

Risk Assessment Questionnaire – Summary of the Results

December 2018

EBA

EUROPEAN
BANKING
AUTHORITY

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Introduction

The EBA conducts semi-annual Risk Assessment Questionnaires (RAQs) among banks and market analysts. This booklet presents a summary of the responses to the RAQs carried out in autumn 2018. For this edition, 53 banks¹ and 15 market analysts submitted their answers. The RAQ results are published together with the EBA's quarterly Risk Dashboard (Q3 2018).

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

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

¹ The sample of banks was expanded this time, from formerly 38 banks.

Summary of the main results

Against the backdrop of overall supportive funding conditions and broad-based economic growth, recently clouded market sentiment and heightened volatility in the financial markets, coupled with rising global protectionism tendencies point to potentially upcoming risks for the EU banking sector. The results of the EBA's RAQ show a still subdued profitability in EU banks and challenges going ahead. Lending growth is anticipated for specific portfolios, such as SME loans, residential mortgages and consumer credit, with expected decrease in sovereign exposures. Banks target attaining more MREL instruments and retail deposits. Banks expect an overall improvement in the quality of their portfolios, while market analysts seem to be more cautious on the asset quality outlook. Cyber risk and data security remain the main drivers of operational risk increase. Market sentiment, according to respondents, might further deteriorate due to resurgence of global protectionism, economic challenges in EU member states and emerging markets, along with a potential disorderly unfolding of Brexit.

Business model / strategy / profitability

- The share of banks that agree their **current earnings are covering the Cost of Equity (CoE)** remains stable compared to June 2018 and December 2017 questionnaires at 55%. Two out of three banks (about 70% in June 2018 and in line with December 2017 results) estimate their **CoE between 8% and 10%**, while 15% of respondents (20% in June this year) estimate CoE to lie between 10% and 12%. Conversely, only 10% of banks estimate their CoE below 8%, slightly higher than in the previous two questionnaires. Yet, only a small fraction of banks (6%) estimates their CoE above 12%. (*Questions 3, 7 and 8 for banks*).
- About 30% of banks expect an overall increase in bank's **profitability** in the next 6-12 months, up from both June 2018 and December 2017 results (15% and 20% respectively). In this regard, banks primarily target net fees and commissions income and operating costs reduction as areas of increasing profitability in the next months (around 80% and 70% assign high and somewhat high priority respectively). Net interest income is seen as another important driver, highlighted by 60% of respondents (up from 50% in June 2018). (*Questions 4, 5 and 6 for banks and Question 1 for market analysts*)
- When it comes to the sources of **net fees and commissions** income, banks point to asset management (30%, down from 60% in June this year) and payment services (30%, down from 55% in the previous questionnaire). Increasing automatisations and digitalisations are seen as possible ways to **reduce operating costs** (95% of banks), followed by overhead reduction and staff cost cuts (around 80%). These are similar to previous questionnaires' results. Similarly, market analysts also expect an improvement in overall banks' profitability (65% of "agree" and "somewhat agree" responses) and an improved cost efficiency in banks (60%). (*Questions 4, 5 and 6 for banks and Question 1 for market analysts*)

- Similar to previous questionnaires, banks identify cost and riskiness of **M&A** transactions as the main obstacle to engaging into M&A (40% of respondents), with complexity as another cited obstacle (30% of banks). Regulatory requirements and supervisory actions are viewed as obstacles by around 30% of banks as well, of which 45% refer to obstacles from national waivers on liquidity and capital not being exercised, and nearly 60% mention other regulatory requirements. Market analysts broadly agree that regulatory requirements and supervisory actions, along with complexity issues, are the main obstacles for further M&A activity within the European banking sector, (both agreed by 75% of analysts) (*Question 2 for banks and Question 13 for market analysts*)
- Market analysts refer to the negative implications to EU banks' business in case of a disorderly **Brexit** (agreed by 80% of analysts), but this is only mentioned by 20% by banks. Of particular concerns to analysts is the uncertainty around continuity of financial contracts between banks and / or other parties from EU27 and the UK in case of a disorderly Brexit (agreed by 75% of analysts). 70% of banks responded that they have in place contingency plans to deal with risks stemming from an inconclusive or disorderly end of negotiations on the UK exit from the EU. (*Questions 9, 10 and 11 for banks and Questions 4 and 5 for market analysts*)

Funding / liquidity

- Analysts are confident that banks will be able to issue subordinated debt instruments in the upcoming period, including **BRRD / MREL / TLAC eligible instruments** (80% of analysts agree or somewhat agree, however slightly below 95% in June this year), **AT1 instruments** (results moderated to 65% of respondents from 95% in the previous two questionnaires). Nevertheless, analysts broadly agree the costs for such issuances will rise compared to last year. (*Question 8 for analysts*)
- Banks intend to attain **more MREL eligible instruments** (two out of three responding banks, in line with June 2018 results and 55% in December 2017), increased deposits from retail clients (35% of respondents, down from 45% in June), and more secured funding (around 25% of banks, similar to June results). Market analysts broadly share these views. (*Question 14 for banks and Question 9 for analysts*)
- Half of the banks consider the **pricing of MREL instruments** (up from 30% in June 2018 and 20% in December last year) as the main constraint for their issuance. The share of banks considering uncertainties related to the determination of actual levels of MREL (50% agreement) and to the eligibility of instruments for MREL (40% agreement) as important constraints has decreased markedly compared with previous RAQs (agreements of 65% and 55%, respectively, one year ago). (*Question 15 for banks*)
- Around 85% of banks responded that they are working on solutions for the **replacement of IBOR** benchmark rates (Euribor/ Eonia, Libor etc.). These include areas related to existing business, e.g. preparing the change of existing contracts and replacing existing IBOR references to alternative ones (90%), but also related to new business, e.g. issuance of new funding

instruments with variable rates referring to new/ alternative risk free rates (75%) and internal operations, capabilities and systems, e.g. valuation models (60%). The biggest challenge in the process is related to existing business on the asset side (70%), but also related to existing instruments and business, e.g. derivatives (50%). *(Question 13 for banks)*

Asset volume trends and asset quality

- A large majority of banks (90%) responded they intend to increase the volumes of **SME financing** in the upcoming year. Similarly, they plan to increase exposures to **consumer credit** (75%), **residential mortgages** (75%) and **corporates** (70%). This is broadly in line with the trend seen in recent quarters. Conversely, more banks intend to reduce their exposures towards **commercial real estate** (including all types of real estate financing), marking an increase from 15% to 25% of respondents pointing to decrease in volumes. In addition, banks plan to reduce their exposures towards **sovereigns** (25% of respondents, compared to 20% in June this year), as well as trading and asset financing (shipping, aircraft, slightly more than 20%). Market analysts' responses echo bank ones, with 95% of analysts expecting an increase in SME financing and around two-thirds of them expecting an increase in residential mortgages, corporate and consumer credit. *(Question 16 for banks and Question 10 for market analysts)*
- The majority of responding banks expect an **improvement** of asset quality in all the portfolios in the coming year. More than half of them expect positive developments for **SME, residential mortgages** and **corporates**. However, results are mixed for commercial real estate and consumer credit, with around 40% expecting improvement, while at the same time, nearly 20% of the respondents consider these two portfolio classes as the ones they expect to deteriorate. Overall, banks' outlook on the asset quality is optimistic while analysts' are more cautious. Market analysts in particular point to an expected **deterioration in sovereigns and asset finance** (45% for both classes). Respondents have a growing trend of expected deterioration for sovereign exposures over the last few years. *(Question 17 for banks and Question 12 for analysts)*
- An increased percentage of banks identify **lengthy and expensive judiciary processes as the main impediment to resolve non-performing loans (NPLs)** (around 70%). Furthermore, the lack of a highly liquid market for transactions in NPLs and / or collaterals is seen as another important impediment by 35% of respondents (down from 50% in June 2018 and 55% in December 2017). The most commonly applied strategies cited by banks for managing NPLs are **hold and forbearance** (i.e. holding NPLs and applying suitable workout strategies and forbearance options), **active portfolio reductions** through NPL sale (around 70% and 65% respectively), as well as **legal options**, e.g. insolvency proceedings, out-of-court settlement (around 40%). Analysts, instead, perceive a **lack of capital**, along with **lengthy and expensive judiciary processes**, as the major impediment for banks to resolve their NPLs (around 55% of responses for both). *(Questions 18 and 19 for banks and Question 11 for analysts)*

Conduct / reputation / operational risk

- More than 50% of banks expect an increase in **operational risk** in their institution, which is less than both in June this year (60%) and December last year (55%). The main driver identified by banks is, by large, **cyber risk and data security** (around 90%, increasing from the 55% in June this year), followed by compliance with regulatory initiatives and conduct and legal risk (doubled to close to 40%, from June's 20%). Around 55% of market analysts see an increase in EU banks' operational risk, mainly driven by conduct and legal risk and cyber risk and data security (both agreed by 90% of respondents), followed by IT failures (65%). *(Question 22 for banks and Question 7 for market analysts)*
- More than 25% of the banks expect litigation costs to be heightened in the next 6-12 months. Litigations costs are expected to increase in the next 6-12 months by 45% of analysts, markedly increasing from 5% in June 2018 and 15% in December 2017. *(Questions 20 and 21 for banks and Question 6 for market analysts)*

FinTech

- A large share of banks (85%) reported that they **develop their own products and services in-house** using new technologies, or set-up or sponsor FinTech incubators and accelerators. Furthermore, more than **80% of banks plan to cooperate with non-bank FinTech firms in the future**. Investments are mainly financed through their own venture capital funds (55%) or through direct acquisitions of FinTech firms (45%). *(Question 23 for banks)*
- 35% of the banks responded they made no **investment in non-bank FinTech firms and start-ups** in 2017, 35% invested less than EUR 10m and around 25% invested between EUR 10m and EUR 50m. A large share of EU banks (85%) allocated less than 10% of their IT spending to internal FinTech developments with a significant appetite though to increase this share in the next 12 months (70%). *(Questions 24 and 25 for banks)*

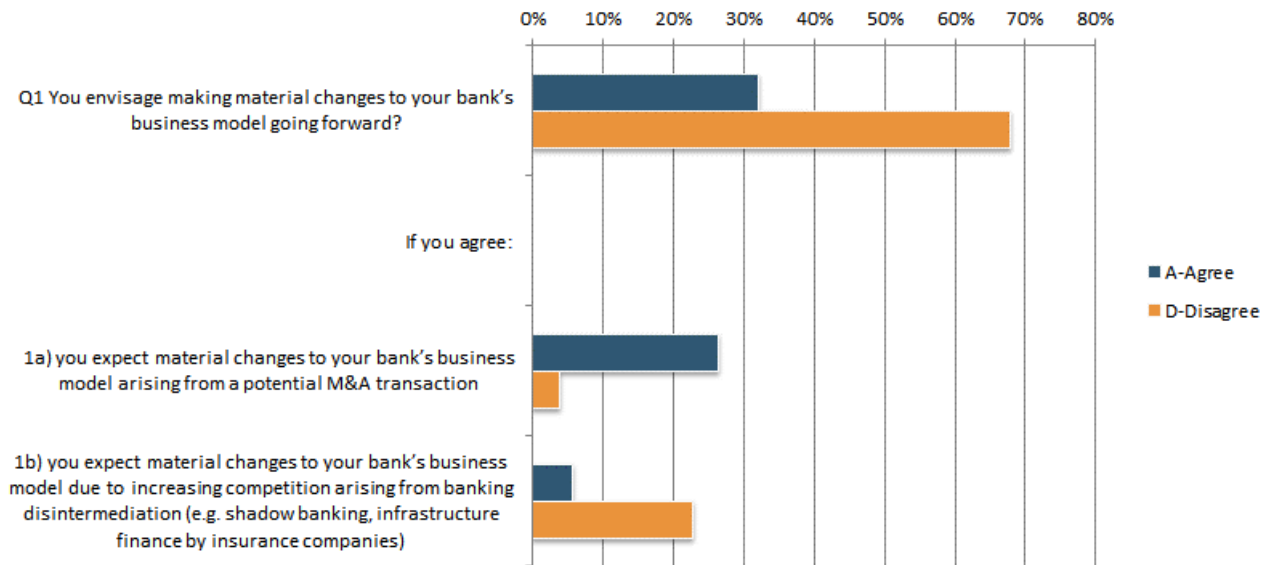
General open question

- In the open question on risks looking ahead, banks indicate **political risk** within the EU and **geopolitical challenges** as the main sources of vulnerability for EU banks. Additional headwinds are identified in rising global protectionism, lingering economic growth and implications of the low interest rate environment. Market analysts put forth regulatory risks such as MREL, TLAC and prudential provisioning as the most prominent source of risk (25%) for the EU banking sector in the next period. They also share banks' opinion on headwinds coming from economic developments and low interest-rate environment (20%), along with additional pockets of risk looming from shadow banking, cyber security and FinTech.

