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Abbreviations

AIRB	advanced internal ratings-based
СА	competent authority
CCF	credit conversion factor
CfA	call for advice
CGCB	central governments and central banks
COREP	common supervisory reporting
CORP	exposures to corporates other
CRD	Capital Requirements Directive
CRM	credit risk mitigation
CRR	Capital Requirements Regulation
DR	default rate
DR 1Y	default rate of last year
DR 5Y	Average default rate over the last five years
EAD	exposure at default
EBA	European Banking Authority
EL	expected loss
EU	European Union
FIRB	foundation internal ratings-based
GC	global charge
GL	guidelines
HDP	high-default portfolio
INST	exposures to institutions



IRB	internal ratings-based
ITS	implementing technical standards
LCOR	exposures to large corporates
LDP	low default portfolio
LEI	Legal Entity Identifier
LGD	loss given default
LR	loss rate
LR 1Y	loss rate observed on the defaults of last year
LR 5Y	Average loss rate observed on the defaults over the last five year
МоС	margin of conservatism
MORT	exposures to residential mortgages
PD	probability of default
PPU	permanent partial use
RW	risk weight
RWA	risk-weighted assets
SA	standardised approach
SLSC	specialised lending slotting criteria
SLXX	specialised lending exposure
SMEC	exposures to corporate small and medium-sized enterprises
SMER	exposures to retail small and medium-sized enterprises
SMEs	small and medium-sized enterprises
SVB	supervisory benchmarking
UL	unexpected loss



Introduction and legal background

- 1. This chart pack aggregates the results of the SVB exercise for internal models used by both HDPs and LDPs across a sample of EU institutions. The reference date for the data is 31 December 2019. This is the first year that almost all IRB exposures are covered by the exercise, with the addition of non-mortgage retail exposures, including retail revolving exposures.
- 2. The main objectives of this report are to (i) provide an overview of RWA variability and the drivers of differences; (ii) summarise the latest results of the supervisory assessment of the quality of internal approaches in use; and (iii) provide evidence to policymakers for future activities relating to RWA differences.
- 3. The data collection is based on technical standards specifically designed for annual SVB exercises and covers different breakdowns of portfolios by, for instance, country, type of collateral, loan-to-value ratio and sector to help to understand the impact of these factors on the different key risk drivers such as PD, LGD, CCF and RW estimates.
- 4. The chart pack is organised as follows:
 - The first section gives a general description and the main statistics on the data collected.
 - The second section contains a quantitative analysis of the variability of the collected data, replicating the three analyses conducted in the previous reports: starting from a high-level analysis with a top-down approach to the whole portfolio, before moving to a deeper analysis with the common counterparties analysis for LDPs and the outturn analysis for HDPs. The results are compared with those of the previous reports in each of the subsections.
 - The third section contains the qualitative analysis that has been performed on the institutions' IRB models, i.e. the results from the CA assessments.



1. General description

1.1 Dataset and assessment methodology

1.1.1 Dataset

- 5. Altogether, 123 institutions (at highest consolidation level) from 16 EU Member States had approval for the use of credit risk internal models at 31 December 2019 and are therefore within the scope of the 2020 SVB exercise (the full list of institutions can be found in Appendix 1). In comparison with previous studies, the number of institutions in the sample is stable. The figures presented in this report are at the highest level of consolidation. 119 institutions submitted data for at least one counterparty or one portfolio. The number of institutions differs depending on the template due to the different business models as well as in some instances due to data quality: the full details of the sample size and the different rules for data cleaning are set out in Appendices 2 and 3.
- 6. The underlying framework is designed by the EBA via the final draft ITS published by the EBA in July 2019.¹ In accordance with the ITS, the report relies on data collected on SVB² (complemented by COREP data when necessary) through six different templates:
 - Template C 101.00 provides the information at counterparty level ('common sample') for a given list of counterparties. The common sample of counterparties was defined by the EBA, and institutions were requested to provide amongst others the PDs and LGDs, as well as the hypothetical senior unsecured LGDs, for those counterparties included in the 'common portfolio' on which they had an exposure or a valid rating at the reference date. In contrast to a hypothetical exercise, the analysis is therefore based on actual estimates of counterparties with a real exposure at the reference date.
 - Template C 102.00 provides the information on LDPs.³ As in previous exercises, there is no information on SA exposures (either on a roll-out plan or under the permanent partial use allowance) or on RWAs calculated under the SA. However, the RWAs calculated under the SA will become mandatory starting from the next benchmarking exercise.

¹ <u>https://eba.europa.eu/regulation-and-policy/supervisory-benchmarking-exercises/its-package-for-2020-benchmarking-exercise</u>

² Annex I of the ITS provides the definitions of the supervisory benchmarking portfolios that are required for the exercise. Annex III of the ITS provides the instructions and details on exposures, that is, the data collected. Annex III also provides further details of internal models and the mapping of internal models (templates C105.1 and C105.2, respectively) to portfolios (Annexes II and IV of the ITS).

³ LDPs consist of sovereigns, institutions and specialised lending exposures and large corporates. The last are defined as firms with annual sales exceeding EUR 200 million and do not include the specialised lending exposures, which are now collected separately as a separate exposure class.



- Template C 103.00 provides the same information as template C 102.00 with the addition of some backtesting parameters for the HDPs.⁴ Since the 2019 SVB exercise the RWAs calculated under SA have been collected in this template.
- Templates C 105.01, C 105.02 and C 105.03 contain details on the internal models and provide the link between the EBA supervisory benchmark portfolios and the models concerned.
- 7. For risk parameters such as PDs and LGDs, the results of the exercise are based on the parameters used for the calculation of the institutions' own funds requirements, i.e. the comparison of institutions does not take into account whether or not some CAs have imposed supervisory corrective actions to increase RWs to correct any model deficiencies (e.g. add-ons).

1.1.2 Challenges encountered when analysing the variability of IRB model outcomes

- 8. The most challenging part of comparative RWA studies is to distinguish the influence of riskbased and practice-based drivers. As shown in this report, top-down analysis can explain a substantial percentage of the variability observed in some key drivers. However, the remaining variability needs to be approached differently. Specific challenges apply depending on the type of analysis:
 - LDP portfolios generally have so little data, and in particular defaults, that historical data may not provide statistically significant differentiation between different portfolio credit risks.⁵ Instead, for these LDPs, IRB parameters and RWs can be compared for identical obligors to which the institutions have real exposures. The key limitation of this approach is the representativeness of the common sample compared with the actual portfolio of each institution.
 - For HDPs on the other hand, in contrast to the exercise for LDPs, it is not possible to compare the same counterparties across institutions, but the large amount of available data, and defaults in general, allows a statistical backtesting approach that represents an important source of information on the portfolio risk (outturns approach). This approach is very useful, since the misalignment between estimates and observed parameters could suggest that differences in RWAs between institutions might be driven by differences in estimation practices (e.g. different levels of conservatism, adjustments to reflect long-run averages, different lengths of time series data available and included in the calibration of

⁴ HDPs include the remaining corporate exposures (i.e. with annual sales below EUR 200 million), broken down into corporates SME and corporates non SME (SME defined as corporates with annual sales below EUR 50 million) as well as retail exposures, broken down into retail SME and retail non SME and by CRR categories (Mortgages, 'other' and revolving).

⁵ Owing to low PD estimates in LDPs for non-defaulted exposures, the influence of every default on the GC could be relatively large.



the cycle, assumptions underlying recovery estimates) and not only by differences in portfolio risk.

- Furthermore, a breakdown by country seems useful, since the risk profile of relevant exposures is to some extent driven by national legislation (e.g. on insolvency) as well as by local market conditions (e.g. for mortgages). This is an important limitation of the direct comparison of risk estimates and the reason why the outturn (backtesting) approach is a valuable process for comparing institutions, despite this approach also having some shortcomings. The observed parameters reported by institutions are greatly influenced by country characteristics, such as the macroeconomic cycle, accounting framework and judicial system. Realised losses on defaulted exposures are influenced by the wide variation in loss recognition practices across jurisdictions, which affect the timing and amounts of recorded losses, as well as by the limitations in the data used for estimations. However, the breakdown by country (in this report, the country of counterparty) can lead to data shortage and statistically irrelevant results.
- 9. In addition, different regulatory or supervisory requirements, such as regulatory floors,⁶ are also possible and could explain a substantial proportion of the differences between jurisdictions. In this context, it should be noted that the EBA has produced different regulatory products in order to harmonise the concepts and requirements of the IRB approach. This includes RTS on the assessment methodology,⁷ RTS and guidelines on the definition of default,⁸ guidelines on the estimations of risk parameters,⁹ the RTS and guidelines on estimation and identification of an economic downturn in IRB modelling¹⁰ and the guidelines on credit risk mitigation for institutions applying the IRB approach with own estimates of LGDs.¹¹
- 10. Finally, as for any exercise with such a large scope, data quality issues are still present and suggest that the results of the analysis should be interpreted with caution.

 8
 RTS,
 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32018R0171;
 GL,

 https://www.eba.europa.eu/regulation-and-policy/credit-risk/guidelines-on-the-application-of-the-definition-of-default
 GL

⁶ For example, from Article 164(4) of the CRR, LGD floors for residential property are 10% and LGD floors for commercial property are 15%, and Article 164(5) of the CRR allows CAs to increase these regulatory floors.

⁷

https://www.eba.europa.eu/documents/10180/1525916/Final+Draft+RTS+on+Assessment+Methodology+for+IRB.pdf/ e8373cbc-cc4b-4dd9-83b5-93c9657a39f0

⁹ <u>https://www.eba.europa.eu/regulation-and-policy/model-validation/guidelines-on-pd-lgd-estimation-and-treatment-of-defaulted-assets</u>

¹⁰ <u>https://eba.europa.eu/regulation-and-policy/model-validation/regulatory-technical-standards-on-the-specification-of-the-nature-severity-and-duration-of-an-economic-downturn</u> 11

https://eba.europa.eu/sites/default/documents/files/document_library/Publications/Guidelines/2020/Guidelines%200 n%20Credit%20Risk%20Mitigation%20for%20institutions%20applying%20the%20IRB%20approach%20with%20own%2 0estimates%20of%20LGDs/883366/Guidelines%20on%20CRM%20for%20A-IRB%20institutions.pdf



1.1.3 Analysis performed

11. The data were used to perform three main types of analysis in this report:

- Top-down and distribution analysis of institutions' actual portfolios (both LDPs and HDPs): these mainly use the information collected via templates C 102 and C 103. This method disentangles the impact of some key determinants of GC variability. The top-down analysis is complemented by a distribution analysis, which makes it possible to identify extreme values and values below the first quartile or above the third quartile for important parameters of the sample. The main advantage is that it allows outliers to be easily identified, after controlling for some portfolio characteristics. Furthermore, the distribution analysis can be performed at different levels of aggregation and for different risk parameters. For instance, the comparison between regulatory approaches (e.g. FIRB and AIRB) at the EU level or at Member State level for a particular portfolio (e.g. SME retail for non-defaulted exposures in the construction sector) may allow possible drivers to be highlighted if there are significant differences between the approaches.
- Analysis of IRB parameters for common counterparties (LDPs): this allows a PD and LGD comparison on an individual obligor basis. However, the subset of common obligors is in most cases not fully representative of the total IRB portfolio of the individual institutions, so the results of this exercise may not be transferable to the total IRB portfolios and should be interpreted with caution.
- Outturns (backtesting) approaches (HDPs): this comparison uses the (backtesting) outturns approach (i.e. a comparison of observed values with estimated values for important parameters). It allows observed and estimated values to be compared and provides information about institutions' realised credit performance history (default rates, loss rates and actual defaulted exposures, as well as averages of the last five years for default and loss rates) and the corresponding IRB parameters (PD, LGD and RWA), as well as PD backtesting results (RWA-/+).¹² These comparisons allow an analysis to be conducted of possible misalignments between estimated and observed parameters for the same institution.
- 12.Based on the data collected, an analysis is performed in order to identify the relevant outlier institutions that deserve further investigation by the CAs and the EBA. In a first step, several outlier observations are generated individually depending on the available data (LDP, HDP or all). For both HDPs and LDPs, only portfolios that have been reported by at least 10 institutions, with at least 5 obligors, with an EAD greater than EUR 10,000 have been used to assess potential outliers. The values of PD, LGD, CCF and RW are assessed in terms of outliers, with a flag being generated for each metric below the 10th centile. For LDPs, another outlier rule is based on the common counterparties for which at least 10 institutions reported a rated

¹² The risk-weighted exposure amounts, after applying the SME supporting factor, that would result from the application of hypothetical PDs purely based on empirical default rates observed at grade level.



exposure. The rule takes into account the PD, LGD, hypothetical unsecured LGD, CCF and RW, and flags are generated for the lowest 10% of metrics reported. For HDPs, another outlier rule assesses the ratios of DR1Y/PD, DR5Y/PD, LR1Y/LGD and LR5Y/LGD, if the ratio can be computed for at least 10 institutions. Outlier observations are generated for ratios higher than the 90th centile. In a second step, a qualitative assessment is made, in order to determine the final list of institutions and portfolios that deserve an in-depth investigation by the CAs.

- 13.Although these quantitative analyses are essential in this kind of exercise, the assumptions and caveats behind them make it clear that they should be complemented by a qualitative evaluation. Three different kind of assessments can be performed:
 - A survey used to collect additional information on a specific topic for further analysis. This survey is usually launched after the official deadline of submission of the regular ITS templates, if needed. Due to the COVID outbreak in 2020, the analysis of this benchmarking exercise has not been complemented by a dedicated survey.
 - Joint EBA CA interviews with outlier institutions to gather additional information. The selection of institutions for the interviews is generally based on the computed benchmarks on risk parameters and portfolios, with a special focus on conspicuous results. The aim of these interviews is to better understand the approaches used by individual institutions to calculate own funds requirements and to identify key factors and drivers that can explain observed differences. Interviews are generally attended by CAs from different jurisdictions to ensure a more harmonised application of the supervisory framework within the EU countries. No interviews were held in 2020 due to the COVID pandemic.
 - CAs' assessments of individual institutions in their jurisdictions have been shared with the EBA. CAs are requested to share the evidence they have gathered among colleges of supervisors, as appropriate, and to take appropriate corrective actions to mitigate problems when deemed necessary. The tools and benchmarks provided by the EBA and any additional bank- and model-specific information from regular ongoing supervisory functions should be used to identify potential non-risk-based variability across institutions. The SVB exercise allows CAs to assess the outcomes of institutions' internal models compared with a wider range of institutions.



1.2 Portfolio composition and characteristics of institutions in the sample

14. This section describes the composition of the SVB sample across different dimensions (i.e. the use of regulatory approaches across SVB exposure classes, the distribution of exposures across SVB exposure classes as well as defaulted versus non-defaulted exposures, and the sample's representativeness).

1.2.1 Use of regulatory approaches

	Exposure class	AIRB	FIRB	SLSC	Number of participating institutions
	LCOR	61	50	0	93
LDP	COSP	28	17	39	67
LDP	CGCB	25	30	0	46
	INST	31	39	0	58
	CORP	61	50	0	93
	SMEC	58	47	0	89
	SMOT	70	0	0	70
HDP	RETO	79	0	0	79
	RSMS	64	0	0	64
	MORT	87	0	0	87
	RQRR	40	0	0	40
ALL	ALL	102	57	39	109

Table 1: Use of different regulatory approaches by SVB exposure class

1.2.2 Portfolio composition and representativeness

- 15. The figures below give key descriptions of the portfolio composition of the sample of banks, as well as insights into the representativeness of the exposures under the scope of the SVB exercise. The portfolio compositions (in term of exposure class and non-performing exposures) are very diverse among the institutions, and the SVB exercise covers the vast majority of the institutions' exposures.
- 16.The 2020 SVB data collection contained for the first time more granular specialised lending (SLE) portfolios (aligned to the slotting approach risk categories of SLE) as well as the HDP retail portfolios consumer credits (RETO) and qualified revolving exposures (RQRR). Thus, the share of IRB exposure analysed in the SVB has increased. Nevertheless Figure 1 shows that some institutions still do not have any of their IRB exposures reported under this year's SVB exercise. These are most probably IRB exposures under PPU (i.e. sovereign exposures, intragroup exposures, exposures belonging to an institutional protection scheme, etc.).



Figure 1: Proportion of exposures under LDP, HDP or outside the scope of the SVB exercise by IRB institution (comparison with total IRB portfolio from COREP data, sorted by proportion under LDP from largest to smallest)

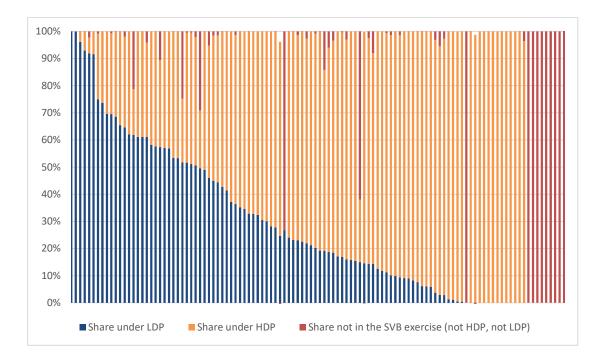


Table 2: Summary statistics on the proportion of exposures under LDP, HDP or outside the scope of the SVB exercise (%)

	LDP	HDP	Other
Minimum	0%	0%	-4%
25th centile	1%	24%	0%
50th centile	20%	65%	0%
75th centile	52%	88%	3%
Maximum	100%	101%	100%



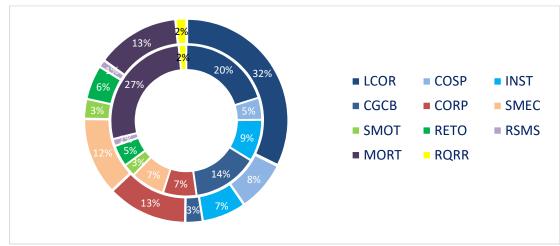
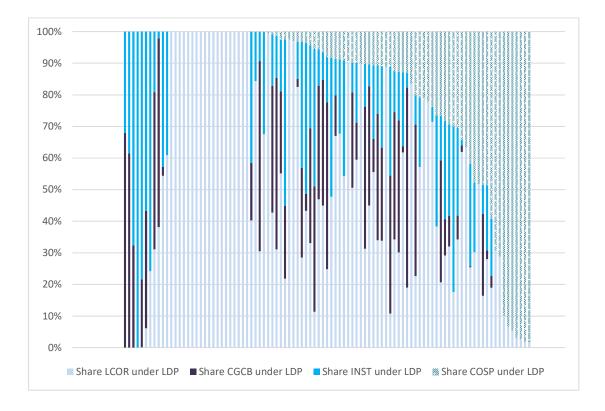


Figure 2: Portfolio composition of RWAs (outer circle) and EAD (inner circle) for HDP and LDP portfolios (defaulted and non-defaulted)

Figure 3: Portfolio composition of LDPs: proportion of large corporates, institutions and sovereigns in LDPs (sorted by proportion of specialised lending exposures in LDPs from largest to smallest)





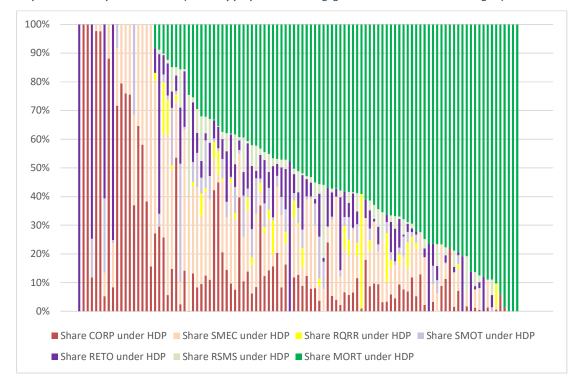


Figure 4: Portfolio composition of HDPs: proportion of residential mortgages, SME retail, SME corporate and corporate-other exposures in HDPs (sorted by proportion of mortgages in HDPs from smallest to largest)

17.Complementary statistics are given in Appendix 5.



