capital requirements (Directive 2006/48/EC Annex XII Part 2 Point 10f)

Although more credit institutions provided a comparison between the daily VaR measure and the daily gains and losses in their 2012 Pillar 3 report, approximately a quarter (down from a third last year) of the credit institutions in the sample did not disclose this information or provided this comparison with insufficient detail (for instance, provision of two charts – one for the VaR the other for the daily P&L – that are difficult to relate to each other due to different scales and units used). Moreover, despite the improvement in the number of credit institutions reporting backtesting exceptions ('overshooting') or the absence thereof, there remains ample scope for improvement with regard to providing a sufficiently detailed analysis of such instances. In particular, in many cases, credit institutions providing overshooting analysis failed to disclose its impact on the models used and any steps taken to adjust those models.

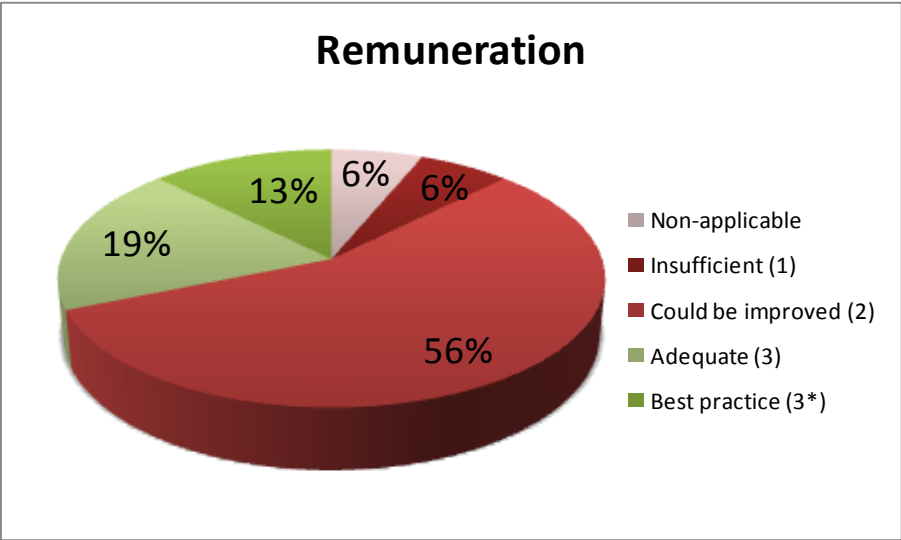
It was considered beneficial to have information on overshooting reports against daily gains and losses reports. Institutions tended to provide disclosures on backtesting exceptions only when they exceeded a certain pre-determined threshold as per NSA internal model approval criteria. Nevertheless the EBA believes it would be relevant also to provide disclosures on these exceptions below the threshold, as the explanation of any backtesting exception during the reporting period would add to the understanding about the functioning, effectiveness and reliability of the model used. The EBA also believes that it would be good practice for banks to provide disaggregated over-shootings analysis in addition an analysis at group level, for example at business area or entity level.

**Best practices identified**

- Discussion and quantification of changes to the RWA, (HSBC) to the model (RBS) and to VaR backtesting (Barclays)
- Comprehensive summary of the market risk models used and the specific portfolio against which they are deployed and their features for each trading product (Barclays);
- Quantitative presentation of VaR or stressed VaR by risk type (BBVA,Deutsche Bank, Societe Generale, BNP Paribas, Royal Bank of Scotland, Santander) and by business division and risk type (UBS), and by geographical regions and risk type (Santander);
- Description of application of IRC and CRM concepts, methodology underlying their calculations and verification (Deutsche Bank) and quantitative disclosure on capital charges amount of required regulatory capital per business division (Deutsche Bank, UBS) or by internal rating and product (Barclays);
- Presentation of stress test results per scenario and geographical region (UniCredit Group), or per risk factor and geographical region (Santander) and average amounts for historical and hypothetical stress tests throughout the year (Société Générale);
- Clear explanation on VaR backtesting methodology , for example by including explanation on how the P&L overshooting is calculated, or whether a static or dynamic window is used (RBS,Santader); disclosure of a VaR disaggregated over-shooting analysis (Barclays)

**3.4 Remuneration disclosures**

**Findings and observations**



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A total of three credit institutions have been excluded from the assessment as their remuneration reports had not been released at the time of analysis (percentages in the chart and in the text have therefore been calculated out of a sample of 16 credit institutions).

No significant changes were noted in disclosures on remuneration compared to last year, although slight improvements were seen in the qualitative disclosures of around 20% credit institutions, and new examples of best practices were identified. Nevertheless, room for improvements remain, especially regarding quantitative disclosures: as last year, compliance with the requirements of Directive 2006/48/EC is higher regarding qualitative requirements than quantitative requirements.

As remuneration reports have generally become more detailed and comprehensive, due to some jurisdictions having specific disclosure requirements in this field on the top of Pillar 3 requirements, the EBA believes that it would be helpful for users if an overview outlining the key points of the general compensation system, including the specific rules that may apply to key risk takers, was provided. There has been no link noted between length of the reports and full compliance with the disclosures requirements.

### *Qualitative information*

In most banks, qualitative information was comprehensive and compliant, although the level of details varied.

Most institutions provided disclosures on the remuneration decision making process, and the role of the Remuneration Committee and different stakeholders like consulting firms in this process (Directive 2006/48/EC Annex XII Part 2 point 15(a)). The scope of application of the remuneration policy and how it applied to risk-takers was also clearly identified in many reports, although more details on the process for identifying key risk takers and on how this category of staff interacts with other notions used in disclosures, such as 'regulated population' would have been useful.

