

Risk Assessment Questionnaire – Summary of Results

December 2016

EBA

EUROPEAN
BANKING
AUTHORITY

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Introduction

The EBA conducts **semi-annual Risk Assessment Questionnaires (RAQs)** among banks and market analysts. This booklet presents a summary of these results of the RAQs **conducted between October and November 2016**. 38 banks or their respective supervisory bodies and 21 market analysts submitted the answers. The RAQ results are also one of the sources of the EBA's annual Risk Assessment Report, as published on 2 December 2016.

The results are presented in an aggregated graphical form. The charts are numbered, with numbers corresponding to the questions in the distributed questionnaire, which can be found in the Appendix. In case the questions have been asked previously in a comparable form, results for the same question from former questionnaires may be presented. For questions for which only one answer was permitted, any potential difference between the sum of shown responses and 100% results from respondents answering with "n/a" or "no opinion".

Should you wish to provide your feedback and/or comments on this booklet, please do not hesitate to do so by contacting risk.analysis@eba.europa.eu.

Summary of the main results

The results of the EBA's RAQs conducted among banks and market analysts between October and November 2016 show that profitability is expected to remain a significant challenge and volume growth is assumed in specific portfolios like SME and retail lending. Operational risks, including litigation related costs, are expected to remain high.

Business model / strategy / profitability

- Banks' long-term profitability targets have continued to decline. Nearly half of the banks replied that they can operate on a longer-term basis with a **Return on Equity (RoE)** in a range between 10% and 12% (agreement of 45%, down from 53% in June 2016). Accordingly, the share of banks which consider a RoE below 10% as a level at which they can operate on a longer-term basis increased from about 20% in June to nearly 30% in December this year. This compares with a current average return on equity of less than 6% for the largest EU banks. At the same time there has been a modest decline in banks' estimate of their **Cost of Equity (CoE)**. 16% of the banks estimate their CoE below 8% (June 2016: 8%). Less than 50% of the banks estimate their CoE between 8% and 10% (down from about 55% in June this year). *(Questions 2 and 7 for banks)*
- Less than 20% of banks agree that their **profitability** will increase in the next six to twelve months, although another 45% somewhat agree that it may. More than 70% (disagree and somewhat disagree) of the market analysts assume that overall profitability will not improve. Banks still consider cost reduction as the main driver for this trend (about 40% agreement, slightly less than in June 2016), while more banks than in June this year disagree that net interest income will be a main driver (increase in "disagree" and "somewhat disagree" from about 37% to 55%). *(Questions 3 and 4 for banks and Question 1 for market analysts)*
- Market analysts consider monetary policy trends as well as litigation risks of banks and regulatory uncertainty as drivers for negative market sentiment (agreement of around 70% for all three). The **possibility of additional referendums** and **emerging market related risks** also both rank high in their opinion (agreement of about 60% and 45%, respectively). *(Question 3 for market analysts)*
- Significantly more market analysts expect **mergers and acquisitions of banks** as a main trend that will affect banks in the next six to twelve months than in June this year (about 45% vs. about 25% in June), whereas less market analysts consider growing **technological advances** as a trend which will affect European banks most (about 60% vs. 70% in June 2016). *(Question 5 for market analysts)*

Funding / liquidity

- The views on future issuances are almost unchanged compared to June 2016. More than 40% of the banks intend to issue **AT1 instruments** in the next 12 months, whereas more than 60% intend to issue **T2 instruments**. Between about 70% and 80% (agree and somewhat agree) of the market analysts assume that banks will be able to issue such instruments, and 90% (agree and somewhat agree) of

them expect that banks will be able to issue **MREL/TLAC eligible debt instruments**. (*Question 11 for banks and Question 6 for market analysts*)

- In contrast to December 2015, when none of the banks intended to attain more **central bank funding**, more than 15% of the banks in December 2016 plan do so (20% in June, and again roughly evenly split among banks in financially distressed and banks in core countries). A big majority of banks continue to show their reliance on funding from **retail deposits** (agreement slightly decreasing to 55% when compared to results in June 2016), and more than 10% of them intend to attain more funding through **securitization** (up from about 5% in June). Answers from market analysts show similar, although more pronounced trends. One third is now expecting a growth in central bank based funding, compared to one year ago (about 33% agreement, up from 0% in December last year, but down from 45% in June 2016), while significantly less analysts than in June expect an increase in **deposits from wholesale clients** (from 25% in June 2016 down to 5%). (*Question 14 for banks and Question 7 for market analysts*)
- Market analysts' view on an expected decrease in **market liquidity** within the next twelve months is more optimistic than in June this year (agreement of about 30%, compared to 50% in June 2016). (*Question 9 for market analysts*)

Asset volume trends and asset quality

- More banks than in June this year consider asset **deleveraging** as an element of their strategy (agreement of 50% now and 42% in June). **Disposal of business units and asset sales** remain the main drivers for deleveraging (agreement of about 45% vs. 30% in June this year). Nearly the same number of banks as in June plans an **increase in balance sheet volumes** (about 50% agreement). Fewer analysts agree with this expectation (agreement of about 25% vs. 35% in June 2016). (*Questions 19 and 20 for banks and Question 11 for market analysts*)
- More or less in line with June 2016, the majority of the banks plan to increase their volumes of **SME financing** (about 85%, up from about 75%), while fewer banks plan to increase volumes of corporate portfolios (70% down from 80% in June). Also **residential mortgage** and **consumer loans** remain in the focus for loan extension (both about 65% agreement in December 2016). Market analysts show a similar opinion on the portfolios for which an increase is expected (agreement of 67% for SME loans, about 60% for both residential mortgage loans and consumer credit and about 50% for corporate loans). Market analysts consider an asset increase mostly as the consequence of **cheap available funding** and less as of **growing credit demand** with respect to last June (agreement of 75% for the first argument and 30% for the second, compared to 65% agreement for these two arguments in June). (*Question 21 for banks and Questions 12 and 13 for market analysts*)
- The portfolio for which the majority of banks plan a decrease in volumes is **Commercial Real Estate** (CRE; incl. all types of real estate developments) (agreement of around 30%, slightly down since June 2016) while fewer banks expect a decrease for **sovereign and institutions financing** (around 20% down from more than 30% in June). Compared to June, a larger number of banks expects a decrease in volumes of corporate portfolios (more than 15%, compared to less than 8% in June). Also market analysts consider CRE as a portfolio which will decrease in volume (agreement of 60%, similar to June), although it is **asset finance** (shipping, aircraft etc.) for which the largest number of analysts expect a decrease in volume (70% agreement, down from 80% in June 2016). Nearly 100% (agree and somewhat

agree) of the market analysts expect more **asset sales** in specific loan portfolios (e.g. CRE) and / or in specific geographies. *(Question 22 for banks and Questions 14 and 16 for market analysts)*

- Banks assume that nearly the same portfolios which they plan to increase in volumes will **improve in terms of asset quality** (namely **SME** and **residential mortgage loans** – about 50% agreement, and **corporate loans** – 45% agreement). Also **consumer credit** is expected to improve in terms of asset quality in the next twelve months (about 35% agreement; in June 2016 agreement was about 30% for consumer credit, about 50% for SME and residential mortgage loans, 40% for corporate loans). Again, market analysts' expectations are relatively similar: improvements in asset quality are mainly expected for residential mortgage loans (85% vs. 70% in June this year), corporate loans (nearly 70% vs. 55% before) as well as consumer credit and SME financing (both about 50%, slightly down from 55% for both in June). *(Question 23 for banks and Question 17 for market analysts)*
- A **deterioration in asset quality** is mainly assumed for **asset finance** (agreement of about 40% by banks, up from about 30% in June 2016; agreement of nearly 70% by market analysts, down from 80% in June 2016). Less than 25% of the banks expect an increase of **impairment provisions** in the next 12 to 18 months (similar agreement in June 2016), with mainly banks from financially distressed countries expecting a decline in provisions, and mainly banks from core countries expecting their increase. *(Questions 24 and 25 for banks and Questions 17 for market analysts)*
- Banks consider **lengthy and expensive judiciary processes to resolve insolvency** and to **enforce the repossession of collaterals** as one of the main impediments to resolve non-performing loans (NPL) (agreement of about 65%, similar to June 2016). The **lack of a market for transactions in NPLs and / or collaterals** is considered as the second most important impediment (agreement of about 50% in both periods). *(Question 26 for banks)*

Conduct / reputation / operational risk

- 40% of the banks assume **litigation costs** to be heightened in the next six to twelve months (almost equal since December 2015), and a larger number of market analysts have a similar expectation for the EU banking sector (62%, up from 45% in June this year). Also nearly half of the banks expect an increase in **operational risks** in their institution (about 40% agreement in June this year). *(Questions 28 and 30 for banks and Question 4 for market analysts)*

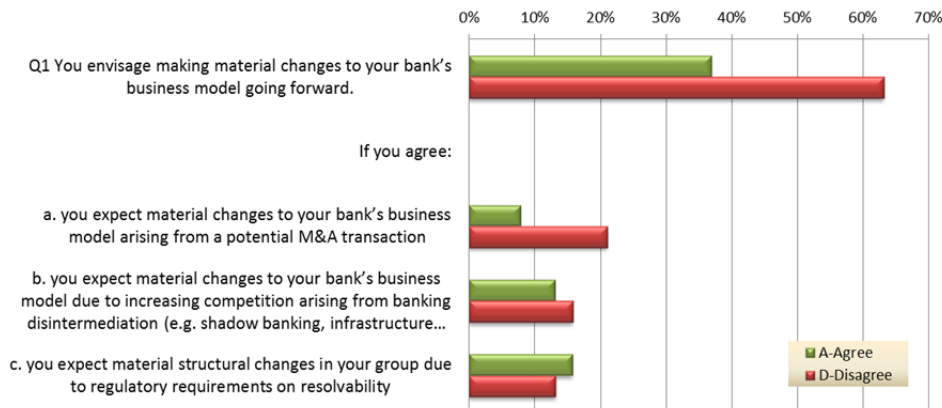
General open questions

- In the open question about sources of risks and vulnerabilities which are expected to increase further in the next six to twelve months, banks mainly refer to central bank policies / the low interest rate environment and regulatory risks. Market analysts mainly refer to economic developments (such as low economic growth, missing loan demand or challenges from commodity prices).

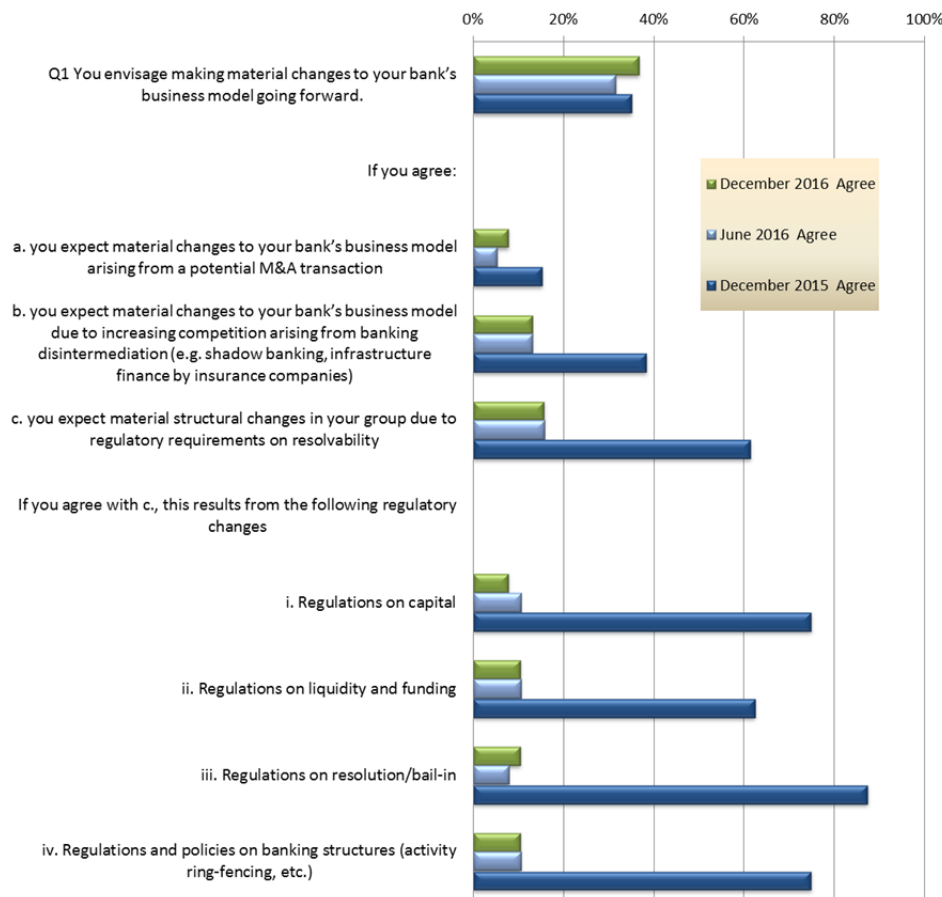
Banks' questionnaire

1. Business model / strategy / profitability

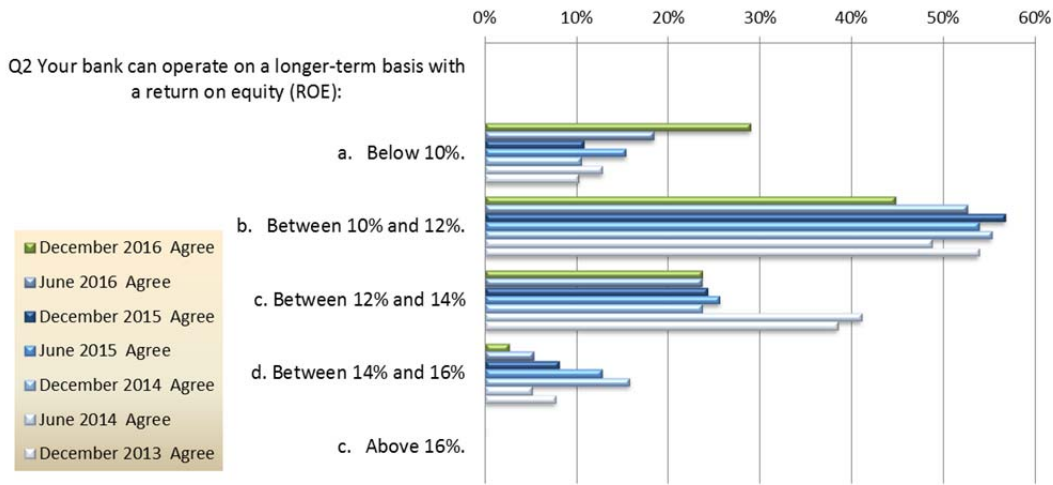
Question 1: December 2016 results



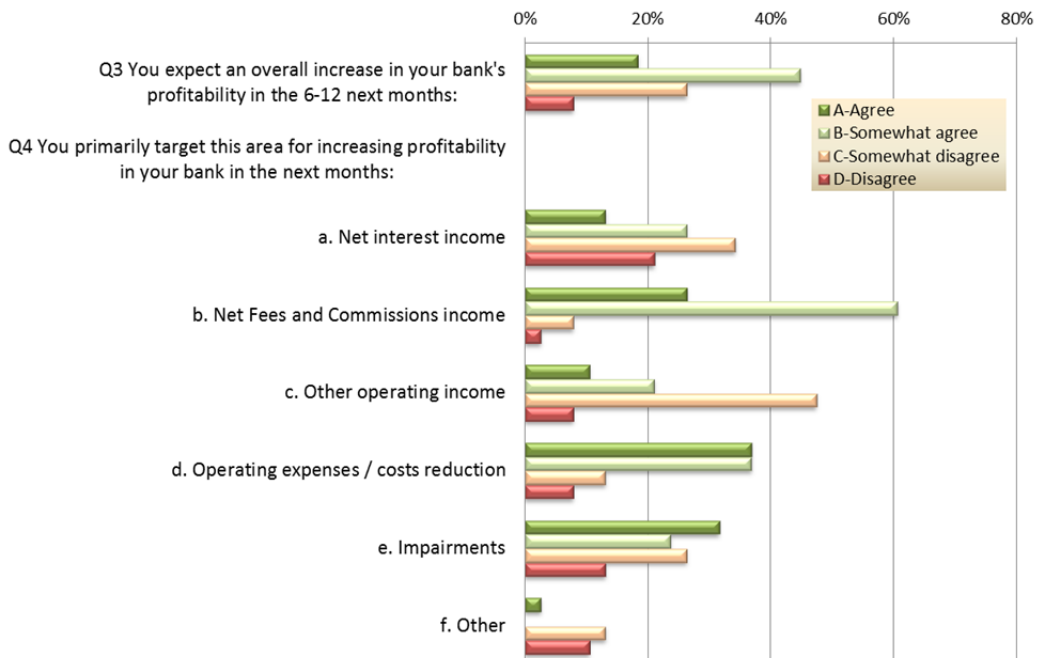
Question 1: Comparison with former results



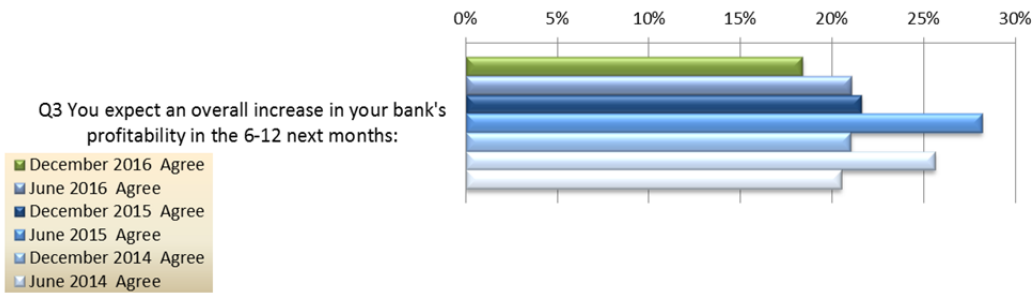
Question 2 (only “agree” as possible answer)



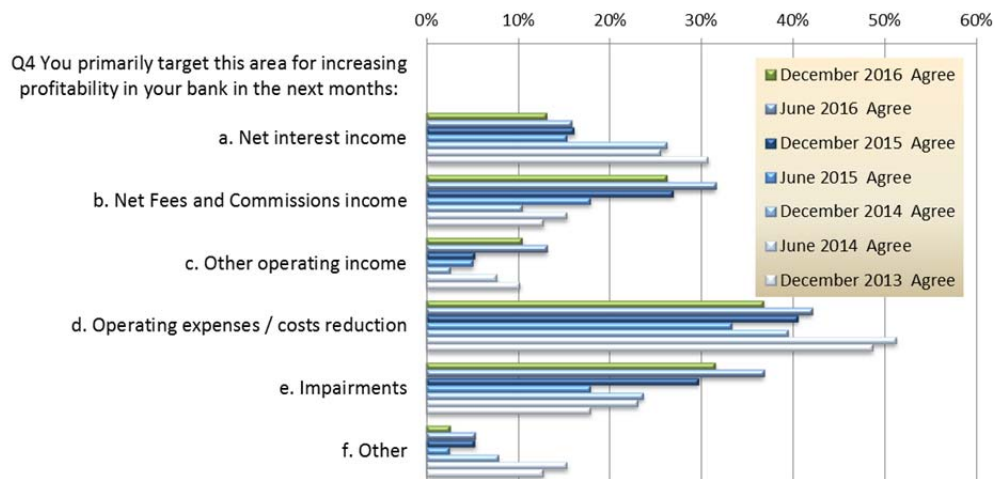
Question 3 and 4: December 2016 results



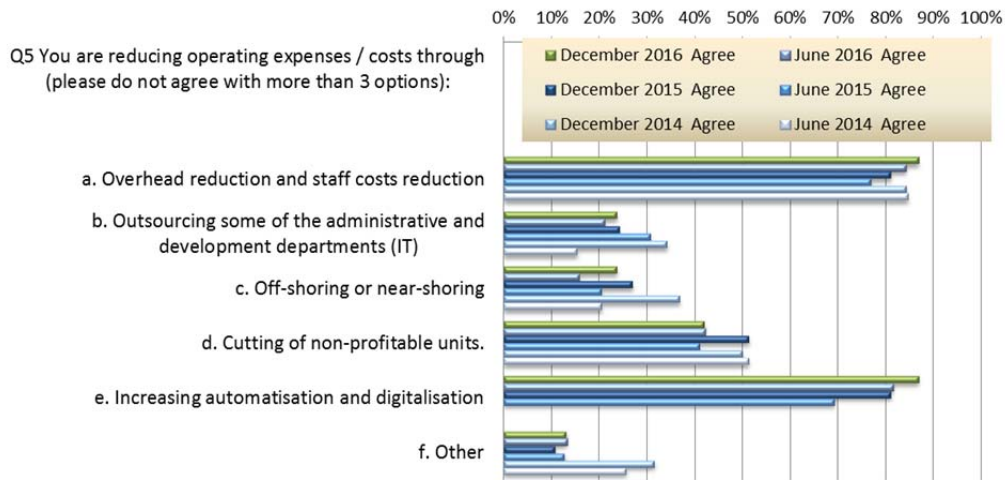
Question 3: Comparison with former results