1.3 Key risk metrics and temporal evolution

Table 3: Summary statistics of the key metrics observed for non-defaulted exposures, by SVB exposure class and regulatory approach.

		LC	OR		COSP		IN	ST	CG	СВ	CO	RP	SIV	IEC
		AIRB	FIRB	AIRB	FIRB	SLSC	AIRB	FIRB	AIRB	FIRB	AIRB	FIRB	AIRB	FIRB
Number of institutions		61	50	27	17	39	31	39	25	29	61	50	58	47
	Q1	41%	42%	35%	50%	83%	14%	18%	3%	1%	46%	61%	40%	49%
CC (9/)	Median	49%	59%	48%	55%	92%	21%	24%	7%	6%	61%	75%	57%	77%
GC (%)	Q3	59%	80%	62%	76%	108%	35%	33%	16%	18%	76%	98%	72%	97%
	Q3-Q1	18%	39%	27%	26%	25%	21%	15%	13%	16%	30%	37%	32%	48%
	Q1	38%	40%	32%	48%	75%	13%	18%	3%	1%	42%	55%	36%	43%
D \\\ (0/)	Median	45%	56%	43%	53%	82%	20%	23%	6%	5%	56%	70%	47%	65%
RW (%)	Q3	53%	74%	55%	74%	94%	33%	32%	15%	17%	66%	89%	62%	81%
	Q3-Q1	15%	34%	23%	26%	19%	20%	14%	12%	16%	24%	35%	26%	38%
	Q1	0.51%	0.30%	1.23%	0.42%	0.00%	0.10%	0.08%	0.02%	0.01%	0.90%	0.63%	1.17%	0.64%
PD (%)	Median	0.72%	0.52%	1.36%	0.50%	0.00%	0.17%	0.13%	0.06%	0.01%	1.40%	1.11%	2.06%	1.98%
PD (%)	Q3	1.18%	0.85%	1.85%	0.75%	0.99%	0.32%	0.26%	0.15%	0.06%	2.14%	1.70%	2.89%	2.72%
	Q3-Q1	0.67%	0.55%	0.62%	0.33%	0.99%	0.22%	0.18%	0.13%	0.05%	1.24%	1.07%	1.72%	2.08%
	Q1	27%	42%	15%	41%	0%	20%	23%	16%	45%	21%	40%	23%	39%
	Median	34%	44%	24%	43%	13%	31%	34%	33%	45%	29%	42%	28%	40%
LGD (%)	Q3	40%	45%	30%	45%	41%	42%	45%	45%	45%	38%	44%	34%	43%
	Q3-Q1	14%	3%	16%	4%	41%	22%	22%	29%	0%	17%	5%	11%	4%



		SMOT	RETO	RSMS	MORT	QRRE
		AIRB	AIRB	AIRB	AIRB	AIRB
Number of institutions		70	79	64	87	40
	Q1	38%	26%	20%	11%	14%
CC (0/)	Median	45%	39%	31%	15%	32%
GC (%)	Q3	61%	57%	41%	21%	42%
	Q3-Q1	23%	31%	22%	10%	27%
	Q1	28%	20%	16%	10%	10%
DIA((0/)	Median	33%	30%	24%	13%	22%
RW (%)	Q3	42%	46%	32%	18%	26%
	Q3-Q1	14%	26%	17%	8%	17%
	Q1	2.36%	1.20%	1.70%	0.53%	0.76%
	Median	2.89%	1.60%	2.39%	0.88%	1.35%
PD (%)	Q3	3.59%	2.48%	3.35%	1.31%	2.16%
	Q3-Q1	1.23%	1.28%	1.66%	0.78%	1.40%
	Q1	31%	28%	14%	12%	44%
	Median	37%	39%	18%	15%	59%
LGD (%)	Q3	49%	52%	21%	20%	71%
	Q3-Q1	18%	24%	7%	8%	28%



- 18. Figures 5-8 give insights into the evolution of risk parameters for each exposure class and regulatory approach. As in previous reports, the charts focus on the non-defaulted portfolios only. This focus allows a better understanding of the trend of risk estimates (compared with statistics at the top portfolio level, which include PDs for defaulted assets). Graphs at total level are nonetheless presented in Appendix 6.
- 19.It should be noted that the grey-shaded fields indicate that the parameters PD and LGD are not obligatory for SLSC and the reported figures should thus be interpreted with care.

Methodology and assumptions

A diminishing average PD for a given exposure class is not necessarily reflected in a diminishing average RW, even though the average maturity and average LGD remain constant. While this feature could be explained for the top portfolios by the diminishing percentage of defaulted assets in the recent year (defaulted assets typically exhibit high PDs (PD = 1) but relatively low RWs), a different set of explanations should be given for the non-defaulted portfolios:

- Some of the banks have introduced buffers to neutralise the effect caused by cyclicality in their IRB models. (Some of the buffers are also introduced directly as RWAs and are therefore not observed in the statistics.)
- For some portfolios (in particular mortgages in some jurisdictions), a risk weight floor has been put in place and protects the RW from any decrease.

In addition, some portfolios are not defined with the same scope:

- In the 2019 exercise specialised lending exposures were only separately reported in the large corporate exposure class, while they were included in the corporates and corporates SME portfolios in previous exercise.
- On retail exposures, the 2020 exercise introduced 3 new exposure classes. In particular, the exposure class 'mortgages' is now split into two exposure classes, depending on whether the obligor is an SME or not.

It is worth noting that generally the metrics are calculated by means of exposure-weighted averages. By contrast, the metrics presented in Table 3 do not take into account the exposure value of the underlying exposures (all institutions are considered in the same manner for the calculation of the quartile). This difference in weighting explains differences for some exposure classes (such as CGCB for FIRB institutions).

The sample is the same as the one described in Table 1.



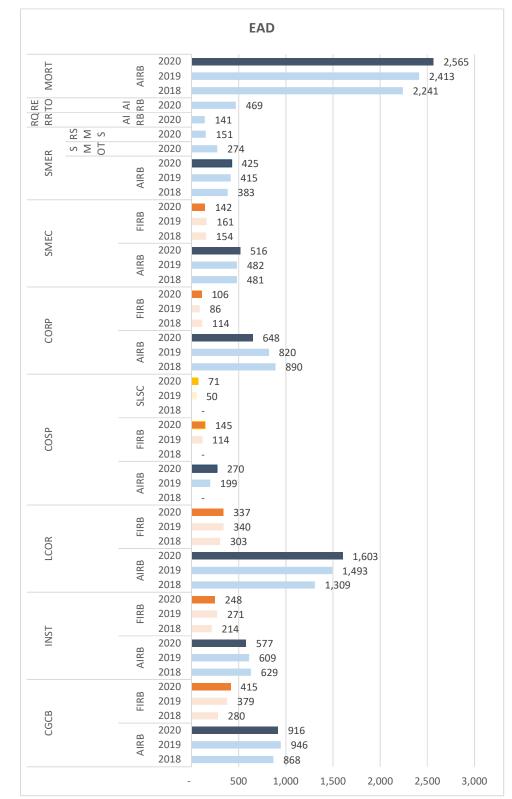


Figure 5: Change in EAD by regulatory approach (million EUR), non-defaulted exposures



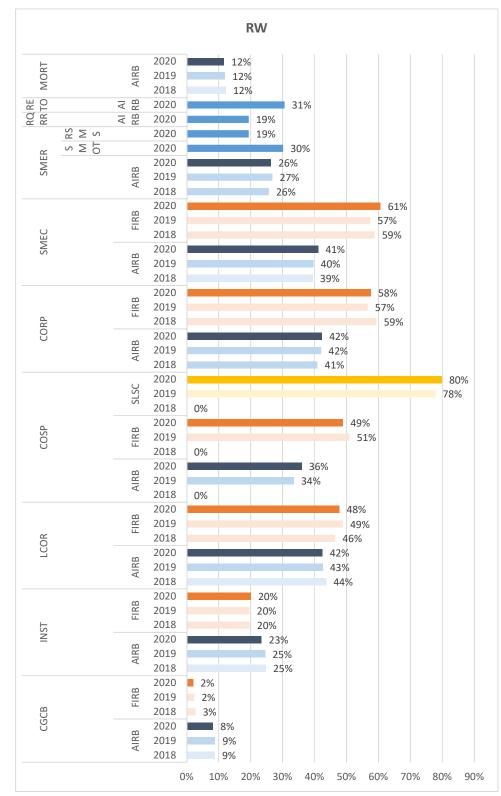


Figure 6: Change in EAD-weighted RW by regulatory approach, non-defaulted exposures



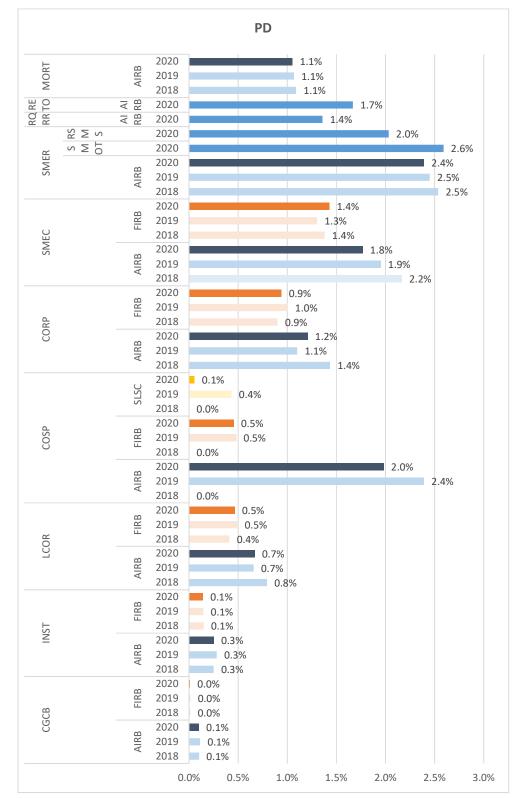


Figure 7: Change in EAD-weighted PD by regulatory approach, non-defaulted exposures



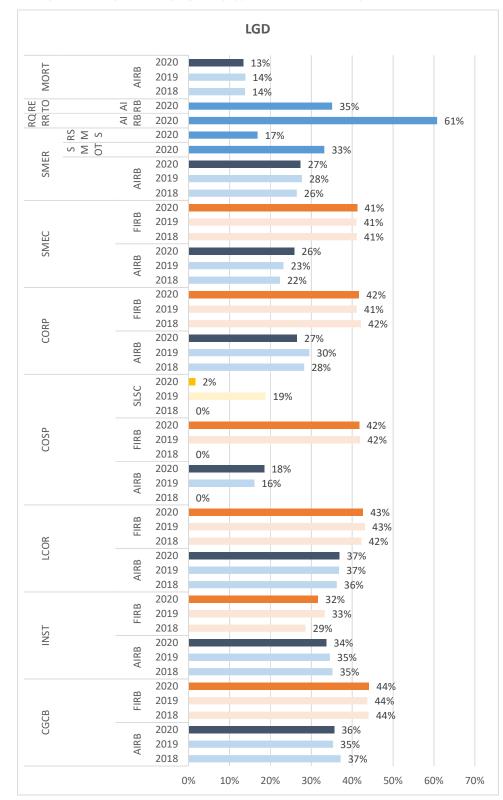


Figure 8: Change in EAD-weighted LGD by regulatory approach, non-defaulted exposures



2. Quantitative analysis

2.1 Top-down and distribution analysis (LDP and HDP)

- 20. This section aims to determine and analyse the drivers behind RW variability between the institutions. In this top-down approach, the variability is analysed along the GC (taking into account both EL and UL). EL is important for many institutions and is influenced by IRB risk parameters, especially for defaulted exposures treated under the FIRB approach. The present top-down analysis follows the following sequence:
 - account for the different relative proportions of exposure classes (portfolio mix effect);
 - account for the different proportions of defaulted exposures (default mix effect);
 - account for the effect of both different proportions of defaulted exposures and different relative proportions of exposure classes.

Methodology and assumptions

The methodology is broadly unchanged from previous years. Appendix 4 gives a comprehensive description of the analysis performed. This box briefly recalls the methodology through a simplified example.

The example in Table 4 shows the impact of controlling for the default mix on a sample of three institutions.

Example data	Institution 1	Institution 2	Institution 3	Total/average
GC_total (%)	10	20	30	
GC_def (%)	30	40	55	
GC_non def (%)	5	10	5	
EAD_total	50	120	20	
of which, EAD_def	10	40	10	
of which, EAD_non def	40	80	10	
Computations				
% EAD_def	20	33	50	60/190 = 32%
% EAD_non def	80	67	50	130/190 = 68%
GC_total DEF NON DEF (%)	13	20	21	

(For the sake of clarity, the computation of GC_total DEF NON DEF (for example) for institution 1 is: 32% * 30% + 68% * 5% = 13%.)

The standard deviations are computed using GC_total and GC_total DEF NON DEF. They are normalised by the standard deviation of GC_total to produce the graph with a 100-starting point.



This analysis is, however, subject to a number of caveats. In particular, a change in the GC standard deviation does not directly translate into a change (either an improvement or deterioration) in the consistency of GC, since the GC standard deviation stems both from differences in institutions' modelling practices and from risk-taking behaviour.

The top-down approach shows the extent to which the riskiness of portfolios (e.g. the portfolio composition) contributes to differences in average GC. However, a top-down approach does not explain the remaining differences, i.e. if these stem from individual practices, interpretations of regulatory requirements, business strategies or modelling choices or are caused by other effects, such as idiosyncratic variations in the riskiness within an exposure class, CRM (i.e. the business and risk strategy of the institutions) and the IRB risk parameters estimation (e.g. institutional and supervisory practice). The sample of banks has a strong impact on the result of the analysis; hence, **the 2020 results differ when they are computed on the sample of institutions used for the 2019 exercise.**

2.1.1 Results on the latest collected data

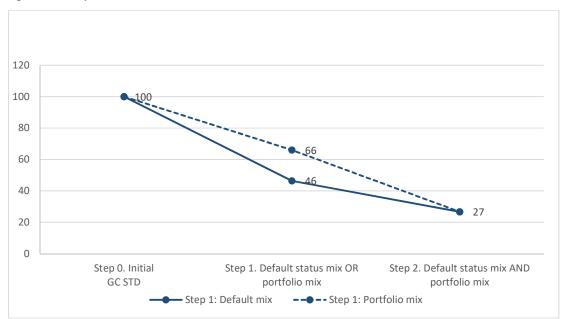
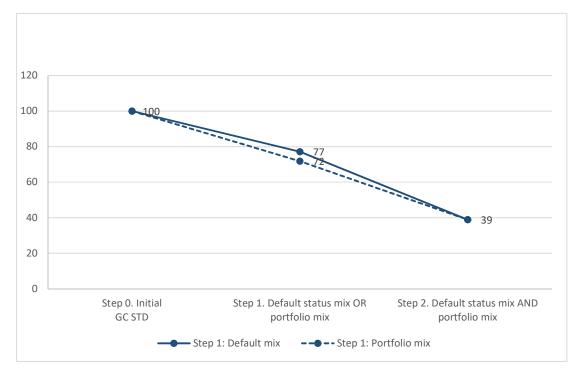


Figure 9: Decomposition of the GC standard deviation index – HDP and LDP

Sample: 93 institutions; for the missing variables the median values have been used. Note: When the GC is missing, it is assumed to be equal to the benchmark value.



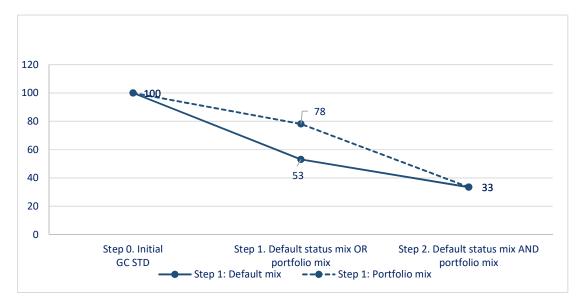
Figure 10: Decomposition of the GC standard deviation index – LDP



Sample: 97 institutions.

Note: When the GC is missing, it is assumed to be equal to the benchmark value.

Figure 11: Decomposition of the GC standard deviation index – HDP



Sample: 105 institutions.

Note: When the GC is missing, it is assumed to be equal to the benchmark value.



2.1.2 Results compared with previous exercise

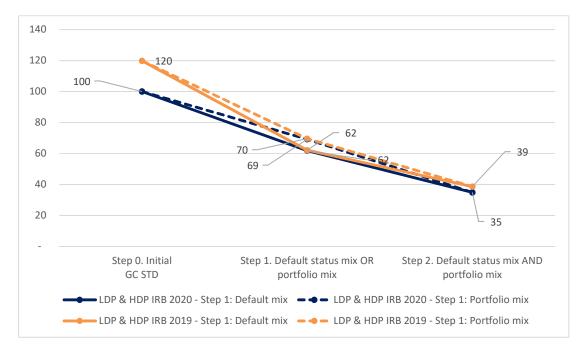


Figure 12: Comparison of the top-down analysis, HDPs and LDPs, 2019 and 2020 exercises (common sample)

Sample: 72 institutions (only common institutions between 2019 and 2020 are kept).

For comparison, the explained variability in last year's sample was 72% for both HDPs & LDPs (figure 9 of the 2019 chart pack). Based on the common 2019-2020 sample, the 2019 explained variability is equal to 1-39/120 = 68%.

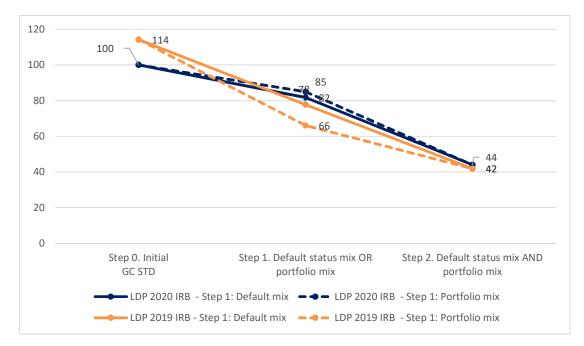


Figure 13: Comparison of the top-down analysis, LDPs, 2019 and 2020 exercises (common sample)

Sample: 72 institutions (only common institutions between 2019 and 2020 are kept).