Disclosures on elements of the remuneration systems (Directive 2006/48/EC Annex XII Part 2 point 15(c)) were satisfactory overall, with most of institutions providing information on their deferral rates or policies, the applicable split between cash and shares, the existence of caps (maximum variable/fixed remuneration ratio), the different instruments that can be awarded in the remuneration policy, the different share plans applicable in different jurisdictions, or the different retention requirements for shares awarded.

Overall, information about the link between performance and pay (Directive 2006/48/EC Annex XII Part 2 point 15(b), (d), (e)) was provided by institutions, such as the indicators that trigger the release of bonuses at group, division or individual level, or in some cases the different weightings that are applied to the different performance criteria to reach the amount of variable remuneration. Some institutions however focused their disclosures on the link between performance and pay and performance criteria used for variable compensation allocation, but also vesting periods and clawback rules, at the level of the Chief Executive Officer/Chief Financial Officer or at the group or division level, while being more general about how these elements applied to other risk-takers at individual level.

There could be general improvement in qualitative disclosures on:

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- the definitions of notions like ‘risk taker’ in the organisation and the split between executive and non executives;
  - how the remuneration system is likely to vary for the different type of regulated population, especially for employees in control functions, for which only a handful of institutions have specific disclosures;
  - the way remuneration policies take future risks into account, although this specific aspect has improved slightly since last year;
  - the practical details of vesting criteria and clawback (for instance vesting periods or conditions for vesting, situations that can give rise to clawback of deferred remuneration).

### *Quantitative information*

With the exception of one institution which provided little quantitative information, most of banks provide the required quantitative information for key risk takers (Directive 2006/48/EC Annex XII Part 2 point 15 (g)), although there is still room for improvement for instance regarding disclosures pertaining to vested and unvested remuneration amounts and those pertaining to the disclosure of remuneration by business line (some institutions only identify Commercial & Investment Banking as a business line).

Quantitative information on severance payments and especially the highest award to a single person was not provided by some banks. Although deferred outstanding remuneration was provided by all banks, a couple of them did not split this amount between vested and unvested components. Moreover, the EBA noted that institutions that provided qualitative information on their different categories of employees considered as key risk takers sometimes did not provide detailed or separate quantitative information for each category. Detailed information might for instance be provided only for executive management, or there might be no separation between senior management and other risk takers.

### Examples of best practice

- Examples and graphs on the workings of the compensation system (UBS)
- Reconciliation between compensation and accounting costs (UBS)
- Benchmarking of peers (UBS)
- Variable remuneration expressed as share of operating income, shareholder equity, total assets, total cost of labour (Intesa San Paolo)
- Description of how the bank takes current and future risk into account (BBVA)
- Geographical scope of the remuneration policy (Societe Generale) and information on the details of this policy by geographical area (UBS)
- Description on the methodology for calculating the variable remuneration (Santander)

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## 4. Thematic study on regulatory information in interim disclosures

The thematic study focuses on regulatory-related information available in information released at interim reporting dates in 2012. This information comprises interim, financial and management reports, presentations to analysts, press releases and interim Pillar 3 reports.

Directive 2006/48/EC does not contain requirements regarding interim disclosures, but instead empowers supervisors to require credit institutions to assess whether they need to release interim regulatory-type information, especially on certain areas of risks (own funds, capital requirements, risk exposures), should the relevant characteristics of their business justify such interim disclosure of regulatory information.

All institutions in the sample but two were covered by the thematic study, as all of these release some interim disclosures containing some regulatory-type information. The nature of these interim disclosures varies depending on the choices made by credit institutions and the different applicable legal frameworks. For example, interim disclosures requirements are stricter for listed entities, and some jurisdictions (Italy and Switzerland) require credit institutions to release interim Pillar 3 reports.

Accordingly, this thematic study does not assess the compliance of credit institutions' disclosure of regulatory-type information in their interim releases against requirements set by Directive 2006/48/EC, but to assess the similarities and divergences in the practices of reporting regulatory information in interim disclosures.

### 4.1 Findings and observations: format and frequency

**For most of the institutions in the sample, regulatory-type information is channelled to users via presentations to analysts.**

Interim regulatory-related information can be found in various forms, including interim Pillar 3 reports (when its publication is mandatory according to national requirements) or updates on the content of annual Pillar 3 report in the quarterly/half-year annual report when the Pillar 3 report is inter-related to the annual report. For most of the institutions in the sample, most regulatory-type information is channelled to users via presentations to analysts. The regulatory-type information in these presentations tend to be more comprehensive and detailed on regulatory-type information than other interim disclosures like press releases, interim financial statements and interim management reports, which most often focus on accounting information.

**Frequency: many credit institutions channel regulatory type information on a quarterly basis**

The frequency of disclosures remains linked to the legal nature of institutions and the legal disclosure requirements applicable in the jurisdiction in which the institution is headquartered.

Most institutions in the sample have quarterly disclosures, which always contain some regulatory-type information. Most of information on capital, capital instruments and ratios, as well as RWA is therefore provided quarterly, sometimes together with topical information, for instance about the consequences on capital and RWA of changes in a regulatory/accounting treatment or of the challenges facing some regions.

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## Existing room to foster comparability

Comparability of voluntary disclosures at interim reporting dates, both in terms of content and of presentation remains an issue, which is not unexpected because the same conclusions was drawn for year-end disclosures required by regulatory provisions.