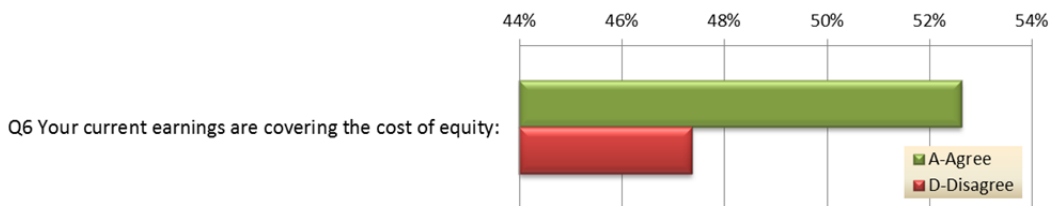
Question 4: Comparison with former results



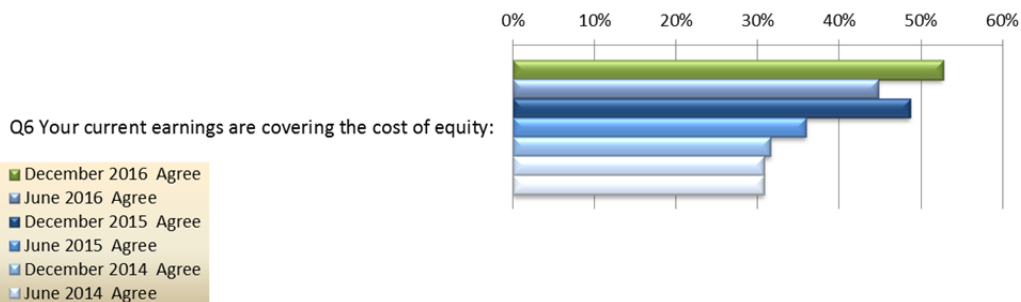
Question 5 (only “agree” as possible answer)



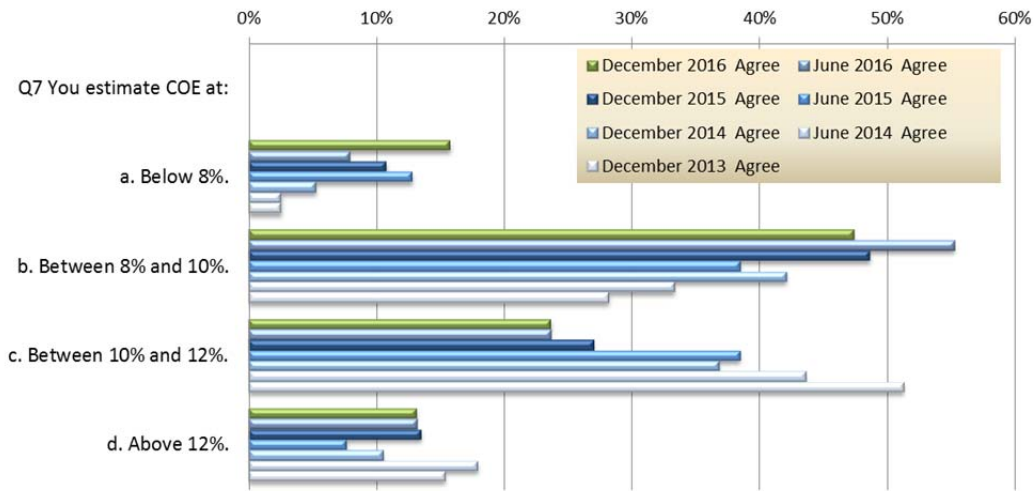
Question 6: December 2016 results



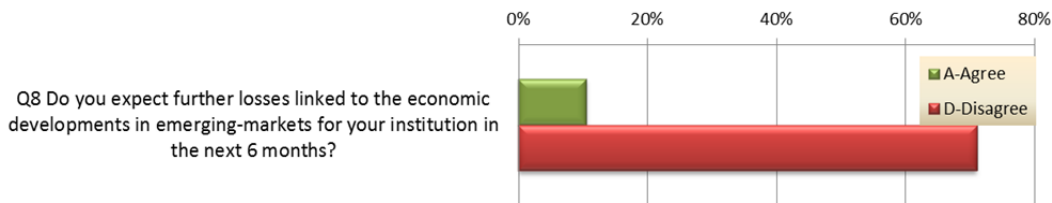
Question 6: Comparison with former results



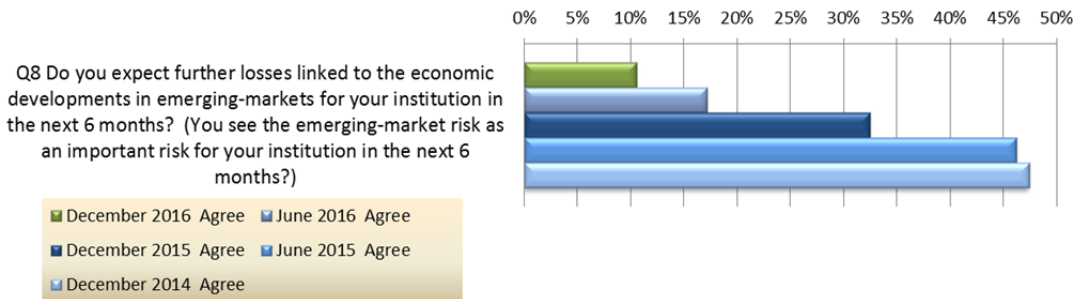
Question 7 (only “agree” as possible answer)



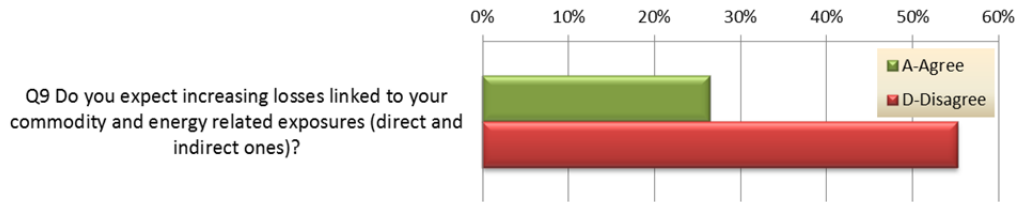
Question 8: December 2016 results



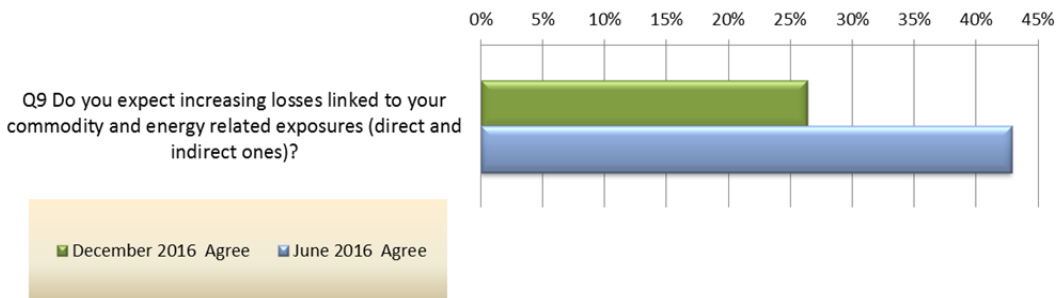
Question 8: Comparison with former results



Question 9: December 2016 results

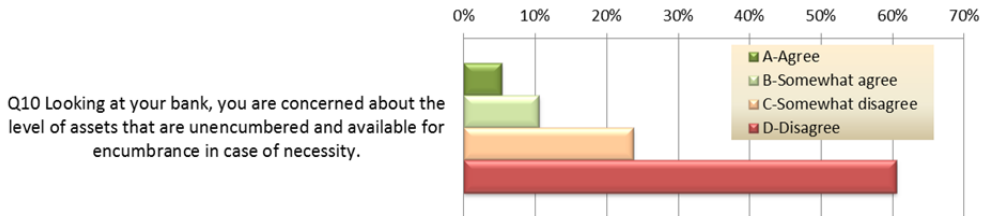


Question 9: Comparison with former results

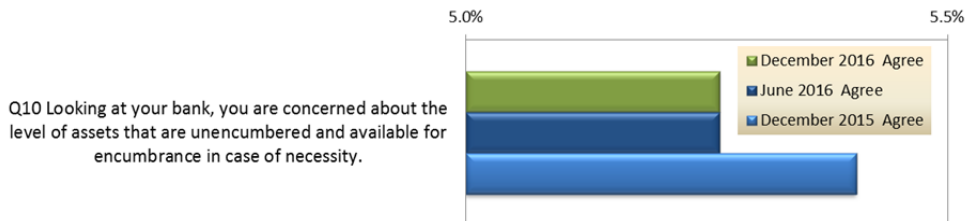


2. Funding / liquidity

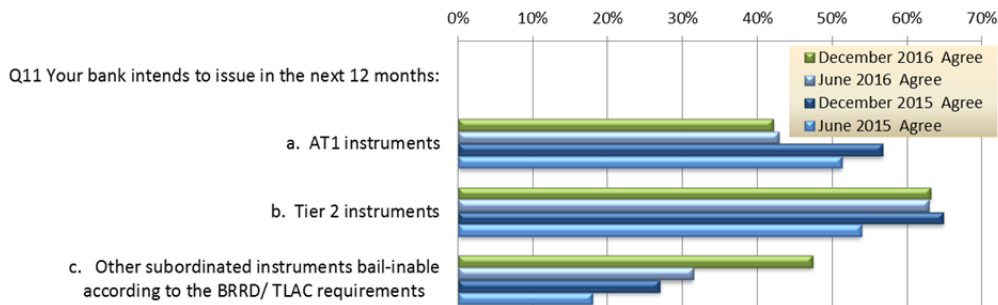
Question 10: December 2016 results



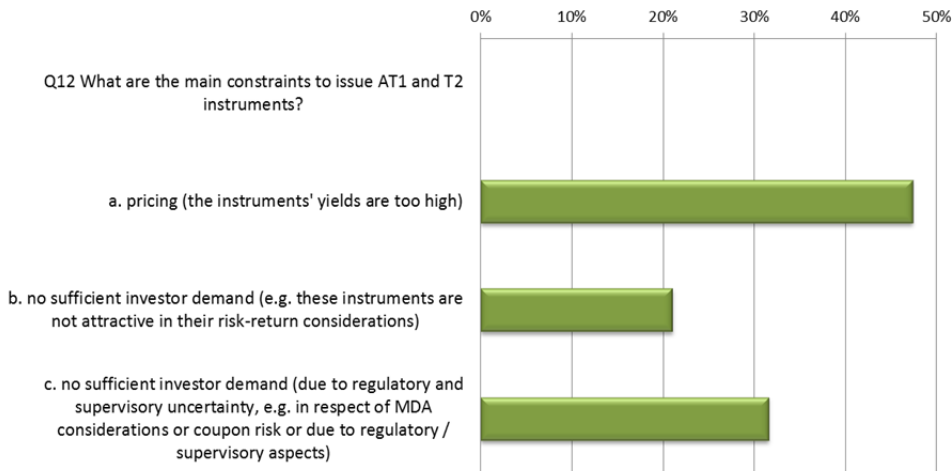
Question 10: Comparison with former results



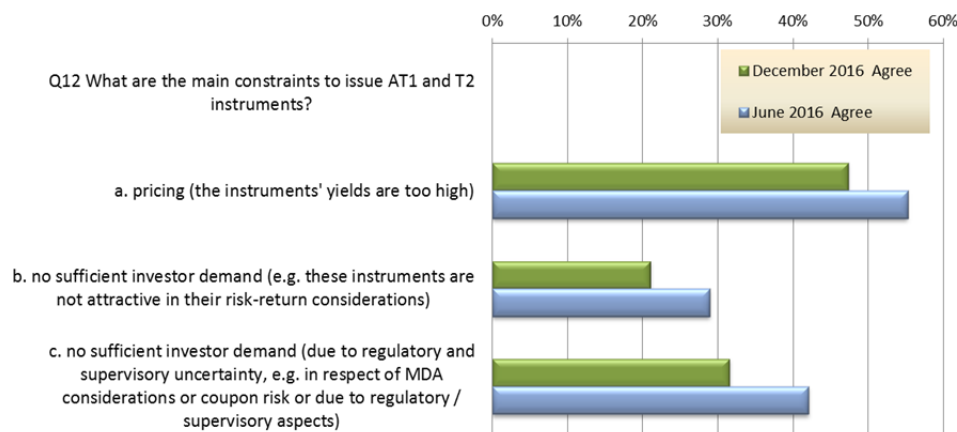
Question 11 (only “agree” as possible answer)



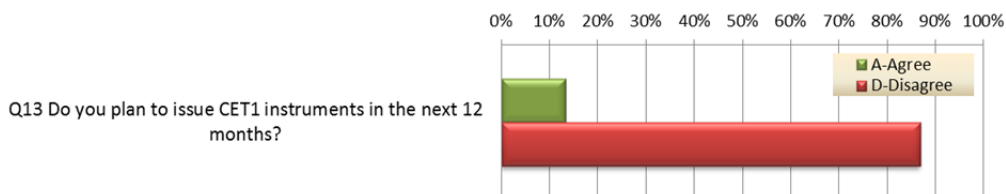
Question 12: December 2016 results



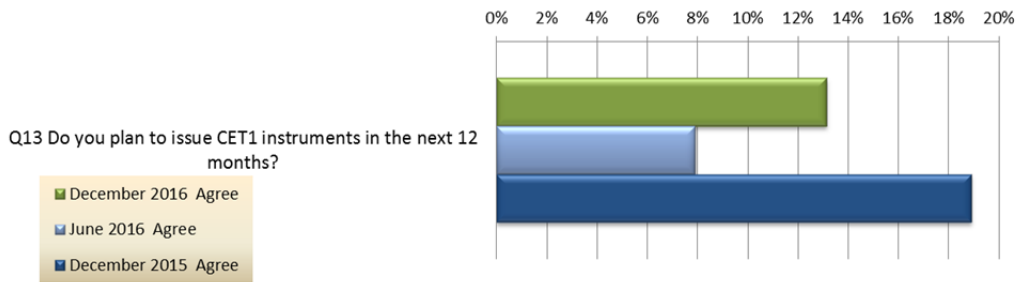
Question 12: Comparison with former results



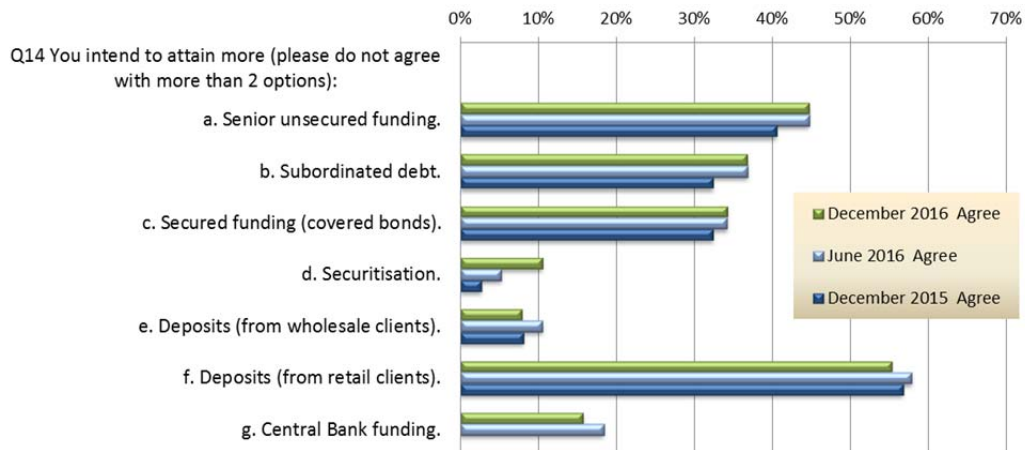
Question 13: December 2016 results



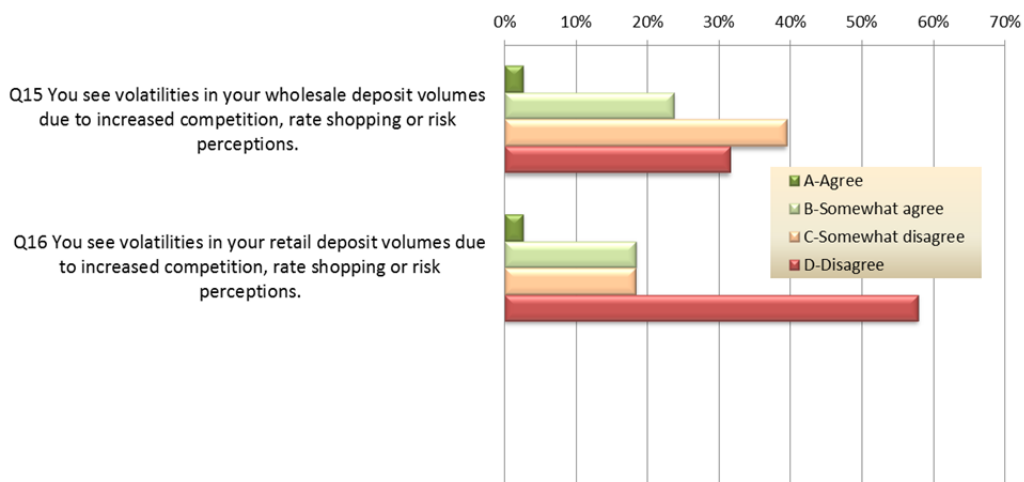
Question 13: Comparison with former results