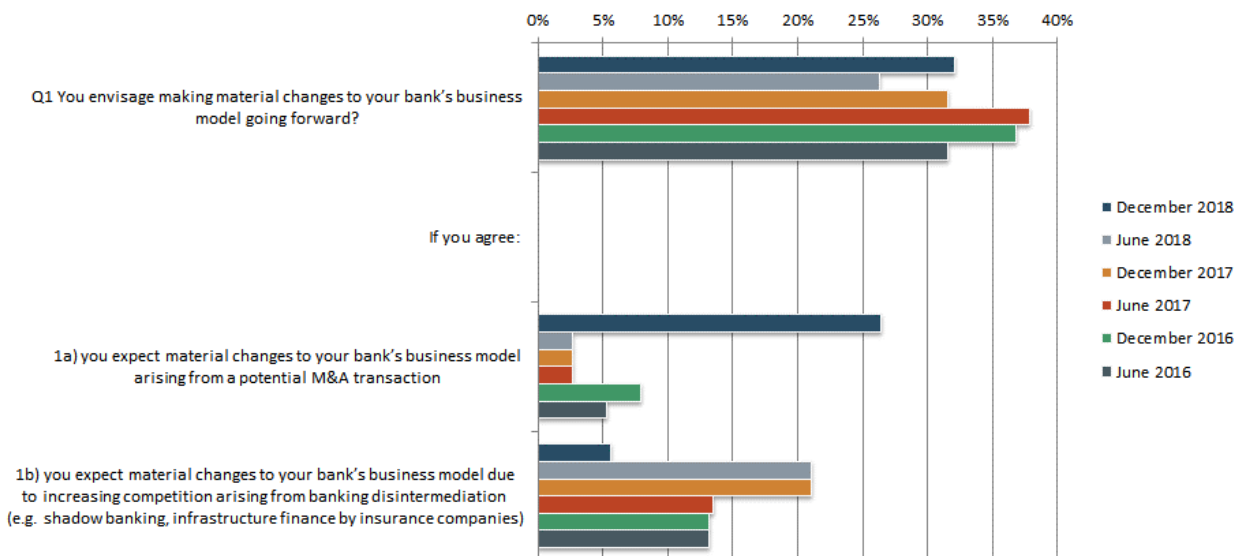
Banks' questionnaire

1. Business model / strategy / profitability

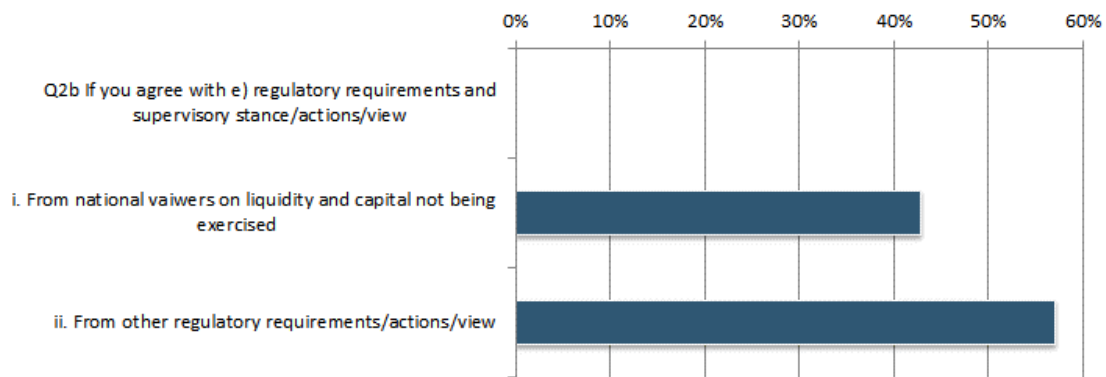
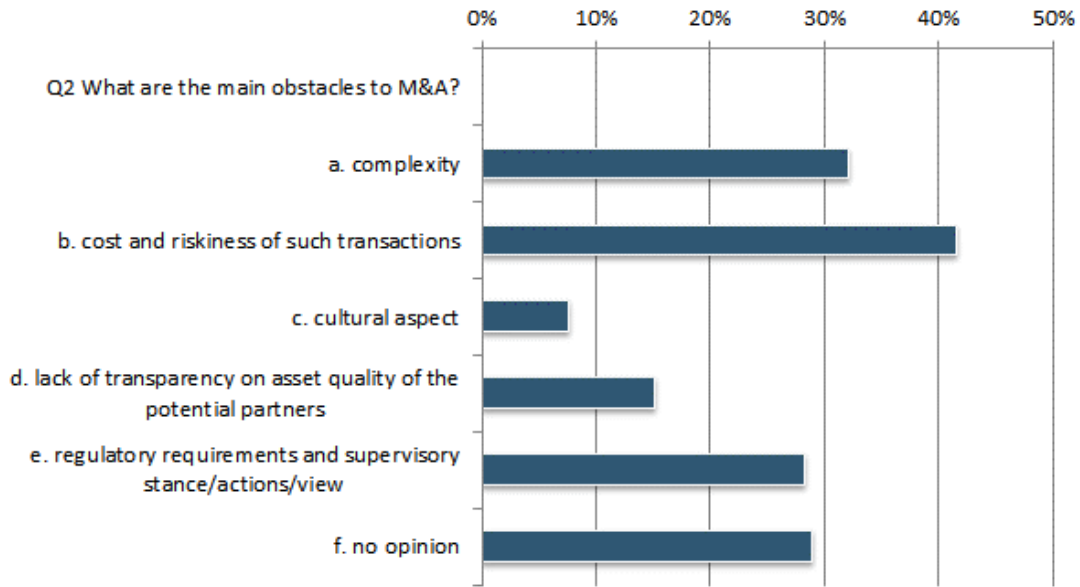
Question 1: December 2018 results



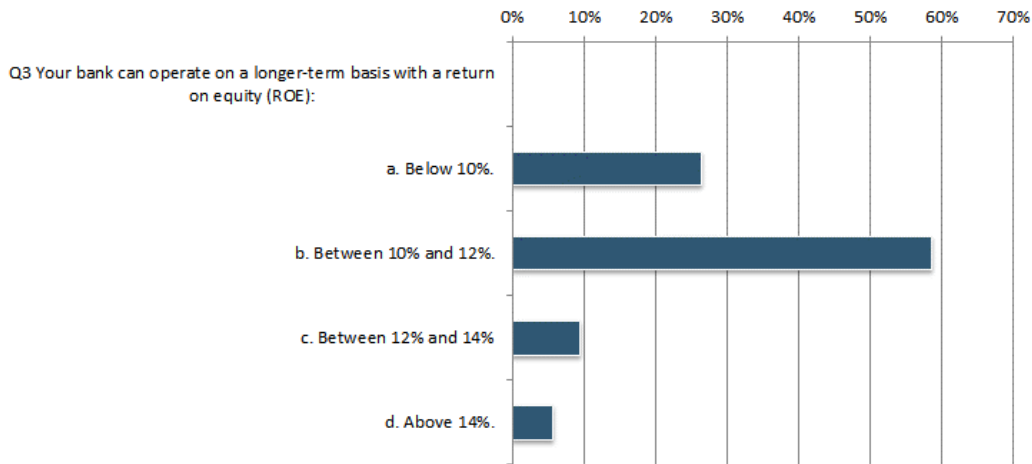
Question 1: Comparison with past results



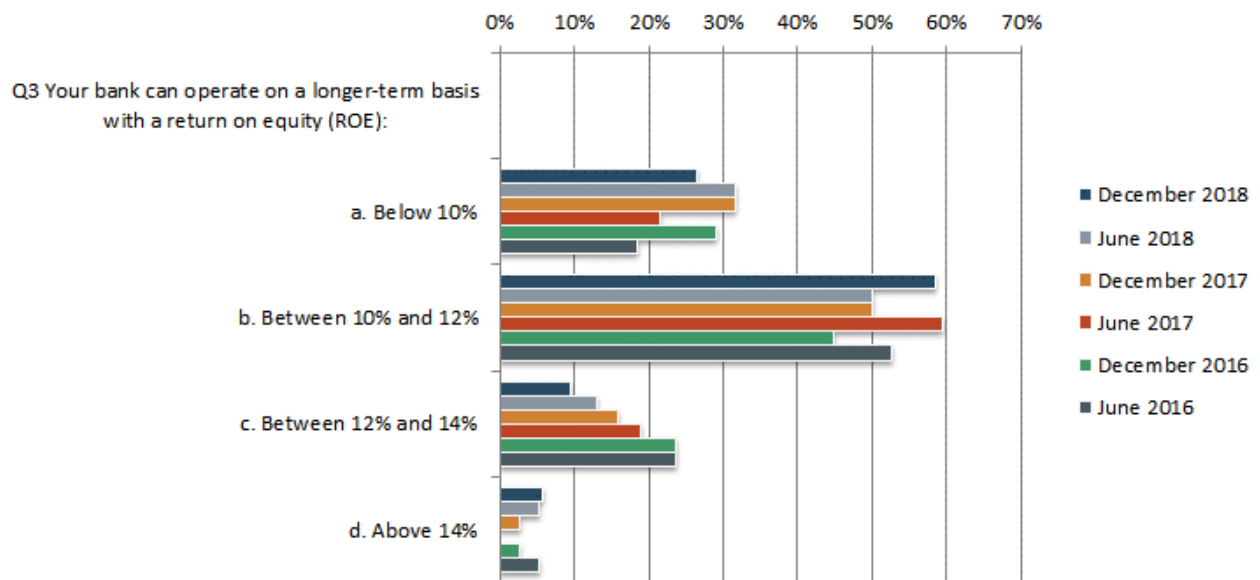
Question 2: December 2018 results (only “agree” as possible answer)



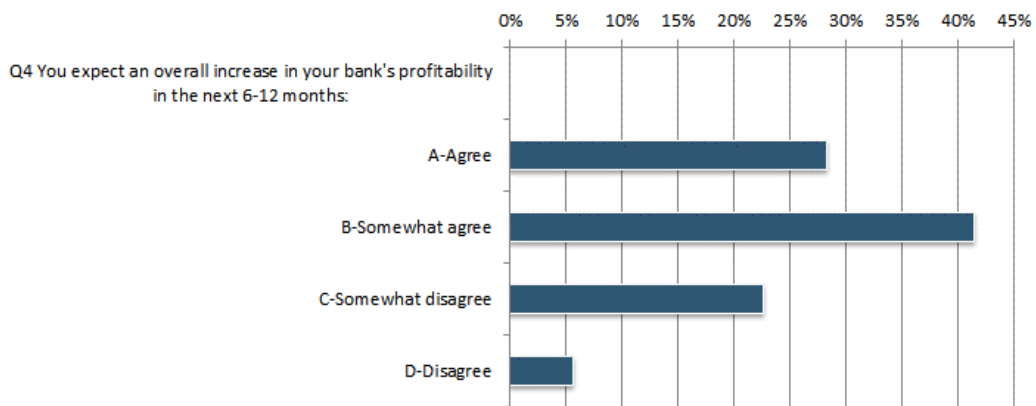
Question 3: December 2018 results



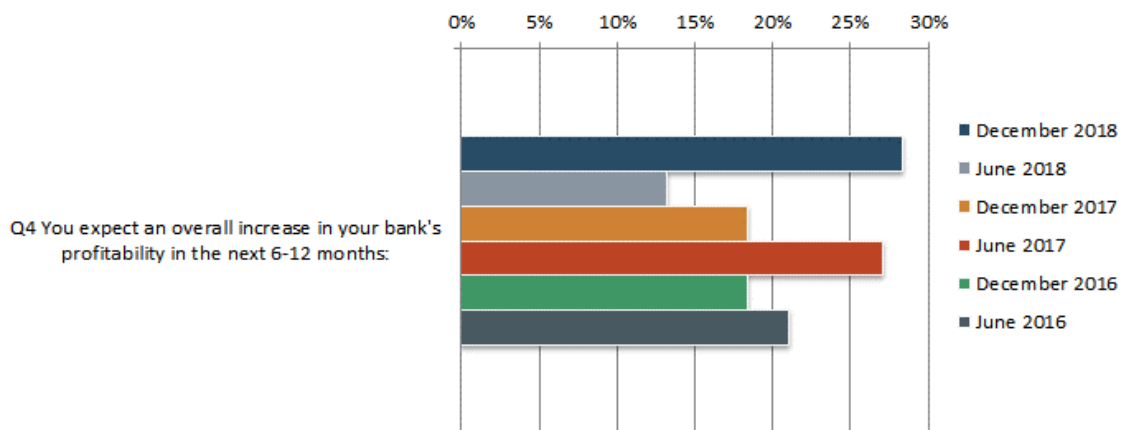
Question 3: Comparison with past results