For comparison, the explained variability in last year's sample was 77% for LDPs (figure 10 of the 2019 chart pack). Based on the common 2019-2020 sample, the 2019 explained variability is equal to 1- 42/114 = 63%.

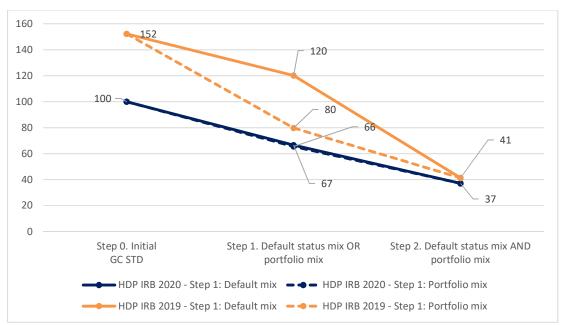


Figure 14: Comparison of the top-down analysis, HDPs, 2019 and 2020 exercises (common sample)

Sample: 79 institutions (only common institutions between 2019 and 2020 are kept). For comparison, the explained variability in last year's sample was 73% for LDPs (figure 11 of the 2019 chart pack). Based on the common 2019-2020 sample, the 2019 explained variability is equal to 1-41/152 = 73%.



2.2 Analysis of IRB parameters for common counterparties (LDP)

- 21. The purpose of this analysis is to compare institutions' IRB parameters on a set of common counterparties. Institutions have been instructed to provide risk parameters for a predefined list of obligors (where the institution has an exposure strictly positive for these obligors). The RW for each participating institution has been compared with the benchmark (the RW median for the group of institutions that apply the same regulatory approach to a specific common counterparty, where this group is composed of at least 5 institutions).¹³
- 22.To isolate the impact of each IRB parameter, the RWs are recalculated, at obligor level, using various combinations of actual and benchmark parameters. By replacing an institution's risk parameter with a benchmark parameter (median risk parameter), it is possible to disentangle the effects of each parameter individually: the PD effect and maturity effect are analysed for obligors under both approaches (AIRB and FIRB), while the LGD effect and the hypothetical LGD effect are analysed for obligors under AIRB only, as the FIRB approach defines a regulatory LGD of 45% for senior unsecured exposures and hence no deviation from this level may be expected.

Methodology and assumptions

A comprehensive description of the analysis can be found in Appendix 4. For the reader's convenience, its main features are recalled here:

Deviation 1 (initial RW deviation):

 $Dev1 = RW(M, PD, LGD) - RW(2.5, PD_{benchmark}, LGD_{benchmark})$

- Deviation 2 (PD effect):
 Dev2 = RW(2.5, PD, LGD_{benchmark}) RW(2.5, PD_{benchmark}, LGD_{benchmark})
- Deviation 3 (LGD effect): *Dev3* = RW(2.5, PD_{benchmark}, LGD) - RW(2.5, PD_{benchmark}, LGD_{benchmark})

 Deviation 4 (Maturity effect):
- Dev4 = RW(M, PD_{benchmark}, LGD_{benchmark}) RW(2.5, PD_{benchmark}, LGD_{benchmark})
 Deviation 5 (LGD effect without CRM effect, i.e. on hypothetical unsecured LGD):

 $Dev5 = RW(2.5, PD_{benchmark}, LGD^{hyp \, unsec}) - RW(2.5, PD_{benchmark}, LGD^{hyp \, unsec}_{benchmark})$

One limitation of this approach is that it does not take into account regulatory measures (such as add-ons) currently in place at RWA level. Hence, for some institutions in jurisdictions where such supervisory measures are in place, the recomputed RWAs are not directly comparable with the RWAs actually held and/or reported by the institutions.

Furthermore, the subset of common counterparties may not be fully representative of the total

¹³ An obligor under the FIRB approach is therefore compared with the FIRB benchmark, and an obligor under the AIRB approach with the AIRB benchmark for that counterparty.



IRB portfolio of the individual institutions; therefore, the results of this exercise may not be transferable to the total IRB portfolios and should be interpreted with care. **Figure** 15 shows that, generally speaking, the C 101.00 sample makes up a small part of the institutions' IRB EAD. This chart shows the institutions' shares as dots. The median is displayed as a red square and the whiskers denote the range between the first and third quartiles of the observed values.

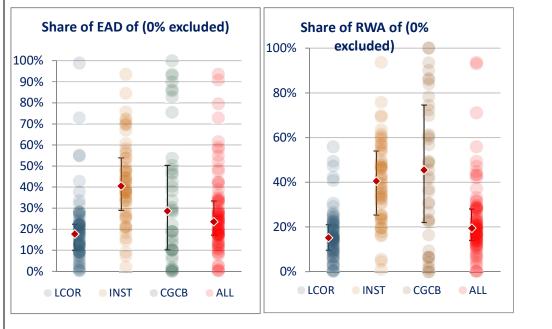


Figure 15: LDP common counterparties EAD and RWAs compared with corresponding total IRB EAD and RWAs

2.2.1 Results on the latest collected data

Table 5: Summary statistics on the RW deviations (interquartile range) by SVB exposure class and regulatory approach for the 2020 and 2019 exercise

		AIRB			FIRB			
		Dev 1 (ALL)	Dev2 (PD)	Dev3 (LGD)	Dev4 (M)	Dev5 (LGD _{unsec})	Dev 1 (ALL)	Dev2 (PD)
Large corporates	2020	9%	8%	6%	7%	5%	8%	5%
	2019	13%	8%	8%	6%	5%	8%	7%
Sovereigns	2020	8%	2%	4%	3%	4%	3%	4%
	2019	7%	4%	5%	5%	4%	6%	5%
Institutions	2020	9%	3%	7%	6%	7%	7%	5%
	2019	8%	4%	9%	5%	7%	7%	5%

NB: this table presents a gross comparison of the metrics between 2019 and 2020, without controlling for the sample composition of institutions and counterparties reported (see next section).

In terms of relative deviation, the following metrics are observed:



		AIRB			FIRB	
		Dev 1 (ALL)	Dev2 (PD)	Dev3 (LGD)	Dev 1 (ALL)	Dev2 (PD)
Large corporates	Q1	-16%	-14%	-13%	-26%	-7%
	Q3	12%	11%	5%	13%	11%
	(1+Q3)/(1+Q1) -1	33%	29%	20%	51%	20%
Sovereigns	Q1	-45%	-25%	-15%	-33%	-14%
	Q3	85%	27%	61%	22%	22%
	(1+Q3)/(1+Q1) -1	238%	69%	90%	83%	41%
Institutions	Q1	-37%	-6%	-30%	-19%	-11%
	Q3	33%	14%	6%	11%	21%
	(1+Q3)/(1+Q1) -1	111%	21%	52%	38%	36%

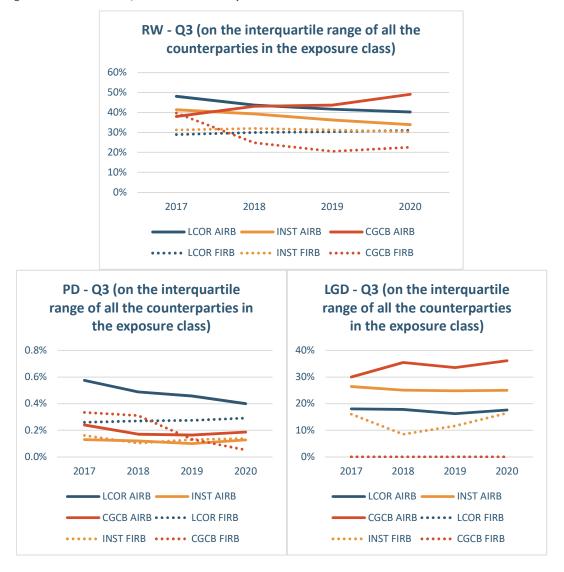
2.2.2 Results compared with previous exercise

23.In this section, the interquartile range of risk estimates (RW, PD and LGD) for one counterparty is used as a measure of the variability. Figure 16 shows the evolution of the variability for the worst counterparties, i.e. where the interquartile range of risk estimates is the highest.¹⁴

¹⁴ The third quartile is used to select the counterparties.



Figure 16: Evolution of RW, PD and LGD variability



2.2.3 Variability in risk differentiation (ranking)

24.As the name indicates, one key component of the internal ratings-based approach is its capacity to rate and rank the obligors according to their relative level of risk. Thus, the variability can be analysed in two dimensions: first as the variability of the risk parameters in absolute terms,¹⁵ and second as the variability of the ranking of the counterparties (i.e. variability of the risk parameters relative to each other).¹⁶ This distinction between the variability deriving from risk differentiation and from risk quantification is very relevant to

¹⁵ For example, for counterparties X and Y, institution A estimates PD(X) and PD(Y) differently from institution B.

¹⁶ For example, institution A assesses that PD(X) < PD(Y) while institution B assesses that PD(X) > PD(Y).



policymakers, as it triggers different corrective measures.¹⁷ This section analyses the second dimension, i.e. the variability of the ranking.

Methodology and assumptions

The commonalities of ranking between institutions are measured using the Kendall tau coefficient. For two vectors of *n* obligors, this metric is defined as:

τ

 $\frac{(number of pairs with same rank) - (number of pairs with different rank)}{\left(\frac{n \cdot (n-1)}{2}\right)}$

A Kendall tau equal to 1 means the institutions rank their common counterparties in the same manner, while a Kendall tau equal to -1 means the institutions rank their common counterparties in opposite manners. For example, this coefficient gives the following values for the simplified example presented in **Table 6**:

Table 6: example on the Kendall tau coefficient

PD estimates	Bank 1	Bank 2	Bank 3
Counterparty 1	1%	2%	4%
Counterparty 2	2%	3%	5%
Counterparty 3	3%	4%	2%
Counterparty 4	4%	5%	3%

The four estimates per bank give six pairs of rankings: [1-2], [1-3], [1-4], [2-3], [2-4], [3-4].

$$\tau_{bank\,1-bank\,2} = \frac{6-0}{\frac{4\cdot3}{2}} = 1; \tau_{bank\,1-bank\,3} = \frac{2-4}{\frac{4\cdot3}{2}} = -0.3; \tau_{bank\,2-bank\,3} = \frac{2-4}{\frac{4\cdot3}{2}} = -0.3$$

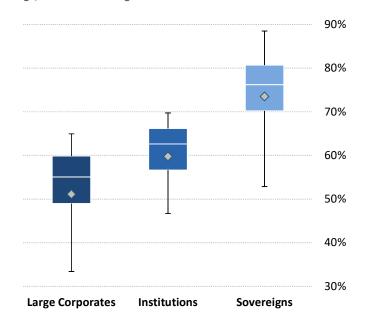
Each institution therefore has one Kendall tau with each of the other institutions with a sufficient number of obligors in common (10 in the SVB exercise). These Kendall taus are then aggregated in a single metric at the institution level by taking the median.

25.Generally speaking, Figure 17 shows that the ranking of the counterparties is very consistent among institutions, with Kendall tau metrics at the institution level being positive for all asset classes, and generally above 50%.

¹⁷ For instance, the EBA believed the risk quantification part of the IRB framework was insufficiently detailed, and therefore focused its comprehensive review on this part of the framework.



Figure 17: Interquartile range, median and average of Kendall tau metrics





2.3 Outturns (backtesting) approaches (HDP)

26.Historical data on defaulted exposures, i.e. default rates and loss rates, are an important source of information on portfolio risk, since they allow a kind of backtesting (outturns approach). This approach is very useful, since the misalignment between estimates (PDs and LGDs) and observed parameters (default rates and loss rates) could suggest that differences in RWAs between institutions might be driven by differences in estimation practices (different levels of conservatism, adjustments to reflect long-run averages, different lengths of time series data available and included in the calibration of the cycle, assumptions underlying recovery estimates, etc.) and not only by differences in portfolio risk.

Methodology and assumptions

A comprehensive description of the analysis can be found in Appendix 4. For the reader's convenience, its main features are recalled here.

Using the information provided by institutions in accordance with the ITS, it is possible to compare, for the same institution and between institutions, the estimated parameters with the observed parameters, namely the following indicators:

- estimated parameters (IRB parameters)¹⁸ PD and LGD;
- observed¹⁹ parameters the default rate (DR) of the latest year, the average DR of the last 5 years, the loss rate (LR) of the latest year and the average LR of the last 5 years.

However, there are several caveats that should be kept in mind when doing this comparison, in particular for the comparison at risk parameter level (see comprehensive list in Appendix 4):

- The observed risk parameters used for prudential purposes may be different from the data collected (default weighted versus exposure weighted).
- There may be differences between the rates collected and the long-run averages. PD and LGD estimates are required by Articles 180 and 181 of the CRR to be representative (PD) or at least equal (LGD) to the long-run average. However, the collected observed average values are not fully adequate for a comparison with the risk estimates, first because they are not necessarily representative of the variations of the cycle, second as they are based on an exposure-weighted average and not an arithmetic average and third because they are calculated at EBA benchmarking top portfolio level and not at grade level.
- The long-run averages and the risk parameters (MoC, downturn) may differ.

¹⁸ Parameters used for RWA calculation excluding the effect of potential measures introduced in accordance with Article 458 of Regulation (EU) No 575/2013.

¹⁹ In contrast to the default rate, the loss rate is not purely observed, as it includes credit risk adjustments that have been estimated by the institution.



- They may lack representativeness due to the computation on non-homogeneous pools:
 - For the 1-year rates, the data collected allowed only the comparison of PDs (and LGDs) at the reference date (31 December 2019) with the default rate (and loss rate) observed during the same year (1 January to 31 December 2019), whereas it would be more consistent to compare this default rate (and loss rate) with the PD (and LGD) at the beginning of the observation period.
 - For the 5-year rates, the average may not be statistically well grounded, since the portfolio quality may have significantly changed over the years. This is especially true in the context of the significant improvement in the portfolios of institutions observed in some EU Member States.
- There are weaknesses in the backtesting of the LGD with the loss rates: unlike the default rate, the loss rate is not truly observed, since it accounts for both observed losses and estimated credit risk adjustments. Accordingly, an LR/LGD ratio higher than 100% does not reflect per se a lack of conservatism but could be due to a difference in the estimation of LGD and credit risk adjustments.

As a result of these weaknesses, an additional analysis is presented, based on observed (obligor-weighted average) default rate observed at the grade or pool level, via four additional data points:

• RWA- and RWA+, which are the hypothetical RWA resulting from the application of *p*- and *p*+. For each obligor grade:

 \mathbf{p}^- shall be the smallest positive value satisfying the equation

$$p^{-} + \Phi^{-1}(q) \cdot \sqrt{\frac{p^{-} \cdot (1-p^{-})}{n}} \ge DR_{1y}$$

 \mathbf{p}^+ shall be the largest positive value satisfying the equation

$$p^{+} - \Phi^{-1}(q) \cdot \sqrt{\frac{p^{+} \cdot (1 - p^{+})}{n}} \le DR_{1y}$$

NB: DR_{1v} is the obligor-weighted default rate.

RWA-- and RWA++, which are similar to RWA- and RWA+, but using DR_{5y} instead of DR_{1y}.

For this the position of the RWA of the bank in the interval [RWA- ; RWA+] is normalised using the following formula:

$$Position_{normalised} = \frac{RWA - \frac{(RWA^+ + RWA^-)}{2}}{\frac{(RWA^+ - RWA^-)}{2}}$$

This normalised position can be interpreted in the following manner:

• If $Position_{normalised} < -1$, $RWA < RWA^{-}(< RWA^{+})$: the PD estimates are



calibrated in a rather progressive way.

- If Position_{normalised} ∈ [-1; 1], at RWA⁻ < RWA < RWA⁺: the PD estimates are generally consistent with the observed default rates.
- If *Position*_{normalised} > 1, (*RWA*⁻ <) *RWA*⁺ < *RWA* : the PD estimates are calibrated in a rather conservative way.

This analysis still relies on approximations:

- The four metrics do not reflect regulatory measures or corrective actions in place that are having an impact on institutions' capital requirements.
- Extrapolations to the total IRB credit risk portfolio cannot be made, because of the specific nature of HDP exposures.

In addition, it should be noted that the relationship $RWA^- < RWA^+$ may not be observed in the case of small portfolios with a high default rate (i.e. higher than 30%), due to the concave shape of the RW formula.

2.3.1 Results of the latest collected data

27.Since the backtesting results are only relevant for portfolios with enough data, the results based on all the data collected are complemented with additional charts for which only records with more than 100 obligors are selected.²⁰ Generally speaking, the former show lower backtesting ratios (i.e. more conservative calibration), which is consistent with the general margin of conservatism (MoC) principle (the fewer the data an institution has, the more conservative it must be in its estimation).

²⁰ As a consequence, for figures 18 and 19 the following percentages of portfolios are excluded from the analysis: 18% of the portfolios for CORP AIRB, 24% for CORP FIRB, 5% for SMEC AIRB, 11% for SMEC FIRB, 1% for RETO and 0% for MORT, SMOT and RSMS.



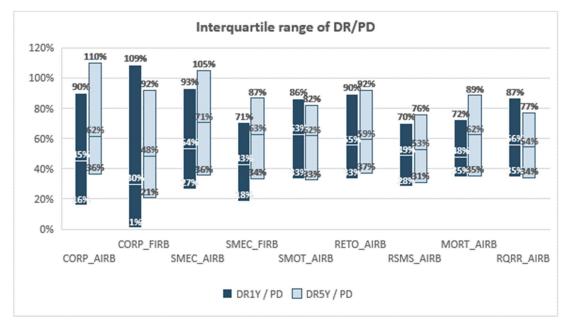
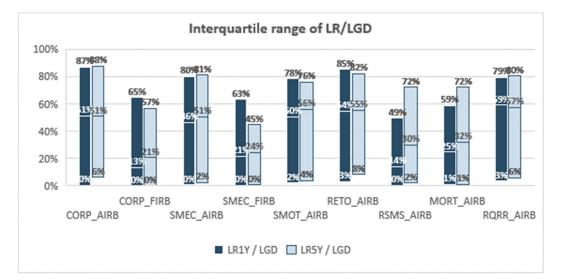


Figure 18: Interquartile range of the ratio of DR 1Y to PD and the ratio of DR 5Y to PD, for non-defaulted exposures, by SVB exposure class and regulatory approach

Figure 19: Interquartile range of the ratio between LR 1Y and LGD and the ratio between LR 5Y and LGD, for nondefaulted exposures, by portfolio and regulatory approach



RESULTS FROM THE 2020 BENCHMARKING EXERCISE



Table 7: Key backtesting metrics at portfolio level

		CORP		SMEC		SMOT	RETO	RSMS	MORT	RQRR
		AIRB	FIRB	AIRB	FIRB	AIRB	AIRB	AIRB	AIRB	AIRB
	Q1	-0.4	-0.7	-0.2	-0.1	-0.3	-1.1	-0.1	0.2	-1.6
Position normalised 1 - based on RWA + and	Median	0.3	-0.3	0.9	0.9	1.2	2.4	1.3	4.2	2.5
RWA-, i.e. DR1Y	Q3	1.8	0.8	2.6	2.3	3.9	6.4	3.1	8.2	10.9
	sample size	47	31	51	37	62	69	56	81	37
	Q1	-0.5	-0.5	-0.2	0.2	-0.6	-1.6	-0.2	0.0	-0.9
Position normalised 2 - based on RWA ++ and RWA, i.e. DR5Y	Median	0.3	0.0	0.9	0.7	1.3	1.3	2.1	4.6	2.6
	Q3	2.1	0.6	2.3	2.3	5.3	8.5	4.4	10.0	10.4
	sample size	46	32	50	38	62	66	56	78	36

Legends:

Colour and value	
Below -1	PD estimates calibrated in a rather progressive way.
Below < 0	PD estimates generally consistent with observed default rate (slightly progressive)
Above > 0	PD estimates generally consistent with observed default rate (slightly conservative)
Above 1	PD estimates calibrated in a rather conservative way.