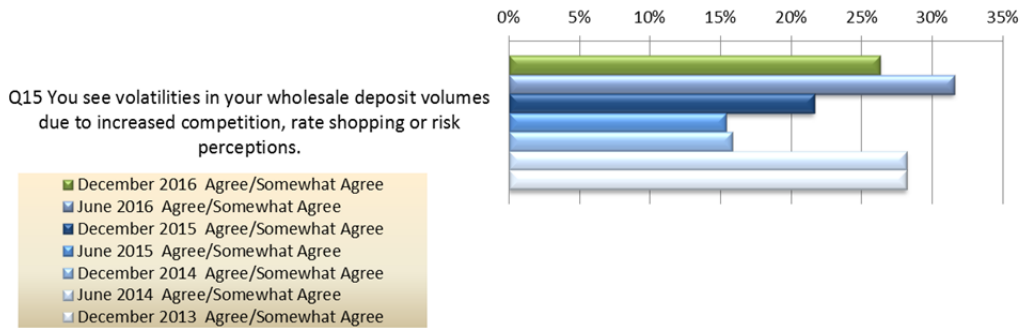
Question 14 (only “agree” as possible answer)



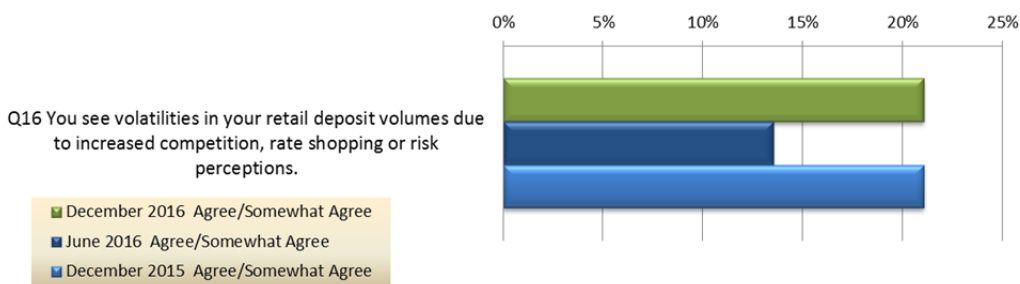
Questions 15 and 16: December 2016 results



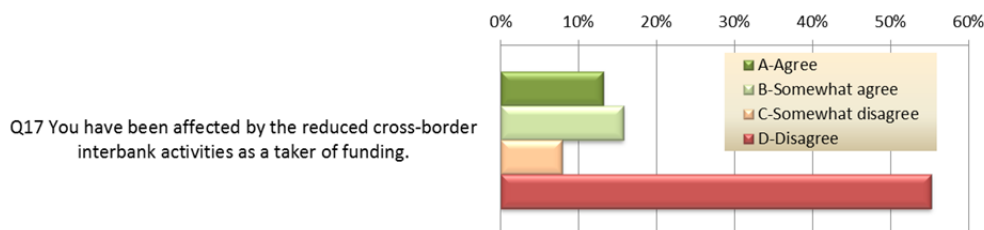
Question 15: Comparison with former results



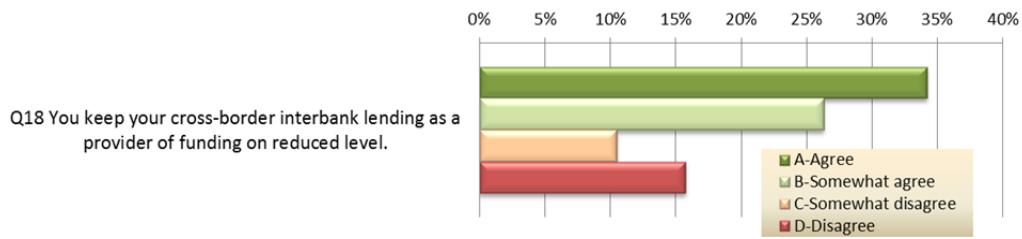
Question 16: Comparison with former results



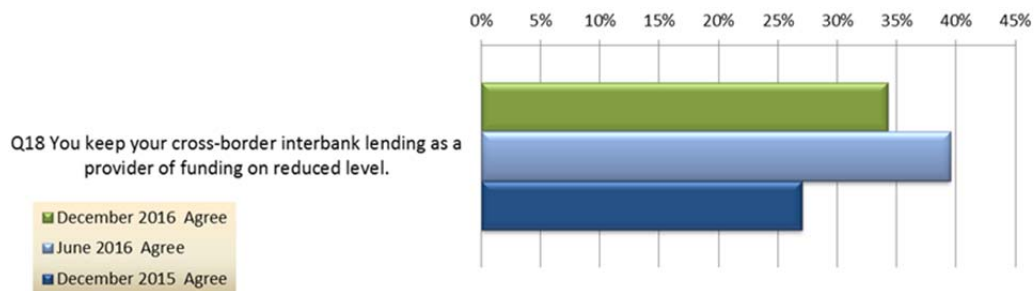
Question 17 (no comparison)



Question 18: December 2016 results

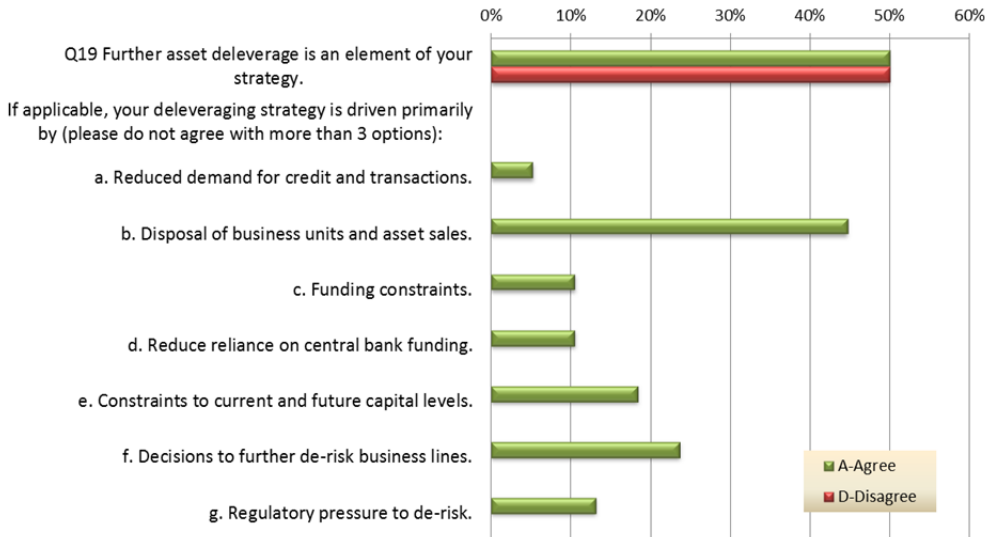


Question 18: Comparison with former results

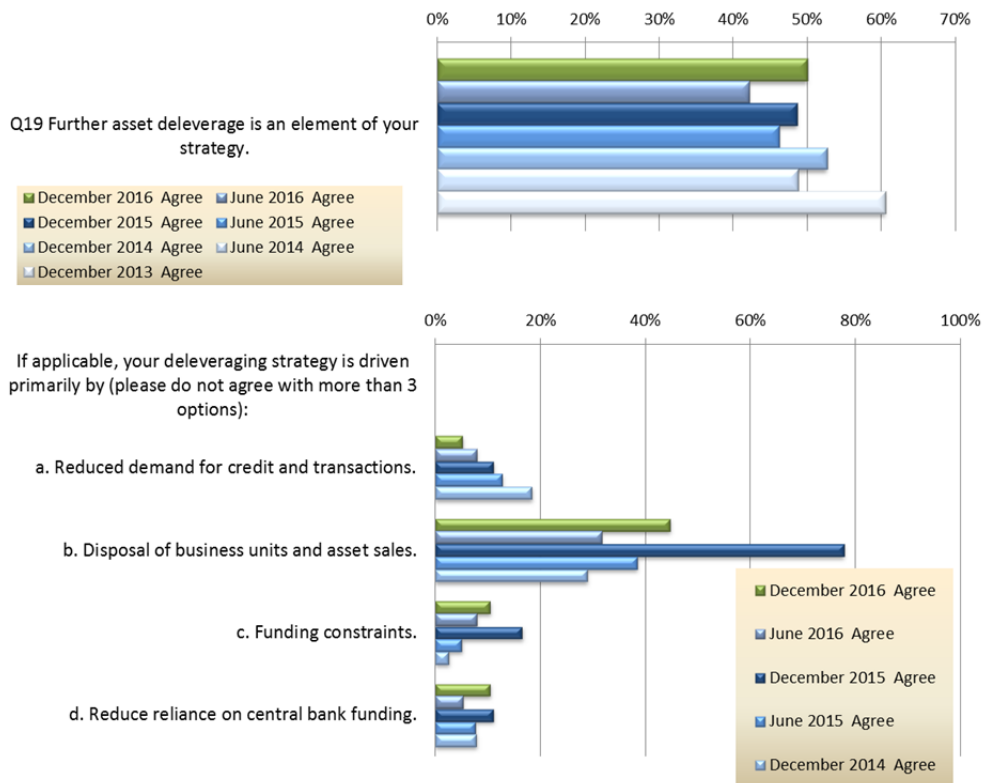


3. Asset volume trends

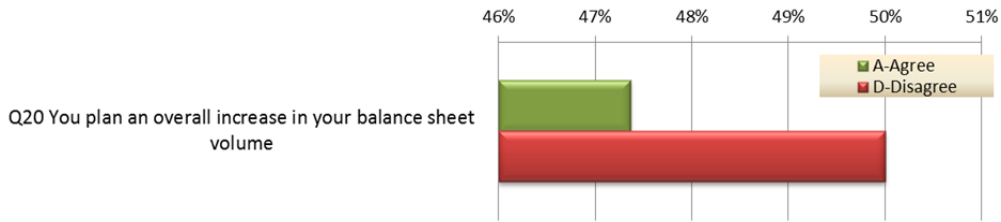
Question 19: December 2016 results



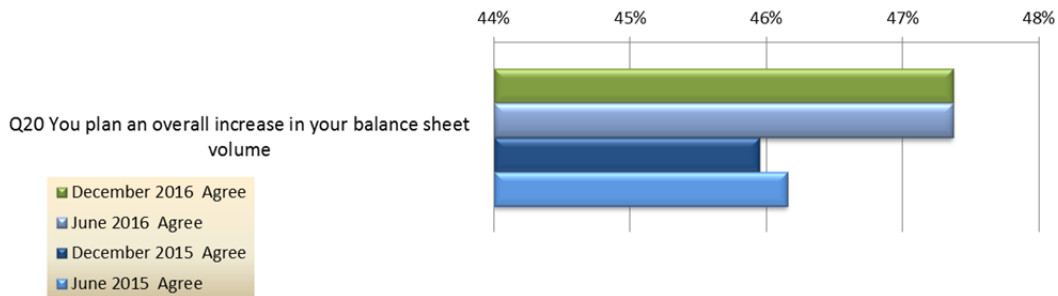
Question 19: Comparison with former results



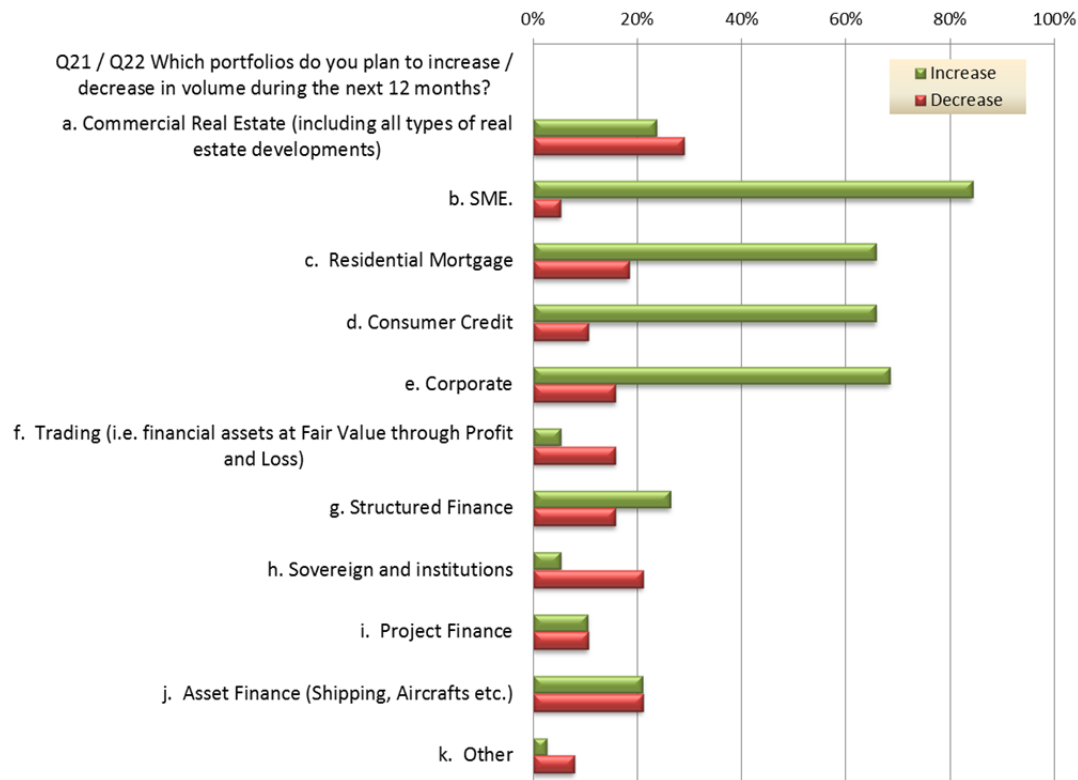
Question 20: December 2016 results



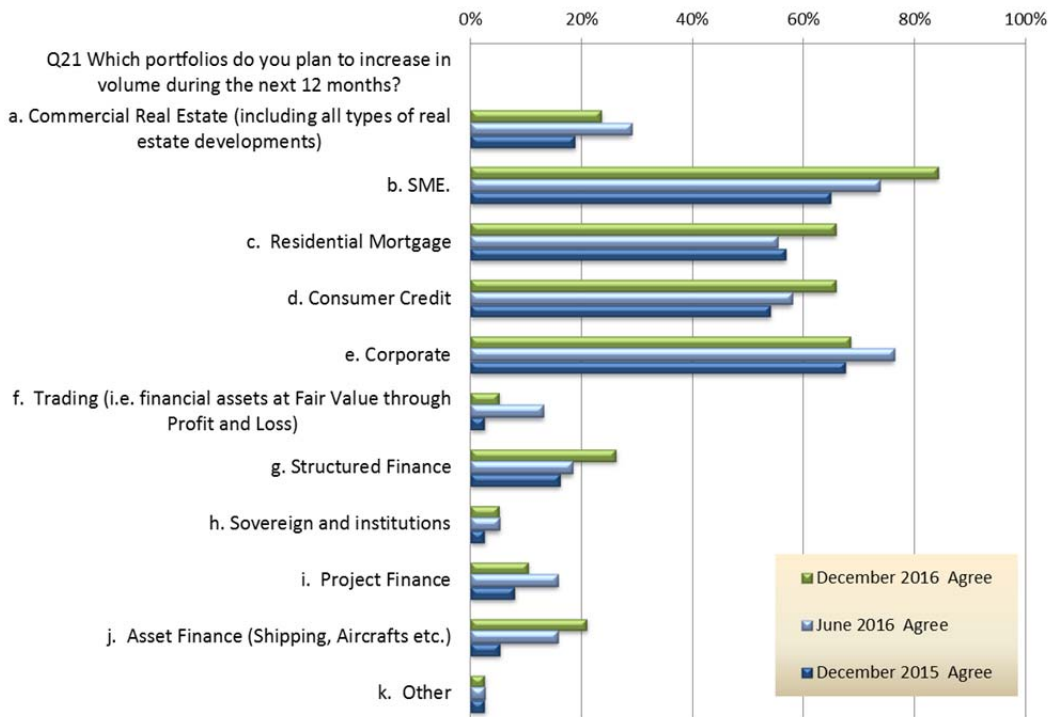
Question 20: Comparison with former results



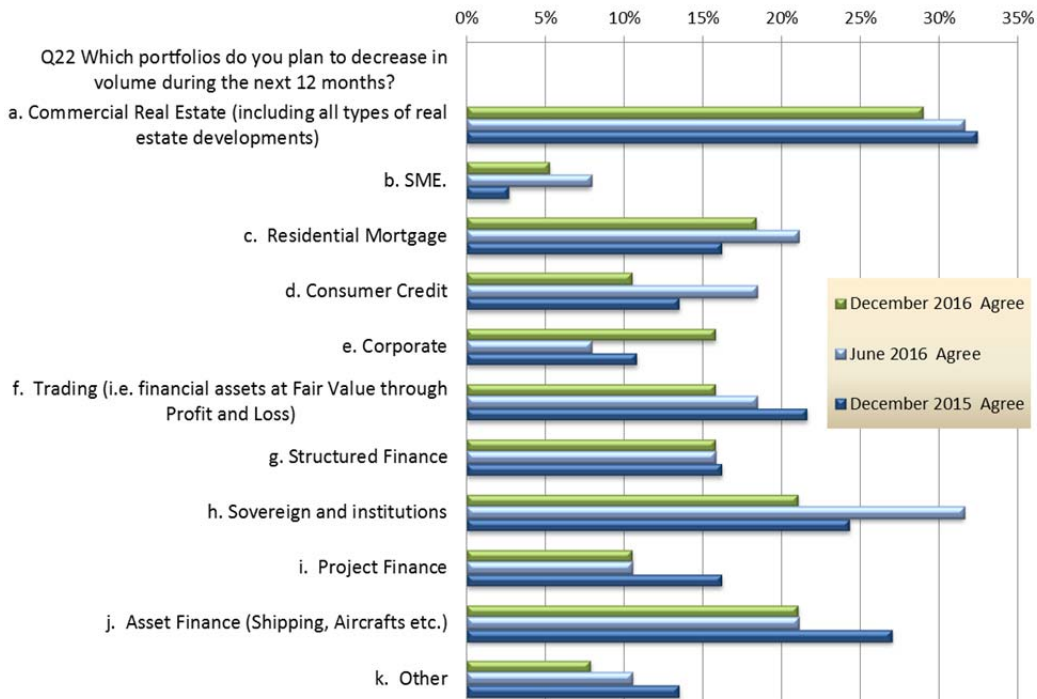
Questions 21 and 22: December 2016 results