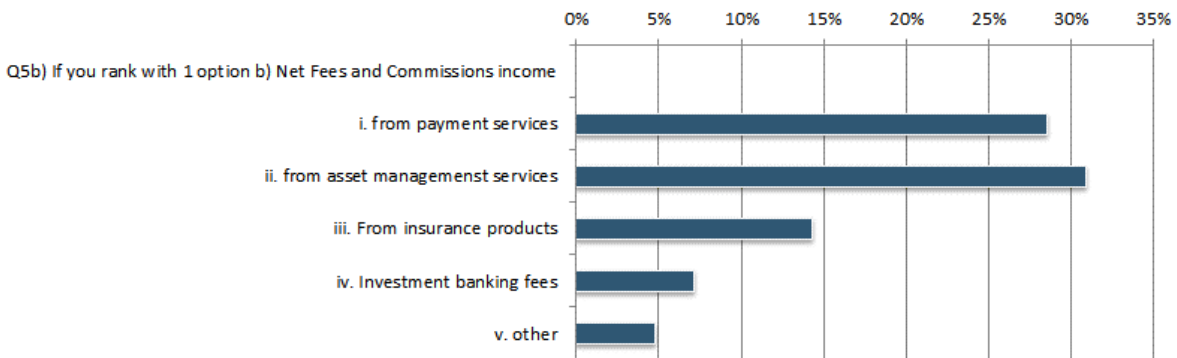
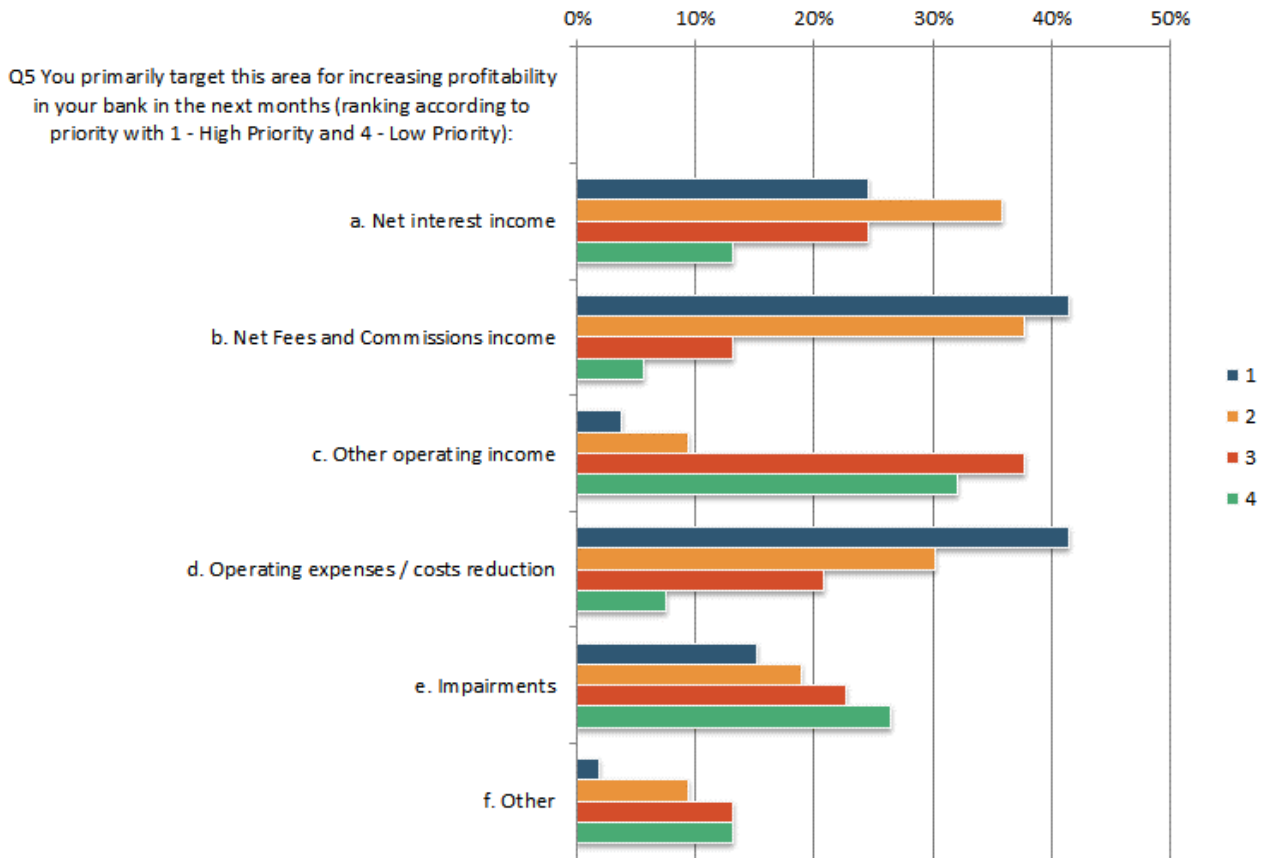
Question 4: December 2018 results



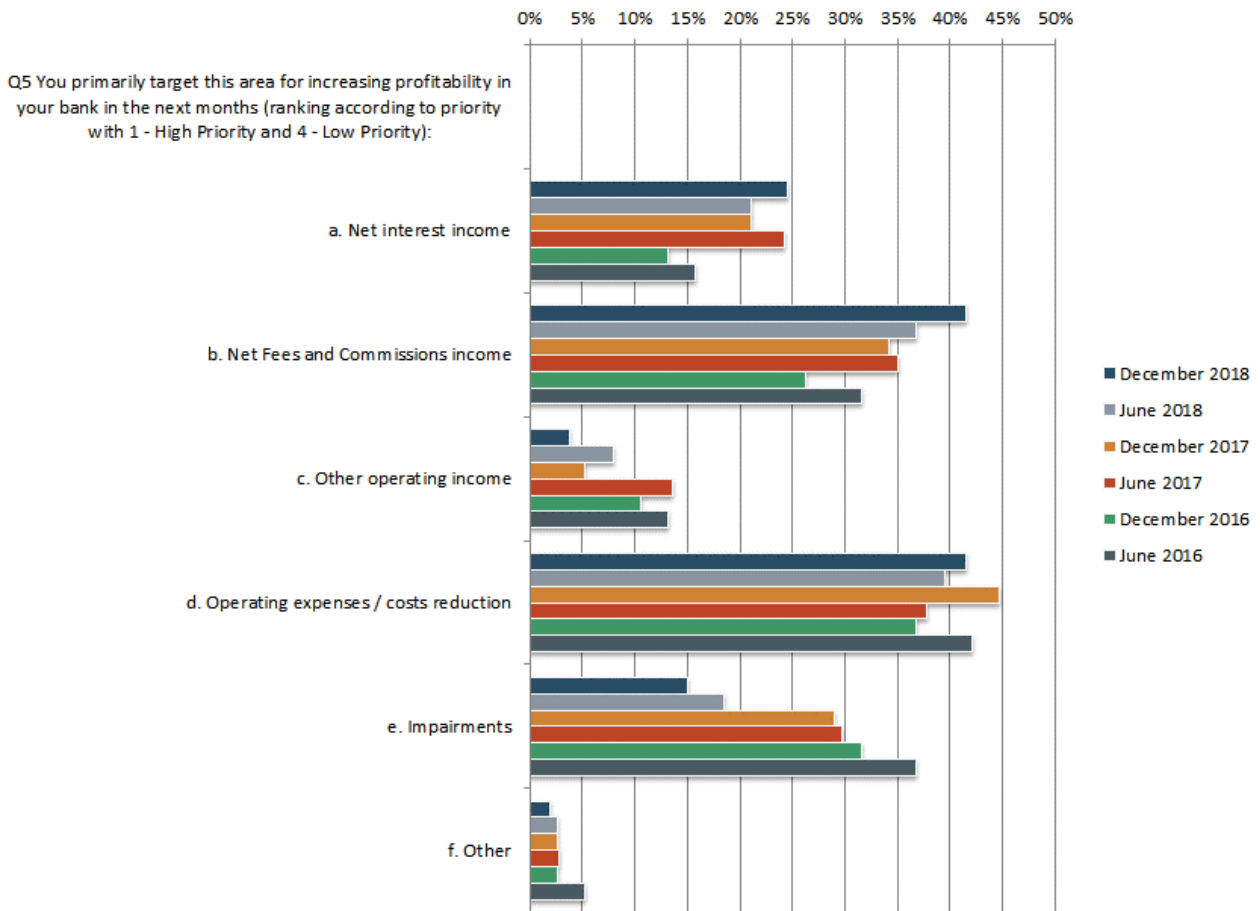
Question 4: Comparison with past results



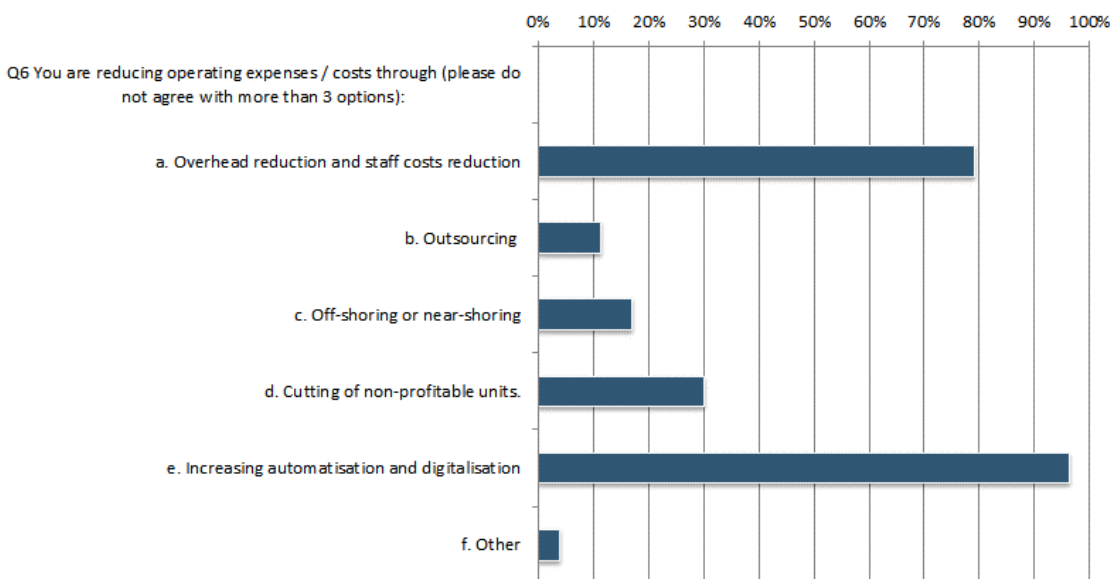
Question 5 and 5b: December 2018 results



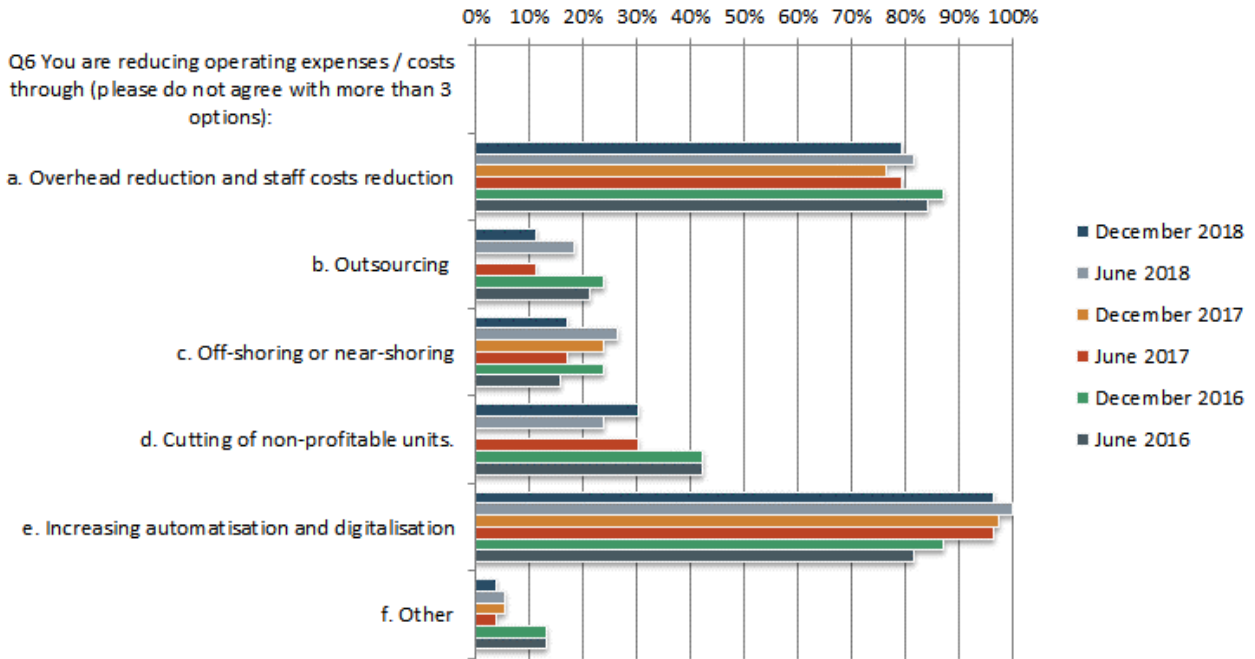
Question 5: Comparison with past results



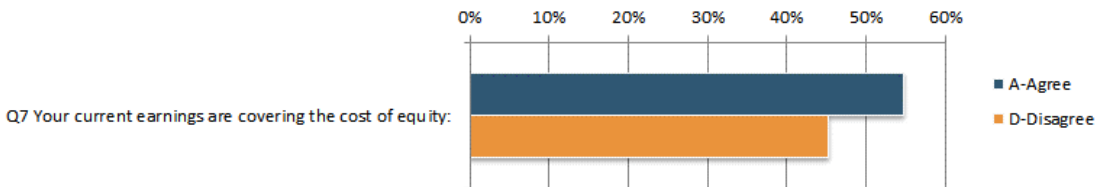
Question 6: December 2018 results (only “agree” as possible answer)



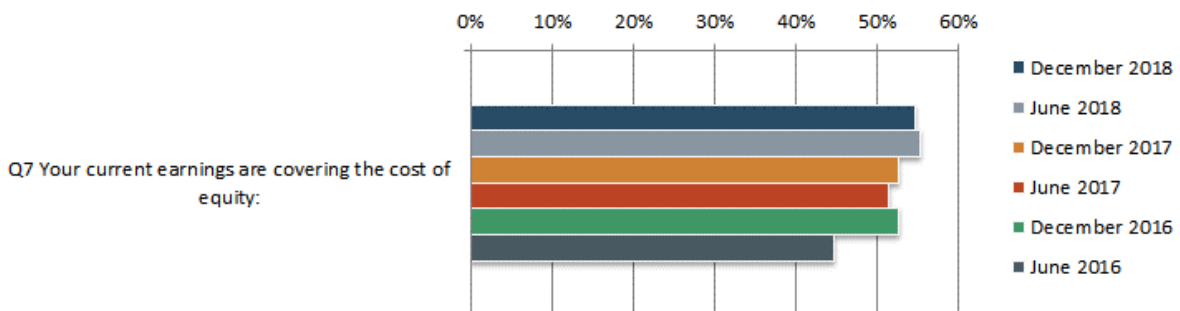
Question 6: comparison with past results (only “agree” as possible answer)