2.3.2 Results compared with previous exercise

28.Figures 20 and 21 show the evolution of the backtesting ratios for the worst institutions, i.e. where the ratio is the highest.²¹ The evolution for RETO and RQRR cannot be shown, as they were not collected in previous years.

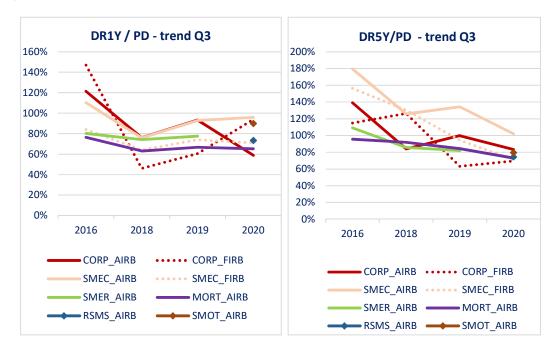
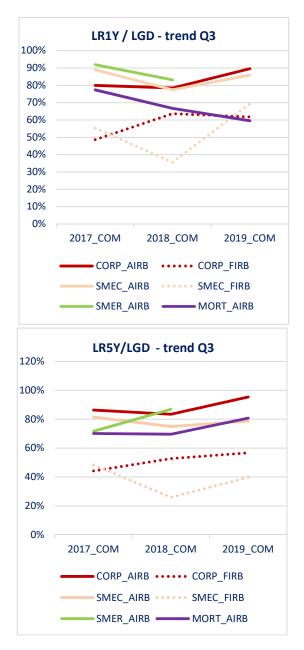


Figure 20: Default rate to PD ratio trends

²¹ The third quartile is used to select the institutions.



Figure 21: Loss rate to LGD ratio trends



2.4 Comparison of variability under the IRB approach and the standardised approach (HDP)

29. The SVB exercise allows a comparison of the different measures of risk, i.e. based on the IRB approach and the SA. This comparison is especially interesting in the context of the finalisation



of the Basel III framework, which constrains the IRB approach relative to the SA via the output floor.

Methodology and assumptions

Under the IRB approach, the cost of capital of an exposure is twofold: first, the expected loss triggers deductions in capital, ²² and second, the unexpected loss implies own fund requirements measured via the risk weighting of the exposures. This aggregated cost, the global charge (GC), is especially important to consider when assessing the variability at the institution level, since the cost of capital of defaulted assets under the FIRB approach comes entirely from the expected loss (hence, only looking at RW variability would strongly overestimate the variability of cost of capital). Although a similar concept can be defined for the standardised approach, via a sum of the RWA and the accounting provisions, the latter is not collected in the SVB exercise. Therefore:

- in the section 'Variability analysed across exposure classes', where the variability is assessed at the institution level, the **variability** of RW under the SA will be compared with the **variability** of the GC under the IRB. However, the two metrics are not fully comparable in absolute terms.
- In the section 'Variability analysed within the exposure classes', where the total costs of capital are compared between the different approaches for non-defaulted exposures only, the RW metric will be used for both approaches.

With respect to the calculation of the RW under the SA, it should be noted that it is based on the division of the RWAs calculated under the SA with the exposure value used under the IRB approach. Given this, the 'RW under SA' is not exactly the RW given by Chapter 2 of the CRR, as the exposure value under the IRB approach is gross of specific provisions. The 'RW under SA' is rather the 'adjusted RW under SA', in order to be able to make a comparison with the RW under the IRB approach.

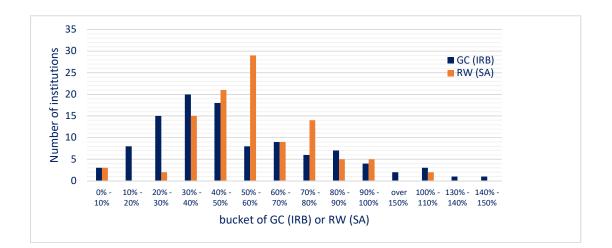
2.4.1 Variability analysed across exposure classes

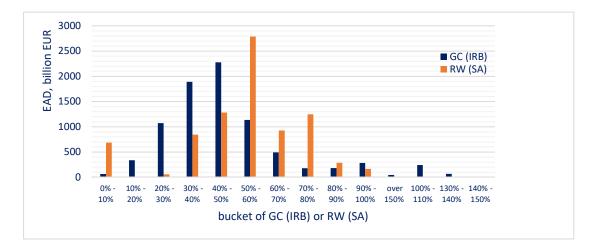
30.A first visualisation of the distribution of weights applied to the exposures already gives a hint of the variability under the different approaches. At the EU level, the aggregate of the distribution (at institution level) of the total GC (IRB) and total RW (SA) is shown in Figure 22.

²² Via the calculation of an EL in Article 158 of the CRR and its deduction via the shortfall of Article 159 and accounting provisions.



Figure 22: Distribution of GC (IRB) and RW (SA), number weighted (top) and exposure weighted (bottom)



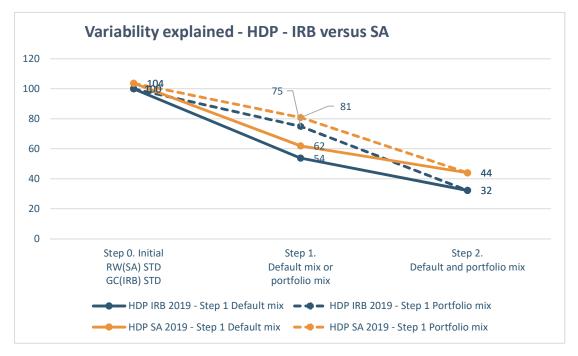


NB: Each institution is allocated to one bucket based on its average GC (IRB) and RW (SA). The upper chart is based on the simple sum of the institutions per bucket; the lower chart adds up the exposure value of each institution per bucket.

31.Figure 22 allows the embedded variability of each approach to be visualised at the aggregate level, but without any consideration of the riskiness of the portfolio. Leveraging the top-down analysis performed in the previous reports, the EBA ran the analysis on the same exposures (i.e. risk-weighted with the IRB approach), but with the two different regulatory approaches, the IRB approach and the SA. This makes it possible to quantify the proportion of variability that can be explained by (i) the proportion of defaulted exposures and (ii) the portfolio mix effect. All the variability measures are normalised to the initial IRB variability (hence, the initial IRB variability is arbitrarily set at 100).



Figure 23: Top-down analysis – SA versus IRB



Sample contains 104 institutions. For data quality reasons one outlier bank reporting unreasonable RWA SA has been removed from the sample.

2.4.2 Variability analysed within the exposure classes

32. The values of RW calculated under the SA and under the IRB can be compared at the rating grade level. Figure 24 to Figure 27 focus on mortgages, where the highest number of data points is observed, although the same conclusions can be drawn for the other exposure classes.



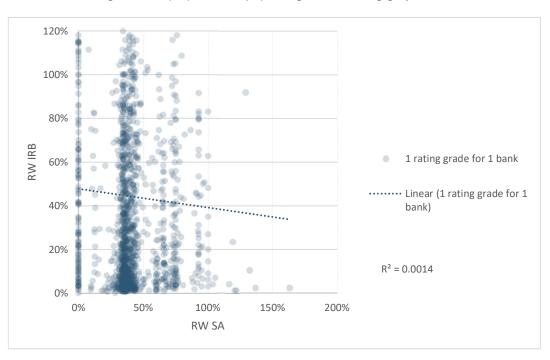


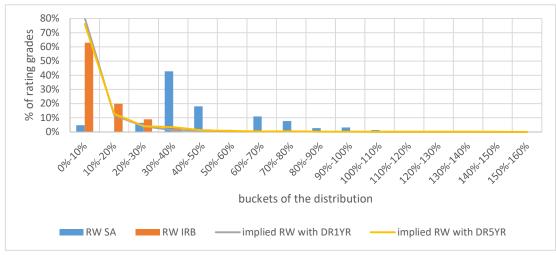
Figure 24: RW (IRB) versus RW (SA) at the grade level, mortgages portfolio

33.In order to assess the appropriateness of the approaches, it is therefore relevant to add to this analysis a proxy for the level of risk. One simple and convenient way to visualise how the RW under the IRB approach and the RW under the SA relate to the underlying level of risk is to compare their related distributions with the distributions of 'implied RW', defined as the average RW recalculated using the observed default rates²³ at grade level (Figure 25). The distributions are based on the exposure value within each rating grade.

²³ The data collected allow the use of both a 1-year and 5-year exposure value-weighted average default rate. These data points are complemented by the average LGD and maturity at grade level to calculate the implied RW.



Figure 25: Distribution of RW (IRB), RW (SA) and implied RW, mortgage portfolio



Missing values due to y axis being capped at 80%: RW (DR5Y) between 0% and 10%, 80%.

34. The dispersion of RW calculated under the IRB for a given SA RW band can be illustrated for selected RW bands, for instance the 30%-50% SA bucket. Figure 26 replicates Figure 25, but only keeping the rating grades with RW (SA) between 30% and 50%.

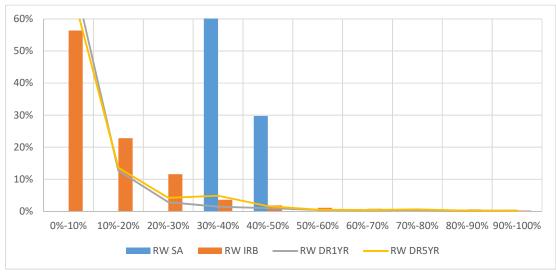
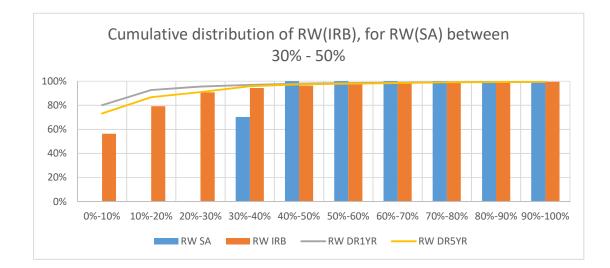


Figure 26: Distribution of RW (IRB) for exposures with RW (SA) between 30% and 50%

Missing values due to y axis being capped at 80%: RW (DR1Y) and RW (DR5Y) between 0% and 10% respectively at 80% and 73%.

35. This distribution analysis can be complemented by the cumulative distribution (Figure 27). Figure 27: Cumulative distribution of RW (IRB) for exposures with RW (SA) between 30% and 50%





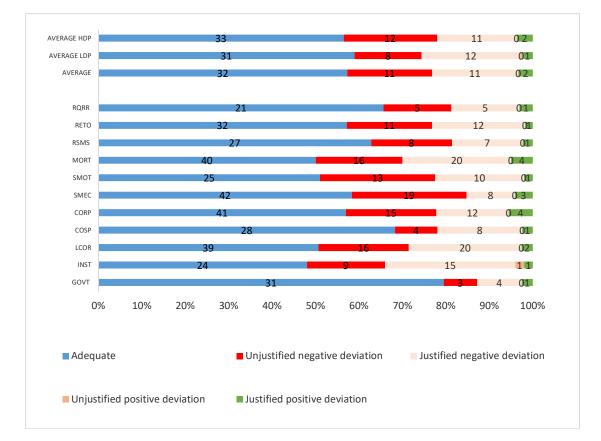


3. Qualitative analysis

3.1 Competent authority assessments

- 36.Article 78(4) of the CRD requires CAs to make an assessment where institutions diverge significantly from the majority of their peers or where there is little commonality in approaches, leading to a wide variance of results. The CA should investigate the reasons for the divergence and take corrective action if the institution's approach leads to an underestimation of own funds requirements that is not attributable to differences in the underlying risks. In order to facilitate the transfer of information from these assessments from the CAs to the EBA, the EBA issued a questionnaire to the CAs, which was to be completed for each institution participating in the SVB exercise. The EBA received the responses for 100 institutions. This section summarises the key information derived from these assessments.
- 37.In order to allow comparison of the numbers, the same graphs as last year are shown in this report.

Figure 28: CAs' overall assessment of the level of institutions' own funds requirements, taking into account benchmark deviations





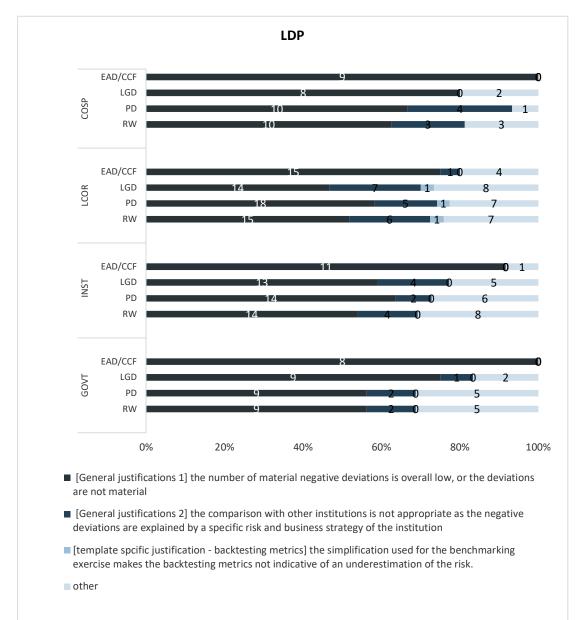
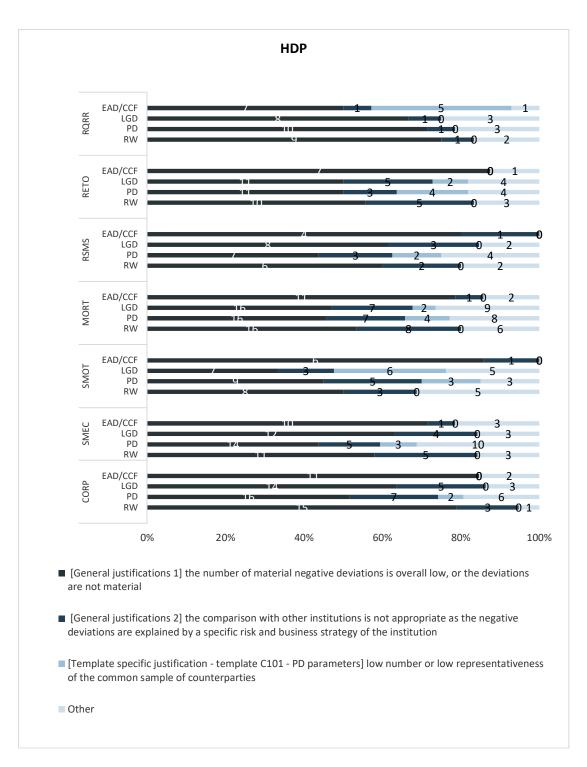


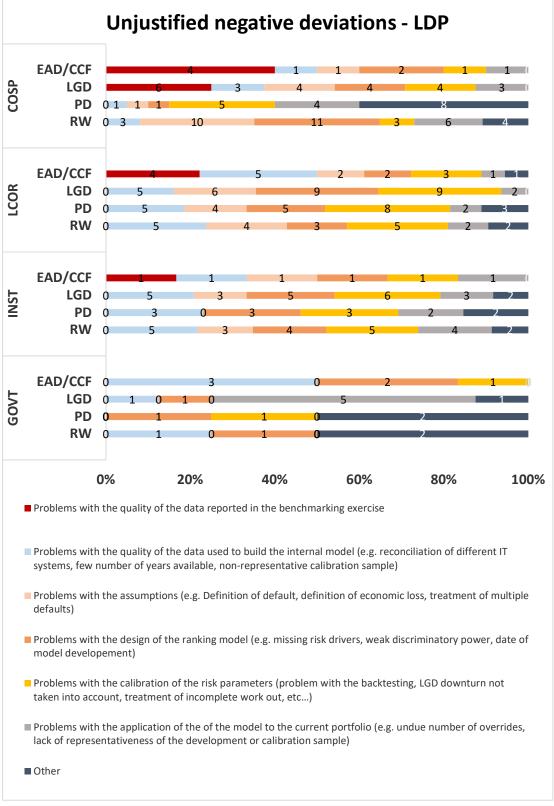
Figure 29: Common reasons for positive and negative deviations justified (for each parameter)

38. It should be noted that unjustified negative deviations indicate situations where the parameter is lower than the benchmark. The adjective unjustified indicates that the reason for the deviation is not known.



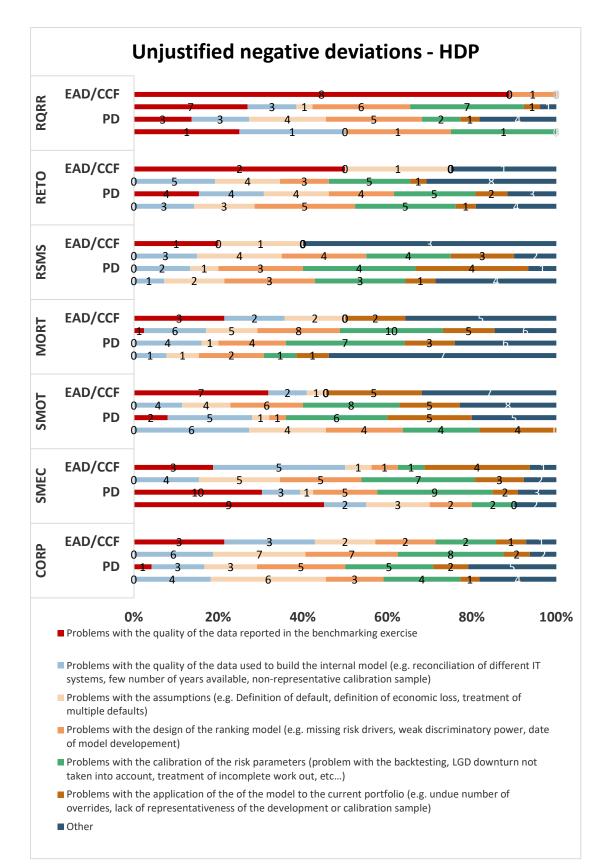














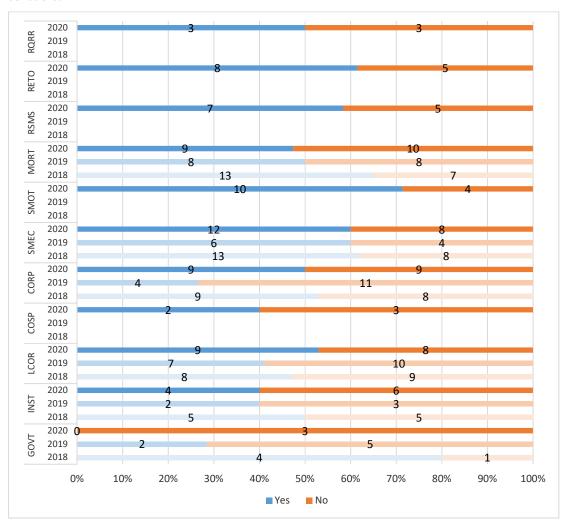


Figure 31: Has the institution's internal validation of the model identified the most relevant unjustified negative deviations?