Question 21: Comparison with former results

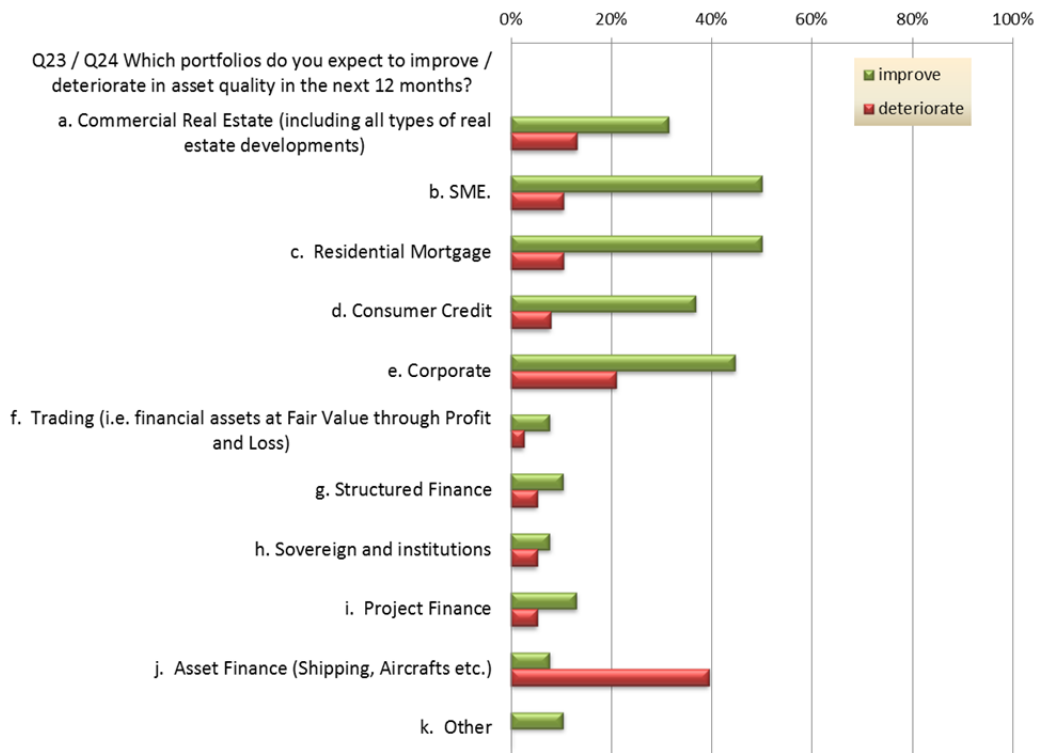


Question 22: Comparison with former results

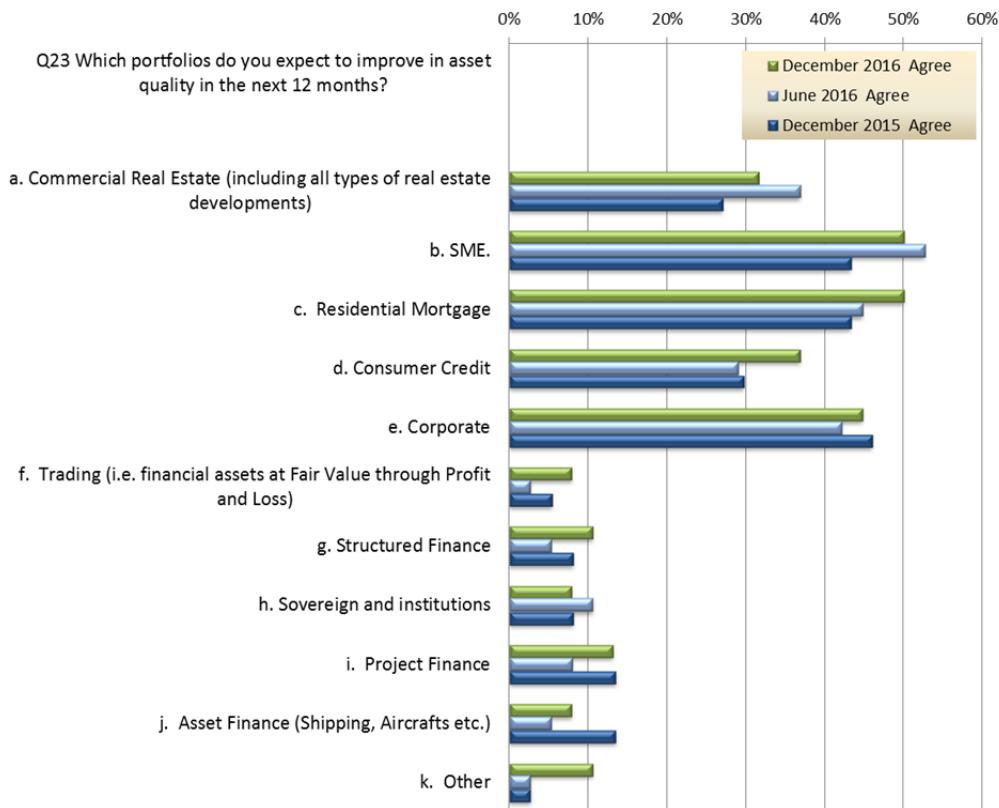


4. Asset quality

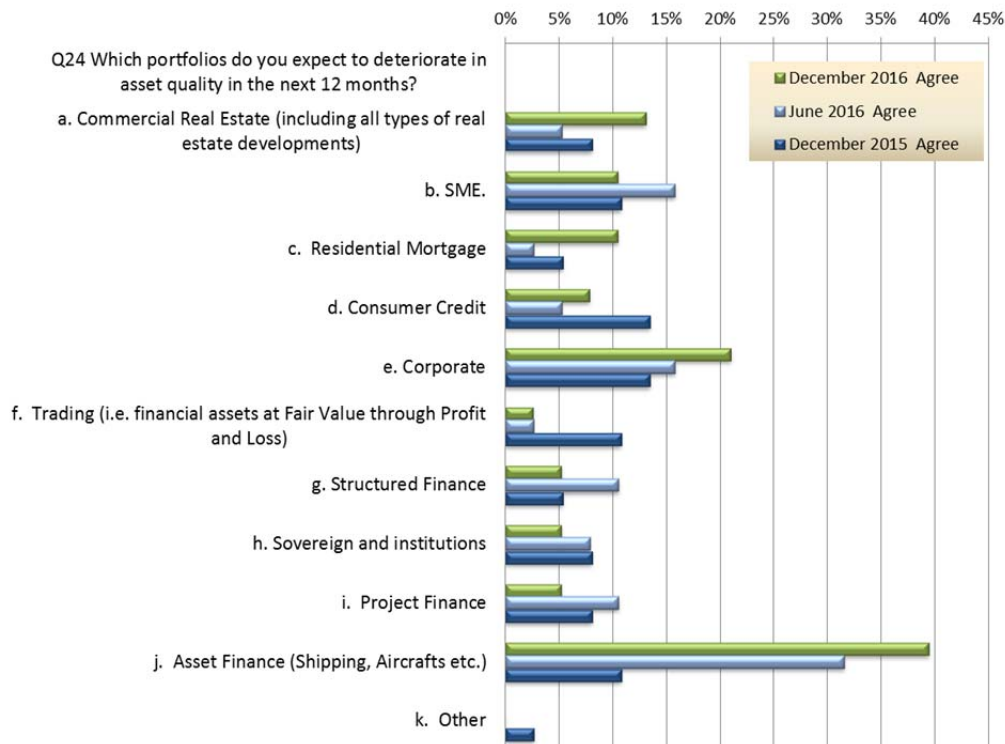
Questions 23 and 24: December 2016 results



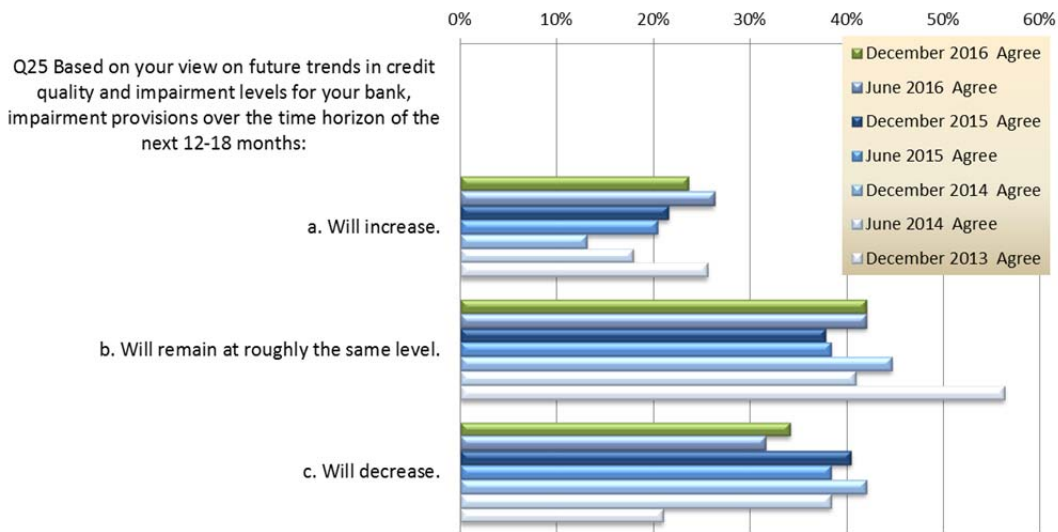
Question 23: Comparison with former results



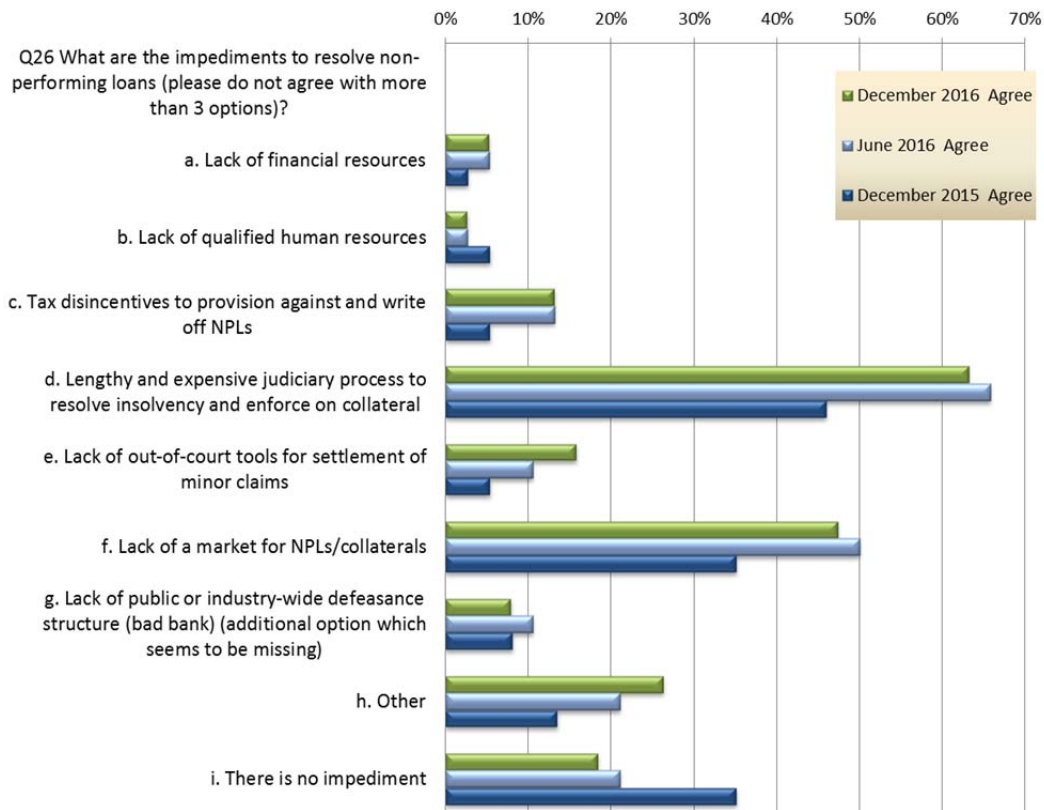
Question 24: Comparison with former results



Question 25 (only “agree” as possible answer)

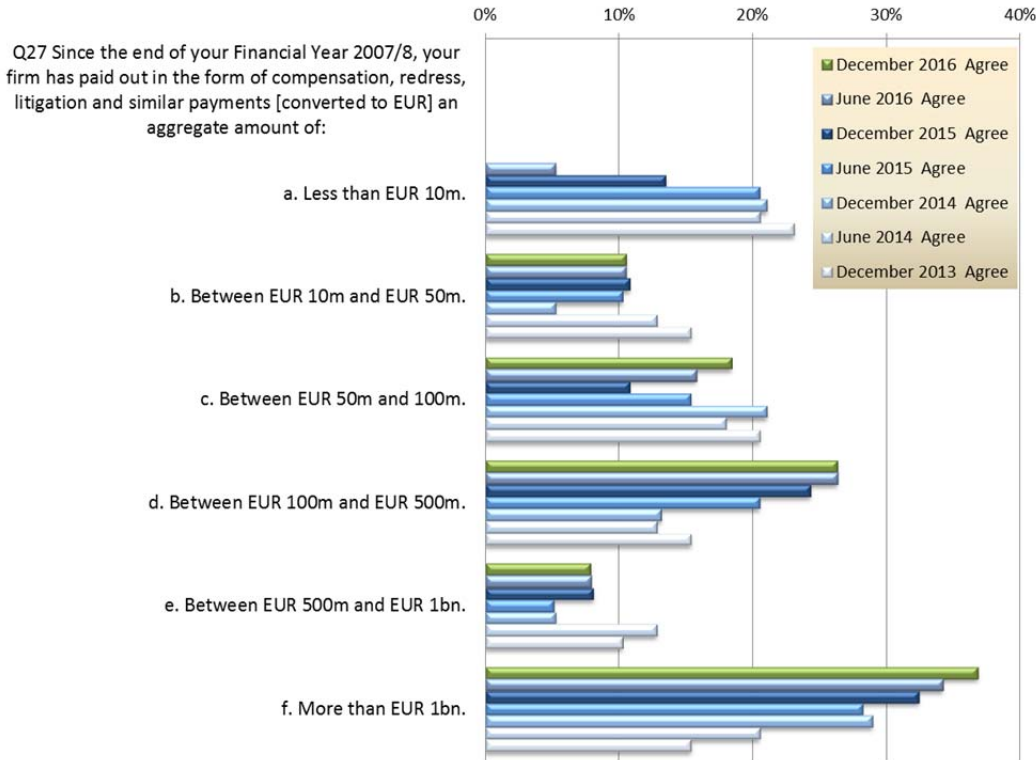


Question 26 (only “agree” as possible answer)

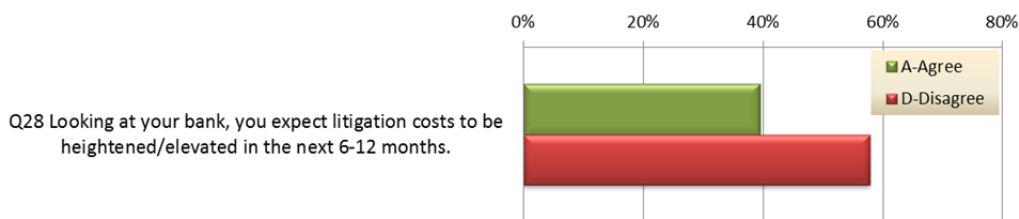


5. Conduct, reputation and operational risk

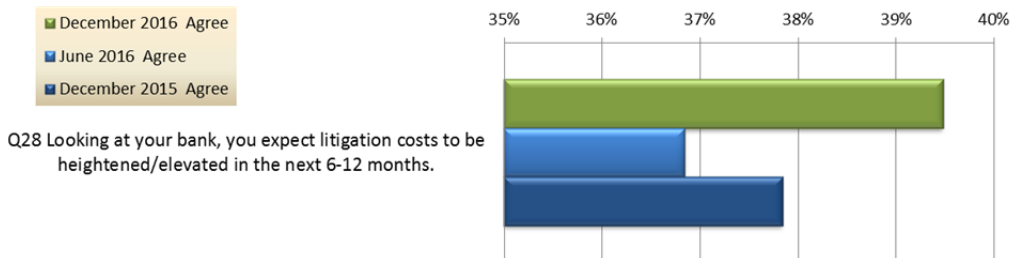
Question 27 (only “agree” as possible answer)



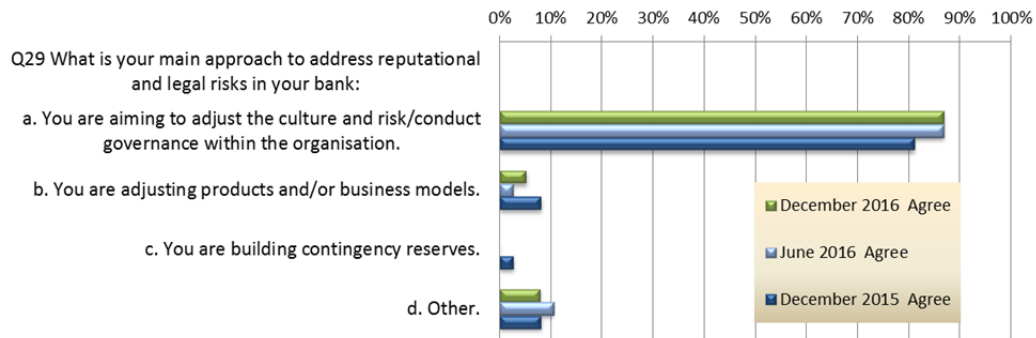
Question 28: December 2016 results



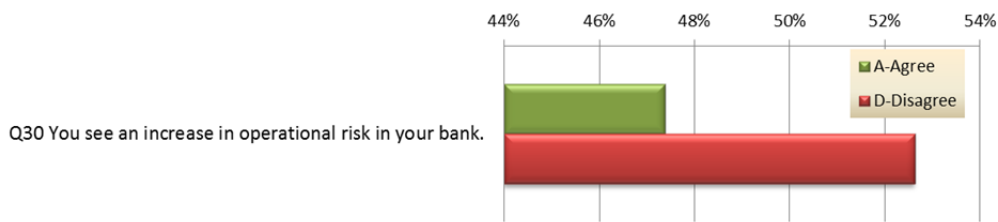
Question 28: Comparison with former results



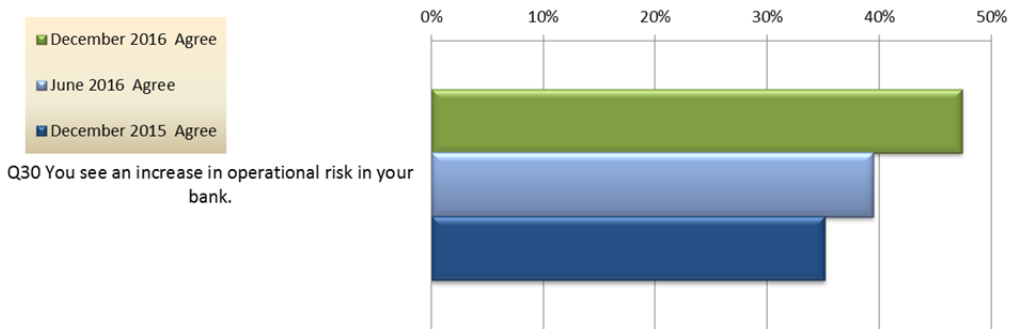
Question 29 (only “agree” as possible answer)