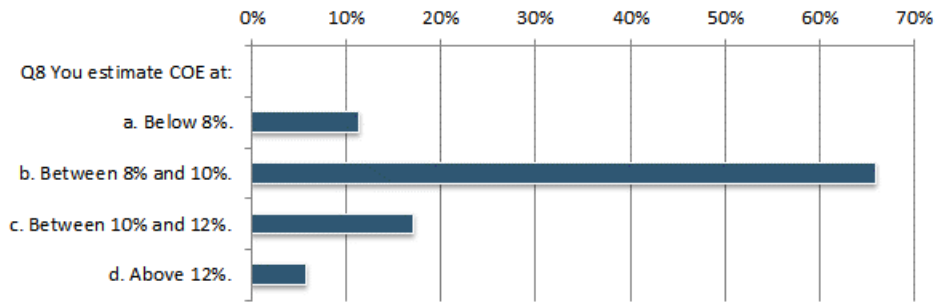
Question 7: December 2018 results



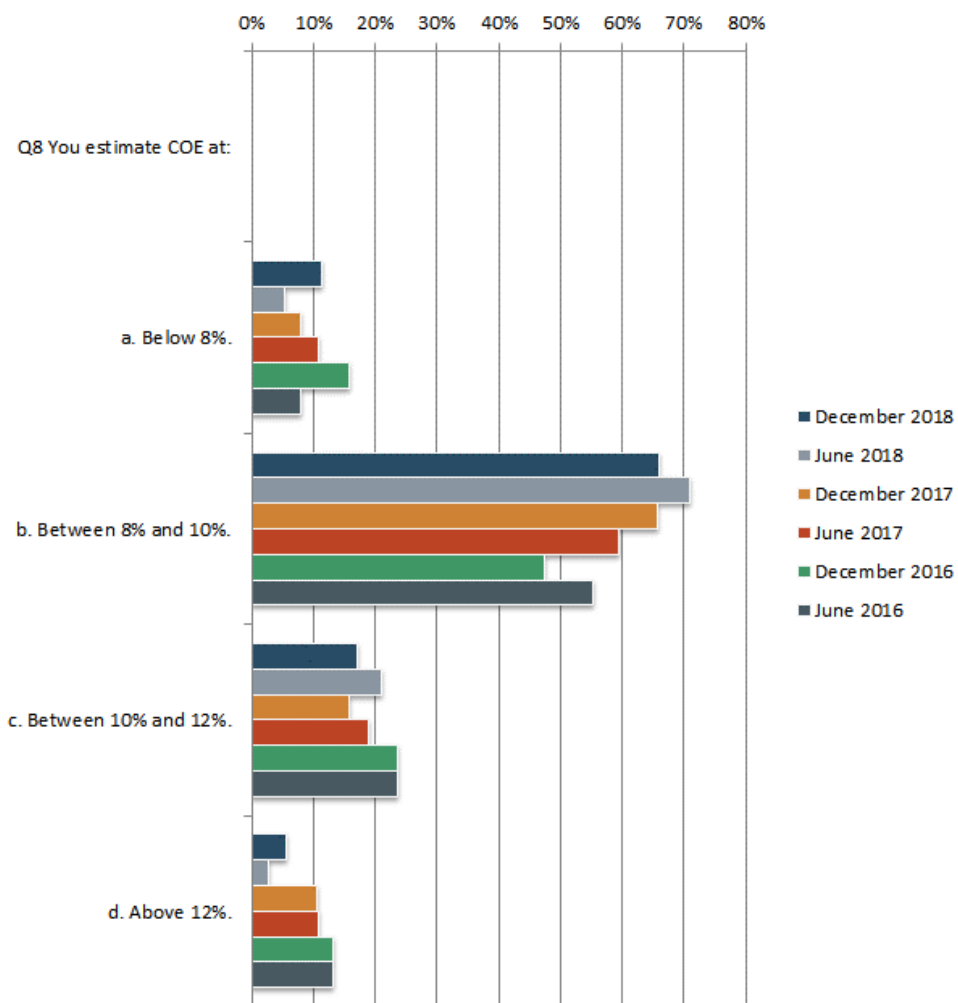
Question 7: comparison with past results



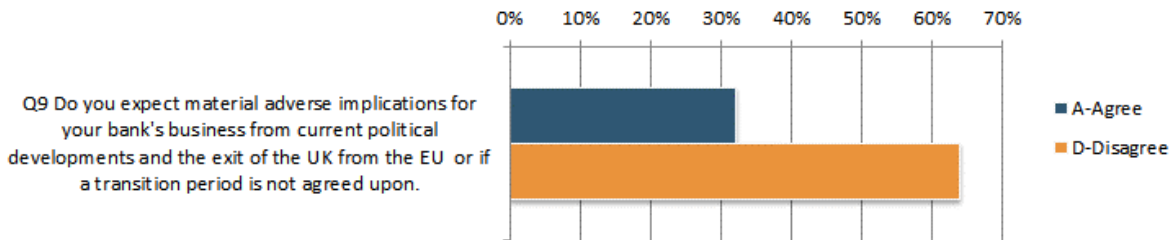
Question 8: June 2018 results



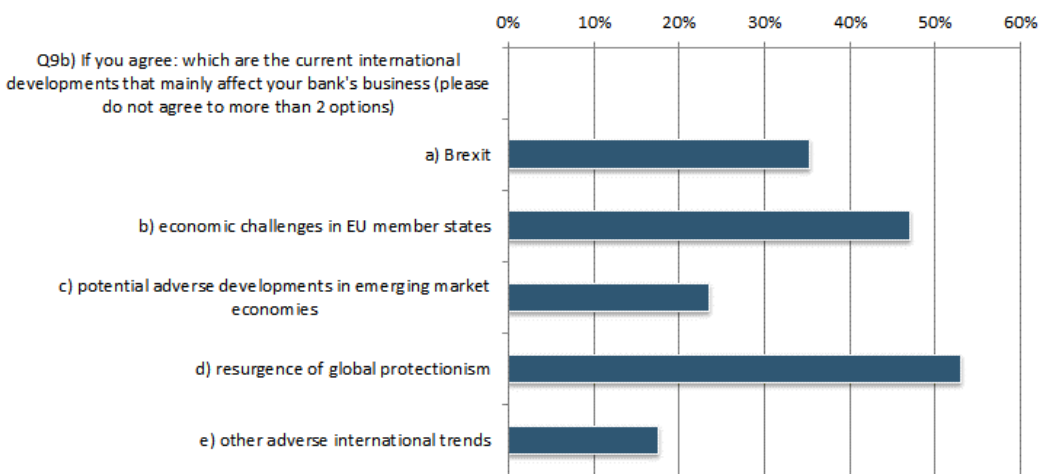
Question 8: comparison with past results (only “agree” as possible answer)



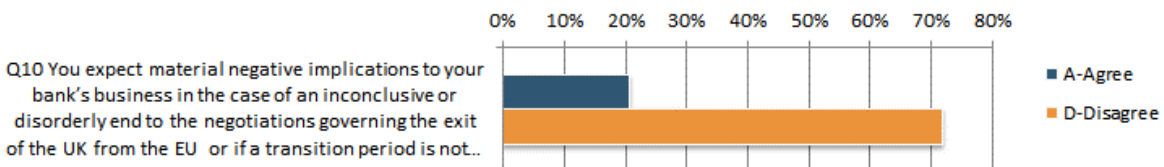
Question 9: December 2018 results



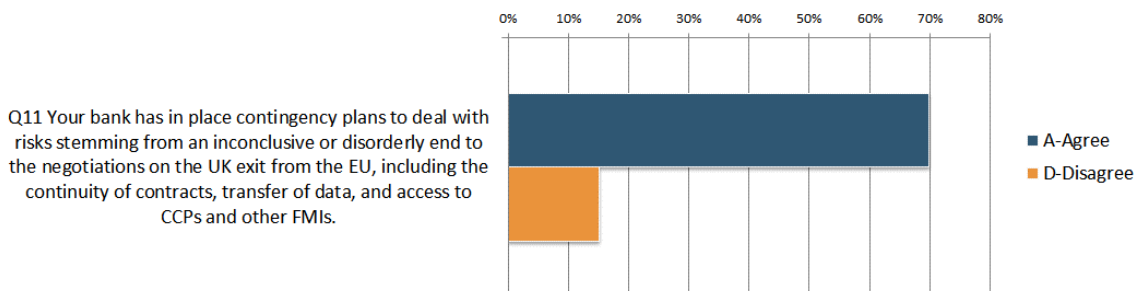
Question 9b: December 2018 results



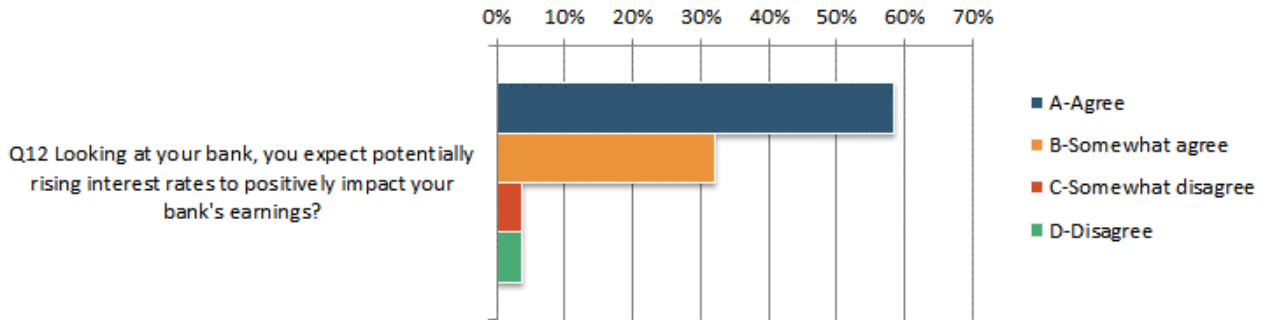
Question 10: December 2018 results



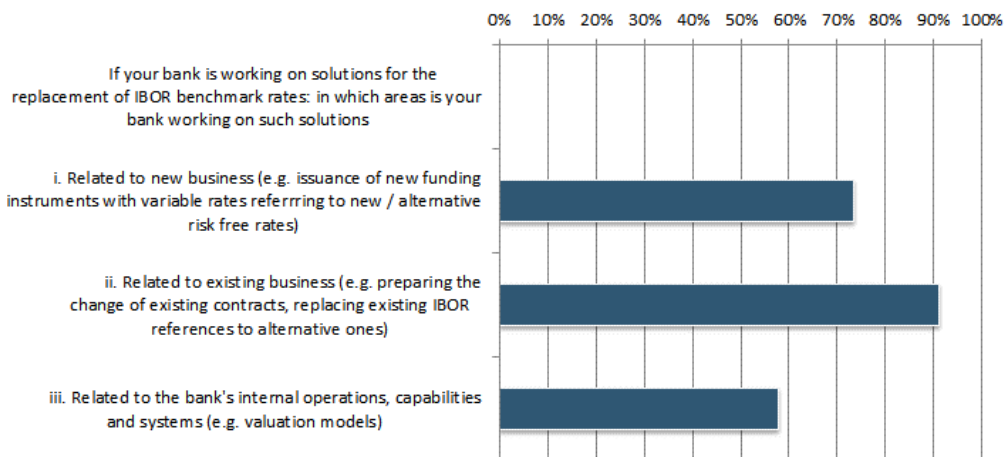
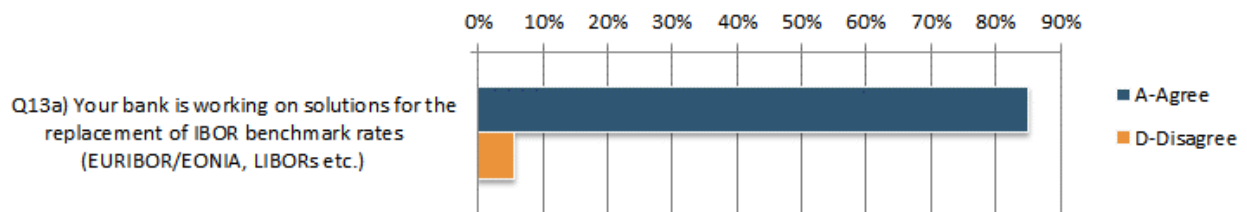
Question 11: December 2018 results