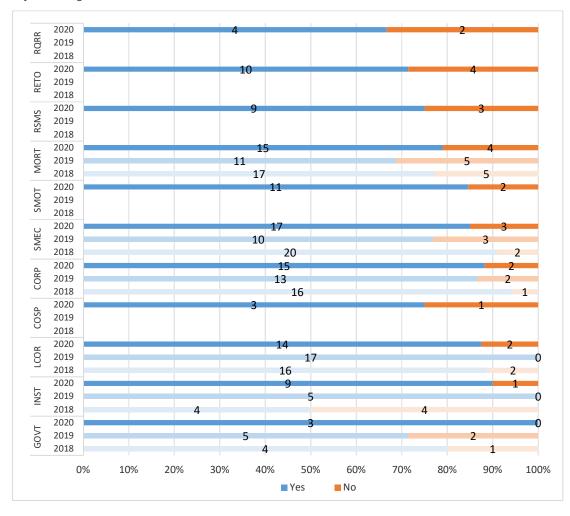
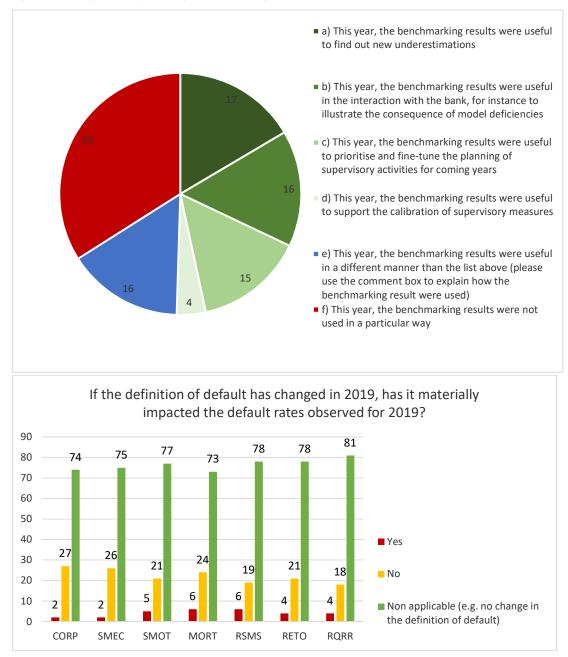


Figure 32: Have the CA monitoring activities (ongoing or onsite) of the internal models identified the most relevant unjustified negative deviations?

The questionnaire further enquired whether or not any actions are planned by the CA following the SVB results (Figure 33).



Figure 33: Are any actions planned by the CA following the SVB results?





Appendix 1: List of participating institutions

The participant institutions in scope of the SVB exercise are the ones that at 31 December 2019 had approval for the use of the credit risk internal models.²⁴

Table 8: List of institutions participating in this exercise

Institution name	Country	Submits credit risk?
BAWAG Group AG	Austria	Yes
Erste Group Bank AG	Austria	Yes
Raiffeisen Bank International AG	Austria	Yes
Volkskredit Verwaltungsgenossenschaft reg.Gen.m.b.H.	Austria	Yes
AXA Bank Europe SA	Belgium	Yes
Belfius Banque SA	Belgium	Yes
Crelan	Belgium	Yes
Dexia NV (***)	Belgium	Yes
Euroclear SA	Belgium	Yes
Investar	Belgium	Yes
KBC Group NV	Belgium	Yes
Danske Bank A/S	Denmark	Yes
DLR Kredit A/S	Denmark	Yes
Jyske Bank A/S	Denmark	Yes
Lån og Spar Bank A/S	Denmark	Yes
Nykredit Realkredit A/S	Denmark	Yes
Sydbank A/S	Denmark	Yes
Aktia Bank Abp	Finland	Yes
Ålandsbanken Abp	Finland	Yes
Nordea Bank Abp	Finland	Yes
OP Osuuskunta	Finland	Yes
BNP Paribas SA	France	Yes
CARREFOUR BANQUE	France	Yes
Crédit Mutuel Group	France	Yes
GOLDMAN SACHS PARIS INC ET CIE	France	Yes
Groupe BPCE	France	Yes
Groupe Credit Agricole	France	Yes
HSBC France (*)	France	Yes
RCI banque (Renault Crédit Industriel)	France	Yes
SFIL (Société de Financement Local)	France	Yes
Société Générale SA	France	Yes

²⁴ This information is published on the EBA website: <u>https://eba.europa.eu/risk-analysis-and-data/reporting-by-authorities</u>



Institution name	Country	Submits credit risk?
Aareal Bank AG	Germany	Yes
ALTE LEIPZIGER Bauspar AG	Germany	Yes
Bayerische Landesbank	Germany	Yes
BMW Bank GmbH	Germany	Yes
Commerzbank AG	Germany	Yes
Degussa Bank	Germany	Yes
DekaBank Deutsche Girozentrale	Germany	Yes
Deutsche Apotheker- und Ärztebank eG	Germany	Yes
Deutsche Bank AG	Germany	Yes
Deutsche Bausparkasse Badenia AG	Germany	Yes
Deutsche Pfandbriefbank AG	Germany	Yes
Deutsche Zentral-Genossenschaftsbank AG	Germany	Yes
Erwerbsgesellschaft der S-Finanzgruppe mbH & Co. KG	Germany	Yes
HSH Nordbank AG (Hamburg Commercial Bank from Feb 2019)	Germany	Yes
IKB Deutsche Industriebank AG	Germany	Yes
KfW Beteiligungsholding	Germany	Yes
Landesbank Baden-Württemberg	Germany	Yes
Landesbank Hessen-Thüringen Girozentrale	Germany	Yes
Landesbank Saar	Germany	Yes
LBS Bayerische Landesbausparkasse	Germany	Yes
Münchener Hypothekenbank eG	Germany	Yes
NORD/LB Norddeutsche Landesbank Girozentrale	Germany	Yes
Oldenburgische Landesbank AG	Germany	Yes
Süd-West-Kreditbank Finanzierung GmbH	Germany	Yes
TOYOTA Kreditbank GmbH	Germany	Yes
Wüstenrot Bausparkasse AG	Germany	Yes
Alpha Bank AE	Greece	No
Eurobank	Greece	Yes
National Bank of Greece SA	Greece	No
AIB Group plc	Ireland	Yes
Bank of America Merrill Lynch International DAC (*)	Ireland	No
Bank of Ireland Group plc	Ireland	Yes
Barclays Bank Ireland plc (*)	Ireland	Yes
Permanent TSB Group Holdings Plc	Ireland	Yes
Ulster Bank Ireland Designated Activity Company (*)	Ireland	Yes
Banca Monte dei Paschi di Siena SpA	Italy	Yes
Banca Popolare di Sondrio, SCpA	Italy	Yes
Banco BPM	Italy	Yes
BPER Banca SpA	Italy	Yes
Credito Emiliano Holding SpA	Italy	Yes
Credito Valtellinese	Italy	Yes
Intesa Sanpaolo SpA	Italy	Yes
Mediobanca – Banca di Credito Finanziario S.p.A.	Italy	Yes
UniCredit SpA	Italy	Yes
Unione di Banche Italiane SCpA	Italy	Yes



Institution name	Country	Submits credit risk?
Banque et Caisse d'Epargne de l'Etat, Luxembourg	Luxembourg	Yes
Banque Internationale à Luxembourg	Luxembourg	Yes
ABN AMRO Bank N.V.	Netherlands	Yes
Coöperatieve Rabobank U.A.	Netherlands	Yes
ING Groep N.V.	Netherlands	Yes
LP Group B.V.	Netherlands	Yes
NIBC Holding N.V.	Netherlands	Yes
RBS Holdings NV (*)	Netherlands	Yes
Van Lanschot Kempen N.V.	Netherlands	Yes
Volksbank N.V.	Netherlands	Yes
DNB BANK ASA	Norway	Yes
Sparebank 1 Nord-Norge SPA	Norway	Yes
Sparebank 1 SMN SPA	Norway	Yes
SPAREBANK 1 SR-BANK ASA	Norway	Yes
Sparebanken Hedmark SPA (SpareBank 1 Østlandet SPA)	Norway	Yes
Sparebanken Møre SPA	Norway	Yes
Sparebanken Vest SPA	Norway	Yes
Banco Comercial Português SA	Portugal	Yes
LSF Nani Investments S.à.r.l	Portugal	Yes
Banco Bilbao Vizcaya Argentaria, SA	Spain	Yes
Banco de Sabadell, SA	Spain	Yes
Banco Santander SA	Spain	Yes
Bankinter SA	Spain	Yes
BFA Tenedora De Acciones, S.A.	Spain	Yes
CaixaBank, S.A	Spain	Yes
Aktiebolaget Svensk Exportkredit	Sweden	Yes
Landshypotek Bank AB (publ)	Sweden	Yes
Länförsäkringar Bank AB (publ)	Sweden	Yes
SBAB Bank AB - group	Sweden	Yes
Skandiabanken Aktiebolag (publ)	Sweden	Yes
Skandinaviska Enskilda Banken - group	Sweden	Yes
Svenska Handelsbanken - group	Sweden	Yes
Swedbank - group	Sweden	Yes
Volvofinans Bank AB (publ)	Sweden	Yes
Barclays Plc (**)	United Kingdom	Yes
Citigroup Global Markets Europe Limited (**)	United Kingdom	No
Clydesdale Bank Plc (CYBG) (**)	United Kingdom	Yes
Coventry Building Society (**)	United Kingdom	Yes
Credit Suisse Investments (UK) (**)	United Kingdom	Yes
Goldman Sachs Group UK Limited (**)	United Kingdom	Yes
HSBC Holdings Plc (**)	United Kingdom	Yes
ICBC Standard Bank Plc (was Standard Bank Plc) (**)	United Kingdom	No
J P Morgan Capital Holdings Limited (**)	United Kingdom	No
LEEDS BUILDING SOCIETY (**)	United Kingdom	Yes



Institution name	Country	Submits credit risk?
Merrill Lynch UK Holdings Ltd (**)	United Kingdom	No
Mitsubishi UFJ Securities International PLC (**)	United Kingdom	No
Morgan Stanley International Ltd (**)	United Kingdom	Yes
Nationwide Building Society (**)	United Kingdom	Yes
Nomura Europe Holdings PLC (**)	United Kingdom	No
Principality Building Society (**)	United Kingdom	Yes
Skipton Building Society (**)	United Kingdom	Yes
Standard Chartered Plc (**)	United Kingdom	Yes
Sumitomo Mitsui Banking Corporation Europe Limited (**)	United Kingdom	Yes
The Co-operative Bank Plc (**)	United Kingdom	Yes
The Royal Bank of Scotland Group Public Limited Company (**)	United Kingdom	Yes

Data are provided by the CAs, and reflect the situation at 31 December 2019.

(**) Representing the highest level of consolidation in the EU/EEA as of 31 December 2019 in the UK.

(*) Additional institutions representing the highest level of consolidation in the EU/EEA as of 31 December 2019.



Appendix 2: Data quality

The LDP and HDP information constitutes a subset of the SVB exercise related to credit risk, as laid down in the ITS drafted by the EBA, pursuant to Article 78 of Directive 2013/36/EU (CRD IV) from the European Commission. This represents the first data collection with full scope for credit risk including RETO and RQRR portfolios.



Appendix 3: Data cleaning

Of the institutions that have had internal models approved (Appendix 1), some may not have had exposures, as described in Annex I of the ITS and the information collected under templates C 101.00, C 102.00, C 103.00, C105.01, C105.02, C105.03 on their balance sheet at the reference date of Q4 2019.

The cut-off date for the extraction of the data for this report was 23 October 2020.

The records with a portfolio ID or counterparty code not in the list in Annex 1 were excluded from the analysis throughout this report. In general, the records with PDs that were not between 0% and 100% (extremes included) were excluded from the analysis. The only exception was the PD missing for the regulatory approach 'specialised lending slotting criteria', for which the missing PD has been accepted. Incoherent combinations of default status and PD values were also excluded (example: non-defaulted exposure with PD = 100% or defaulted exposures with PD different from 100%).

Template C 101

For template C 101, exposures to a predefined list of common counterparties are gathered and split by regulatory approach and type of risk. Table 9 gives the main statistics on the sample of counterparties (considering only one type of risk²⁵). Note that specialised lending exposures are not included in template C 101.00 in Annex 1.

	Count			With LEI		
Exposure class	Total	AIRB	FIRB	Total	AIRB	FIRB
LCOR	3 516	1 758	1 758	3 230	1 615	1 615
INST	296	148	148	274	137	137
CGCB	126	63	63	4	2	2

Table 9: Number of counterparties in the common counterparty analysis, by regulatory approach

For the purpose of ensuring sufficient **data quality**:

- records with negative LGD, maturity and RWA were excluded;
- if an institution submitted the same counterparty ID more than once with different rating grades (see Q&A 2017_3635), that counterparty ID was excluded for that institution.

²⁵ Hence, the number of observations collected should be multiplied by 3.



For the purpose of the computation of the **benchmarks** (median of the values) at counterparty level:

- only counterparty codes submitted by at least five institutions were considered;
- all the counterparties that were classified as in default by at least one institution were excluded (no benchmarks have been computed for them);
- the counterparties of any particular institution were considered only if the institution submitted at least 10 counterparties with EAD greater than zero;
- counterparties reported with LGD greater than 150% or RW greater than 1 250% were excluded.

Exposure class	Number of institutions	Number of countries of the institutions	Number of different counterparties reported	Number of counterparties with a benchmark computed	Number of countries with counterparties reported
INST					
sample	63	14	853	659	35
LCOR					
sample	83	15	7898	2587	32
CGCB					
sample	44	11	339	159	49

Table 10: Sample of institutions, countries and counterparties in the common counterparty analysis (LDP)

Templates C 102 and C 103

In these templates the total amount and risk parameters of all the SVB exposure classes in the LDP (102) and HDP (103) that are under the IRB approach and are real exposures for the institution are collected. The different portfolios have different features to enable homogeneous portfolios to be compared between institutions.

For the purpose of ensuring sufficient **data quality**:

• records with negative LGD, maturity and RWA were excluded.

For the purpose of computing the **benchmarks** (median of the values) at portfolio level:

- only portfolio IDs not related to the rating breakdown were considered (those portfolios were used to analyse the risk concentration in the tool provided to the CAs);
- only portfolios submitted by at least five institutions were considered;



- only portfolio IDs with at least five obligors were considered (the portfolio IDs where the institution has fewer than five obligors were considered for the quality check, top-down and all other analyses but not for computing the benchmarks);
- only portfolio IDs with EAD of at least EUR 10 000 were considered (the portfolio IDs where the institution has less than EUR 10 000 EAD were considered for the quality check, top-down and all other analyses but not for computing the benchmarks);
- records reported with LGD greater than 150% or RW greater than 1 250% were excluded from the computation of the benchmarks.

For template C 102, which covers the various portfolios related to the LDP SVB exposure classes (institutions, large corporates and sovereigns), 105 out of 123 institutions reported at least 1 record with EAD >0 for this template.

Exposure class	Number of institutions	Number of countries of the institutions	Number of different portfolios reported	Number of portfolios with a benchmark computed
CGCB	49	11	230	56
INST	63	14	305	122
LCOR	100	16	338	138
COSP	72	16	378	112

Table 11: Sample of institutions, countries and counterparties in the portfolio analysis (LDP) (C 102)

In template C 103, which covers HDPs (corporate-other, residential mortgages, SME retail and SME-corporate and retail other, RQRR), 115 out of 123 institutions reported at least 1 row with EAD> 0 for this template.

Table 12: Sample of institutions, countries and counterparties in the portfolio analysis (HDP) (C 103)

Exposure class	Number of institutions	Number of countries of the institutions	Number of different portfolios reported	Number of portfolios with a benchmark computed
CORP	99	16	3321	109
MORT	97	16	2836	64
SMEC	95	16	3213	95
RSMS	68	15	1798	38
SMOT	75	16	2190	56
RETO	84	16	3324	57
RQRR	43	12	3072	51



Appendix 4: Methodologies used

Top-down analysis

The methodology for presenting the percentage of total GC variability that can be explained once its main drivers are controlled for (some interdependency is possible for each driver) is based on the standard deviation (% total GC standard deviation). This analysis can be performed on the LDP and HDP portfolio either separately or combined.

As a starting point, the total GC for each participating institution is computed as:²⁶

% total GC bank_i =
$$\frac{(12.5 \cdot EL_{bank_i} + RWA_{bank_i})}{EAD_{bank_i}}$$

Then, the standard deviation of the total GC is calculated as:

Standard deviation of % total GC =
$$\sqrt{\frac{\sum (\% \text{ total } GC_{bank_i} - \% \text{ total } GC_{average})^2}{N}}$$

where

- % total GC_{banki} represents each institution's GC (as a percentage);
- % *total GC*_{average} is the mean of the GC in the sample;
- *N* is the number of institutions in the sample.

The standard deviation of the total GC is then broken down successively to control for the characteristics of the exposures. For example, for defaulted exposures, a % GC at the institution level is calculated (% $GC_{i, DEF}$). The GC of each institution is then weighted by the proportion of EADs that were reported as defaulted exposures by the institutions in the sample. Two intermediate calculations are performed:

• First, the GC of the sub portfolios is calculated for each institution. For example, for the 1st step, the split between defaulted and non-defaulted exposures, the following parameter has been computed:

% total $GC_{bank_{i,def}} = \frac{\left(12.5 \cdot EL_{bank_{i,def}} + RWA_{bank_{i,def}}\right)}{EAD_{bank_{i,def}}}$

²⁶ Note, however, that those observations where the GC is higher than 150% have been removed from the sample.