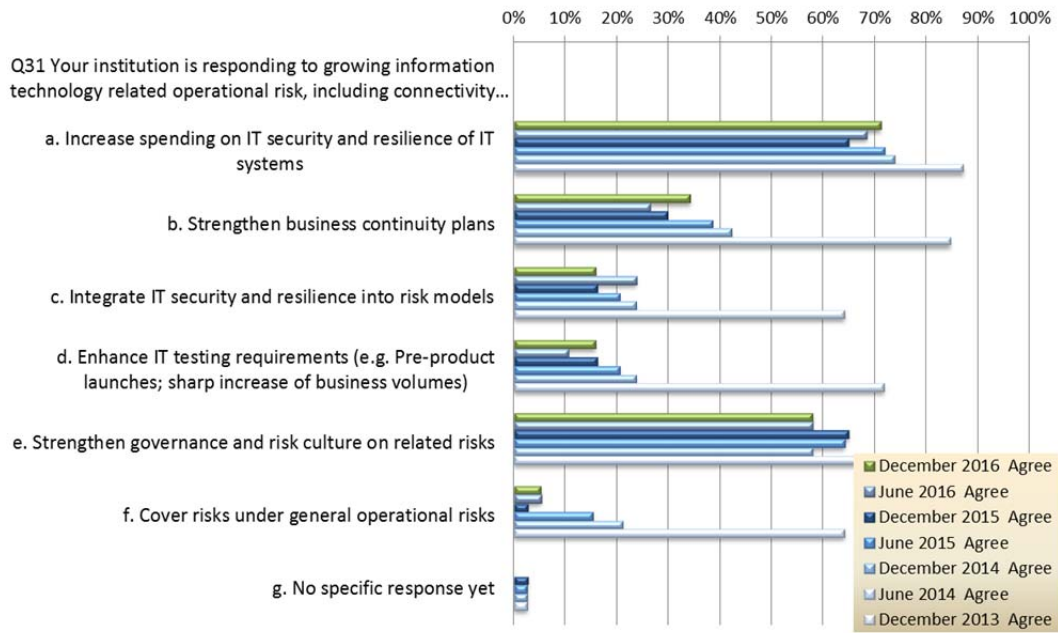
Question 30: December 2016 results



Question 30: Comparison with former results

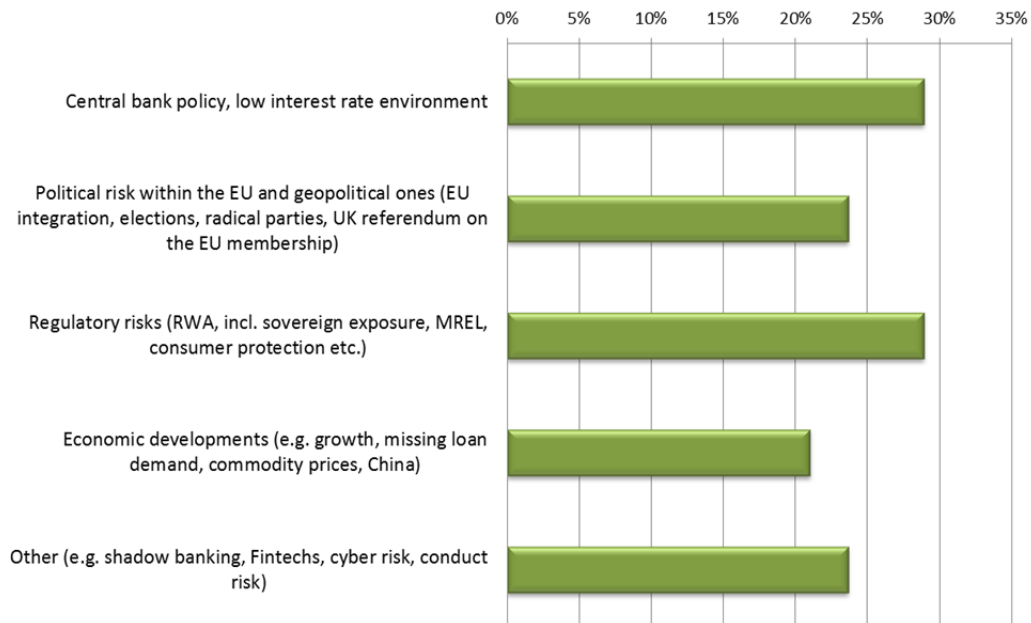


Question 31 (only “agree” as possible answer)



6. General open question

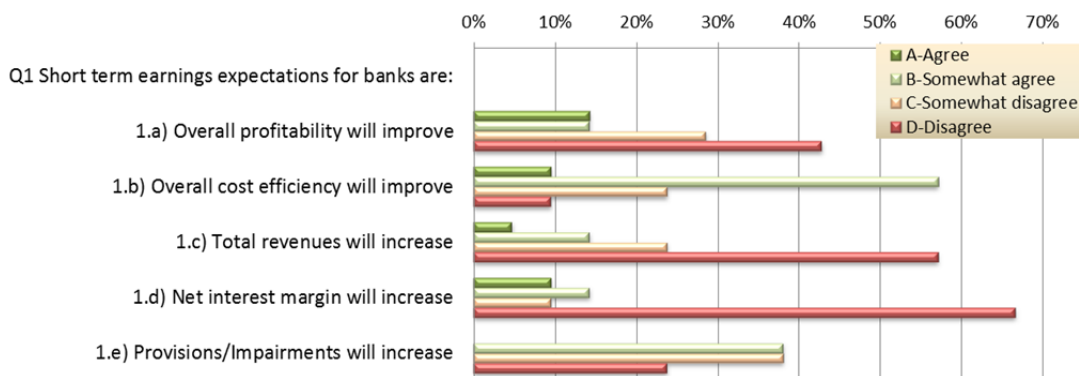
Looking at the EU banking sector, you expect other sources of risk or vulnerabilities to increase further in the next 6-12 months. Please indicate possible additional sources of risks and vulnerabilities:



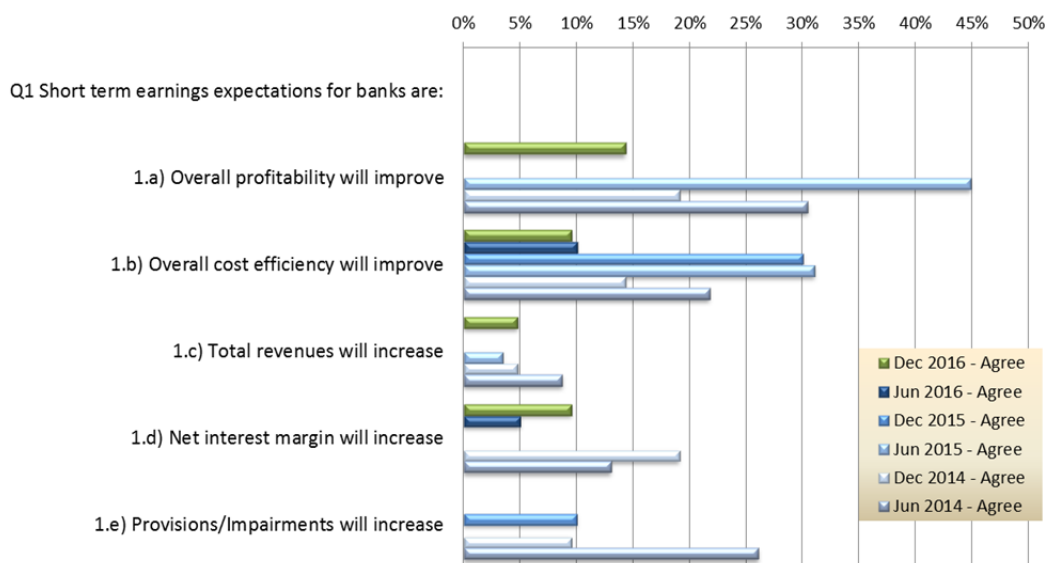
Market analysts' questionnaire

1. Business model / strategy / profitability

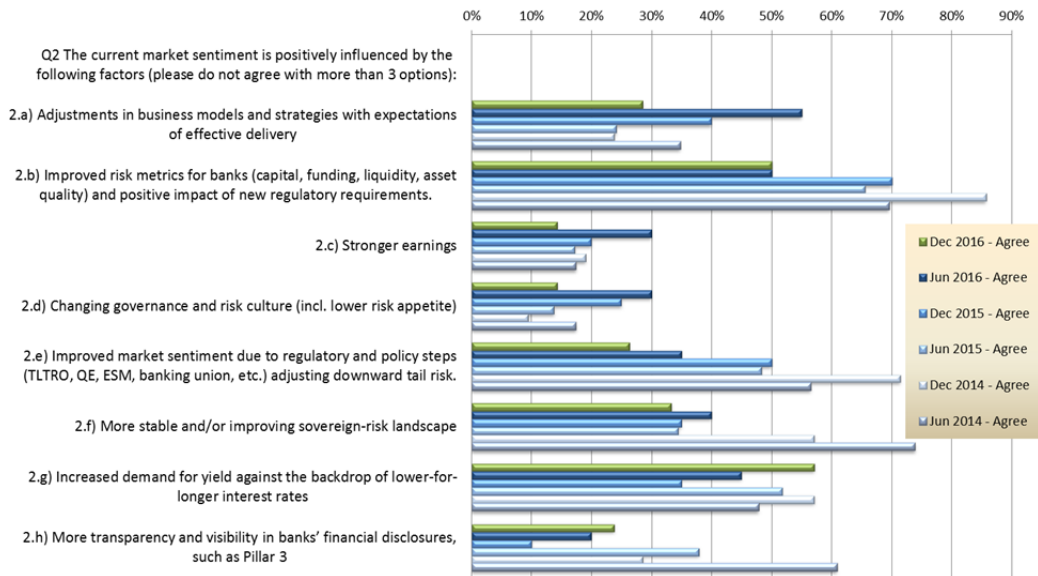
Question 1: December 2016 results



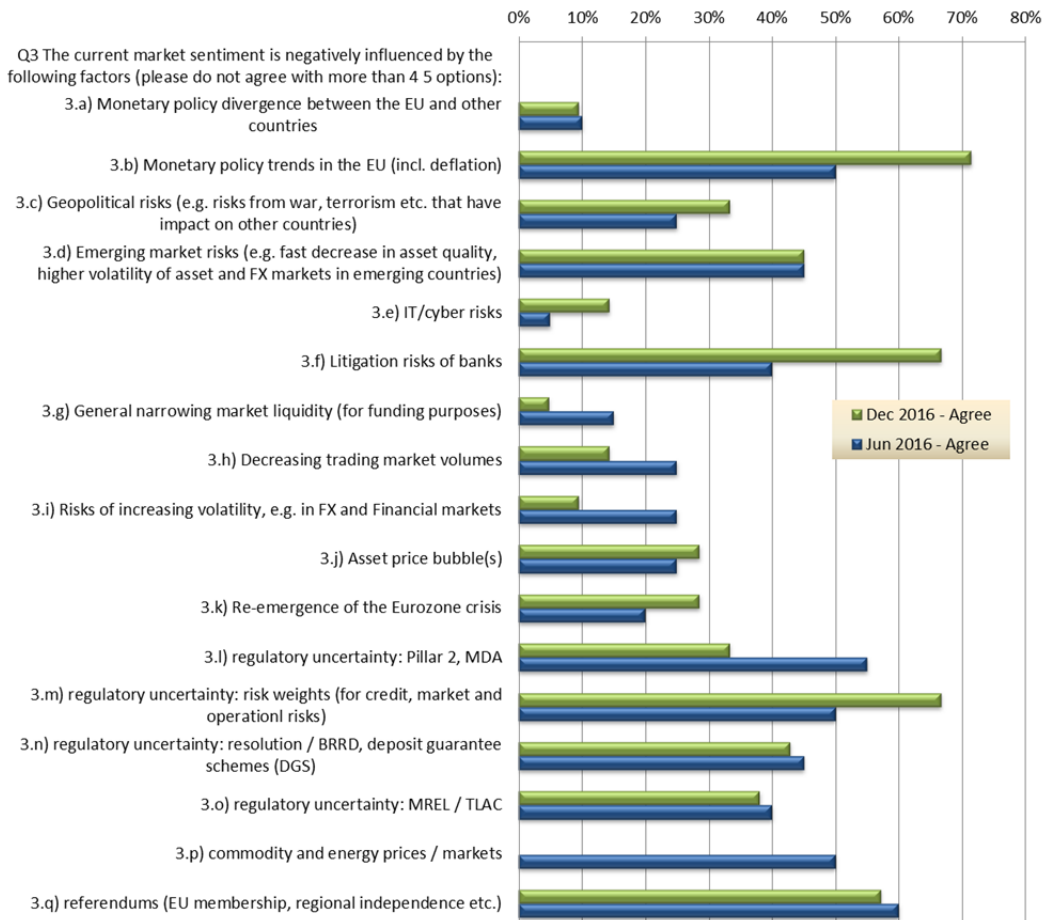
Question 1: Comparison with former results



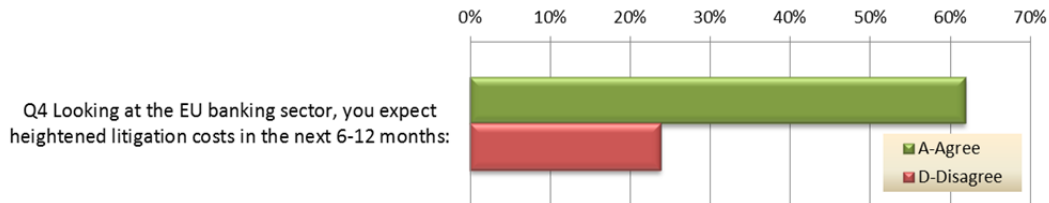
Question 2 (only “agree” as possible answer)



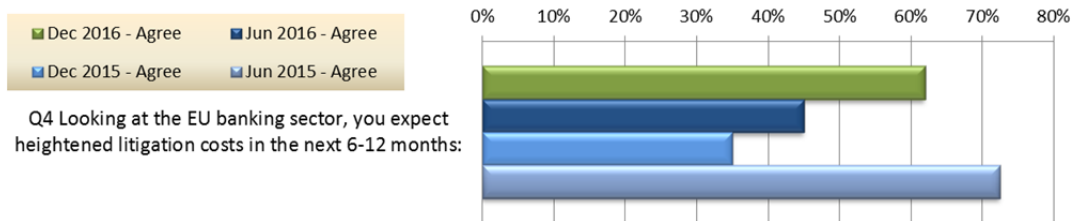
Question 3 (only “agree” as possible answer)



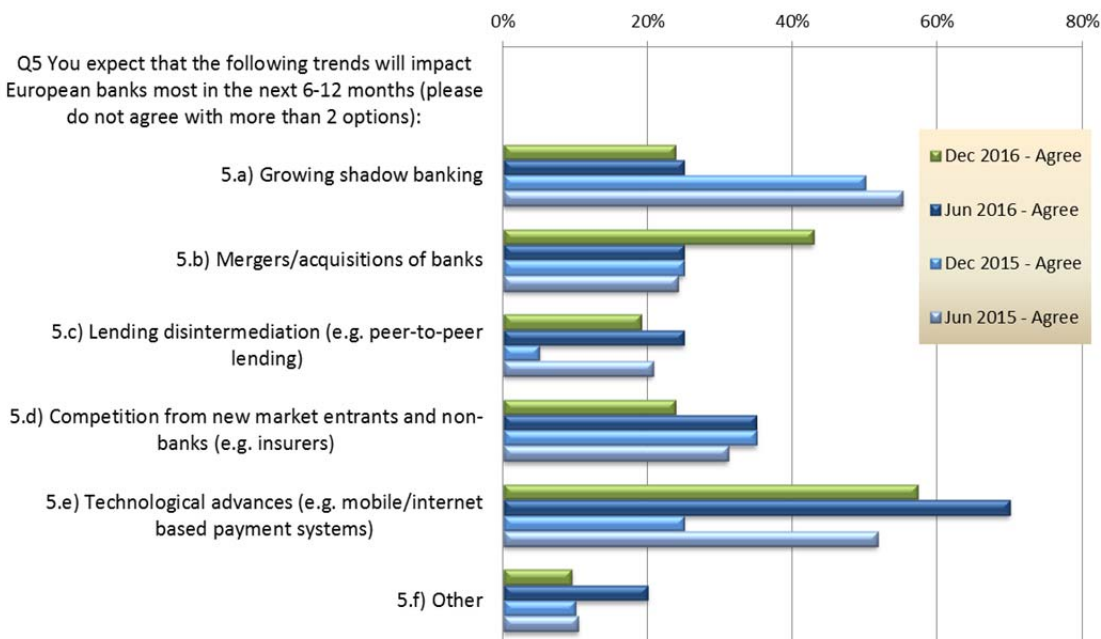
Question 4: December 2016 results



Question 4: Comparison with former results

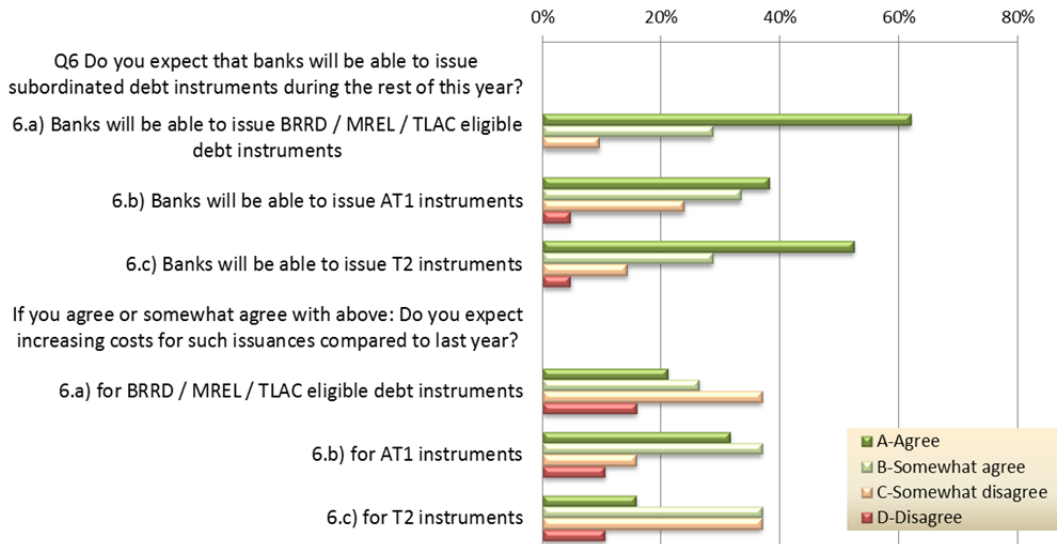


Question 5 (only “agree” as possible answer)

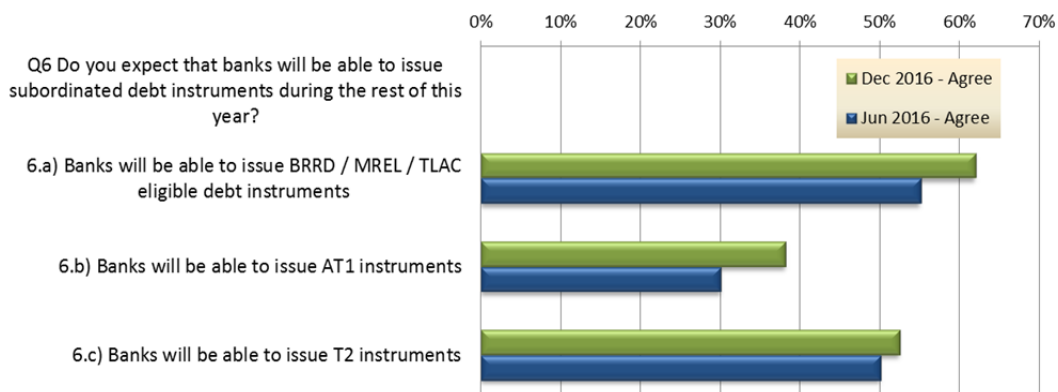


2. Funding / liquidity

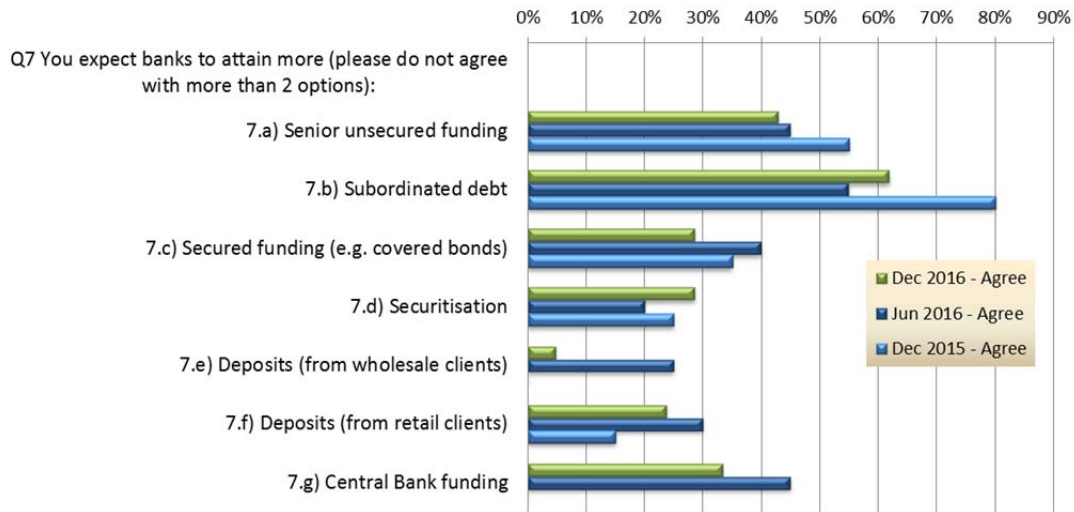
Question 6: December 2016 results



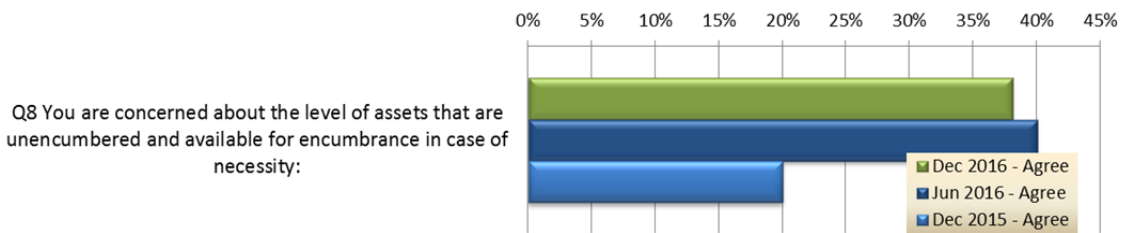
Question 6: Comparison with former results