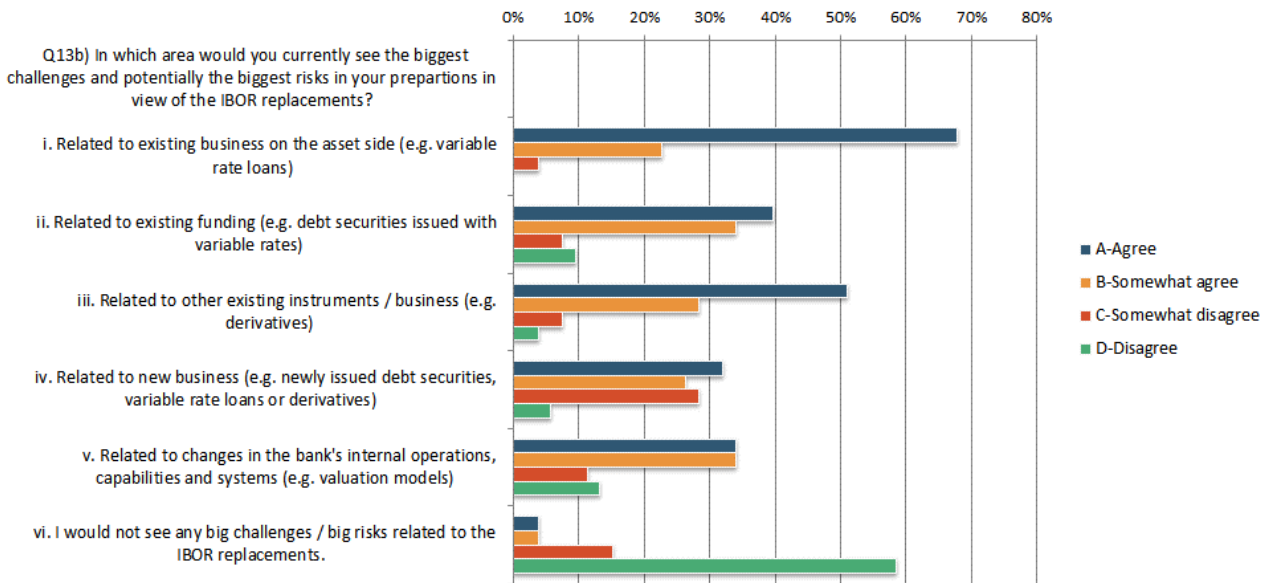
Question 12: December 2018 results



Question 13: December 2018 results

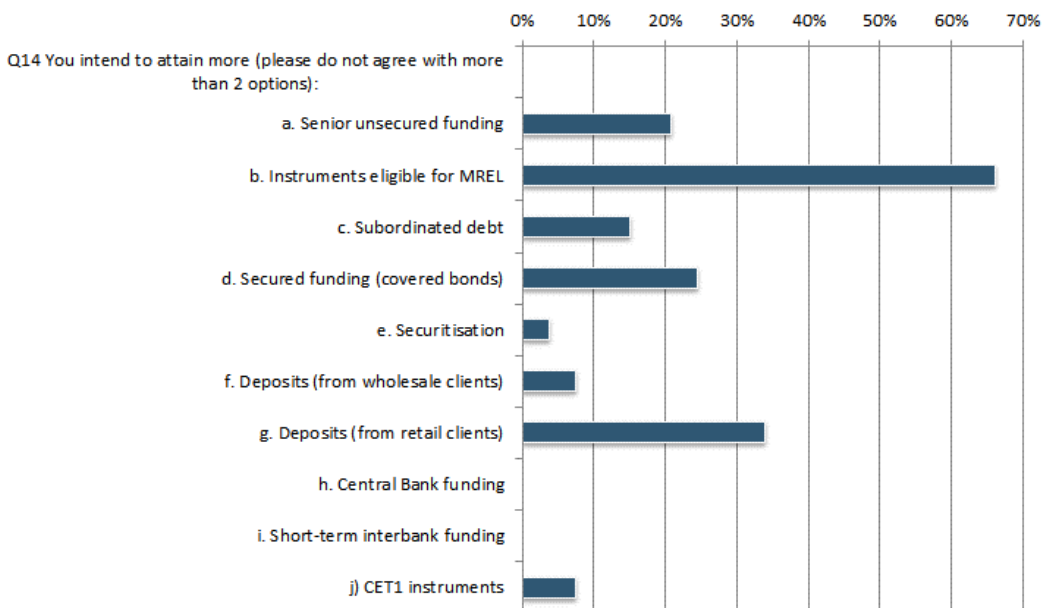


Question 13b: December 2018 results

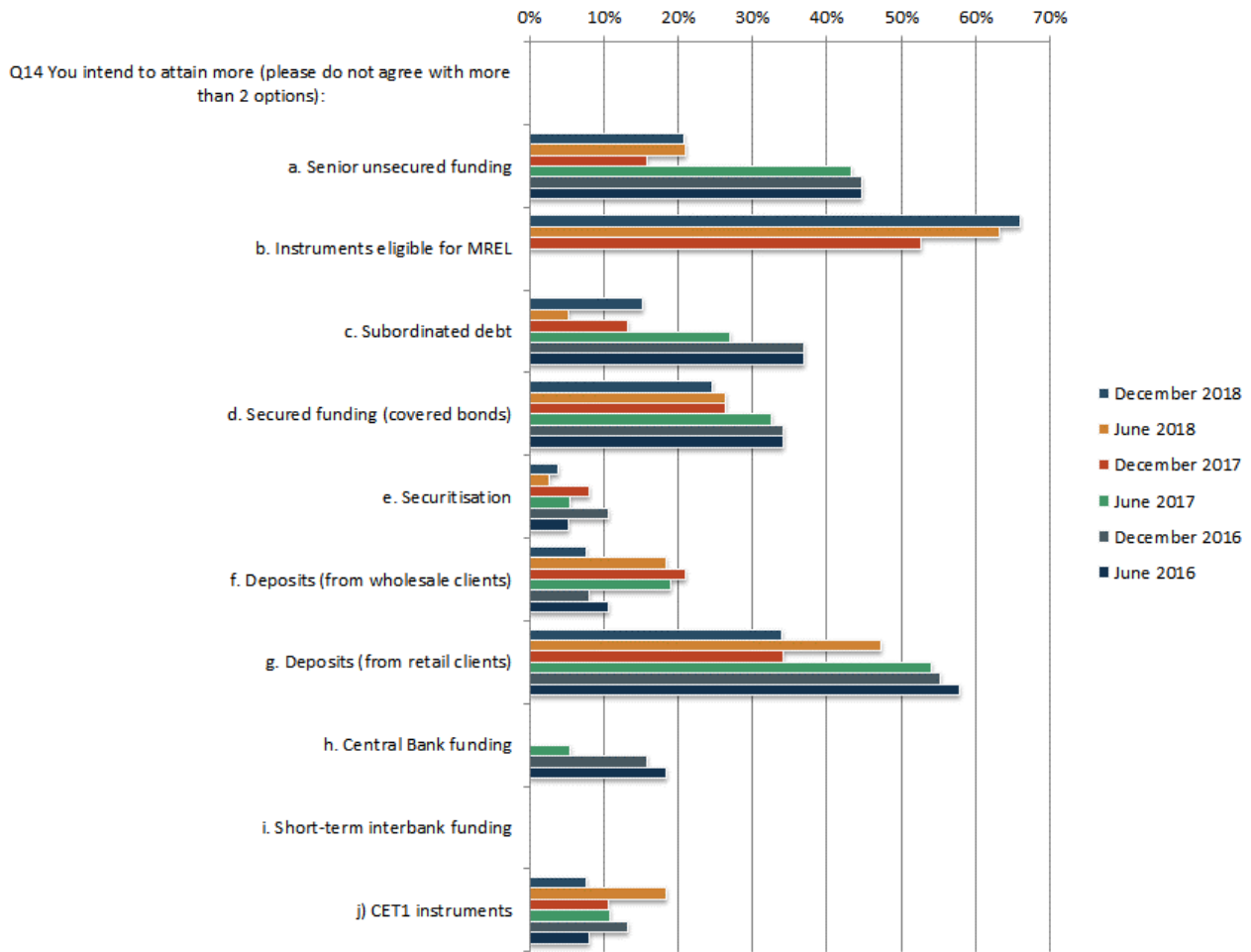


2. Funding / liquidity

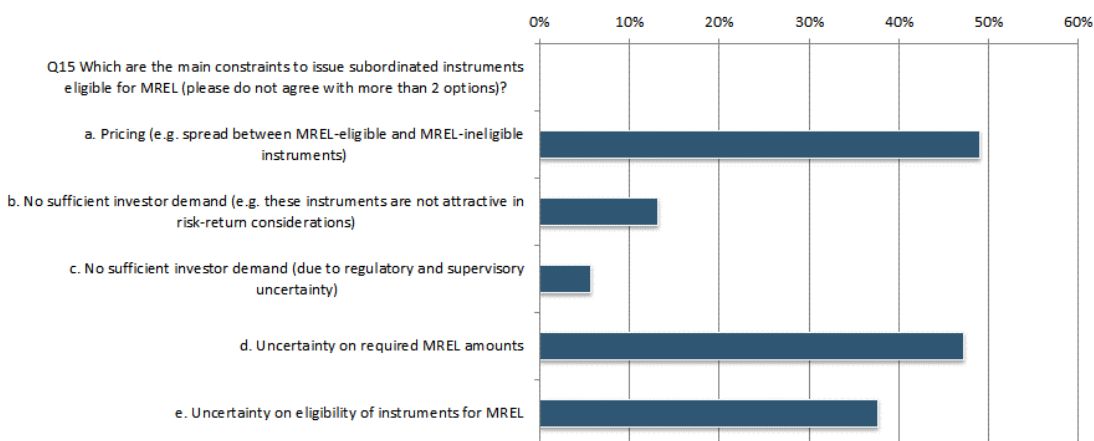
Question 14: December 2018 results (only “agree” as possible answer)



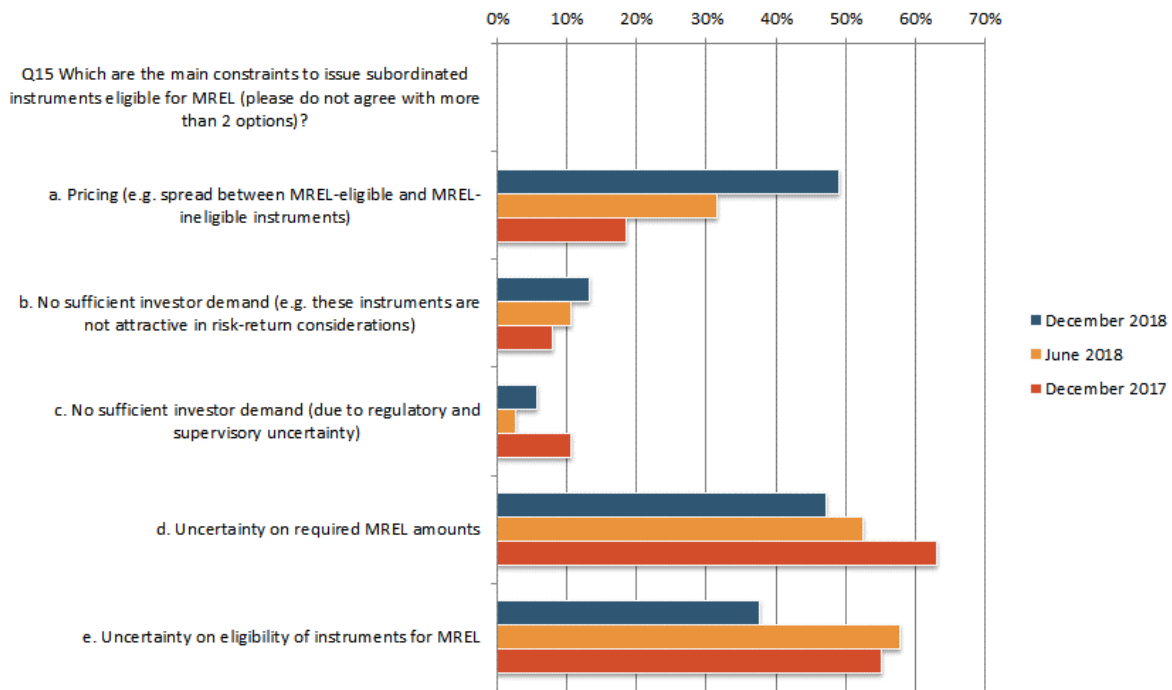
Question 14: comparison with past results



Question 15: December 2018 results (only “agree” as possible answer)