% total
$$GC_{bank_{i,non\,def}} = \frac{\left(12.5 \cdot EL_{bank_{i,non\,def}} + RWA_{bank_{i,nn\,def}}\right)}{EAD_{bank_{i,non\,def}}}$$

• Second, the average EAD proportions for the non-defaulted and defaulted portfolios are calculated:

$$\% EAD_{sample,non\ def} = \frac{\sum (EAD_{bank_i,non\ def})}{\sum (EAD_{bank_i,def}) + \sum (EAD_{bank_i,nNon\ def})}$$

$$\% EAD_{sample,def} = \frac{\sum (EAD_{bank_i,def})}{\sum (EAD_{bank_i,def}) + \sum (EAD_{bank_i,nNon def})}$$

These parameters are then used to compute a 'normalised' GC at bank level, which is calculated as the exposure weighted average GCs, using the institution's own estimates for the GCs and the sample average for the EAD (used for the weights). In this particular example, the normalised GC at total bank (i) level is computed as follows:

 $\% GC_{bank_i, DEF, NON DEF} = \% EAD_{sample, def} \cdot \% GC_{bank_i, def} + \% EAD_{sample, non def} \cdot \% GC_{bank_i, non def}$

This allows effects derived from specific EADs for each institution to be controlled for and parameters of the GC, i.e. EL and RWs, to be focused on. In other words, this approach allows a GC to be computed for each institution, based on its own estimates of the risk parameters, but assuming that the percentages of defaulted and non-defaulted exposures (or more accurately the portfolio composition for that particular split/step) are the same across institutions and equal to the sample weighted averages.

In case the $\% GC_{bank_i,def}$ or the $\% GC_{bank_i,non def}$ was not available for that particular bank (i) then the benchmark GC for that split has been used.

The new GC standard deviation (% GC standard deviation _{DEF, NONDEF}), after controlling for defaulted and non-defaulted exposures, is as follows:

Standard deviation of % GC (DEF, NONDEF)

$$= \sqrt{\frac{\sum \left(\% GC_{bank_{i}, DEF, NON DEF} - \% GC average \right)^{2}}{N}}$$

The difference between the standard deviation of the % total GC and the standard deviation of the % GC standard deviation (DEF, NONDEF) gives the proxy of the impact of the contribution of defaulted and non-defaulted exposures to the total GC variability.

The same methodology is repeated for controlling for additional dimensions/split that might be seen as drivers of GC variability:



- step 1a: default mix;
- step 1b: portfolio mix (SVB exposure class level);
- step 2: combined portfolio mix and default mix.

The methodology is not intended to estimate the specific variability for each cluster or dimension at the individual level (e.g. it is not designed to make comparisons at the portfolio level), but is instead only intended to provide a proxy for the general contribution of the main drivers as a whole, i.e. the total GC variability. This breakdown was justified by the significant differences in RW of the different buckets.



Analysis of IRB parameters for common counterparties

Institutions were instructed to provide risk parameters for a predefined list of counterparties, which were identified by internationally accepted identifiers (the most widely used is the LEI²⁷). The starting point for the analysis is the initial RW deviation, which provides an overall estimated deviation from the institution's peers:

Deviation 1 represents the initial RW deviation: RWs computed with the real parameters provided by the institutions (real maturity, real PD, real LGD) are compared with RWs computed with the benchmark values (median PD of peers' reported PD and median LGD of peers' reported LGD) and the maturity fixed at 2.5 years. The deviation of a given institution is set as the median of each single deviation computed at the obligor level, which is computed as follows:

 $Dev1 = RW(M, PD, LGD) - RW(2.5, PD_{benchmark}, LGD_{benchmar})$

To isolate the impact of the individual parameters, the following effects can be identified:

 Deviation 2 represents the PD effect. RWs for a specific institution are computed with the benchmark values for all the parameters, excluding the PD, and these are compared with RWs computed with the benchmark values (median PD of peers' reported PDs). The deviation of a given institution is set as the median of each single deviation computed at the obligor level, which is computed as follows:

$$Dev2 = RW(2.5, PD, LGD_{benchmark}) - RW(2.5, PD_{benchmark}, LGD_{benchmark})$$

 Deviation 3 represents the LGD effect. The RWs are computed with all the benchmark values, excluding the LGD, and are compared with RWs computed with the benchmark values reported by the institution. The deviation of a given institution is set as the median of each single deviation computed at the obligor level, which is computed as follows:

 $Dev3 = RW(2.5, PD_{benchmark}, LGD) - RW(2.5, PD_{benchmark}, LGD_{benchmark})$

 Deviation 4 represents the maturity effect. The RWs are computed with all the benchmark values, excluding the maturity, and are compared with RWs computed with the values reported by the institution. The deviation of a given institution is set as the median of each single deviation computed at the obligor level, which is computed as follows:

$$Dev4 = RW(M, PD_{benchmar}, LGD_{benchmark}) - RW(2.5, PD_{benchmark}, LGD_{benchmar})$$

Since the regulatory LGD estimated by the institution is used in the computation of these differences, the LGD effect also includes the impact of CRM. Therefore, the analysis has been repeated using the hypothetical senior unsecured LGD (without negative pledge) for the AIRB

²⁷ The LEI is a 20-character alphanumeric code that connects to key reference information that enables clear and unique identification of companies participating in global financial markets.



institutions only, where the values were provided assuming that the exposure to a given obligor was a senior unsecured exposure.

Deviation 5 represents the hypothetical LGD effect. RWs are computed with maturity fixed at 2.5 years and PD fixed at benchmark values. This is the hypothetical LGD effect, not taking into account the underlying collateral to achieve a uniform comparison. The deviation of a given institution is set as the median of each single deviation computed at the obligor level, which is computed as follows:

$$Dev5 = RW(2.5, PD_{benchmark}, LGD^{hy unsec}) - RW(2.5, PD_{benchmar}, LGD_{benchmar}^{hyp unsec})$$

The list of counterparties has not been updated from that used in the 2018 LDP exercise but their representativeness is more or less constant. The graphs below show the evolution of the counterparty exposure coverage, due to the change in exposures of institutions.

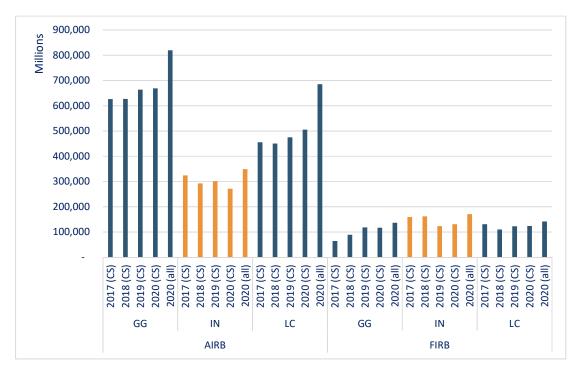


Figure 34: Evolution of EAD by SVB portfolio and regulatory approach

For this analysis, a common subsample of 57 institutions has been identified (i.e. institutions that participated in all four exercises with an exposure in at least one SVB exposure class). It should, however, be noted that the number of institutions for each SVB exposure class is not the same, and neither is the number of counterparties (see Figure 35 below). The comparison focused on a subset of counterparties that were reported by at least five institutions in the four exercises.



Figure 35: Proportion of EAD in the common subsample

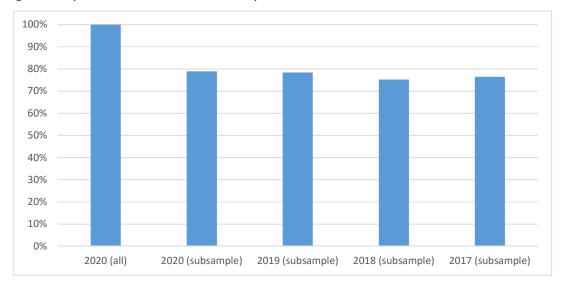
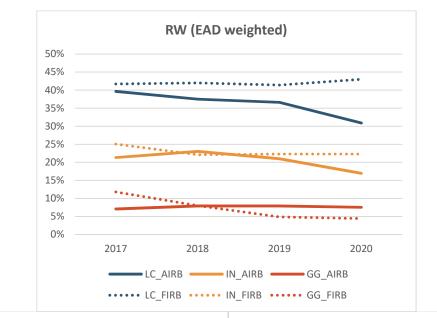
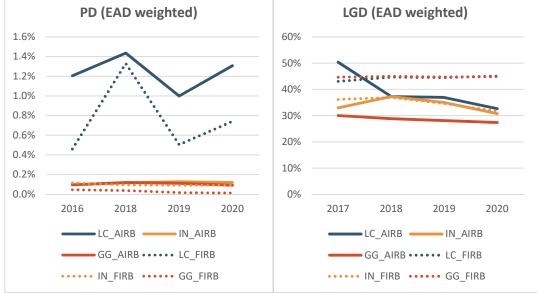




Figure 36: Evolution of the common subsample risk metrics, from the 2017 to the 2020 exercise, by SVB exposure class







Outturns (backtesting) approach

The analysis presents ratios between observed values and the estimated ones for comparable parameters. A result above 1 indicates an institution with an observed value higher than the institution's estimate for the same (comparable) parameter. These ratios are calculated at the portfolio level²⁸ for each institution. The complete definition of the data points collected can be found in Annex IV, template C 103.00, of the ITS. In short, they were:

- PD (column 60): the PD used in the calculation of the RWA, excluding the effect of potential measures introduced in accordance with Article 458 of Regulation (EU) No 575/2013.
- LGD (column 130): the EAD-weighted own estimates of LGD or EAD-weighted regulatory LGD applied by the institution to the exposures to each portfolio. The effect of measures introduced in accordance with Article 458 of Regulation (EU) No 575/2013 are excluded.
- DR1Y (column 190): the ratio between (i) the sum of the exposures (original exposure before applying the conversion factor measured at the reference date minus 1 year) that defaulted between the reference date minus 1 year and the reference date and (ii) the sum of the exposures (original exposure before applying the conversion factor measured at the reference date minus 1 year) that were non-defaulted at the reference date minus 1 year.
- DR5Y (column 200): the weighted average of the default rates observed in the last 5 years preceding the reference date (the weights to be used are the non-defaulted exposures).
- LR (column 210): the sum of credit risk adjustments and write-offs applied, within the year preceding the reference date, to exposures that were non-defaulted exactly 1 year before the reference date and that defaulted during the year preceding the reference date, divided by the sum of the EAD, measured exactly 1 year before the reference date, of the exposures that were non-defaulted exactly 1 year before the reference date and that defaulted exactly 1 year before the reference date.
- LR5Y (column 220): the EAD-weighted average of the loss rates observed in the last 5 years preceding the reference date.
- RWA- and RWA+ (columns 250 and 260): the hypothetical risk-weighted exposure amount, after applying the SME supporting factor, that results from the application p⁻ (for RWA-) or p⁺ (for RWA+):

 $p^-\,{\rm shall}$ be the smallest positive value satisfying the equation

$$p^{-} + \Phi^{-1}(q) \cdot \sqrt{\frac{p^{-} \cdot (1 - p^{-})}{n}} \ge DR_{1y}$$

 p^+ shall be the largest positive value satisfying the equation

²⁸ Using portfolio ID (Annex I, template C 103.00, of the ITS).



$$p^{+} - \Phi^{-1}(q) \cdot \sqrt{\frac{p^{+} \cdot (1 - p^{+})}{n}} \le DR_{1y}$$

NB: DR_{1y} is not DR1Y but the case-weighted default rate of the year preceding the reference date.

 RWA-- and RWA++ (columns 270 and 280): defined in a similar way to RWA- and RWA+, but using DR_{5v} instead of DR_{1v} (similarly to RWA*, DR_{5v} is not equal to DR5Y).

The persistence of institutions as outliers in both periods, i.e. 1-year rate and the average of 5 years, and across comparable parameters can be examined by the CAs. However, there are a couple of caveats that should be kept in mind when making this comparison, in particular for the comparison at risk parameter level:

- Differences between the observed risk parameters used for prudential purposes and the data collected.
 - The default rate collected is an exposure-weighted ratio, whereas the default rate used for the PD estimation should be an obligor ratio (further details are available in section 5.3.2 of the Guidelines on PD and LGD estimation²⁹).
 - The loss rates collected use accounting data as the input. However, the loss used for prudential purposes should be the economic loss and include considerations of collection-related costs, appropriate discounting, etc. (further details are available in section 6.3.1 of the Guidelines on PD and LGD estimation).
- Differences between the rates collected and the long-run averages. PD and LGD estimates are required by Articles 180 and 181 of the CRR to be representative (PD) or at least equal (LGD) to the long-run average. However:
 - The past (5) year(s) might not be representative of the long term (further details are available in section 5.3.4 of the Guidelines on PD and LGD estimation).
 - The long-run average should be the arithmetic yearly average for the PD and a default-weighted average for the LGD. The data collected are an exposure-weighted average of the DR for DR5Y and an EAD-weighted average of the yearly LR for LR5Y (further details are available in sections 5.3.3 and 6.3.3.2 of the Guidelines on PD and LGD estimation).
 - The averages are not necessarily computed at the grade and pool levels or at the calibration segment level, resulting in a potential lack of homogeneity across time.
- Differences between the long-run averages and the risk parameters.
 - Both PD and LGD should incorporate a margin of conservatism (further details are available in section 4.4.3 of the Guidelines on PD and LGD estimation).

²⁹ <u>https://www.eba.europa.eu/documents/10180/2033363/Guidelines+on+PD+and+LGD+estimation+%28EBA-GL-2017-16%29.pdf/6b062012-45d6-4655-af04-801d26493ed0</u>



- LGD estimates should be appropriate for downturn conditions as per Article 181. The loss rates collected are not necessarily representative of downturn conditions.
- Potential lack of representativeness due to the computation on non-homogeneous pools.
 - For the 1-year rates, the data collected allowed only the comparison of PDs (and LGDs) at the reference date (2018) with the default rate (and loss rate) observed during the same year (2018), whereas it would be more consistent to compare this default rate (and loss rate) with the PD (and LGD) at the beginning of the observation period.
 - For the 5-year rates, the average may not be statistically well grounded, since the portfolio quality may have significantly changed over the years. This is especially true in the context of the significant improvement in the portfolios of institutions observed in some EU Member States.

The RWA-/+ impact analysis also has a number of caveats, and the comparison with the RWA should be handled carefully:

- The four metrics do not reflect regulatory measures or corrective actions in place that have an impact on institutions' capital requirements.
- Extrapolations to the total IRB credit risk portfolio cannot be made, because of the specific nature of HDP exposures.



Appendix 5: Complementary RW statistics



RW dispersion:

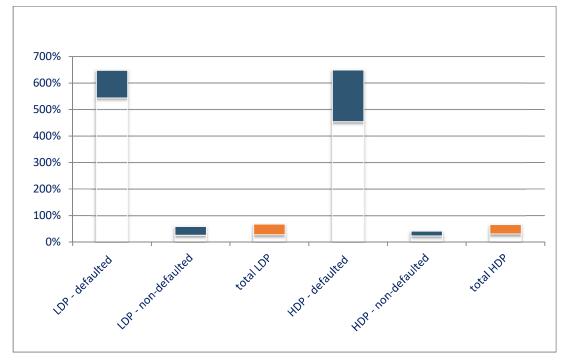
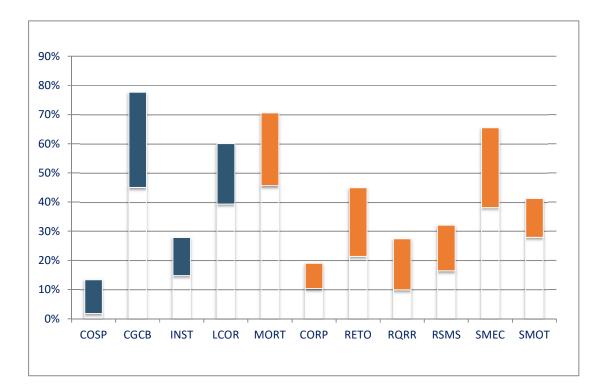


Figure 37: GC dispersion (delta Q3-Q1), split by default status, for LDP and HDP exposures







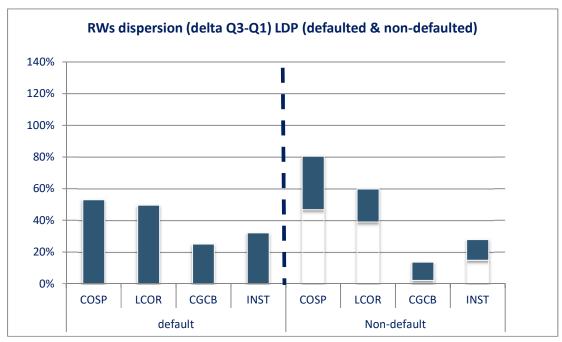
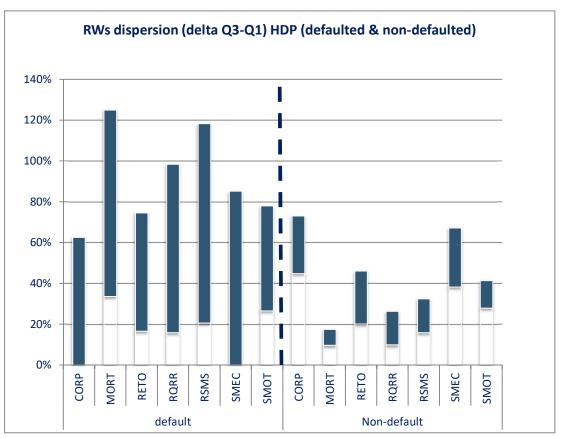


Figure 39: RW dispersion (delta Q3-Q1) for the different SVB exposure classes and default statuses (HDP and LDP)





Appendix 6: Complementary graphs on the evolution of the portfolios

This appendix shows the evolution of the portfolios of the institutions in terms of both volume (change in EAD) and risk estimates (EAD-weighted average of the RW, PD and LGD). This evolution is observed at the total portfolio level, i.e. including defaulted assets. Therefore, the high decrease in observed PD values is significantly driven by the diminution in the share of NPLs.