### 4.2 Findings and observations: nature of regulatory-type information in interim disclosures

The nature of regulatory-type information provided differs across banks. However, similarities do exist, as most institutions disclose a common set of information, albeit with different levels of granularity. This common set relates to capital, capital adequacy and RWA. More granular disclosures in these areas, as well as more developed disclosures on other areas of risk such as market risk, equity and interest risk and securitisations tend to be provided only on a semi-annual basis, for instance in the required interim Pillar 3 reports that are more granular than press releases or presentations to analysts.

#### 4.2.1 Interim Pillar 3 reports published in accordance with national requirements

##### Requirements and voluntary publication

A total of three institutions have to release interim Pillar 3 reports in accordance with national legislative requirements, with two having to make quarterly releases and one a half-yearly report. In addition to these required Pillar 3 reports, these institutions also voluntarily provide regulatory-type information in their other interim releases containing.

##### Diversity of content

Overall, the content of required interim Pillar 3 reports from these three institutions in the sample is similar to the content of annual Pillar 3 reports in terms of the areas of risk covered (all those from Annex XII of Directive 2006/48/EC), including the granularity of information and presentation format. Nevertheless, if permitted by their national regulations some institutions have chosen to keep their interim Pillar 3 report more quantitative in nature and to make a cross-reference to their annual Pillar 3 releases for qualitative disclosures, apart from qualitative information on IRB credit risk.

Moreover, some national regulations require more or less detailed interim Pillar 3 reports depending on the period, with quarterly issues being focused on a limited number of risks and the half-year releases being complete Pillar 3 reports. The risks included in the quarterly Pillar 3 reports may relate to capital structure (amounts, deductions and characteristics of own funds) and capital adequacy (amounts of RWA and capital requirements by types of risks).

Lastly, information conveyed through these interim Pillar 3 reports may be supplemented by or duplicated in other forms of disclosures, for instance interim financial reports or presentations to analysts.



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#### 4.2.2 Common base of regulatory-type information published by credit institutions in other forms of interim disclosures

Other forms of interim disclosures are interim financial reports, presentations to analysts, press releases and ad hoc disclosures. Regulatory-related interim disclosures tend to be less granular and less detailed than disclosures provided in annual Pillar 3 reports, especially as regards qualitative information. Nevertheless, regulatory-related interim disclosures may sometimes be more detailed than annual Pillar 3 reports on drivers for change from period to period for different metrics.

##### **Capital disclosures: basic information available for users**

All banks provide information on the structure of regulatory capital (nature and components of own funds), and at least the amount of Core Tier 1 capital, Tier 1 and total regulatory capital. Qualitative and quantitative information is also provided about the changes and the drivers of changes in these amounts and the capital structure since the last reporting period, sometimes with reconciliation charts. Data on Tier 2 and Tier 3 capital are less often provided.

The granularity of disclosures varies, especially with regard to the identification of the amount of different capital instruments and of the different deductions. Fewer credit institutions publish information on the characteristics of capital instruments, which in some cases has to be found elsewhere on the credit institution website. Overall, disclosures in interim financial statements and management reports tend to be more granular than disclosures in presentations to analysts and they have a similar structure to the own funds quantitative disclosures in annual Pillar 3 reports.

##### **Capital adequacy and RWA disclosures: information is provided on a quarterly basis, with differences in its granularity**

These disclosures are those provided under a CRD III/Basel 2,5 regime. They mostly deal with capital ratios (with a focus on Tier 1, Core Tier 1 capital and total capital ratios), capital requirements and RWA by risk types (credit, market, operational). Institutions also disclose the drivers of changes noted in these ratios and RWA – including anticipated changes due to modifications in regulatory treatments of some exposures and the existence of transformation plans. These disclosures on changes are provided both in written form and also in reconciliation graphs or tables (including flow statements), for instance for their Core Tier 1 ratio, and the changes in the amount of RWA since the last reporting period. Disclosures on changes in ratios or RWA are sometimes provided at specific segment level, like investment banking.

As with capital disclosures, all credit institutions provide the information set out above, but with different levels of granularity. Some institutions provide more granular disclosures than others with the breakdown of RWAs, capital or capital requirements by regulatory approach, business lines, geography or subsidiaries, or they include more drivers in the reconciliation charts.

While interim financial statements and management reports tend to be more granular than presentations to analysts, those presentations are clearer about the quantification of drivers of changes in RWA or capital ratios, through the use of reconciliation graphs. The same observation could be made for required interim Pillar 3 reports vis-a-vis such presentations.



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Most credit institutions supplement ratio and capital disclosures, at least for their Q1 2012 and Q2 2012 disclosures, with information on the outcome or the trajectory of the EBA Capital exercise – target Core Tier 1 ratio of 9% by June 2012 – and the preparation to/impact of Basel III (see below).

#### 4.2.3 Other regulatory-type information published by credit institutions in other forms of interim disclosures

Other than the common set of information described above, regulatory related information is more limited, and most of the time is provided only by those institutions that are also required to release interim Pillar 3 reports.

#### **Risk exposure information: emphasis on specific topics may be provided**

While risk exposure information is provided by all institutions in the sample, some institutions emphasise on their exposures in specific sectors (for example, sovereign exposures or real estate). These disclosures complement more or less granular disclosures on impaired loans, impairment allowance and coverage ratios, sometimes broken down per geographical region or business line. Quantitative information is sometimes supported by qualitative information on changes in portfolios and challenges met in particular geographical regions, or (in interim Pillar 3 reports only) information on credit risk management (models used, strategies).

Although breakdown of exposures can be carried out using the Basel portfolios in all types of interim disclosures, only the required interim Pillar 3 reports provide comprehensive information on credit risk separately for exposures under the Standard and the IRB approach. Information in other reports has a much lower level of granularity than annual Pillar 3 disclosures. .