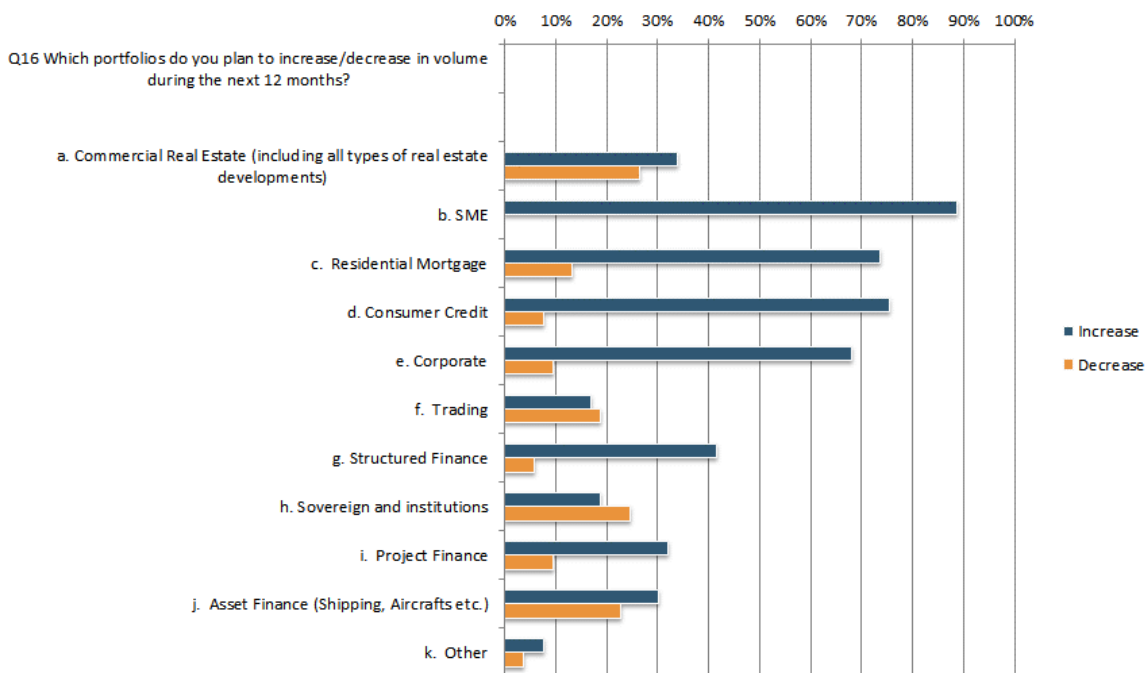


Question 15: Comparison with past results

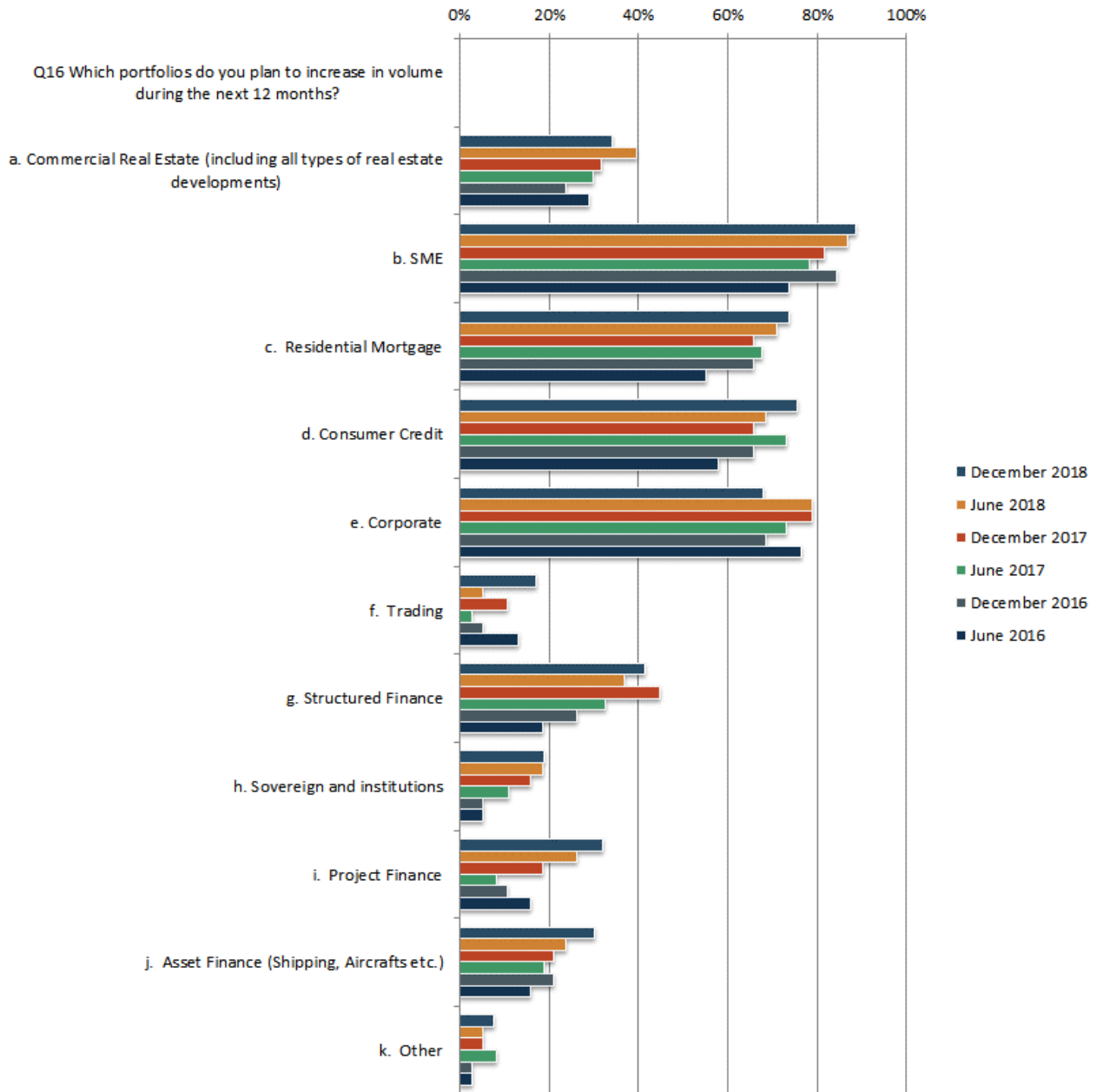


3. Asset volume trends

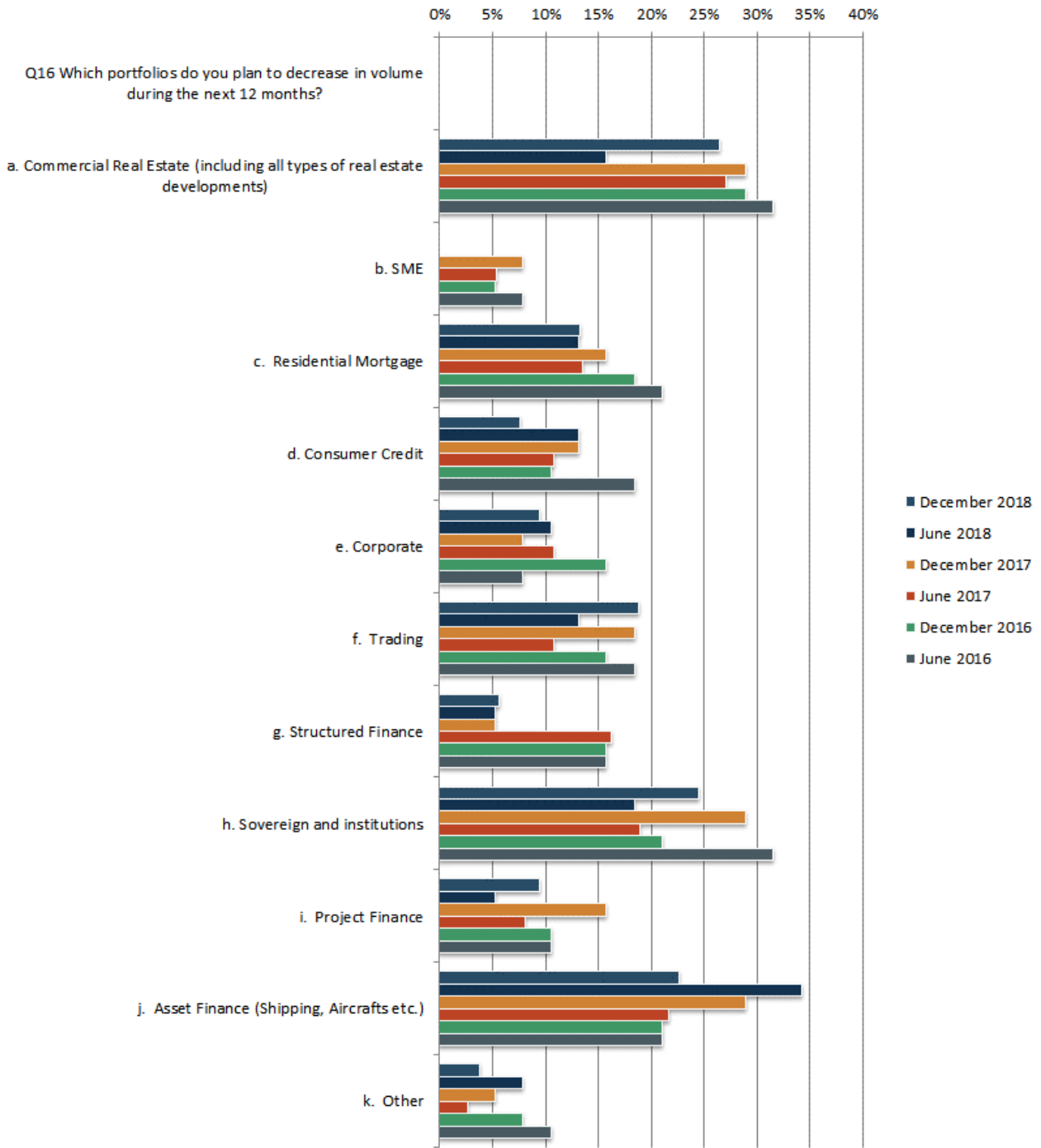
Question 16: December 2018 results



Question 16a: Comparison with past results

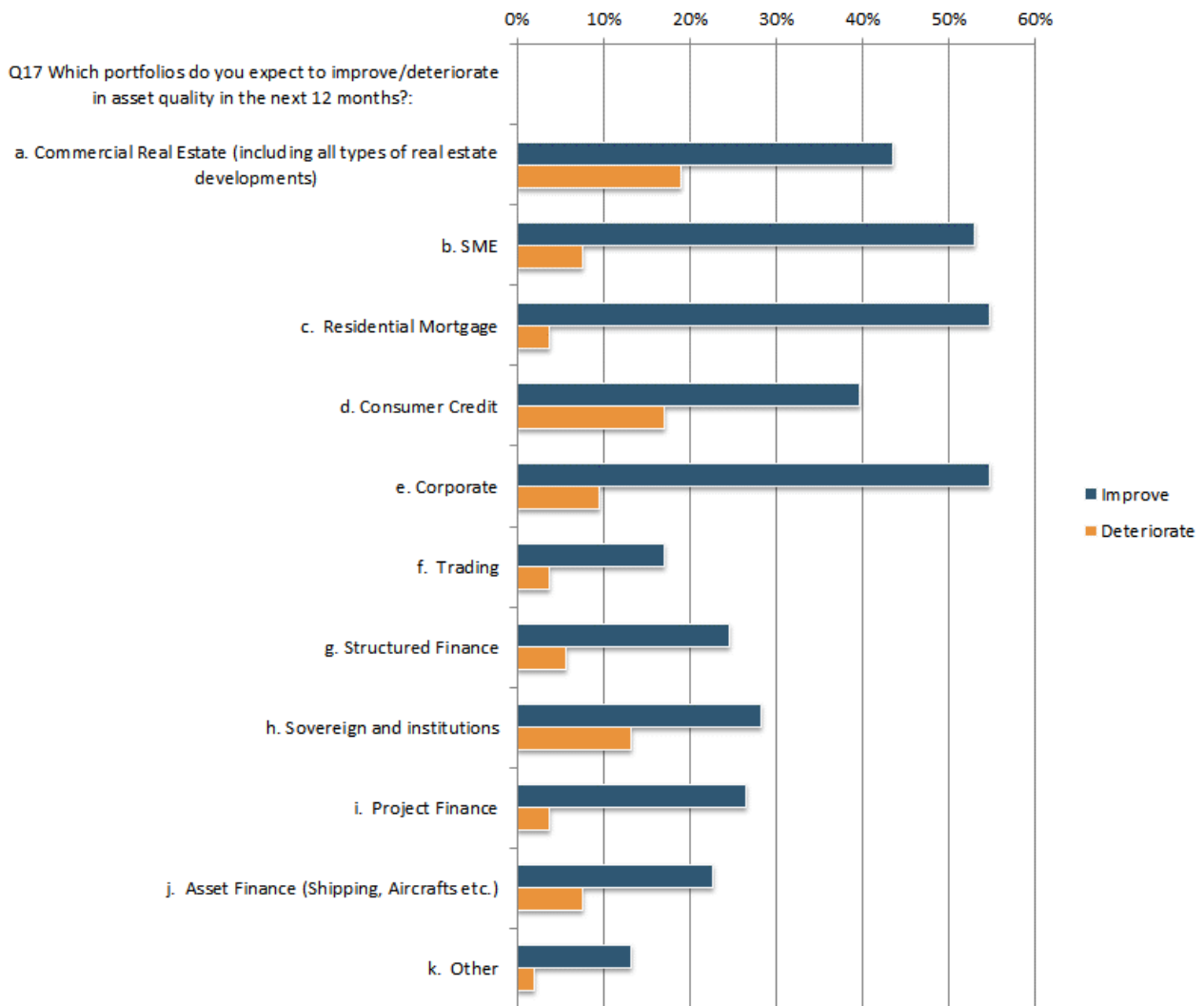


Question 16b: Comparison with past results

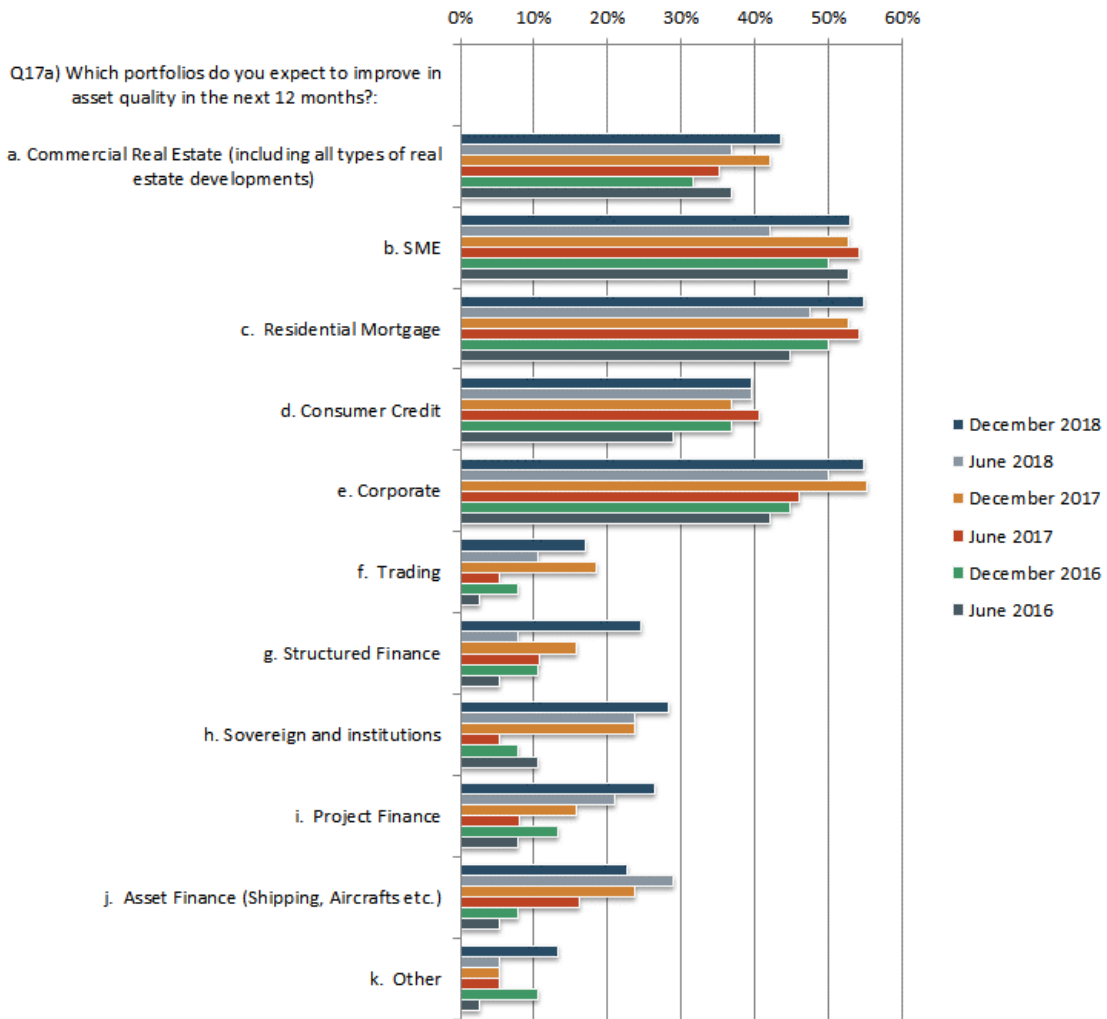


4. Asset composition & quality

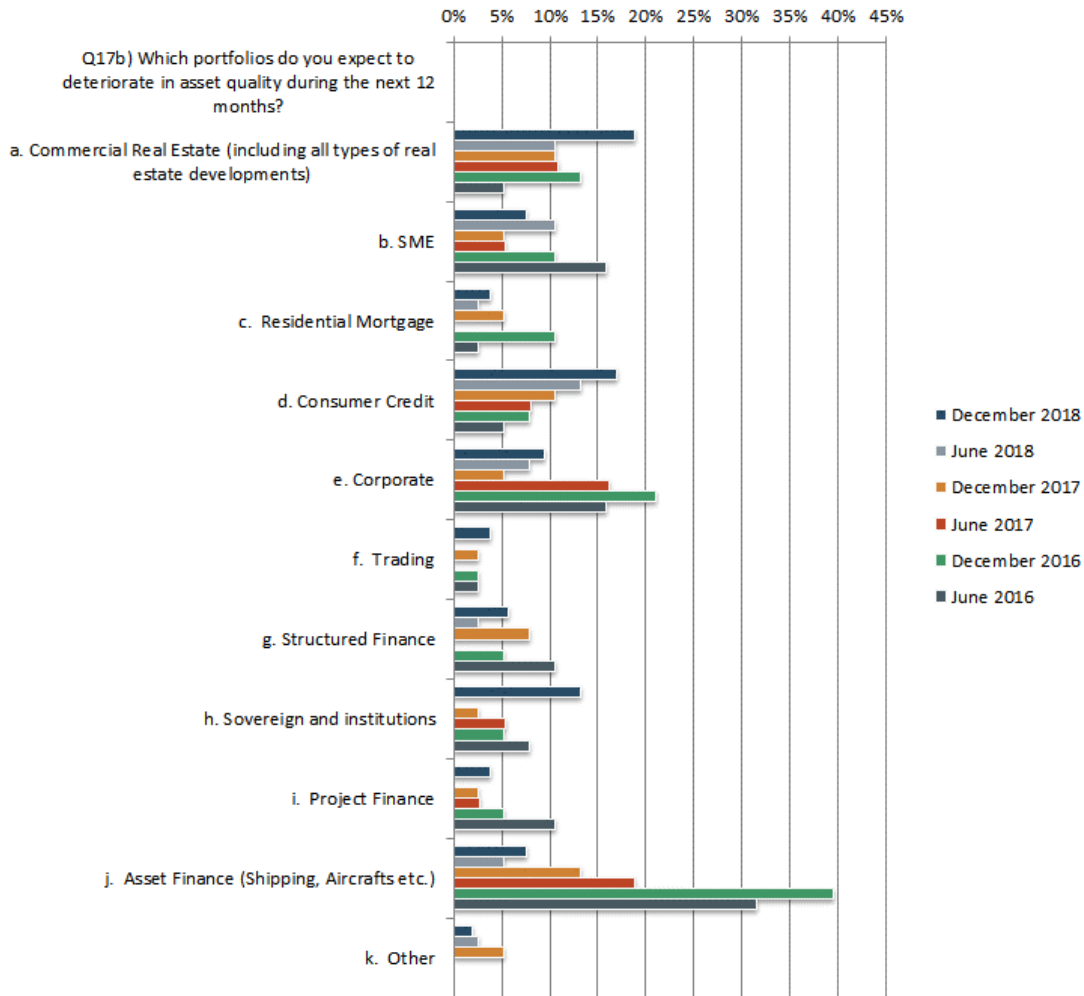
Question 17: December 2018 results