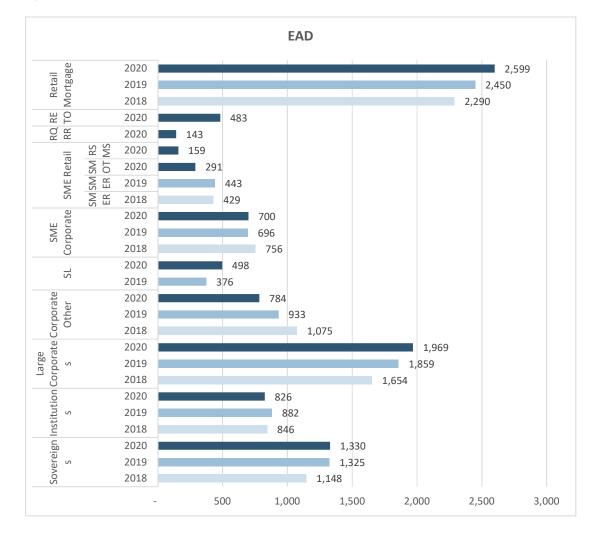


Figure 40: Common EAD in the 2018, 2019 and 2020 SVB exercises (EUR million)



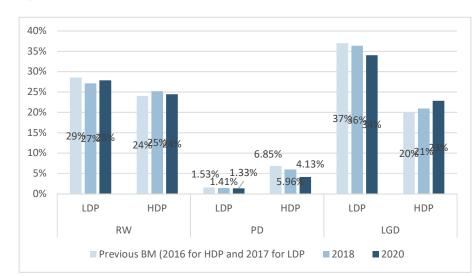


Figure 41: Comparison of risk weights, PD and LGD between current and previous SVB exercises (defaulted and nondefaulted exposures)



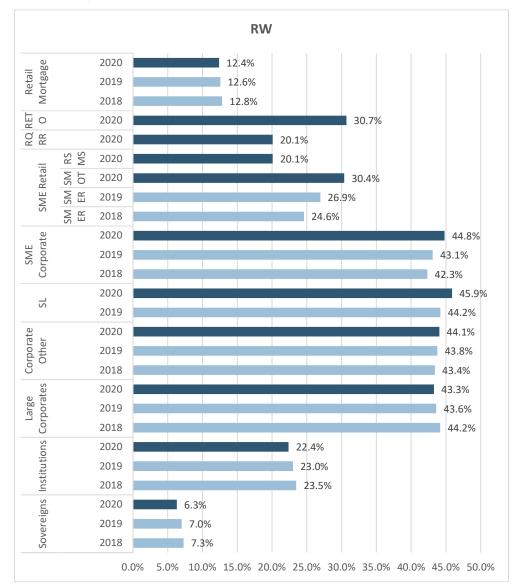


Figure 42: Comparison of risk weights by SVB exposure class between current and previous SVB exercises (defaulted and non-defaulted exposures)



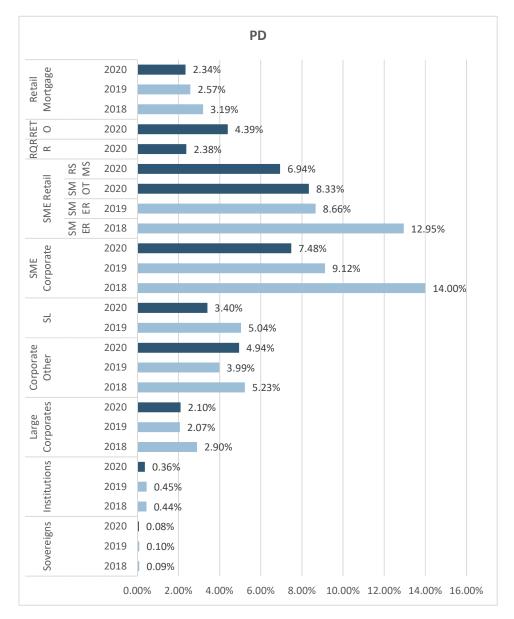


Figure 43: Comparison of PDs by SVB exposure class between current and previous SVB exercises (defaulted and nondefaulted exposures)



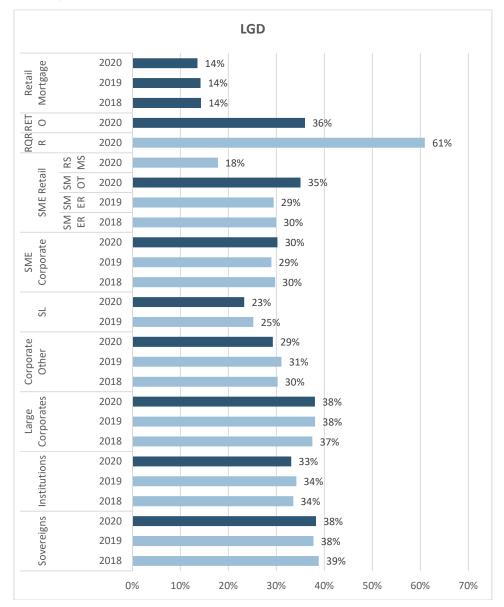


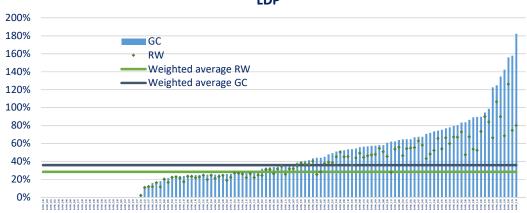
Figure 44: Comparison of LGDs by SVB exposure class between current and previous SVB exercises (defaulted and non-defaulted exposures)



Appendix 7: Complementary graphs on the top-down analysis

Figure 45 shows the GC and RW for the total LDP and HDP, and Figure 4646 shows the adjusted figures after the top-down transformation (at step 2, i.e. controlling for portfolio and default mix). The reduction in variability in the GC and RW by controlling for the default status mix and the portfolio mix is visible by comparing Figure 45 with Figure 46.

Figure 45: GC and RW, for defaulted and non-defaulted exposures, by institution, LDP and HDP

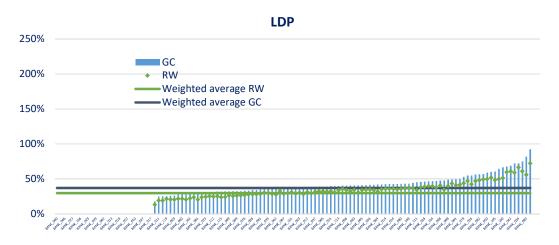


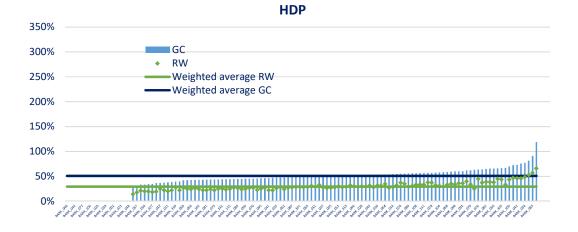
HDP 350% 300% GC RW 250% Weighted average RW Weighted average GC 200% 150% 100% 50% 0%

LDP



Figure 46: Adjusted GC and RW, for defaulted and non-defaulted exposures, by institution, LDP and HDP







Appendix 8: Complementary graphs on the common obligors' analysis

Figure 47: RW deviations for LCOR counterparties (AIRB and FIRB)

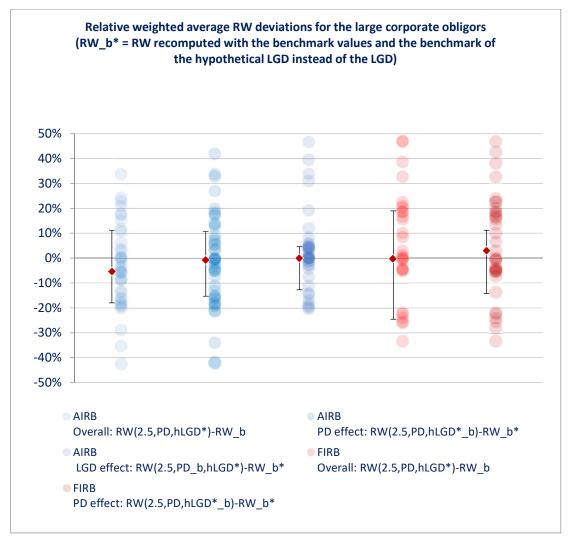




Figure 48: RW deviations for CGCB counterparties (AIRB and FIRB)

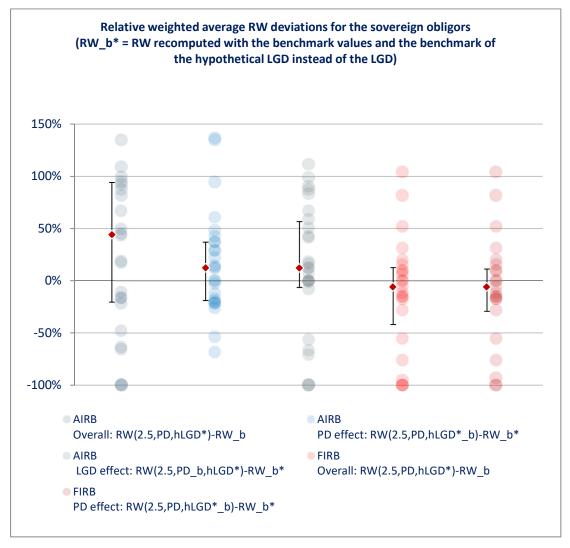
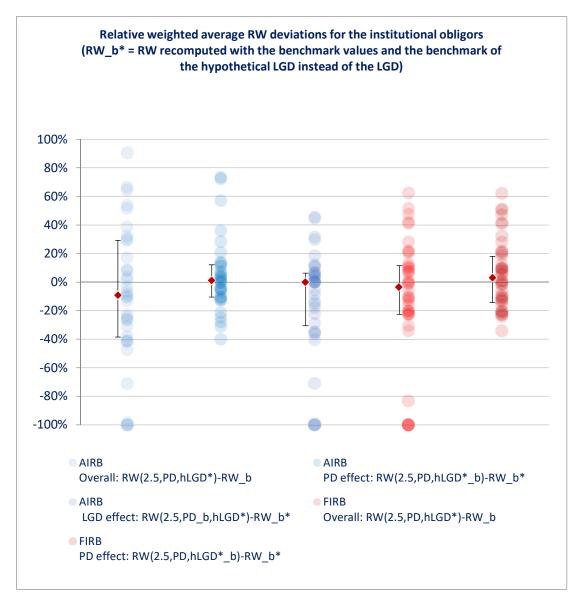




Figure 49: RW deviations for INST counterparties (AIRB and FIRB)





Appendix 9: Complementary graphs on the outturn analysis

The country analysis presented in this section has been performed on the country of the counterparty (residence of the obligor). The distributions of the institutions' ratio between default rates and the PD and the ratio between loss rates and the LGD are presented by country of the counterparty, where a country has at least five domestic banks.

The same caveats apply as for the other backtesting analysis (recalled here for the reader's convenience):

- Differences between the observed risk parameters used for prudential purposes and the data collected.
 - The default rate collected is an exposure-weighted ratio, whereas the default rate used for the PD estimation should be an obligor ratio (further details are available in section 5.3.2 of the Guidelines on PD and LGD estimation³⁰).
 - The loss rates collected use accounting data as the input. However, the loss used for prudential purposes should be the economic loss and include considerations of collection-related costs, appropriate discounting, etc. (further details are available in section 6.3.1 of the Guidelines on PD and LGD estimation).
- Differences between the rates collected and the long-run averages. PD and LGD estimates are required by Articles 180 and 181of the CRR to be representative (PD) or at least equal (LGD) to the long-run average. However:
 - The past (5) year(s) might not be representative of the long term (further details are available in section 5.3.4 of the Guidelines on PD and LGD estimation).
 - The long-run average should be the arithmetic yearly average for the PD and a default-weighted average for the LGD. The data collected are an exposure-weighted average of the DR for DR5Y and an EAD-weighted average of the yearly LR for LR5Y (further details are available in sections 5.3.3 and 6.3.3.2 of the Guidelines on PD and LGD estimation).
 - The averages are not necessarily computed at the grade and pool levels or at the calibration segment level, resulting in a potential lack of homogeneity across time.
- Differences between the long-run averages and the risk parameters.
 - Both PD and LGD should incorporate a margin of conservatism (further details are available in section 4.4.3 of the Guidelines on PD and LGD estimation).

³⁰ <u>https://www.eba.europa.eu/documents/10180/2033363/Guidelines+on+PD+and+LGD+estimation+%28EBA-GL-2017-16%29.pdf/6b062012-45d6-4655-af04-801d26493ed0</u>

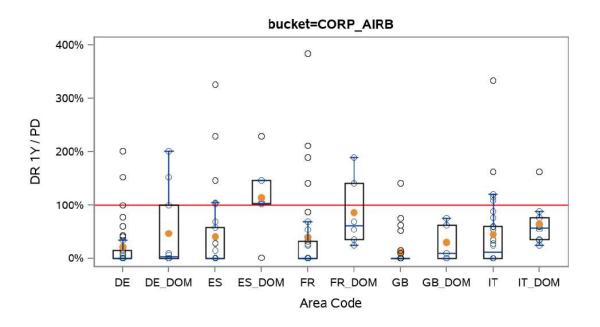


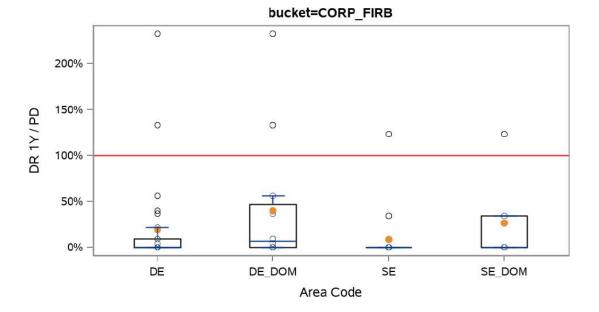
- LGD estimates should be appropriate for downturn conditions as per Article 181. The loss rates collected are not necessarily representative of downturn conditions.
- Potential lack of representativeness due to the computation on non-homogeneous pools.
 - For the 1-year rates, the data collected allowed only the comparison of PDs (and LGDs) at the reference date (2018) with the default rate (and loss rate) observed during the same year (2018), whereas it would be more consistent to compare this default rate (and loss rate) with the PD (and LGD) at the beginning of the observation period.
 - For the 5-year rates, the average may not be statistically well grounded, since the portfolio quality may have significantly changed over the years. This is especially true in the context of the significant improvement in the portfolios of institutions observed in some EU Member States.



Corporate-other

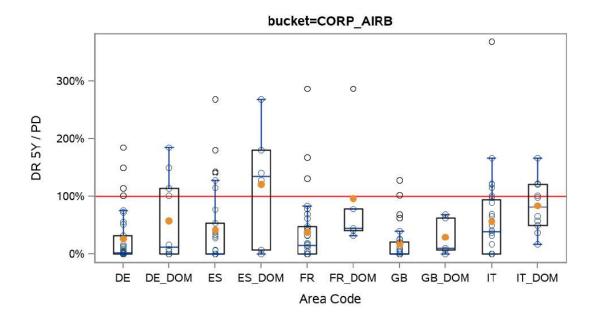
Figure 50: Comparison of PD and default rate (latest year and last 5 years), for the corporate-other portfolio, nondefaulted exposures, by country of residence of the counterparties





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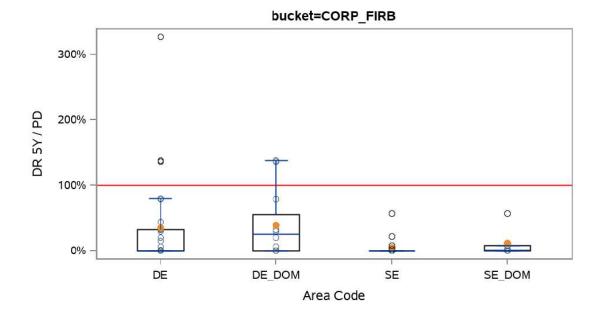
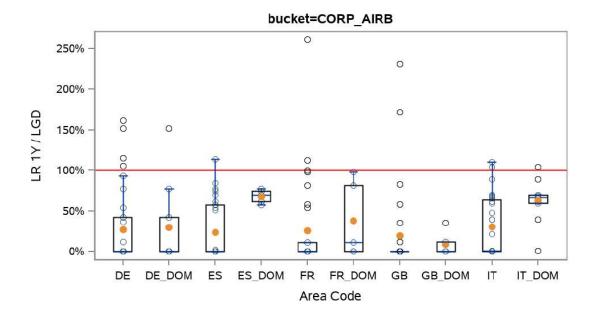
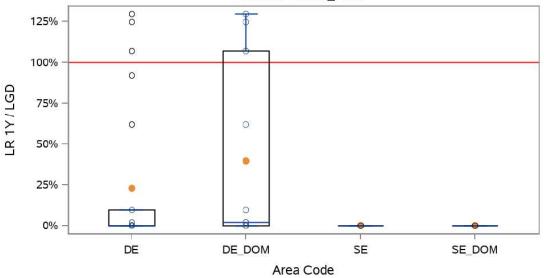




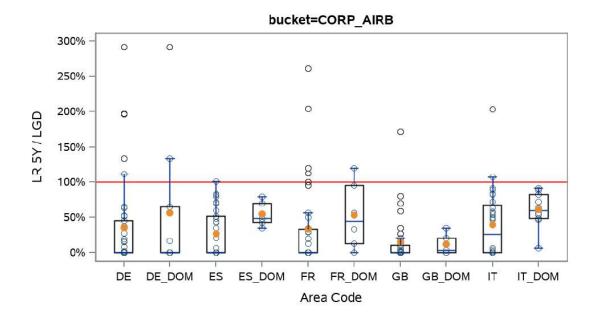
Figure 51: Comparison of LGD and loss rate (latest year and last 5 years), corporate-other portfolio, non-defaulted exposures, by country of residence of the counterparties

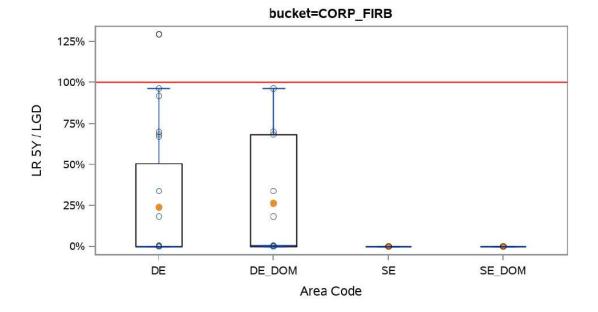




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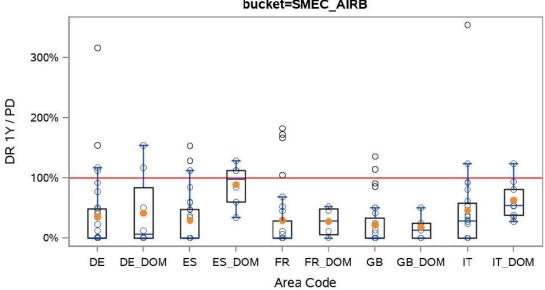