#### **Disclosure of additional regulatory-related information tend to be limited**

- ▶ Scope of application: A couple of institutions only provide information on differences between accounting and regulatory scopes of consolidation.
- ▶ Securitisation risk: No regulatory information is disclosed in publications other than required interim Pillar 3 reports except for one institution that discloses the exposure value and amounts of RWA.
- ▶ Market risk: Little information can be found as quarterly quantitative disclosures. Information tends to focus on amount of RWA, sometimes broken down by type of risk, related capital requirements and management VaR and stressed VaR rather than the regulatory measures.
- ▶ Interest risk and equity risk in the banking book: Information on this topic is limited and rather qualitative in nature; it is mostly provided in required interim Pillar 3 (or financial statements where both are inter-related).
- ▶ Operational risk: Interim disclosures in this area are rather scarce and focus more on operational risk RWA, on the implementation of management framework or on specific incidents rather than on developed quantitative information about this area of risk.
- ▶ Remuneration: In general limited disclosures are provided on an ad hoc basis, for instance to set out changes made to the remuneration system; nevertheless one institution provides its remuneration report in its Q1 interim disclosures and another provides more information

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about the design of its remuneration system and compliance with local rules in a specific report.

#### 4.2.4 Basel III disclosures

##### **Most banks provides stakeholders with better information than seen the previous EBA review on the impact of Basel III**

Most banks in the sample disclosed some interim regulatory-type information on the impact of Basel III or their preparation for this regulatory change. As noted last year<sup>13</sup>, a couple of institutions did not provide quantitative disclosures but mentioned they have preparation plans.

Information is communicated quarterly, essentially through presentations to analysts, and it can represent a significant part of these presentations. More limited information is to be found in interim reports, with required interim Pillar 3 reports tending to focus on disclosures following a CRD III scope.

##### **Backward and forward looking data are disclosed supplemented by explanatory qualitative information**

The information mainly relates to the amount of capital, the RWA and thus the ratios under the Basel III fully-loaded and phased-in regimes, and how these figures compare with – the current ratios and RWA levels, with the differences explained. Qualitative and quantitative information is also provided by some credit institutions on the progress made as part of transformation plans towards reaching these amounts of RWA, Common Equity Tier 1 capital and CET1 ratio, with levels displayed at different points in time and comparisons with the targets by the credit institutions.

Where targets change, specific disclosures are provided, outlining the reasons for changes and the new targets set. These targets can be expressed as a CET1 ratio or as an amount of RWA to be reached under a phased-in or fully-loaded regime, or under both regimes, at different dates (the target dates are not the same in different institutions).

Progress and transition are disclosed via comparisons of amounts and levels in different periods and through reconciliation charts or tables between Basel 2,5 and Basel III RWA, Basel 2,5 and Basel III CET1, and levels of Basel III capital and RWA in different periods. The granularity of these disclosures varies according to the institutions (not all institutions identify the same drivers for impacts, and some include their mitigating measures such as deleveraging and other management action) while others do not quantify them. This quantitative information on comparison and reconciliation are accompanied by qualitative information on the nature of the Basel III (phased-in, fully-loaded) and the assumptions used to estimate them and the impact of Basel III on current levels of capital and RWA.

Specific qualitative and quantitative information about these transformation plans can be provided globally at group level but also separately for some business lines like investment banking, or some specific transactions or portfolios.

Most of the findings and recommendations highlighted in the EBA's thematic study on this topic in last year's report remain topical, in particular the need to specify the assumptions under which disclosures

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<sup>13</sup> <http://www.eba.europa.eu/documents/10180/25763/Follow-up-review-of-banks-transparency-in-their-2012-Pillar-3-report.pdf>

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are provided, and whether they refer to a phased-in or fully loaded regime. Nevertheless some improvements were noted in these areas compared to last year, with more credit institutions specifying the various assumptions they used to estimate their future levels of capital and RWA, and more providing figures under both the phased-in and the fully-loaded regulatory regime (or stating clearly which approach they adopt for their disclosures).

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## Annex I – Sample for the 2013 assessment

a/a	Country	Credit institution
1.	AT	Erste Bank
2.	AT	RZB
3.	CH	UBS
4.	DE	Commerzbank
5.	DE	Deutsche Bank
6.	DE	DZ Bank
7.	ES	BBVA
8.	ES	Santander
9.	FR	BNP Paribas
10.	FR	Crédit Agricole SA
11.	FR	Société Générale
12.	IT	IntesaSanPaolo
13.	IT	UniCredit Group
14.	LU	BCEE
15.	NL	ING
16.	NL	Rabobank International
17.	UK	Barclays
18.	UK	HSBC
19.	UK	Royal Bank of Scotland

Credit institution:	Link to Pillar 3 report:			
CRD DISCLOSURE REQUIREMENTS	Score	Best practices from the 2012 EBA report	Summary description of disclosures and related observations / Assessment and comments	Comparison to the previous assessment [with reference to the (Y-1) score]
<p><b><u>Scope of consolidation: Annex XII, Part 2, point 2 (a)-(e)</u></b> The following information shall be disclosed regarding the scope of application of the requirements of this Directive:</p> <p>(a) the name of the credit institution to which the requirements of this Directive apply;</p> <p>(b) an outline of the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities that are:</p> <p>(i) fully consolidated;</p> <p>(ii) proportionally consolidated;</p> <p>(iii) deducted from own funds; or</p> <p>(iv) neither consolidated nor deducted;</p> <p>(c) any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries;</p> <p>(d) the aggregate amount by which the actual own funds are less than the required minimum in all subsidiaries not included in the consolidation, and the name or names of such subsidiaries; and</p> <p>(e) if applicable, the circumstance of making use of the provisions laid down in Articles 69 and 70.</p>		Some banks described the evolution of the consolidation scope due to changes in the perimeter and corporate transactions		
<p><b><u>Own funds: Annex XII, Part 2, point 3 (a)-(e)</u></b> The following information shall be disclosed by the credit institutions</p>		<ul style="list-style-type: none"> <li>clear disclosures regarding the reconciliation between IFRS</li> </ul>		