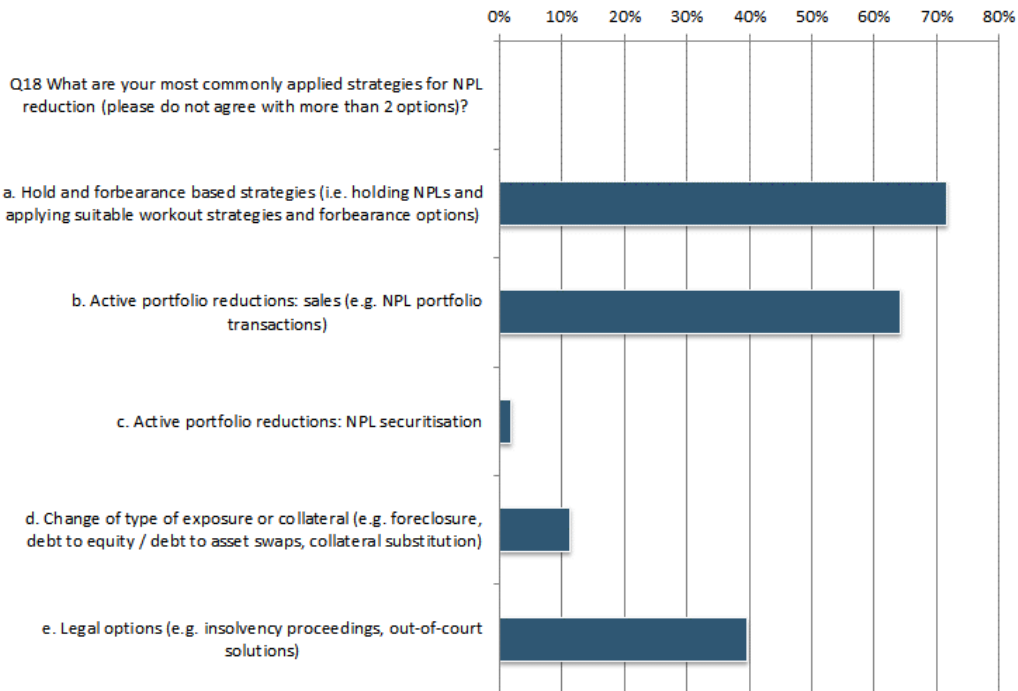
Question 17a: comparison with past results (only “agree” as possible answer)



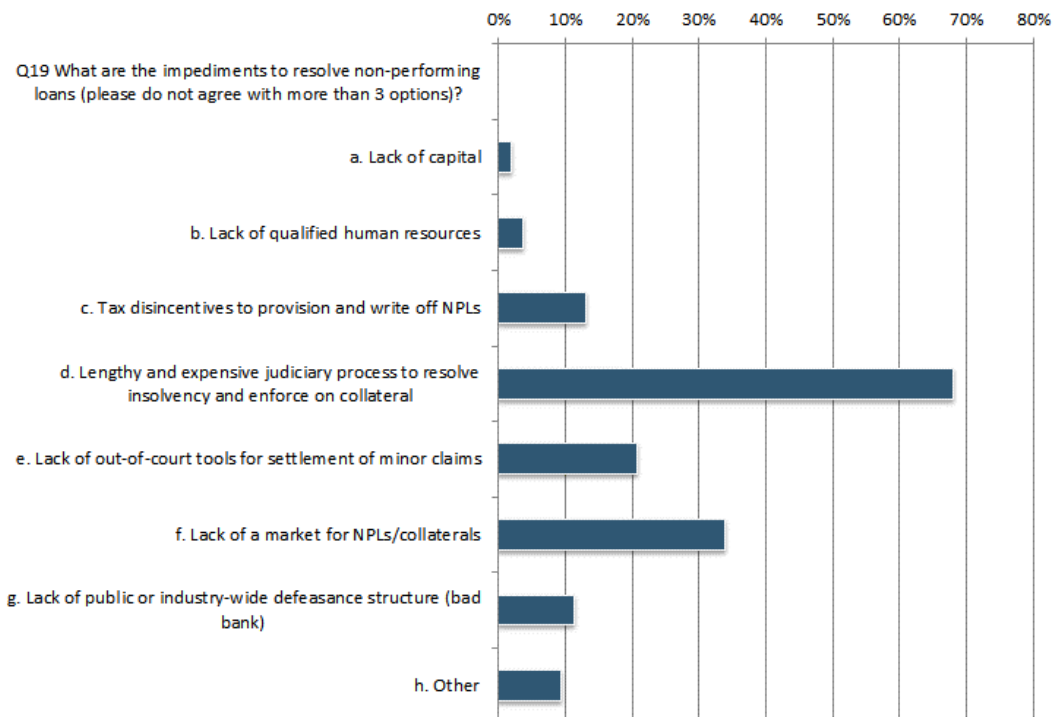
Question 17b: comparison with past results (only “agree” as possible answer)



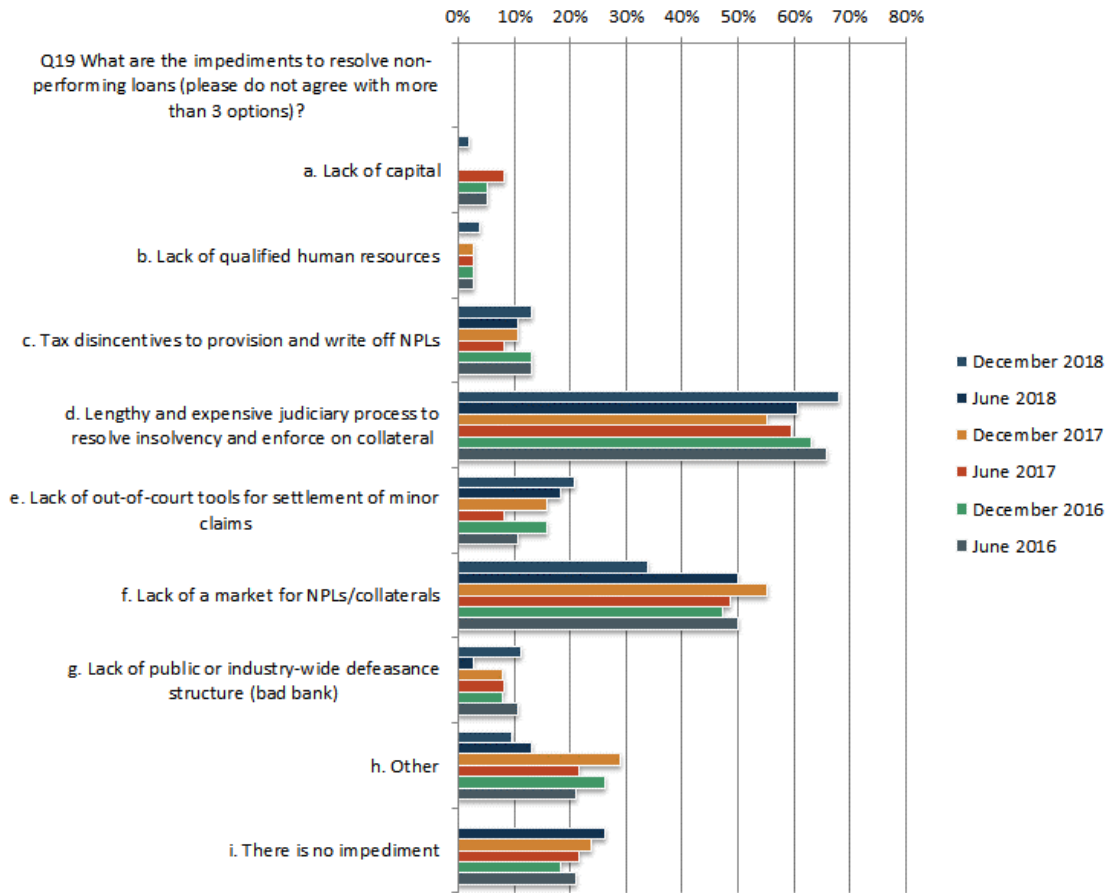
Question 18: December 2018 results (only “agree” as possible answer)



Question 19: December 2018 results (only “agree” as possible answer)

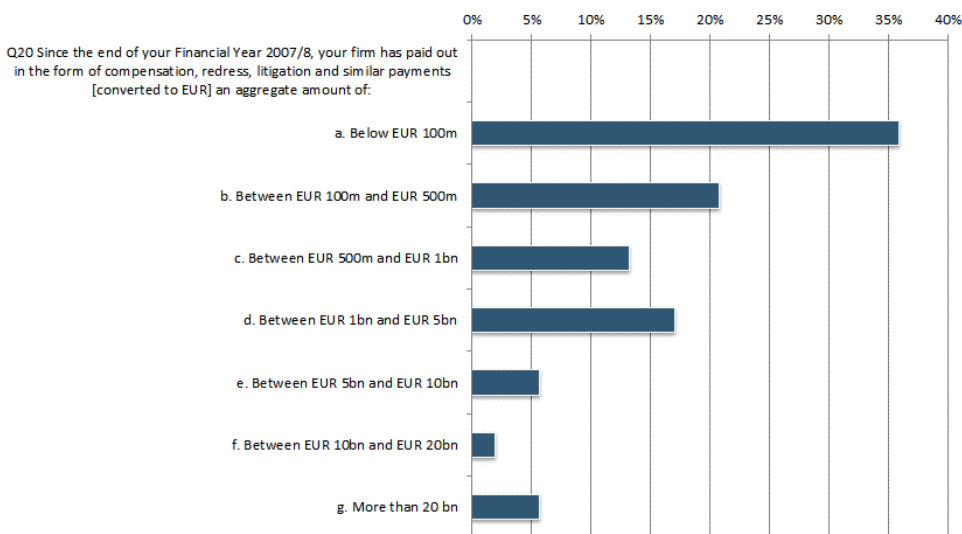


Question 19: comparison with past results (only “agree” as possible answer)