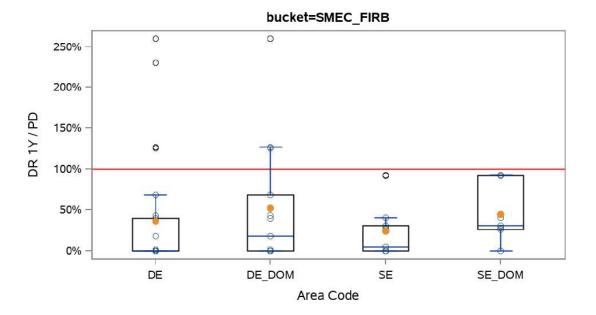




SME corporate

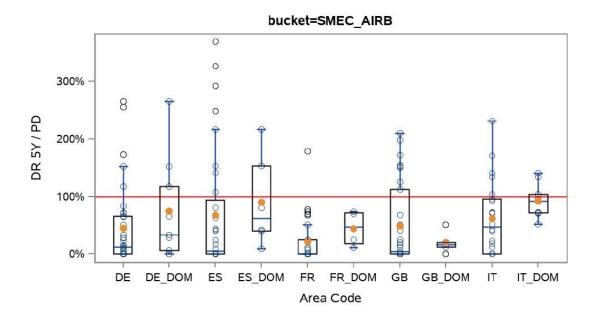
Figure 52: Comparison of PD and default rate (latest year and last 5 years), SME corporate portfolio, non-defaulted exposures, by country of residence of the counterparties





bucket=SMEC_AIRB





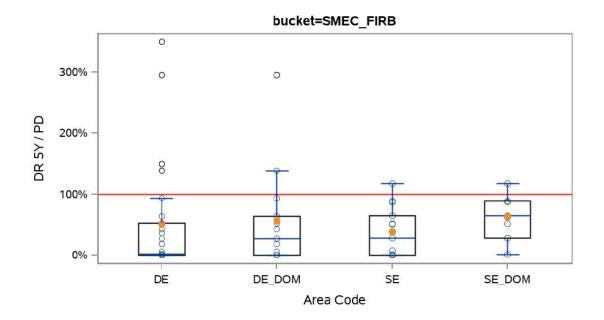
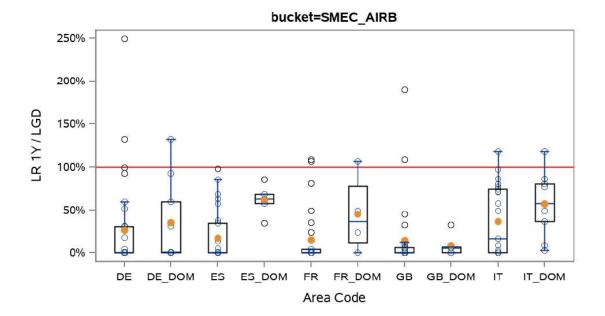
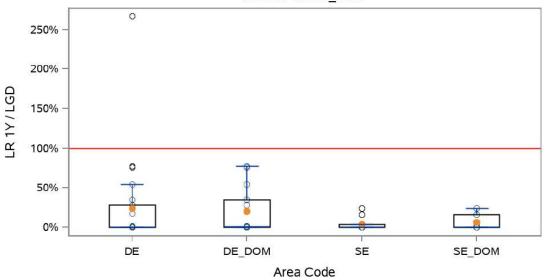




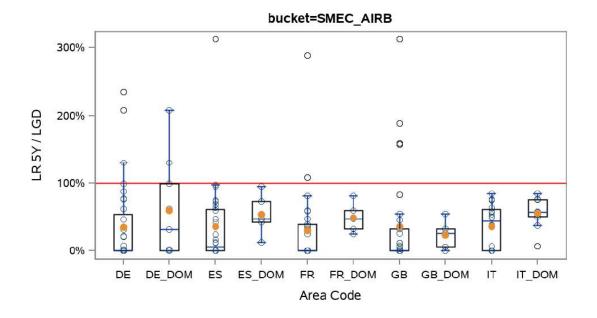
Figure 53: Comparison of LGD and loss rate (latest year and last 5 years), SME corporate portfolio, non-defaulted exposures, by country of residence of the counterparties

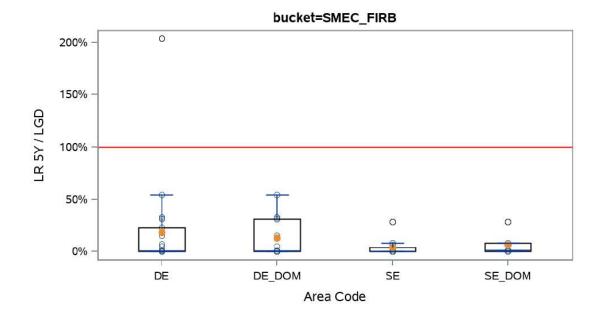




bucket=SMEC FIRB





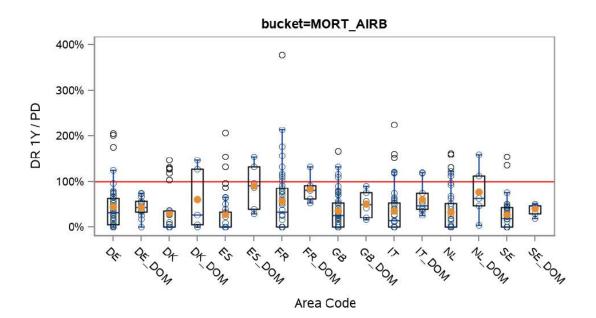


99



Retail - Residential mortgages - Non SME

Figure 54: Comparison of PD and default rate (latest year and past 5 years), for the residential mortgages portfolio, non-defaulted exposures, by country of residence of the counterparties



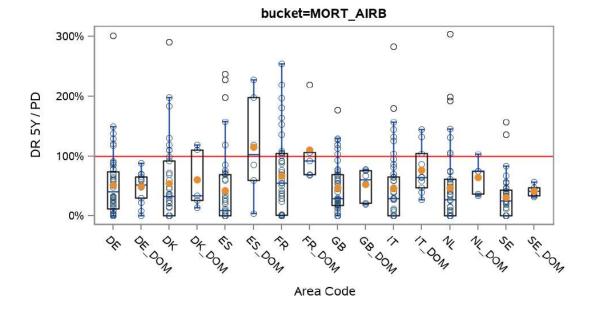
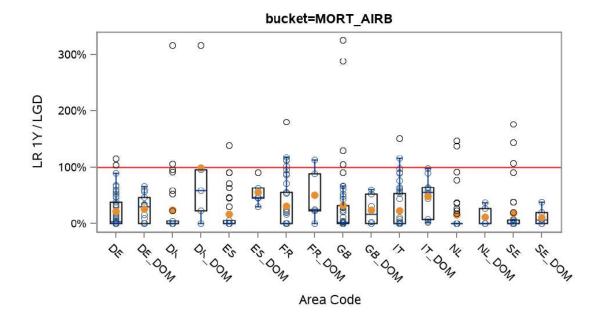
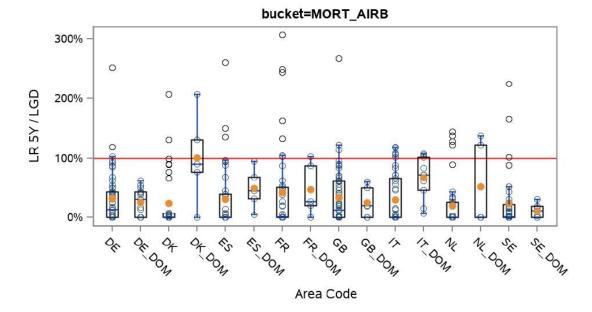




Figure 55: Comparison of LGD and loss rate (latest year and last 5 years), residential mortgages portfolio, nondefaulted exposures, by country of residence of the counterparties

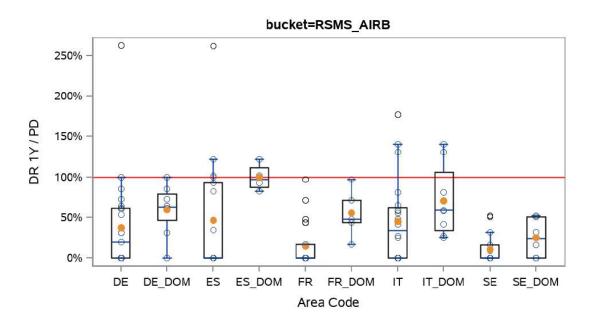






Retail - Residential mortgages - SME

Figure 56: Comparison of PD and default rate (latest year and past 5 years), for the residential mortgages portfolio, non-defaulted exposures, by country of residence of the counterparties



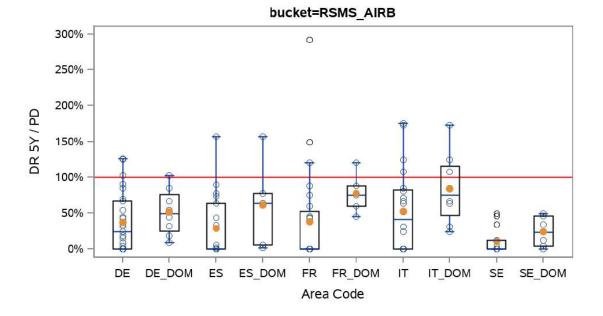
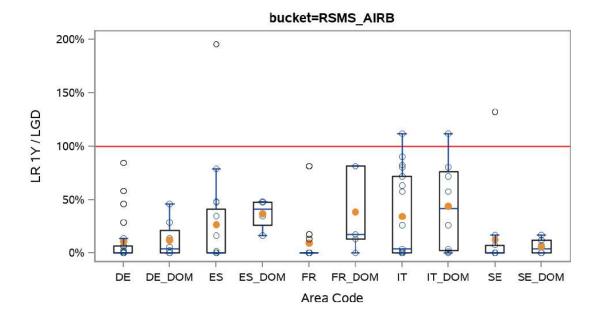




Figure 57: Comparison of LGD and loss rate (latest year and last 5 years), residential mortgages portfolio, nondefaulted exposures, by country of residence of the counterparties



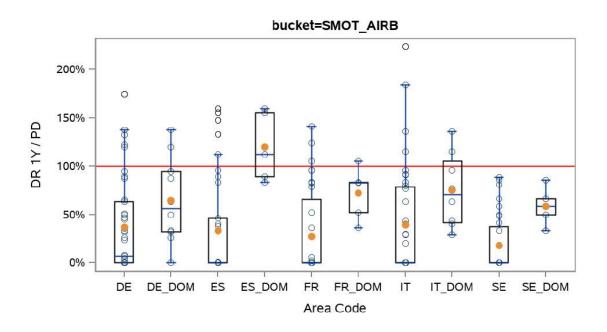
250% 0 0 200% 0 0 LR 5Y/LGD 150% 100% 8 0 8 0 0 0 50% 0 8 4 0% DE DE_DOM ES ES_DOM FR FR_DOM IT IT_DOM SE SE_DOM Area Code

bucket=RSMS_AIRB



Retail - others - SME

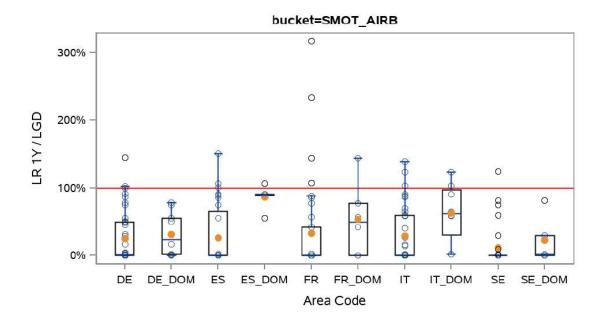
Figure 58: Comparison of PD and default rate (latest year and past 5 years), for the residential mortgages portfolio, non-defaulted exposures, by country of residence of the counterparties

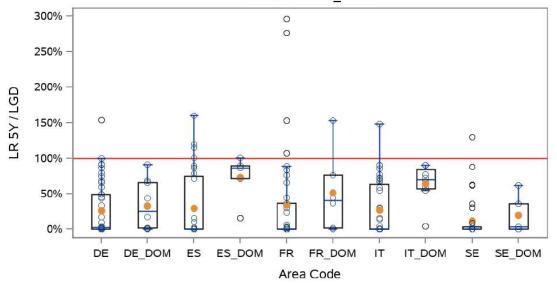


bucket=SMOT_AIRB 0 300% 0 0 DR 5Y / PD 200% 0 0 0 100% 0 6 õ 8 0 A 0% DE DE_DOM ES ES_DOM FR FR_DOM IT IT_DOM SE SE_DOM Area Code



Figure 59: Comparison of LGD and loss rate (latest year and last 5 years), residential mortgages portfolio, nondefaulted exposures, by country of residence of the counterparties



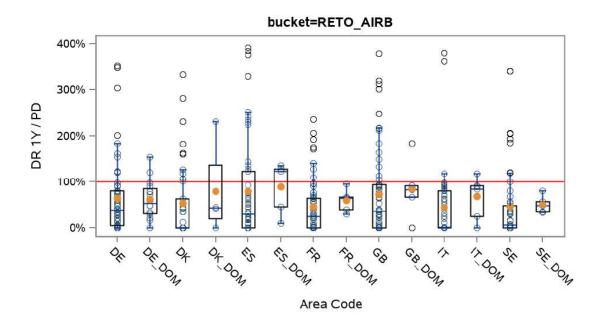


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Retail - others - non-SME

Figure 60: Comparison of PD and default rate (latest year and past 5 years), for the residential mortgages portfolio, non-defaulted exposures, by country of residence of the counterparties



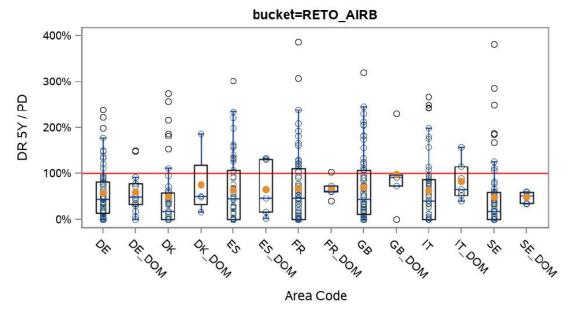
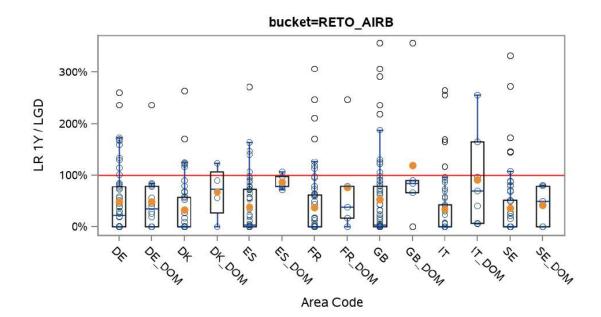
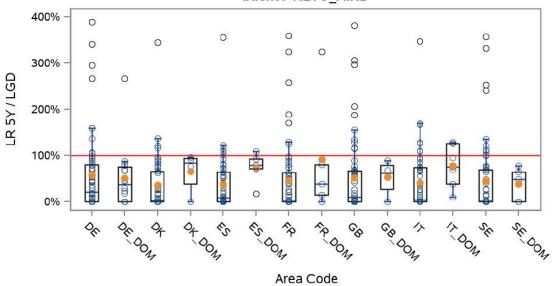




Figure 61: Comparison of LGD and loss rate (latest year and last 5 years), residential mortgages portfolio, nondefaulted exposures, by country of residence of the counterparties



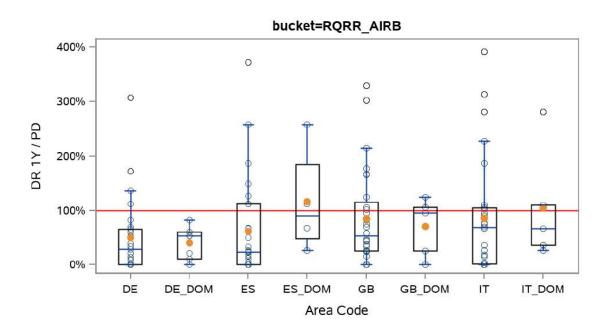


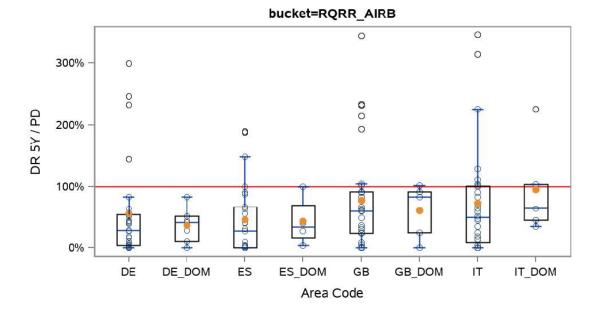
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Retail - Revolving

Figure 62: Comparison of PD and default rate (latest year and past 5 years), for the residential mortgages portfolio, non-defaulted exposures, by country of residence of the counterparties

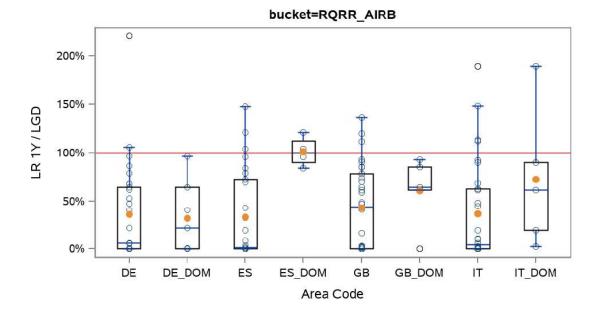


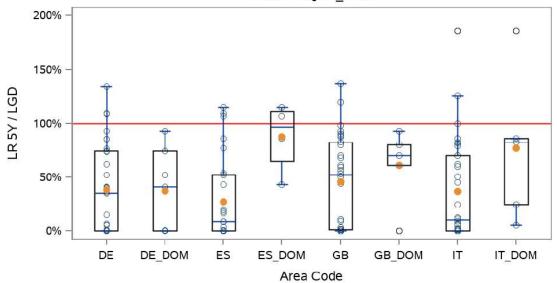


108

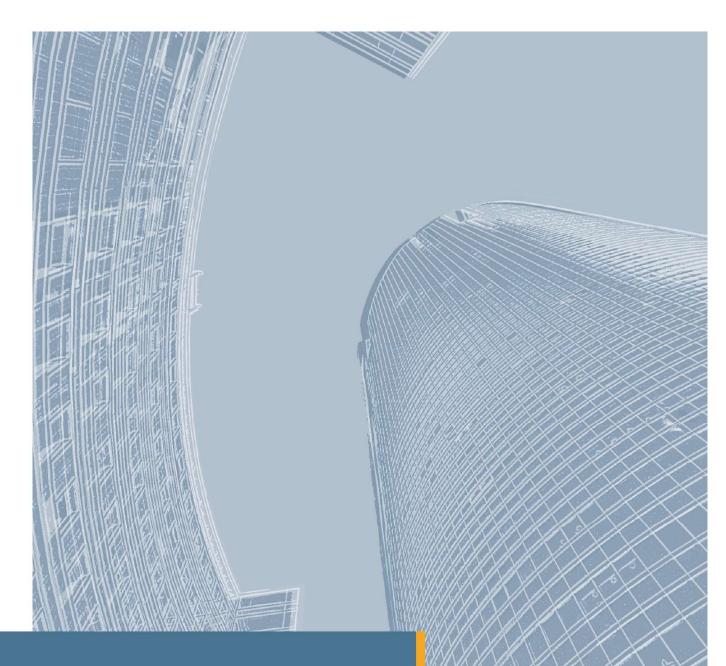


Figure 63: Comparison of LGD and loss rate (latest year and last 5 years), residential mortgages portfolio, nondefaulted exposures, by country of residence of the counterparties





bucket=RQRR_AIRB



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