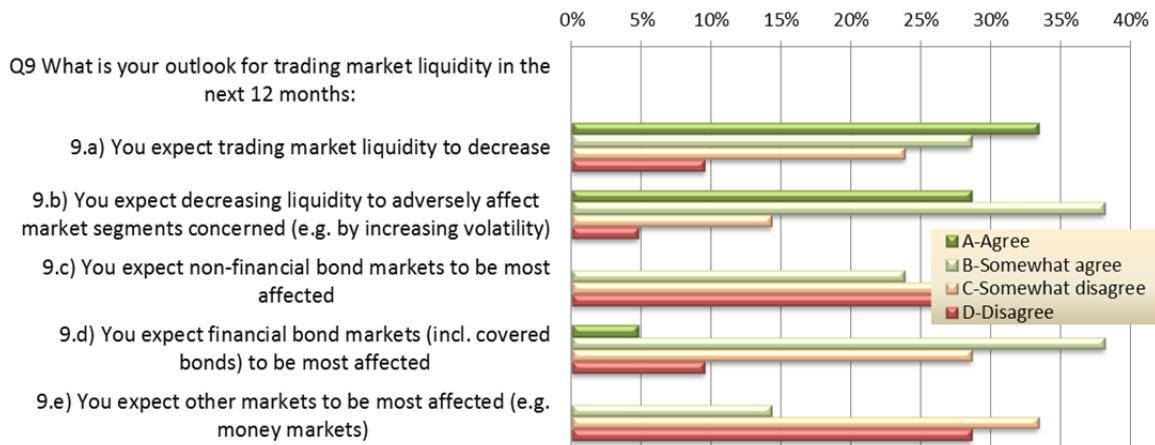
Question 7 (only “agree” as possible answer)



Question 8 (only “agree” as possible answer)



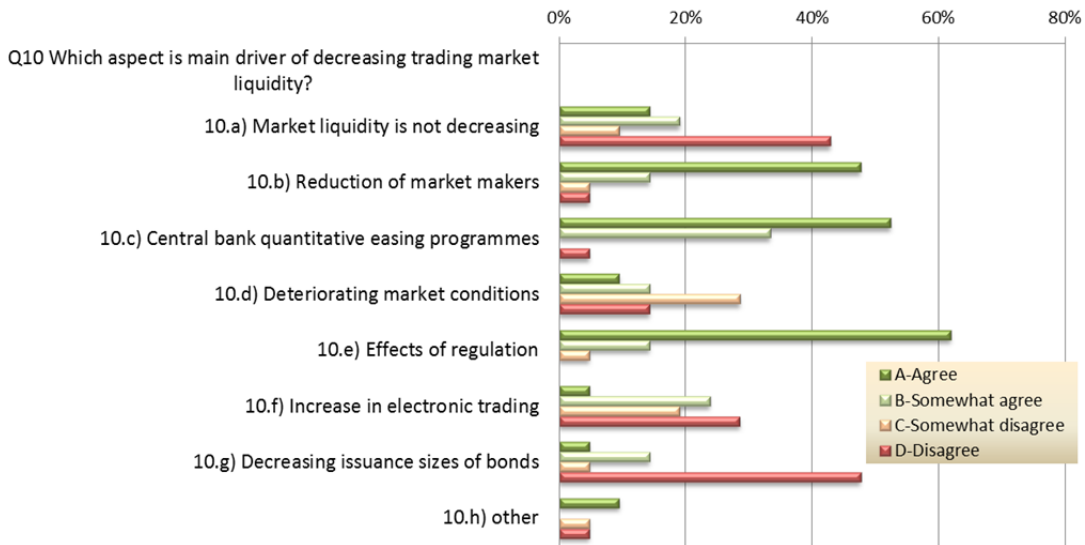
Question 9: December 2016 results



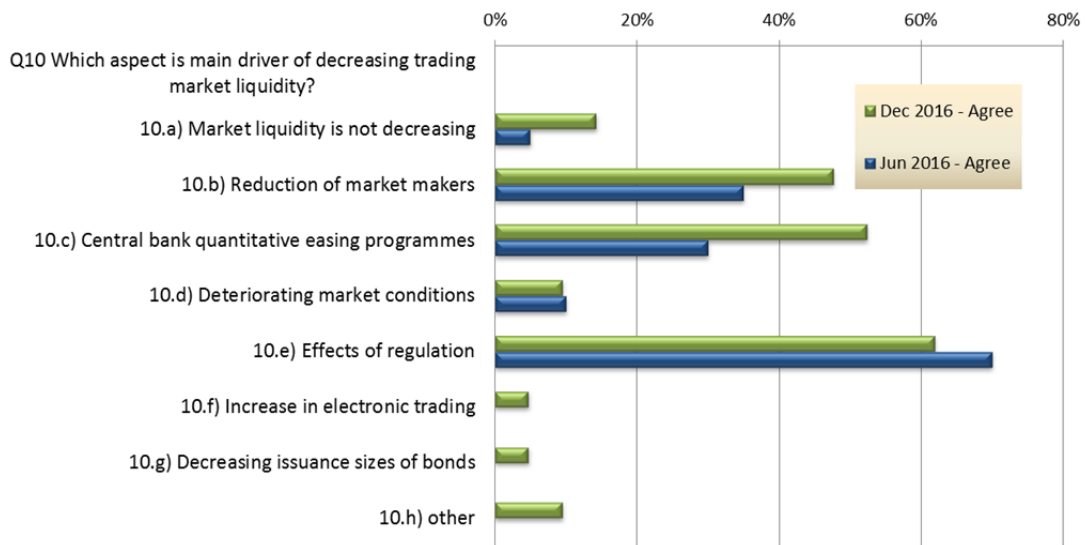
Question 9: Comparison with former results



Question 10: December 2016 results

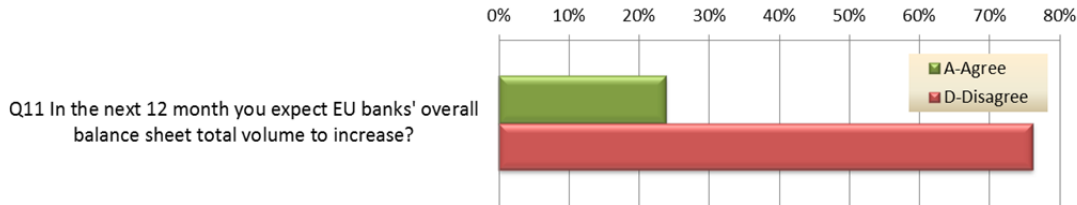


Question 10: Comparison with former results

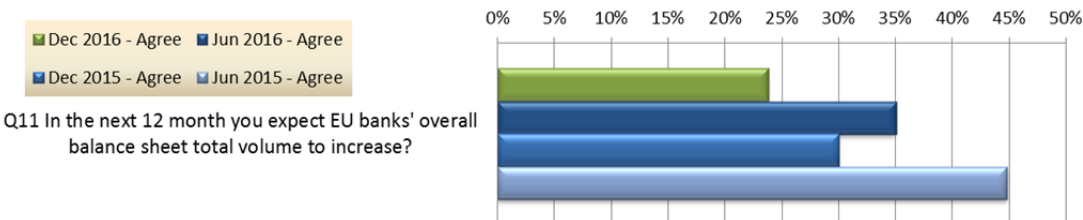


3. Asset volume trends

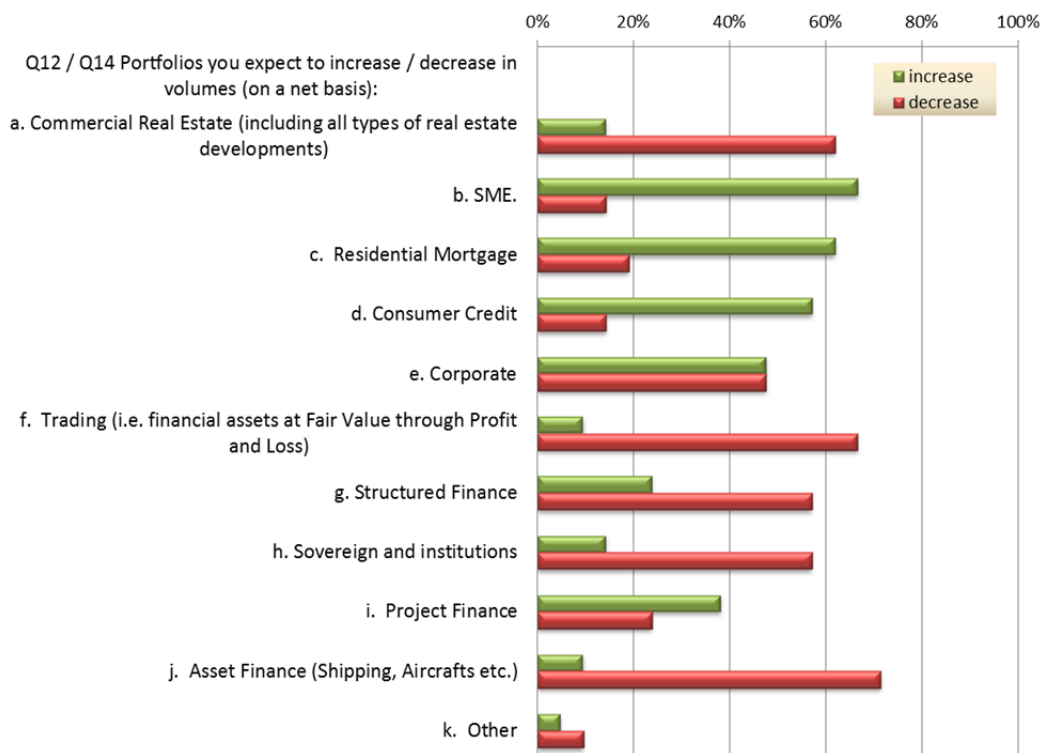
Question 11: December 2016 results



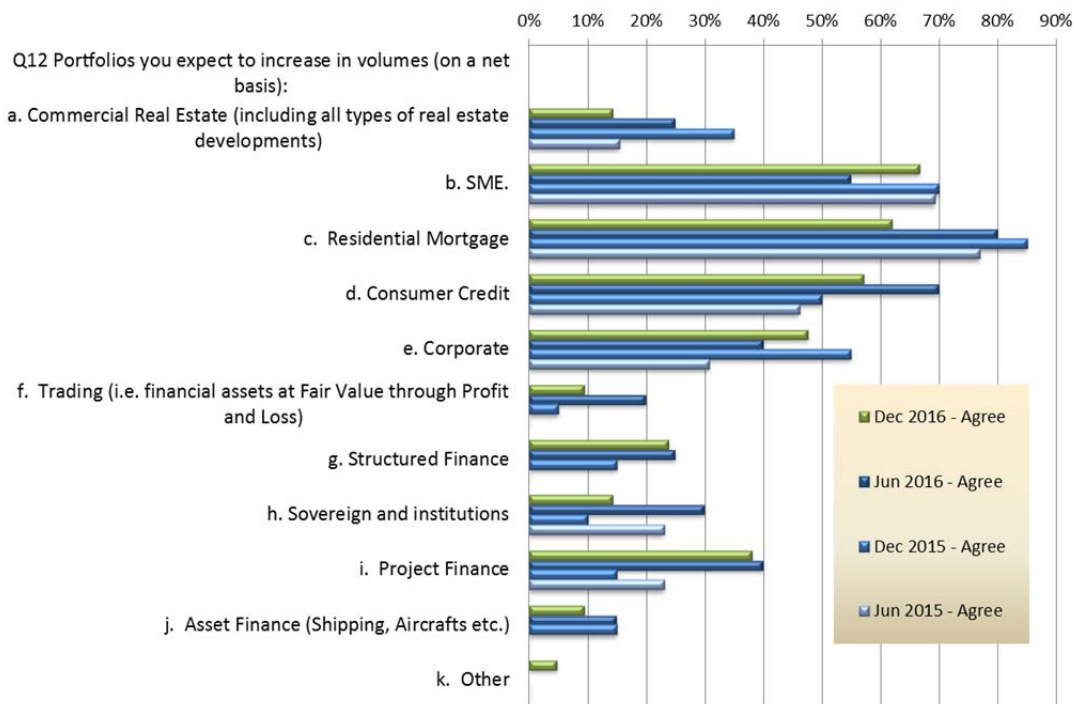
Question 11: Comparison with former results



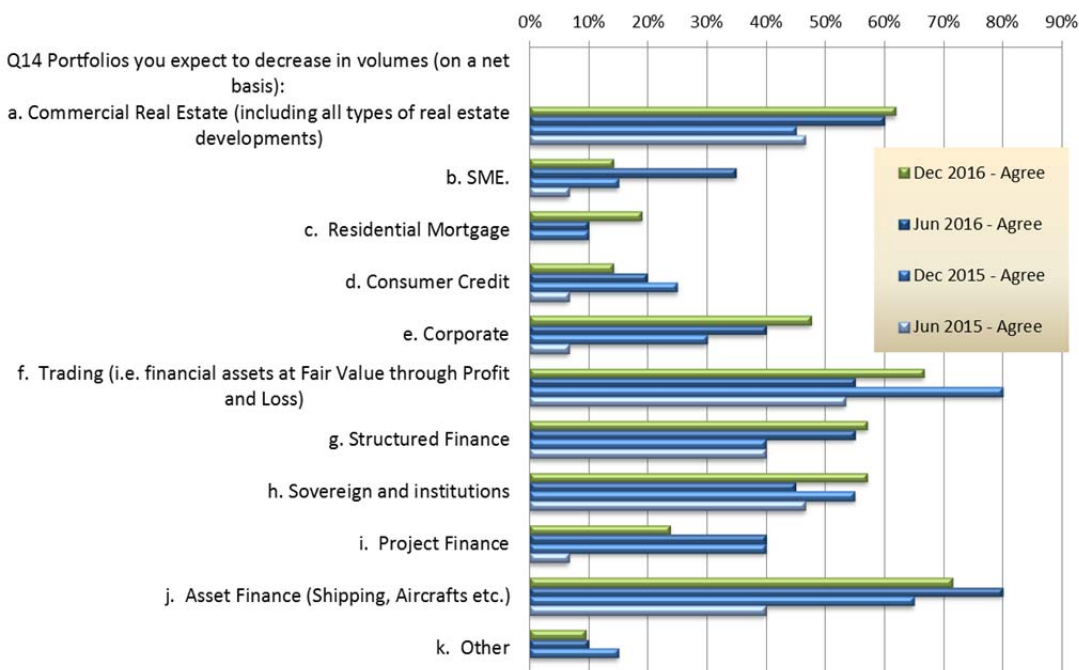
Questions 12 and 14: December 2016 results



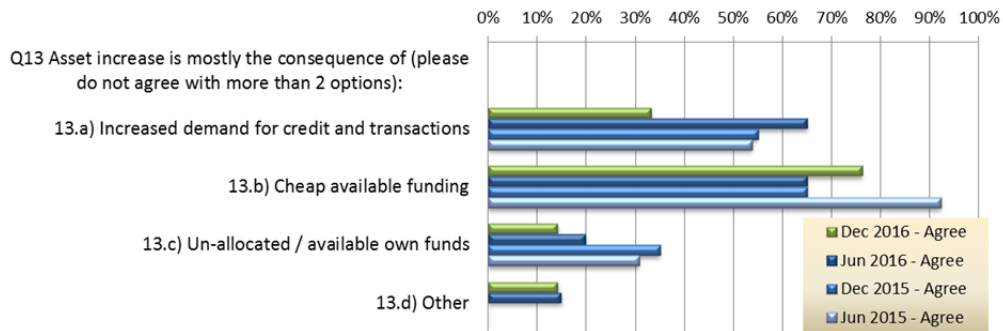
Question 12: Comparison with former results



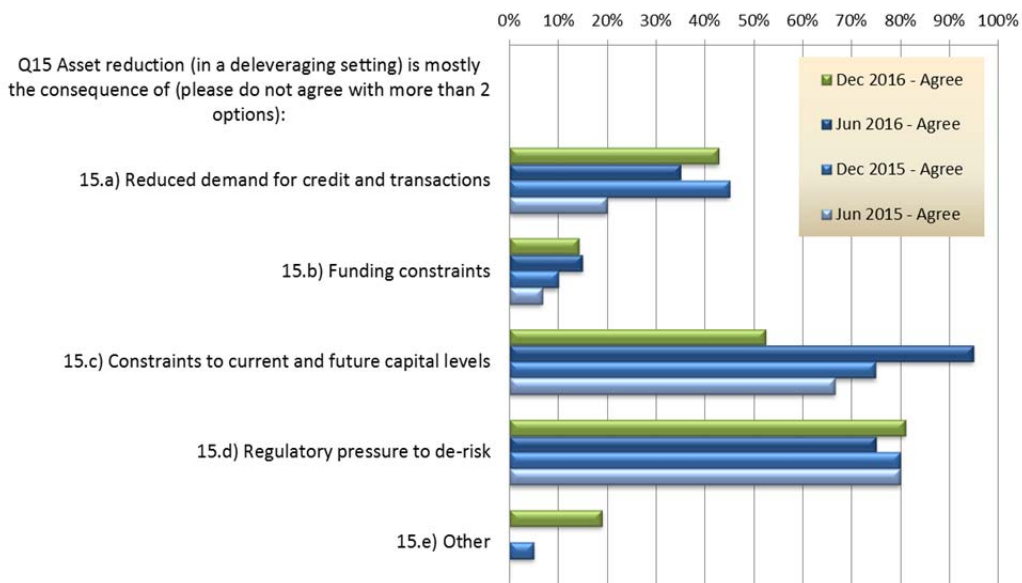
Question 14: Comparison with former results