Credit institution:	Link to Pillar 3 report:			
CRD DISCLOSURE REQUIREMENTS	Score	Best practices from the 2012 EBA report	Summary description of disclosures and related observations / Assessment and comments	Comparison to the previous assessment [with reference to the (Y-1) score]
<p><i>regarding their own funds:</i></p> <p>(a) <i>summary information on the terms and conditions of the main features of all own-funds items and components thereof; including instruments referred to in Article 57(ca), instruments the provisions of which provide an incentive for the credit institution to redeem them, and instruments subject to Article 154(8) and (9);</i></p> <p>(b) <i>the amount of the original own funds, with separate disclosure of all positive items and deductions; the overall amount of instruments referred to in Article 57(ca) and instruments the provisions of which provide an incentive for the credit institution to redeem them, shall also be disclosed separately; those disclosures shall each specify instruments subject to Article 154(8) and (9);</i></p> <p>(c) <i>the total amount of additional own funds, and own funds as defined in Chapter IV of Directive 2006/49/EC,</i></p> <p>(d) <i>deductions from original and additional own funds pursuant to Article 66(2), with separate disclosure of items referred to in Article 57(q);</i></p> <p>(e) <i>total eligible own funds, net of deductions and limits laid down in Article 66.</i></p>		<p>equity and prudential own funds;</p> <ul style="list-style-type: none"> <li>• informative disclosures on regulatory capital and its components (Core Tier 1, Tier 1, Tier 2 and Tier 3, if any);</li> <li>• comments on changes compared with the previous year; and</li> <li>• detailed disclosures on the revaluation reserves linked to AFS exposures.</li> </ul>		
<p><b><u>Securitisation: Annex XII, Part 2, point 14 (a) – (q)</u></b></p> <p><i>The credit institutions calculating risk weighted exposure amounts in accordance with Articles 94 to 101 or capital requirements in accordance with point 16a of Annex I to Directive 2006/49/EC shall disclose the following information, where relevant, separately for their trading and non-trading book:</i></p>		<ul style="list-style-type: none"> <li>• information on the prudential de-recognition criteria;</li> <li>• identification of the retained part of originated exposures;</li> <li>• detailed information on the involvement in originated transactions and on exposures to</li> </ul>		

Credit institution:	Link to Pillar 3 report:		
CRD DISCLOSURE REQUIREMENTS	Score	Best practices from the 2012 EBA report	Summary description of disclosures and related observations / Assessment and comments  Comparison to the previous assessment [with reference to the (Y-1) score]
<p>(a) description of the credit institution's objectives in relation to securitisation activity;</p> <p>(b) The nature of other risks including liquidity risk inherent in securitised assets;</p> <p>(c) the types of risks in terms of seniority of underlying securitisation positions and in terms of assets underlying those latter securitisation positions assumed and retained with re-securitisation activity.</p> <p>(d) the different roles played by the credit institution in the securitisation process.</p> <p>(e) an indication of the extent of the credit institution's involvement in each of the roles referred to point (d).</p> <p>(f) a description of the processes in place to monitor changes in the credit and market risk of securitisation exposures including, how the behaviour of the underlying assets impacts securitisation exposures and a description of how those processes differ for re-securitisation exposures.</p> <p>(g) A description of the credit institution's policy governing the use of hedging and unfunded protection to mitigate the risks of retained securitisation and re-securitisation exposures, including identification of material hedge counterparties by relevant type of risk exposure.</p> <p>(h) the approaches to calculating risk weighted exposure amounts that the credit institution follows for its securitisation activities including the types of securitisation exposures to which each approach applies.</p> <p>(i) the types of SSPE that the credit institution, as sponsor, uses to securitise third-party exposures including whether and in what form and to what extent the credit institution has exposures to those SSPEs, separately for on- and off-balance sheet</p>		<p>SSPEs;</p> <ul style="list-style-type: none"> <li>• geographical breakdown of securitised exposures;</li> <li>• information on RWAs associated with securitisation positions by exposure class;</li> <li>• information on the management of securitisation risks not limited to credit and market risks;</li> <li>• definition of concepts;</li> <li>• provision of information on the seniority the rating of securitisation exposures.</li> </ul> <p><u>Enhanced explanations from Annex II of the 2012 EBA report on 2011 Pillar 3 disclosures:</u></p> <ul style="list-style-type: none"> <li>• listing and description of risks associated with securitisation for each product/asset class, with consideration of the impact of stress scenarios</li> <li>• description of the tranches of underlying securitisation exposures and their risk (nature and type of the underlying assets, origination vintage, credit rating) for each resecuritisation product in which the institution has significant</li> </ul>	