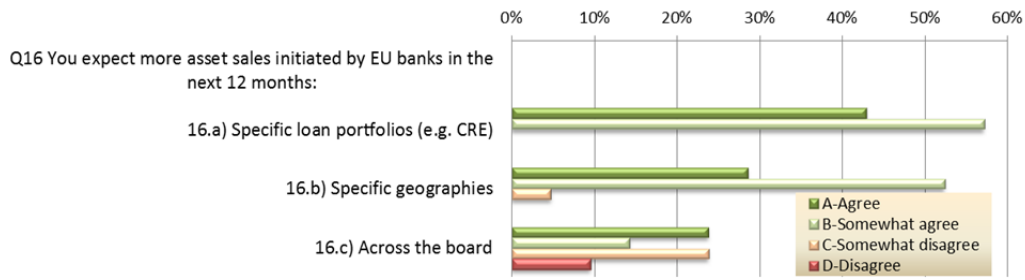
Question 13 (only “agree” as possible answer)



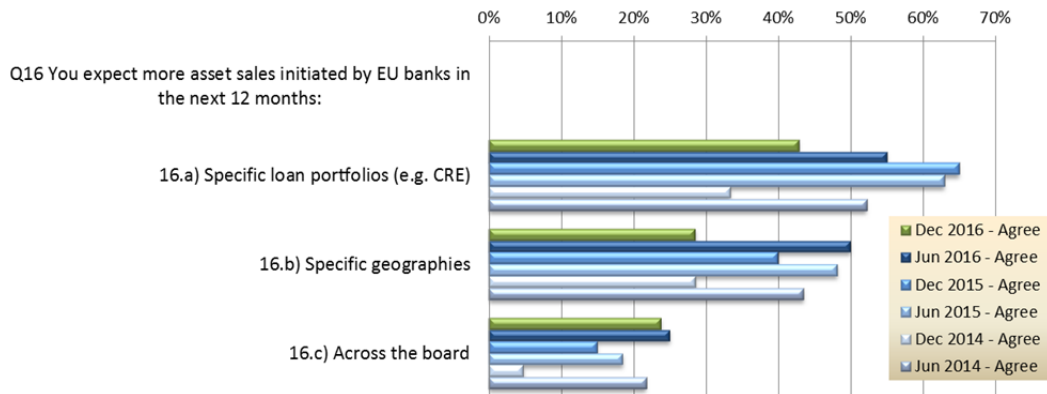
Question 15 (only “agree” as possible answer)



Question 16: December 2016 results

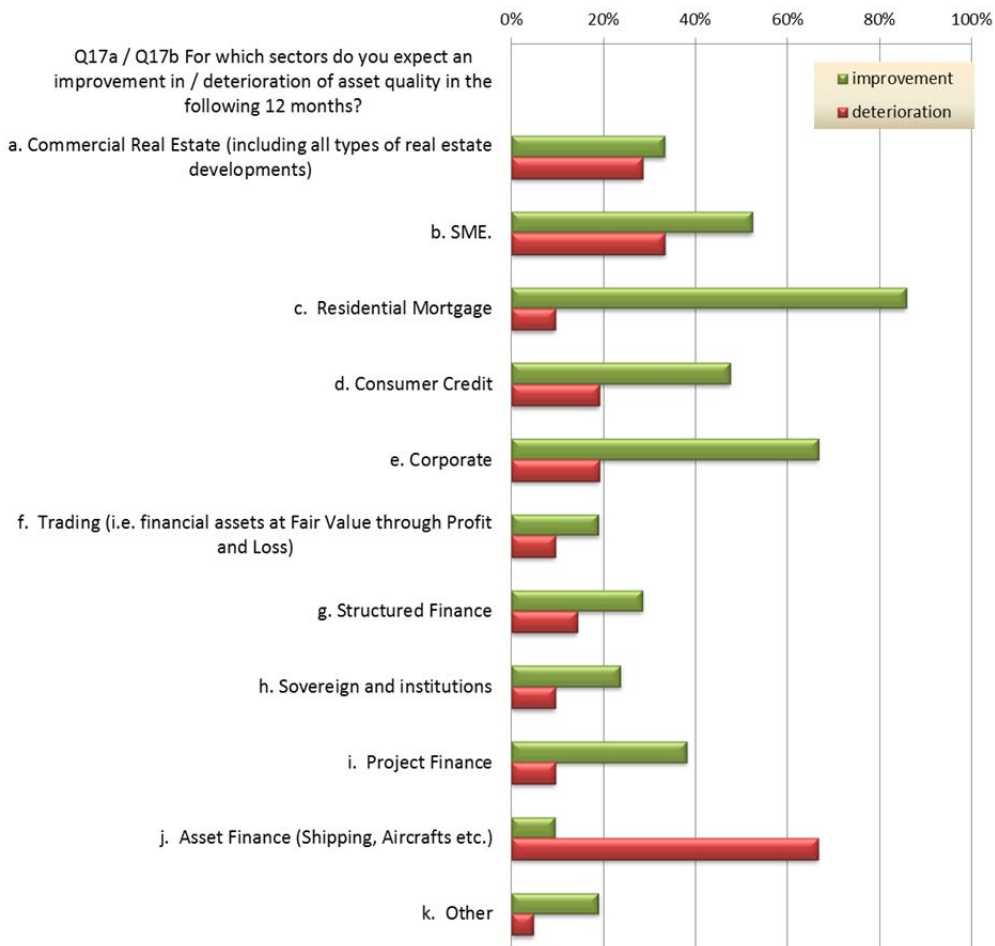


Question 16: Comparison with former results

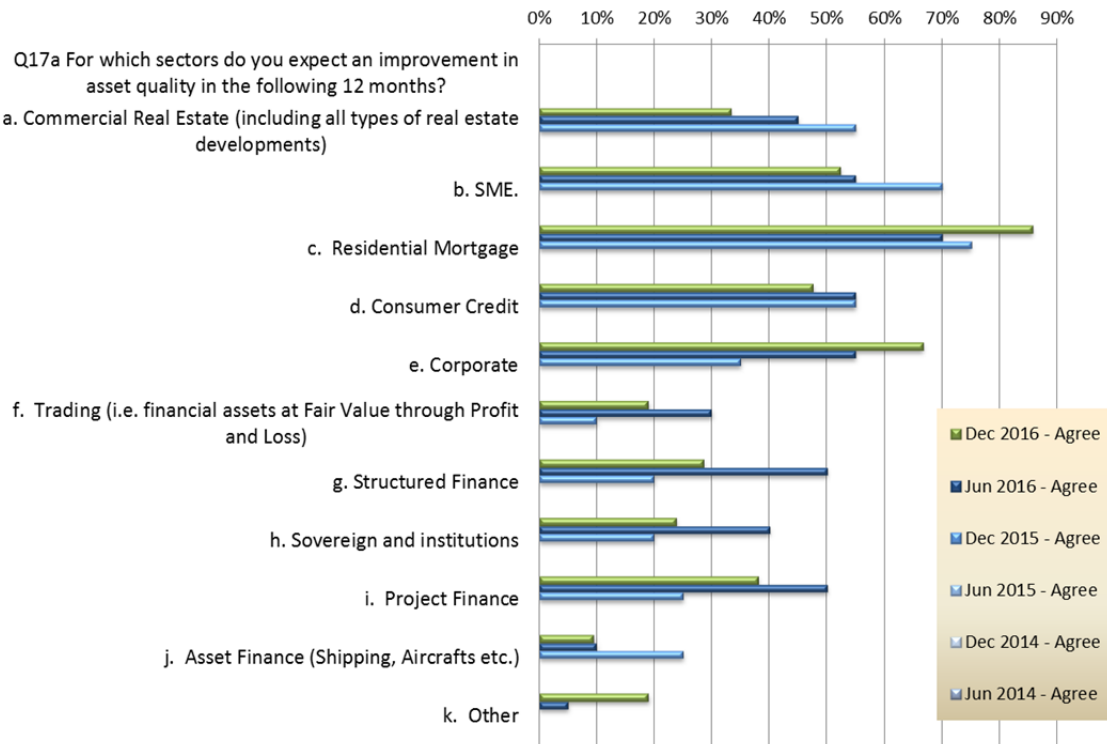


4. Asset quality

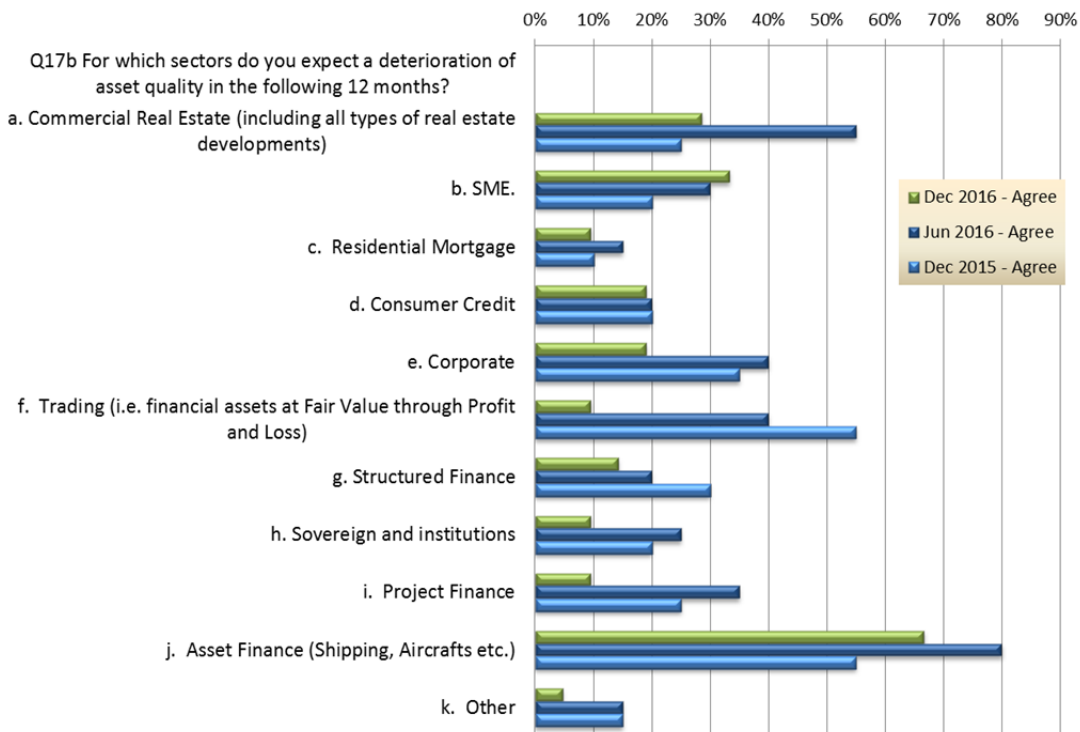
Question 17: December 2016 results



Question 17a: Comparison with former results

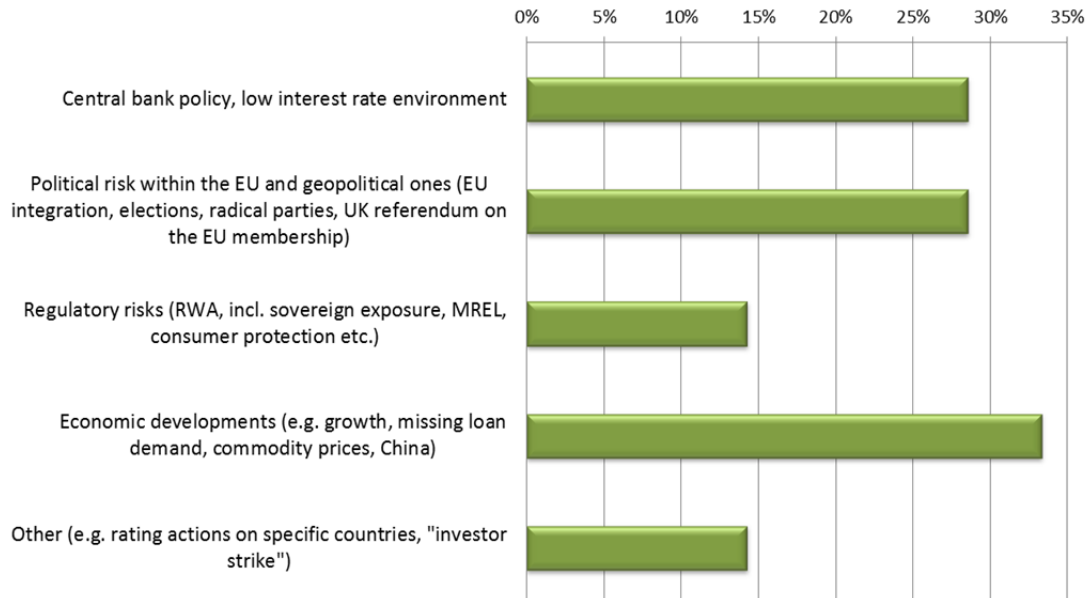


Question 17b: Comparison with former results



5. General open question

Looking at the EU banking sector, you expect other sources of risk or vulnerabilities to increase further in the next 6-12 months. Please indicate possible additional sources of risks and vulnerabilities:



Appendix: Risk Assessment Questionnaire for banks

[added on the following pages]



Risk Assessment Questionnaire for Banks Autumn 2016

Fields marked with * are mandatory.

Respondent information

*First Name

*Last Name

*Position

*Division

*Banking institution

*Email address

Business model/strategy/profitability

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

***Q1 You envisage making material changes to your bank’s business model going forward.**

- Agree
- Disagree
- N/A

If you agree:

	Agree	Disagree	N/A
*a. you expect material changes to your bank’s business model arising from a potential M&A transaction	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*b. you expect material changes to your bank’s business model due to increasing competition arising from banking disintermediation (e.g. shadow banking, infrastructure finance by insurance companies)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*c. you expect material structural changes in your group due to regulatory requirements on resolvability	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

If you agree with c., this results from the following regulatory changes:

	Agree	Disagree	N/A
*i. Regulations on capital	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*ii. Regulations on liquidity and funding	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*iii. Regulations on resolution/bail-in	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*iv. Regulations and policies on banking structures (activity ring-fencing, etc.)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

***Q2 Your bank can operate on a longer-term basis with a return on equity (ROE):**

- a. Below 10%.
- b. Between 10% and 12%.
- c. Between 12% and 14%
- d. Above 14%.

***Q3 You expect an overall increase in your bank's profitability in the 6-12 next months:**

- Agree
- Somewhat Agree
- Somewhat Disagree
- Disagree
- N/A

Q4 You primarily target this area for increasing profitability in your bank in the next months:

	Agree	Somewhat Agree	Somewhat Disagree	Disagree	N/A
*a. Net interest income	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*b. Net Fees and Commissions income	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*c. Other operating income	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*d. Operating expenses / costs reduction	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*e. Impairments	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*f. Other	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Q5 You are reducing operating expenses / costs through (please do not agree with more than 3 options):

	Agree	N/A
*a. Overhead reduction and staff costs reduction	<input type="radio"/>	<input type="radio"/>
*b. Outsourcing some of the administrative and development departments (IT)	<input type="radio"/>	<input type="radio"/>
*c. Off-shoring or near-shoring	<input type="radio"/>	<input type="radio"/>
*d. Cutting of non-profitable units.	<input type="radio"/>	<input type="radio"/>
*e. Increasing automatisisation and digitalisation	<input type="radio"/>	<input type="radio"/>
*f. Other	<input type="radio"/>	<input type="radio"/>

***Q6 Your current earnings are covering the cost of equity:**

- Agree
- Disagree
- N/A

***Q7 You estimate COE at:**

- a. Below 8%.
- b. Between 8% and 10%.
- c. Between 10% and 12%.
- d. Above 12%.

***Q8 Do you expect further losses linked to the economic developments in emerging-markets for your institution in the next 6 months?**

- Agree
- Disagree
- N/A

***Q9 Do you expect increasing losses linked to your commodity and energy related exposures (direct and indirect ones)?**

- Agree
- Disagree
- N/A

Funding/liquidity

***Q10 Looking at your bank, you are concerned about the level of assets that are unencumbered and available for encumbrance in case of necessity.**

- Agree
- Somewhat Agree
- Somewhat Disagree
- Disagree
- N/A

Q11 Your bank intends to issue in the next 12 months:

	Agree	N/A
*a. AT1 instruments	<input type="radio"/>	<input type="radio"/>
*b. Tier 2 instruments	<input type="radio"/>	<input type="radio"/>
*c. Other subordinated instruments bail-inable according to the BRRD/ TLAC requirements	<input type="radio"/>	<input type="radio"/>

Q12 What are the main constraints to issue AT1 and T2 instruments?

	Agree	N/A
*a. pricing (the instruments' yields are too high)	<input type="radio"/>	<input type="radio"/>
*b. no sufficient investor demand (e.g. these instruments are not attractive in their risk-return considerations)	<input type="radio"/>	<input type="radio"/>
*c. no sufficient investor demand (due to regulatory and supervisory uncertainty, e.g. in respect of MDA considerations or coupon risk or due to regulatory / supervisory aspects)	<input type="radio"/>	<input type="radio"/>

***Q13 Do you plan to issue CET1 instruments in the next 12 months?**

- Agree
- Disagree

Q14 You intend to attain more (please do not agree with more than 2 options):

	Agree	N/A
*a. Senior unsecured funding.	<input type="radio"/>	<input type="radio"/>
*b. Subordinated debt.	<input type="radio"/>	<input type="radio"/>
*c. Secured funding (covered bonds).	<input type="radio"/>	<input type="radio"/>
*d. Securitisation	<input type="radio"/>	<input type="radio"/>
*e. Deposits (from wholesale clients)	<input type="radio"/>	<input type="radio"/>
*f. Deposits (from retail clients)	<input type="radio"/>	<input type="radio"/>
*g. Central Bank funding.	<input type="radio"/>	<input type="radio"/>

***Q15 You see volatilities in your wholesale deposit volumes due to increased competition, rate shopping or risk perceptions.**

- Agree
- Somewhat Agree
- Somewhat Disagree
- Disagree
- N/A

***Q16 You see volatilities in your retail deposit volumes due to increased competition, rate shopping or risk perceptions.**

- Agree
- Somewhat Agree
- Somewhat Disagree
- Disagree
- N/A

***Q17 You have been affected by the reduced cross-border interbank activities as a taker of funding.**

- Agree
- Somewhat Agree
- Somewhat Disagree
- Disagree
- N/A

***Q18 You keep your cross-border interbank lending as a provider of funding on reduced level.**

- Agree
- Somewhat Agree
- Somewhat Disagree
- Disagree
- N/A

Asset volume trends

***Q19 Further asset deleverage is an element of your strategy.**

- Agree
- Disagree
- N/A

If applicable, your deleveraging strategy is driven primarily by (please do not agree with more than 3 options):

	Agree	N/A
*a. Reduced demand for credit and transactions.	<input type="radio"/>	<input type="radio"/>
*b. Disposal of business units and asset sales.	<input type="radio"/>	<input type="radio"/>
*c. Funding constraints.	<input type="radio"/>	<input type="radio"/>
*d. Reduce reliance on central bank funding.	<input type="radio"/>	<input type="radio"/>
*e. Constraints to current and future capital levels.	<input type="radio"/>	<input type="radio"/>
*f. Decisions to further de-risk business lines.	<input type="radio"/>	<input type="radio"/>
*g. Regulatory pressure to de-risk.	<input type="radio"/>	<input type="radio"/>

***Q20 You plan an overall increase in your balance sheet volume**

- Agree
- Disagree
- N/A

Q21 Which portfolios do you plan to increase in volume during the next 12 months?