Credit institution:	Link to Pillar 3 report:		
CRD DISCLOSURE REQUIREMENTS	Score	Best practices from the 2012 EBA report	Summary description of disclosures and related observations / Assessment and comments  Comparison to the previous assessment [with reference to the (Y-1) score]
<p><i>exposures, as well as a list of the entities that the credit institution manages or advises and that invest in either the securitisation positions that the credit institution has securitised or in SSPEs that the credit institution sponsors;</i></p> <p><i>(j) a summary of the credit institution's accounting policies for securitisation activities, including:</i></p> <p><i>(i) whether the transactions are treated as sales or financings;</i></p> <p><i>(ii) the recognition of gains on sales;</i></p> <p><i>(iii) the methods, key assumptions, inputs and changes from the previous period for valuing securitisation positions;</i></p> <p><i>(iv) the treatment of synthetic securitisations if this is not covered by other accounting policies.</i></p> <p><i>(v) how assets awaiting securitisation are valued and whether they are recorded in the credit institution's non-trading book or the trading book;</i></p> <p><i>(vi) policies for recognising liabilities on the balance sheet for arrangements that could require the credit institution to provide financial support for securitised assets;</i></p> <p><i>(k) the names of the ECAs used for securitisations and the types of exposure for which each agency is used.</i></p> <p><i>(l) where applicable, a description of the Internal Assessment Approach as set out in Part 4 of Annex IX, including the structure of the internal assessment process and relation between internal assessment and external ratings, the use of internal assessment other than for IAA capital purposes, the control mechanisms for the internal assessment process including discussion of independence, accountability, and internal assessment process review, the exposure types to</i></p>		<p>activities</p> <ul style="list-style-type: none"> <li>• description of processes, tools and IT infrastructure use to monitor risks at different levels (deal, business line...)</li> <li>• description of hedging strategies and of the main guarantors/hedge counterparties by main types of hedged exposures/risks</li> <li>• lists of SSPEs, money market mutual funds, personal and private trusts the institution has exposures to or that invest in originated securitisation positions (name, activities, types of assets and liabilities, consolidation status, extent of exposures)</li> <li>• criteria used to assess risk transfer and how they differ from the accounting criteria</li> <li>• specification of the exposures values disclosed</li> <li>• breakdown of securitisation exposures by types of securities and underlying, with separate identification of exposure classes making up more than 10% of aggregated securitisation exposures</li> </ul>	



Credit institution:	Link to Pillar 3 report:			
CRD DISCLOSURE REQUIREMENTS	Score	Best practices from the 2012 EBA report	Summary description of disclosures and related observations / Assessment and comments	Comparison to the previous assessment [with reference to the (Y-1) score]
<p><i>which the internal assessment process is applied and the stress factors used for determining credit enhancement levels, by exposure type;</i></p> <p><i>(m) an explanation of significant changes to any of the quantitative disclosures in points (n) to (q) since the last reporting period;</i></p> <p><i>(n) separately for the trading and the non-trading book, the following information broken down by exposure type:</i></p> <p><i>(i) the total amount of outstanding exposures securitised by the credit institution, separately for traditional and synthetic securitisations and securitisations for which the credit institution acts only as sponsor;</i></p> <p><i>(ii) the aggregate amount of on-balance sheet securitisation positions retained or purchased and off-balance sheet securitisation exposures;</i></p> <p><i>(iii) the aggregate amount of assets awaiting securitisation;</i></p> <p><i>(iv) for securitised facilities subject to the early amortisation treatment, the aggregate drawn exposures attributed to the originator's and investors' interests respectively, the aggregate capital requirements incurred by the credit institution against the originator's interest and the aggregate capital requirements incurred by the credit institution against the investor's shares of drawn balances and undrawn lines;</i></p> <p><i>(v) the amount of securitisation positions that are deducted from own funds or risk-weighted at 1 250 %;</i></p> <p><i>(vi) a summary of the securitisation activity of the current period, including the amount of exposures securitised and recognised gain or loss on sale.</i></p> <p><i>(o) separately for the trading and the non-trading book, the</i></p>		<ul style="list-style-type: none"> <li>• identification of the securitisation exposures for which the institution is both the originator and the sponsor</li> <li>• tabular disclosure of the exposure amount and capital requirements by risk-weight band for each regulatory capital approach used</li> <li>• separate disclosures of impaired/past-due assets and losses for originator and sponsor activities, and for synthetic and traditional transactions</li> </ul>		

Credit institution:	Link to Pillar 3 report:			
CRD DISCLOSURE REQUIREMENTS	Score	Best practices from the 2012 EBA report	Summary description of disclosures and related observations / Assessment and comments	Comparison to the previous assessment [with reference to the (Y-1) score]
<p><i>following information:</i></p> <p><i>(i) the aggregate amount of securitisation positions retained or purchased and the associated capital requirements, broken down between securitisation and re-securitisation exposures and further broken down into a meaningful number of risk-weight or capital requirement bands, for each capital requirements approach used;</i></p> <p><i>(ii) the aggregate amount of re-securitisation exposures retained or purchased broken down according to the exposure before and after hedging/insurance and the exposure to financial guarantors, broken down according to guarantor credit worthiness categories or guarantor name;</i></p> <p><i>(p) for the non-trading book and regarding exposures securitised by the credit institution, the amount of impaired/ past due assets securitised and the losses recognised by the credit institution during the current period, both broken down by exposure type.</i></p> <p><i>(q) for the trading book, the total outstanding exposures securitised by the credit institution and subject to a capital requirement for market risk, broken down into traditional/synthetic and by exposure type.’;</i></p>				

Credit institution:	Link to Pillar 3 report:			
CRD DISCLOSURE REQUIREMENTS	Score	Best practices from the 2012 EBA report	Summary description of disclosures and related observations / Assessment and comments	Comparison to the previous assessment [with reference to the (Y-1) score]
<p><b>Remuneration: Annex XII, Part 2, point 15 (a) – (h)</b>  <i>The following information, including regular, at least annual, updates, shall be disclosed to the public regarding the remuneration policy and practices of the credit institution for those categories of staff whose professional activities have a material impact on its risk profile:</i></p> <p>(a) <i>information concerning the decision-making process used for determining the remuneration policy, including if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders.</i></p> <p>(b) <i>information on link between pay and performance.</i></p> <p>(c) <i>the most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria.</i></p> <p>(d) <i>information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based.</i></p> <p>(e) <i>the main parameters and rationale for any variable component scheme and any other non-cash benefits.</i></p> <p>(f) <i>aggregate quantitative information on remuneration, broken down by business area.</i></p> <p>(g) <i>aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the credit institution, indicating the following:</i></p>		<ul style="list-style-type: none"> <li>comprehensive information on compensation governance, compensation schemes and employees involved</li> <li>reconciliation of bonus pool to accounting costs</li> </ul>		

Credit institution:	Link to Pillar 3 report:			
CRD DISCLOSURE REQUIREMENTS	Score	Best practices from the 2012 EBA report	Summary description of disclosures and related observations / Assessment and comments	Comparison to the previous assessment [with reference to the (Y-1) score]
<p>(i) the amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries;</p> <p>(ii) the amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types;</p> <p>(iii) the amounts of outstanding deferred remuneration, split into vested and unvested portions;</p> <p>(iv) the amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments;</p> <p>(v) new sign-on and severance payments made during the financial year, and the number of beneficiaries of such payments; and</p> <p>(vi) the amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person.</p> <p>(h) Credit institutions shall comply with the requirements set out in this point in a manner that is appropriate to their size, internal organisation and the nature, scope and complexity of their activities and without prejudice to Directive 95/46/EC.</p>				
<p><b>Market risk: Annex XII, Part 2, point 9</b></p> <p>The credit institutions calculating their capital requirements in accordance with Article 75(b) and (c) shall disclose those requirements separately for each risk referred to in those provisions. In addition, the capital requirement for specific interest rate risk of securitisation positions should be disclosed separately</p> <p><b>Market risk: Annex XII, Part 2, point 10 (a) – (f)</b></p>		<ul style="list-style-type: none"> <li>• clear and detailed discussion of models used and validation processes;</li> <li>• detailed description of valuation controls;</li> <li>• clear qualitative and quantitative disclosures on VaR backtesting</li> </ul>		

Credit institution:	Link to Pillar 3 report:		
CRD DISCLOSURE REQUIREMENTS	Score	Best practices from the 2012 EBA report	Summary description of disclosures and related observations / Assessment and comments  Comparison to the previous assessment [with reference to the (Y-1) score]
<p>The following information shall be disclosed by each credit institution which calculates its capital requirements in accordance with Annex V to Directive 2006/49/EC :</p> <p>(a) for each sub-portfolio covered:</p> <p>(i) the characteristics of the models used;</p> <p>(ii) for the capital charges in accordance with points 5a and 5l of Annex V to Directive 2006/49/EC separately, the methodologies used and the risks measured through the use of an internal model including a description of the approach used by the credit institution to determine liquidity horizons, the methodologies used to achieve a capital assessment that is consistent with the required soundness standard and the approach used in the valuation of the model;</p> <p>(iii) a description of stress testing applied to the sub-portfolio;</p> <p>(iv) a description of the approaches used for back-testing and validating the accuracy and consistency of the internal models and modelling processes.</p> <p>(b) the scope of acceptance by the competent authority; and</p> <p>(c) a description of the extent and methodologies for compliance with the requirements set out in Part B of Annex VII to Directive 2006/49/EC.</p> <p>(d) the highest, the lowest and the mean of the following:</p> <p>(i) the daily value-at-risk measures over the reporting period and as per the period end;</p> <p>(ii) the stressed value-at-risk measures over the reporting period and as per the period end;</p> <p>(iii) the capital charges in accordance with points 5a and 5l of Annex V to Directive 2006/49/EC separately over the reporting</p>		<p>and overshootings</p> <p><u>Enhanced explanations from Annex II of the 2012 EBA report on 2011 Pillar 3 disclosures:</u></p> <ul style="list-style-type: none"> <li>• clear and comprehensive description of the methodology and assumptions used for internal models (use of historical data, assessment techniques, description of the model's limits, mitigation strategies)</li> <li>• description of the methodologies applied to achieve prudent valuation of trading positions (extent of use of valuation model, independent price verification processes and their frequency, adjustments carried out – model risk, liquidity, size – and their consequences on the valuation of the position)</li> <li>• information on the reasons for the overshooting, the steps taken to deal with it, and regulatory capital consequences</li> </ul>	

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<p><i>period and as per the period-end;</i></p> <p>(e) <i>the amount of capital in accordance with points 5a and 5l of Annex V to Directive 2006/49/EC separately, together with the weighted average liquidity horizon for each sub-portfolio covered.</i></p> <p>(f) <i>a comparison of the daily end-of-day value-at-risk measures to the one-day changes of the portfolio's value by the end of the subsequent business day together with an analysis of any important overshooting during the reporting period.</i></p>				