	Agree	N/A
*a. Commercial Real Estate (including all types of real estate developments)	<input type="radio"/>	<input type="radio"/>
*b. SME	<input type="radio"/>	<input type="radio"/>
*c. Residential Mortgage	<input type="radio"/>	<input type="radio"/>
*d. Consumer Credit	<input type="radio"/>	<input type="radio"/>
*e. Corporate	<input type="radio"/>	<input type="radio"/>
*f. Trading (i.e. financial assets at Fair Value through Profit and Loss)	<input type="radio"/>	<input type="radio"/>
*g. Structured Finance	<input type="radio"/>	<input type="radio"/>
*h. Sovereign and institutions	<input type="radio"/>	<input type="radio"/>
*i. Project Finance	<input type="radio"/>	<input type="radio"/>
*j. Asset Finance (Shipping, Aircrafts etc.)	<input type="radio"/>	<input type="radio"/>
*k. Other	<input type="radio"/>	<input type="radio"/>

Q22 Which portfolios do you plan to decrease in volume during the next 12 months?

	Agree	N/A
*a. Commercial Real Estate (including all types of real estate developments)	<input type="radio"/>	<input type="radio"/>
*b. SME	<input type="radio"/>	<input type="radio"/>
*c. Residential Mortgage	<input type="radio"/>	<input type="radio"/>
*d. Consumer Credit	<input type="radio"/>	<input type="radio"/>
*e. Corporate	<input type="radio"/>	<input type="radio"/>
*f. Trading (i.e. financial assets at Fair Value through Profit and Loss)	<input type="radio"/>	<input type="radio"/>
*g. Structured Finance	<input type="radio"/>	<input type="radio"/>
*h. Sovereign and institutions	<input type="radio"/>	<input type="radio"/>
*i. Project Finance	<input type="radio"/>	<input type="radio"/>
*j. Asset Finance (Shipping, Aircrafts etc.)	<input type="radio"/>	<input type="radio"/>
*k. Other	<input type="radio"/>	<input type="radio"/>

Asset composition & quality

Q23 Which portfolios do you expect to improve in asset quality in the next 12 months?

	Agree	N/A
*a. Commercial Real Estate (including all types of real estate developments)	<input type="radio"/>	<input type="radio"/>
*b. SME	<input type="radio"/>	<input type="radio"/>
*c. Residential Mortgage	<input type="radio"/>	<input type="radio"/>
*d. Consumer Credit	<input type="radio"/>	<input type="radio"/>
*e. Corporate	<input type="radio"/>	<input type="radio"/>
*f. Trading (i.e. financial assets at Fair Value through Profit and Loss)	<input type="radio"/>	<input type="radio"/>
*g. Structured Finance	<input type="radio"/>	<input type="radio"/>
*h. Sovereign and institutions	<input type="radio"/>	<input type="radio"/>
*i. Project Finance	<input type="radio"/>	<input type="radio"/>
*j. Asset Finance (Shipping, Aircrafts etc.)	<input type="radio"/>	<input type="radio"/>
*k. Other	<input type="radio"/>	<input type="radio"/>

Q24 Which portfolios do you expect to deteriorate in asset quality in the next 12 months?

	Agree	N/A
*a. Commercial Real Estate (including all types of real estate developments)	<input type="radio"/>	<input type="radio"/>
*b. SME	<input type="radio"/>	<input type="radio"/>
*c. Residential Mortgage	<input type="radio"/>	<input type="radio"/>
*d. Consumer Credit	<input type="radio"/>	<input type="radio"/>
*e. Corporate	<input type="radio"/>	<input type="radio"/>
*f. Trading (i.e. financial assets at Fair Value through Profit and Loss)	<input type="radio"/>	<input type="radio"/>
*g. Structured Finance	<input type="radio"/>	<input type="radio"/>
*h. Sovereign and institutions	<input type="radio"/>	<input type="radio"/>
*i. Project Finance	<input type="radio"/>	<input type="radio"/>
*j. Asset Finance (Shipping, Aircrafts etc.)	<input type="radio"/>	<input type="radio"/>
*k. Other	<input type="radio"/>	<input type="radio"/>

***Q25 Based on your view on future trends in credit quality and impairment levels for your bank, impairment provisions over the time horizon of the next 12-18 months:**

- a. Will increase.
- b. Will remain at roughly the same level.
- c. Will decrease.

Q26 What are the impediments to resolve non-performing loans (please do not agree with more than 3 options):

	Agree	N/A
*a. Lack of financial resources	<input type="radio"/>	<input type="radio"/>
*b. Lack of qualified human resources	<input type="radio"/>	<input type="radio"/>
*c. Tax disincentives to provision against and write off NPLs	<input type="radio"/>	<input type="radio"/>
*d. Lengthy and expensive judiciary process to resolve insolvency and enforce on collateral	<input type="radio"/>	<input type="radio"/>
*e. Lack of out-of-court tools for settlement of minor claims	<input type="radio"/>	<input type="radio"/>
*f. Lack of a market for NPLs/collaterals	<input type="radio"/>	<input type="radio"/>
*g. Lack of public or industry-wide defeasance structure (bad bank) (additional option which seems to be missing)	<input type="radio"/>	<input type="radio"/>
*h. Other	<input type="radio"/>	<input type="radio"/>
*i. There is no impediment	<input type="radio"/>	<input type="radio"/>

Conduct, Reputation and Operational risk

***Q27 Since the end of your Financial Year 2007/8, your firm has paid out in the form of compensation, redress, litigation and similar payments [converted to EUR] an aggregate amount of:**

- a. Less than EUR 10m.
- b. Between EUR 10m and EUR 50m.
- c. Between EUR 50m and 100m.
- d. Between EUR 100m and EUR 500m.
- e. Between EUR 500m and EUR 1bn.
- f. More than EUR 1bn.

***Q28 Looking at your bank, you expect litigation costs to be heightened/elevated in the next 6-12 months.**

- Agree
- Disagree
- N/A

***Q29 What is your main approach to address reputational and legal risks in your bank:**

- a. You are aiming to adjust the culture and risk/conduct governance within the organisation.
- b. You are adjusting products and/or business models.
- c. You are building contingency reserves.
- d. Other.
- e. We do not specifically address this topic.

***Q30 You see an increase in operational risk in your bank.**

- Agree
- Disagree
- N/A

Q31 Your institution is responding to growing information technology related operational risk, including connectivity and dependency on the internet and risks of related malicious attacks (please do not agree with more than 2 options):

	Agree	N/A
*a. Increase spending on IT security and resilience of IT systems	<input type="radio"/>	<input type="radio"/>
*b. Strengthen business continuity plans	<input type="radio"/>	<input type="radio"/>
*c. Integrate IT security and resilience into risk models	<input type="radio"/>	<input type="radio"/>
*d. Enhance IT testing requirements (e.g. Pre-product launches; sharp increase of business volumes)	<input type="radio"/>	<input type="radio"/>
*e. Strengthen governance and risk culture on related risks	<input type="radio"/>	<input type="radio"/>
*f. Cover risks under general operational risks	<input type="radio"/>	<input type="radio"/>
*g. No specific response yet	<input type="radio"/>	<input type="radio"/>

General issues

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

Appendix: Risk Assessment Questionnaire for market analysts

[added on the following pages]



Risk Assessment Questionnaire for Market Analysts

Autumn 2016

Fields marked with * are mandatory.

Respondent information

*First Name

*Last Name

*Position

*Division

*Company

*Email address

Please select your choice for every box.

Your response should reflect the degree of agreement to the statement made.

A. Business model/strategy/profitability

Q1 Short term earnings expectations for banks are:

	A-Agree	B-Somewhat agree	C-Somewhat disagree	D-Disagree	N/A
*1.a) Overall profitability will improve	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*1.b) Overall cost efficiency will improve	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*1.c) Total revenues will increase	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*1.d) Net interest margin will increase)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*1.e) Provisions/Impairments will increase	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

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

	Agree	N/A
*2.a) Adjustments in business models and strategies with expectations of effective delivery	<input type="radio"/>	<input type="radio"/>
*2.b) Improved risk metrics for banks (capital, funding, liquidity, asset quality) and positive impact of new regulatory requirements.	<input type="radio"/>	<input type="radio"/>
*2.c) Stronger earnings	<input type="radio"/>	<input type="radio"/>
*2.d) Changing governance and risk culture (incl. lower risk appetite)	<input type="radio"/>	<input type="radio"/>
*2.e) Improved market sentiment due to regulatory and policy steps (TLTRO, QE, ESM, banking union, etc.) adjusting downward tail risk.	<input type="radio"/>	<input type="radio"/>
*2.f) More stable and/or improving sovereign-risk landscape	<input type="radio"/>	<input type="radio"/>
*2.g) Increased demand for yield against the backdrop of lower-for-longer interest rates	<input type="radio"/>	<input type="radio"/>
*2.h) More transparency and visibility in banks' financial disclosures, such as Pillar 3	<input type="radio"/>	<input type="radio"/>

Q3 The current market sentiment is negatively influenced by the following factors (please do not agree with more than 4-5 options):

	Agree	N/A
*3.a) Monetary policy divergence between the EU and other countries	<input type="radio"/>	<input type="radio"/>
*3.b) Monetary policy trends in the EU (incl. deflation)	<input type="radio"/>	<input type="radio"/>
*3.c) Geopolitical risks (e.g. risks from war, terrorism etc. that have impact on other countries)	<input type="radio"/>	<input type="radio"/>
*3.d) Emerging market risks (e.g. fast decrease in asset quality, higher volatility of asset and FX markets in emerging countries)	<input type="radio"/>	<input type="radio"/>
*3.e) IT/cyber risks	<input type="radio"/>	<input type="radio"/>

*3.f) Litigation risks of banks	<input type="radio"/>	<input type="radio"/>
*3.g) General narrowing market liquidity (for funding purposes)	<input type="radio"/>	<input type="radio"/>
*3.h) Decreasing trading market volumes	<input type="radio"/>	<input type="radio"/>
*3.i) Risks of increasing volatility, e.g. in FX and financial markets	<input type="radio"/>	<input type="radio"/>
*3.j) Asset price bubble(s)	<input type="radio"/>	<input type="radio"/>
*3.k) Re-emergence of the Eurozone crisis	<input type="radio"/>	<input type="radio"/>
*3.l) Regulatory uncertainty: Pillar 2, MDA	<input type="radio"/>	<input type="radio"/>
*3.m) Regulatory uncertainty: risk weights (for credit, market and operational risks)	<input type="radio"/>	<input type="radio"/>
*3.n) Regulatory uncertainty: resolution / BRRD, deposit guarantee schemes (DGS)	<input type="radio"/>	<input type="radio"/>
*3.o) Regulatory uncertainty: MREL / TLAC	<input type="radio"/>	<input type="radio"/>
*3.p) Commodity and energy prices / markets	<input type="radio"/>	<input type="radio"/>
*3.q) Referendums (EU membership, regional independence etc.)	<input type="radio"/>	<input type="radio"/>

***Q4 Looking at the EU banking sector, you expect heightened litigation costs in the next 6-12 months:**

- Agree
- Disagree
- N/A

Q5 You expect that the following trends will impact European banks most in the next 6-12 months (please do not agree with more than 2 options):

	Agree	N/A
*5.a) Growing shadow banking	<input type="radio"/>	<input type="radio"/>
*5.b) Mergers/acquisitions of banks	<input type="radio"/>	<input type="radio"/>
*5.c) Lending disintermediation (e.g. peer-to-peer lending)	<input type="radio"/>	<input type="radio"/>
*5.d) Competition from new market entrants and non-banks (e.g. insurers)	<input type="radio"/>	<input type="radio"/>
*5.e) Technological advances (e.g. mobile/internet based payment systems)	<input type="radio"/>	<input type="radio"/>
*5.f) Other	<input type="radio"/>	<input type="radio"/>

B. Funding/liquidity

Q6 Do you expect that banks will be able to issue subordinated debt instruments during the rest of this year?:

	A-Agree	B-Somewhat agree	C-Somewhat disagree	D-Disagree	N/A
*6.a) Banks will be able to issue BRRD / MREL / TLAC eligible debt instruments	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*6.b) Banks will be able to issue AT1 instruments	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*6.c) Banks will be able to issue T2 instruments	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

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

	A-Agree	B-Somewhat agree	C-Somewhat disagree	D-Disagree	N/A
*6.a) for BRRD / MREL / TLAC eligible debt instruments	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*6.b) for AT1 instruments	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*6.c) for T2 instruments	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Q7 You expect banks to attain more (please do not agree with more than 2 options):

	Agree	N/A
*7.a) Senior unsecured funding	<input type="radio"/>	<input type="radio"/>
*7.b) Subordinated debt	<input type="radio"/>	<input type="radio"/>
*7.c) Secured funding (e.g. covered bonds)	<input type="radio"/>	<input type="radio"/>
*7.d) Securitisation	<input type="radio"/>	<input type="radio"/>
*7.e) Deposits (from wholesale clients)	<input type="radio"/>	<input type="radio"/>
*7.f) Deposits (from retail clients)	<input type="radio"/>	<input type="radio"/>
*7.g) Central Bank funding	<input type="radio"/>	<input type="radio"/>

***Q8 You are concerned about the level of assets that are unencumbered and available for encumbrance in case of necessity:**

- Agree
- N/A

Q9 What is your outlook for trading market liquidity in the next 12 months:

	Agree	Somewhat Agree	Somewhat Disagree	Disagree	N/A
*9.a) You expect trading market liquidity to decrease	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*9.b) You expect decreasing liquidity to adversely affect market segments concerned (e.g. by increasing volatility)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*9.c) You expect non-financial bond markets to be most affected	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*9.d) You expect financial bond markets (incl. covered bonds) to be most affected	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*9.e) You expect other markets to be most affected (e.g. money markets)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Q10 Which aspect is main driver of decreasing trading market liquidity?

	Agree	Somewhat Agree	Somewhat Disagree	Disagree	N/A
*10.a) Market liquidity is not decreasing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*10.b) Reduction of market makers	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*10.c) Central bank quantitative easing programmes	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*10.d) Deteriorating market conditions	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*10.e) Effects of regulation	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*10.f) Increase in electronic trading	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*10.g) Decreasing issuance sizes of bonds	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*10.h) other	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

C. Deleverage/balance sheet changes

***Q11 In the next 12 month you expect EU banks' overall balance sheet total volume to increase:**

- Agree
- Disagree
- N/A

Q12 Portfolios you expect to increase in volumes (on a net basis):

	Agree	N/A
*12.a) Commercial Real Estate (including all types of real estate developments)	<input type="radio"/>	<input type="radio"/>
*12.b) SME	<input type="radio"/>	<input type="radio"/>
*12.c) Residential Mortgage	<input type="radio"/>	<input type="radio"/>
*12.d) Consumer Credit	<input type="radio"/>	<input type="radio"/>
*12.e) Corporate	<input type="radio"/>	<input type="radio"/>
*12.f) Trading (i.e. financial assets at Fair Value through Profit and Loss)	<input type="radio"/>	<input type="radio"/>
*12.g) Structured Finance	<input type="radio"/>	<input type="radio"/>
*12.h) Sovereign and institutions	<input type="radio"/>	<input type="radio"/>
*12.i) Project Finance	<input type="radio"/>	<input type="radio"/>
*12.j) Asset Finance (Shipping, Aircrafts etc.)	<input type="radio"/>	<input type="radio"/>
*12.k) Other	<input type="radio"/>	<input type="radio"/>

Q13 Asset increase is mostly the consequence of (please do not agree with more than 2 options):

	Agree	N/A
*13.a) Increased demand for credit and transactions	<input type="radio"/>	<input type="radio"/>
*13.b) Cheap available funding	<input type="radio"/>	<input type="radio"/>
*13.c) Un-allocated / available own funds	<input type="radio"/>	<input type="radio"/>
*13.d) Other	<input type="radio"/>	<input type="radio"/>

Q14 Portfolios you expect to decrease in volumes (on a net basis):

	Agree	N/A
*14.a) Commercial Real Estate (including all types of real estate developments)	<input type="radio"/>	<input type="radio"/>
*14.b) SME	<input type="radio"/>	<input type="radio"/>
*14.c) Residential Mortgage	<input type="radio"/>	<input type="radio"/>
*14.d) Consumer Credit	<input type="radio"/>	<input type="radio"/>
*14.e) Corporate	<input type="radio"/>	<input type="radio"/>
*14.f) Trading (i.e. financial assets at Fair Value through Profit and Loss)	<input type="radio"/>	<input type="radio"/>
*14.g) Structured Finance	<input type="radio"/>	<input type="radio"/>
*14.h) Sovereign and institutions	<input type="radio"/>	<input type="radio"/>
*14.i) Project Finance	<input type="radio"/>	<input type="radio"/>
*14.j) Asset Finance (Shipping, Aircrafts etc.)	<input type="radio"/>	<input type="radio"/>
*14.k) Other	<input type="radio"/>	<input type="radio"/>

Q15 Asset reduction (in a deleveraging setting) is mostly the consequence of (please do not agree with more than 2 options):

	Agree	N/A
*15.a) Reduced demand for credit and transactions	<input type="radio"/>	<input type="radio"/>
*15.b) Funding constraints	<input type="radio"/>	<input type="radio"/>
*15.c) Constraints to current and future capital levels	<input type="radio"/>	<input type="radio"/>
*15.d) Regulatory pressure to de-risk	<input type="radio"/>	<input type="radio"/>
*15.e) Other	<input type="radio"/>	<input type="radio"/>

Q16 You expect more asset sales initiated by EU banks in the next 12 months:

	Agree	Somewhat Agree	Somewhat Disagree	Disagree	N/A
*16.a) Specific loan portfolios (e.g. CRE)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*16.b) Specific geographies	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*16.c) Across the board	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Asset quality/impairments/provisions

Q17a For which sectors do you expect an improvement in asset quality in the following 12 months?

	Agree	N/A
*17.aa) Commercial Real Estate (including all types of real estate developments)	<input type="radio"/>	<input type="radio"/>
*17.ab) SME	<input type="radio"/>	<input type="radio"/>
*17.ac) Residential Mortgage	<input type="radio"/>	<input type="radio"/>
*17.ad) Consumer Credit	<input type="radio"/>	<input type="radio"/>
*17.ae) Corporate	<input type="radio"/>	<input type="radio"/>
*17.af) Trading (i.e. financial assets at Fair Value through Profit and Loss)	<input type="radio"/>	<input type="radio"/>
*17.ag) Structured Finance	<input type="radio"/>	<input type="radio"/>
*17.ah) Sovereign and institutions	<input type="radio"/>	<input type="radio"/>
*17.ai) Project Finance	<input type="radio"/>	<input type="radio"/>
*17.aj) Asset Finance (Shipping, Aircrafts etc.)	<input type="radio"/>	<input type="radio"/>
*17.ak) Other	<input type="radio"/>	<input type="radio"/>

Q17b For which sectors do you expect a deterioration of asset quality in the following 12 months?

	Agree	N/A
*17.ba) Commercial Real Estate (including all types of real estate developments)	<input type="radio"/>	<input type="radio"/>
*17.bb) SME	<input type="radio"/>	<input type="radio"/>
*17.bc) Residential Mortgage	<input type="radio"/>	<input type="radio"/>
*17.bd) Consumer Credit	<input type="radio"/>	<input type="radio"/>
*17.be) Corporate	<input type="radio"/>	<input type="radio"/>
*17.bf) Trading (i.e. financial assets at Fair Value through Profit and Loss)	<input type="radio"/>	<input type="radio"/>
*17.bg) Structured Finance	<input type="radio"/>	<input type="radio"/>
*17.bh) Sovereign and institutions	<input type="radio"/>	<input type="radio"/>
*17.bi) Project Finance	<input type="radio"/>	<input type="radio"/>
*17.bj) Asset Finance (Shipping, Aircrafts etc.)	<input type="radio"/>	<input type="radio"/>
*17.bk) Other	<input type="radio"/>	<input type="radio"/>

Q18 Looking at the EU banking sector, you expect other sources of risk or vulnerabilities to increase further in the next 6-12 months. Please indicate possible additional sources of risks and vulnerabilities.



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