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<p><b>IRB approach: Annex XII, Part 3, point 1 (a) – (g)</b>  <i>The credit institutions calculating the risk-weighted exposure amounts in accordance with Articles 84 to 89 shall disclose the following information:</i></p> <p>(a) <i>the competent authority's acceptance of approach or approved transition.</i></p> <p>(b) <i>an explanation and review of:</i>  <i>(i) the structure of internal rating systems and relation between internal and external ratings;</i>  <i>(ii) the use of internal estimates other than for calculating risk-weighted exposure amounts in accordance with Articles 84 to 89;</i>  <i>(iii) the process for managing and recognising credit risk mitigation; and</i>  <i>(iv) the control mechanisms for rating systems including a description of independence, accountability, and rating systems review.</i></p> <p>(c) <i>a description of the internal ratings process, provided separately for the following exposure classes:</i>  <i>(i) central governments and central banks;</i>  <i>(ii) institutions;</i>  <i>(iii) corporate, including SMEs, specialised lending and purchased corporate receivables;</i>  <i>(iv) retail, for each of the categories of exposures to which the different correlations in Annex VII, Part 1, points 10 to 13 correspond; and</i>  <i>(v) equities.</i>  <i>For the purposes of point (c), the description shall include the types of exposure included in the exposure class, the definitions, methods and data for estimation and validation of PD and, if applicable, LGD and conversion factors, including assumptions employed in the derivation of these variables, and the</i></p>		<ul style="list-style-type: none"> <li>• clear information on the scope of application of the IRB approach</li> <li>• clear presentation of the parameters by exposure classes including PD range (to allow for comparison), meaningful differentiation of credit risk, total amounts, comparative amounts</li> <li>• definition of concepts</li> <li>• user-friendly presentation of the rating process by exposure class and of the linkages between internal and external ratings, as well as on the use of internal ratings for other purposes than calculating risk-weighted exposures</li> <li>• disclosures on concentration of exposures (debtor, geography)</li> <li>• backtesting of model performance provided for EL, LGD, PD and EAD, and over a long period</li> <li>• disclosure of the EL/EAD ratio</li> <li>• meaningful information on the factors affecting impairment losses</li> </ul>		

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<p><i>descriptions of material deviations from the definition of default as set out in Annex VII, Part 4, points 44 to 48, including the broad segments affected by such deviations.</i></p> <p>(d) <i>the exposure values for each of the exposure classes specified in Article 86. Exposures to central governments and central banks, institutions and corporates where credit institutions use own estimates of LGDs or conversion factors for the calculation of risk-weighted exposure amounts shall be disclosed separately from exposures for which the credit institutions do not use such estimates.</i></p> <p>(e) <i>for each of the exposure classes central governments and central banks, institutions, corporate and equity, and across a sufficient number of obligor grades (including default) to allow for a meaningful differentiation of credit risk, credit institutions shall disclose:</i></p> <p><i>(i) the total exposures (for the exposure classes central governments and central banks, institutions and corporate, the sum of outstanding loans and exposure values for undrawn commitments; for equities, the outstanding amount);</i></p> <p><i>(ii) for the credit institutions using own LGD estimates for the calculation of risk-weighted exposure amounts, the exposure-weighted average LGD in percentage;</i></p> <p><i>(iii) the exposure-weighted average risk weight; and</i></p> <p><i>(iv) for the credit institutions using own estimates of conversion factors for the calculation of risk-weighted exposure amounts, the amount of undrawn commitments and exposure-weighted average exposure values for each exposure class.</i></p> <p>(f) <i>for the retail exposure class and for each of the categories as defined under point (c)(iv), either the disclosures outlined under (e) above (if applicable, on a pooled basis), or an analysis of exposures (outstanding loans and exposure values for undrawn commitments) against a sufficient number of EL grades to allow</i></p>		<p><u>Enhanced explanations from Annex II of the 2012 EBA report on 2011 Pillar 3 disclosures:</u></p> <ul style="list-style-type: none"> <li>• mapping between internal and external ratings and internal ratings to be provided under a tabular format</li> <li>• EAD and other exposure value to be specified</li> <li>• accounting exposure value to be disclosed for institutions using their own estimates of CCF</li> <li>• reconciliation between EAD and balance sheet figures with the effect of the different drivers (scope, off-balance sheet exposures, valuation)</li> <li>• number of PD grades to be used for the breakdown to be consistent with risk management and provisioning processes</li> <li>• comparative figures to be provided for value adjustments</li> <li>• differences between model assumptions and factors that have impacted losses</li> <li>• backtesting disclosures between</li> </ul>	



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<p><i>for a meaningful differentiation of credit risk (if applicable, on a pooled basis).</i></p> <p>(g) <i>the actual value adjustments in the preceding period for each exposure class (for retail, for each of the categories as defined under point (c)(iv) and how they differ from past experience.</i></p> <p>(h) <i>a description of the factors that impacted on the loss experience in the preceding period (for example, has the credit institution experienced higher than average default rates, or higher than average LGDs and conversion factors).</i></p> <p>(i) <i>the credit institution's estimates against actual outcomes over a longer period. At a minimum, this shall include information on estimates of losses against actual losses in each exposure class (for retail, for each of the categories as defined under point (c)(iv) over a period sufficient to allow for a meaningful assessment of the performance of the internal rating processes for each exposure class (for retail for each of the categories as defined under point (c)(iv)). Where appropriate, the credit institutions shall further decompose this to provide analysis of PD and, for the credit institutions using own estimates of LGDs and/or conversion factors, LGD and conversion factor outcomes against estimates provided in the quantitative risk assessment disclosures above.</i></p> <p><b>Annex XII, Part 2, point 8</b>  <i>The credit institutions calculating the risk-weighted exposure amounts in accordance with Annex VII, Part 1, points 6 or 19 to 21 shall disclose the exposures assigned to each category in Table 1 in point 6 of Annex VII, Part 1, or to each risk weight mentioned in points 19 to 21 of Annex VII, Part 1.</i></p>		<p>EL and actual losses to be accompanied by relevant qualitative information, with comparative information for 3 years minimum</p>		