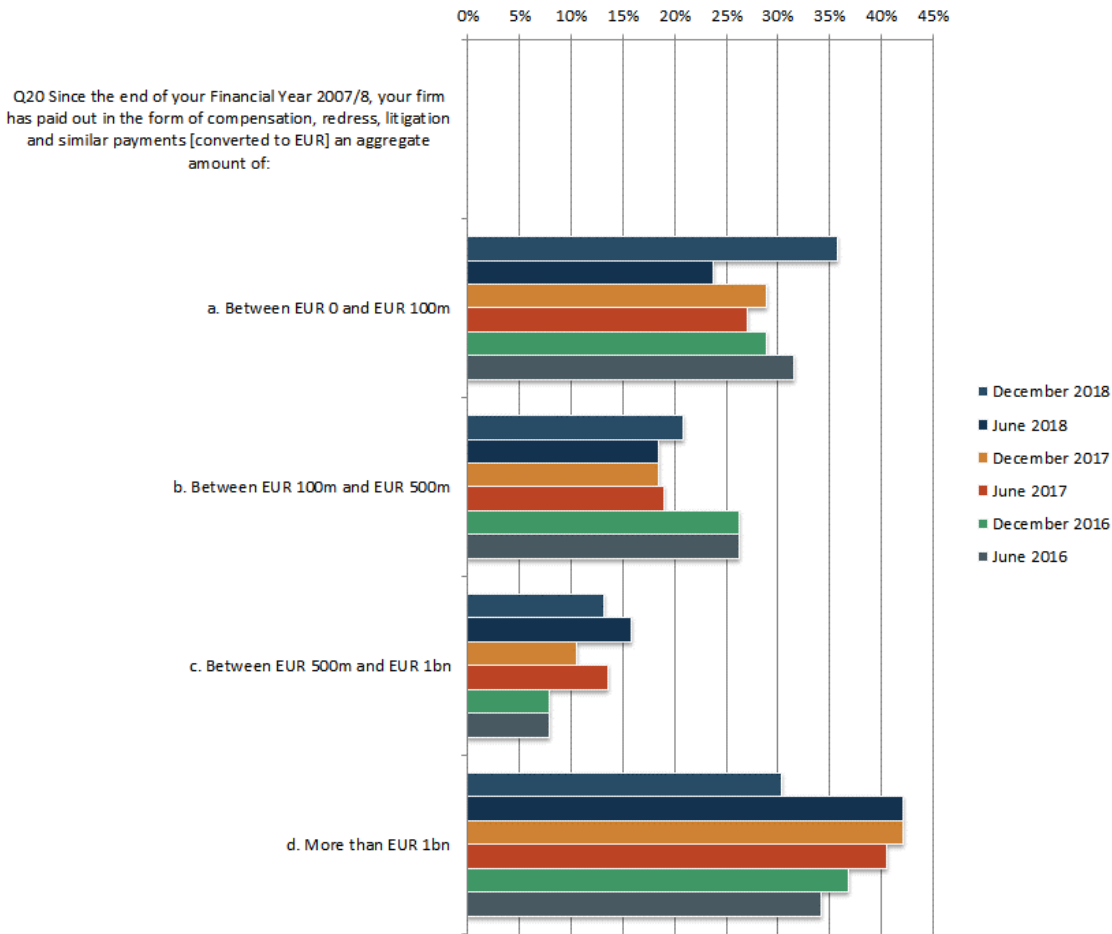


5. Conduct, reputation and operational risk

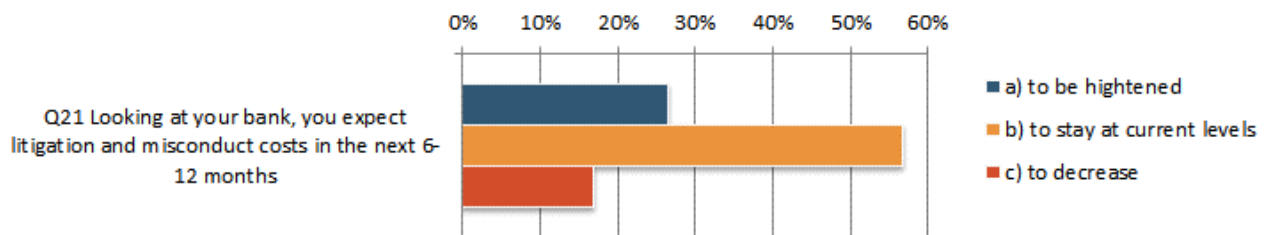
Question 20: December 2018 results (only “agree” as possible answer)



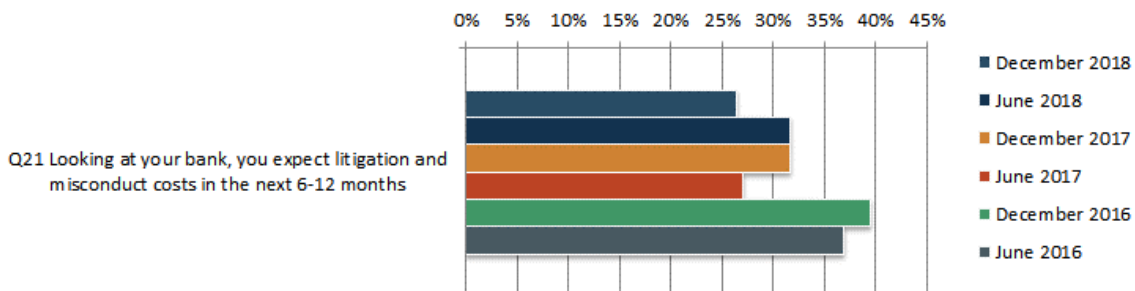
Question 20: comparison with past results (only “agree” as possible answer)



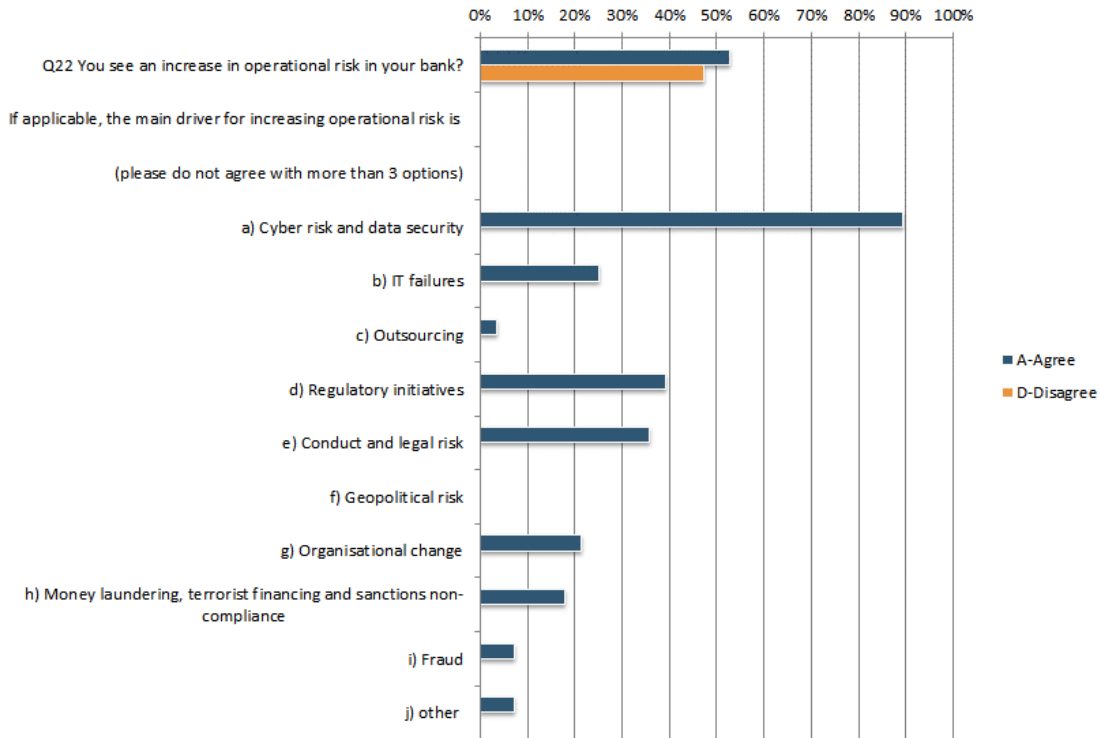
Question 21: December 2018 results



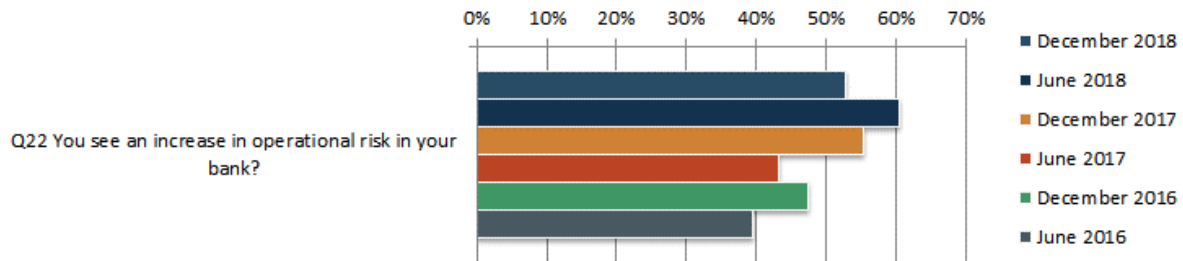
Question 21: comparison with past results (only “agree” as possible answer)



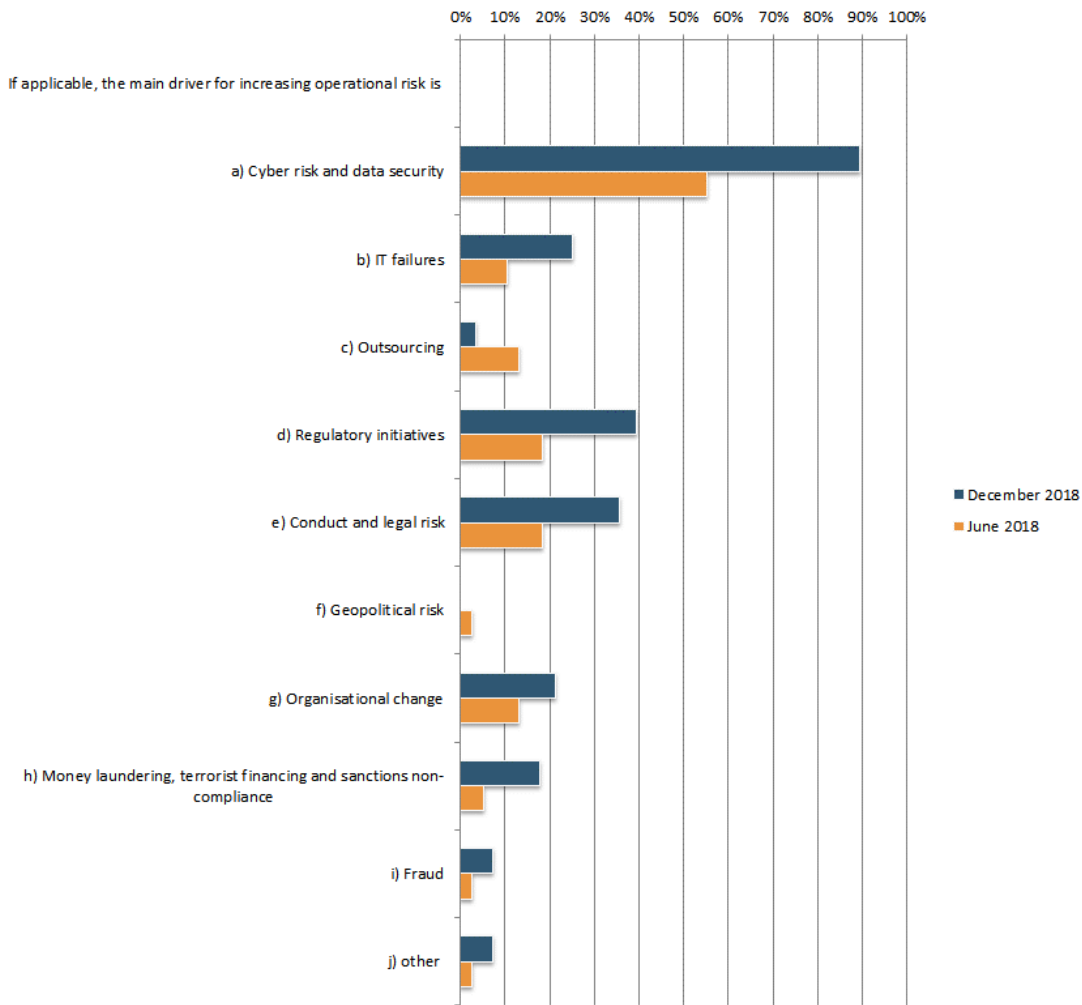
Question 22: December 2018 results



Question 22: Comparison with past results

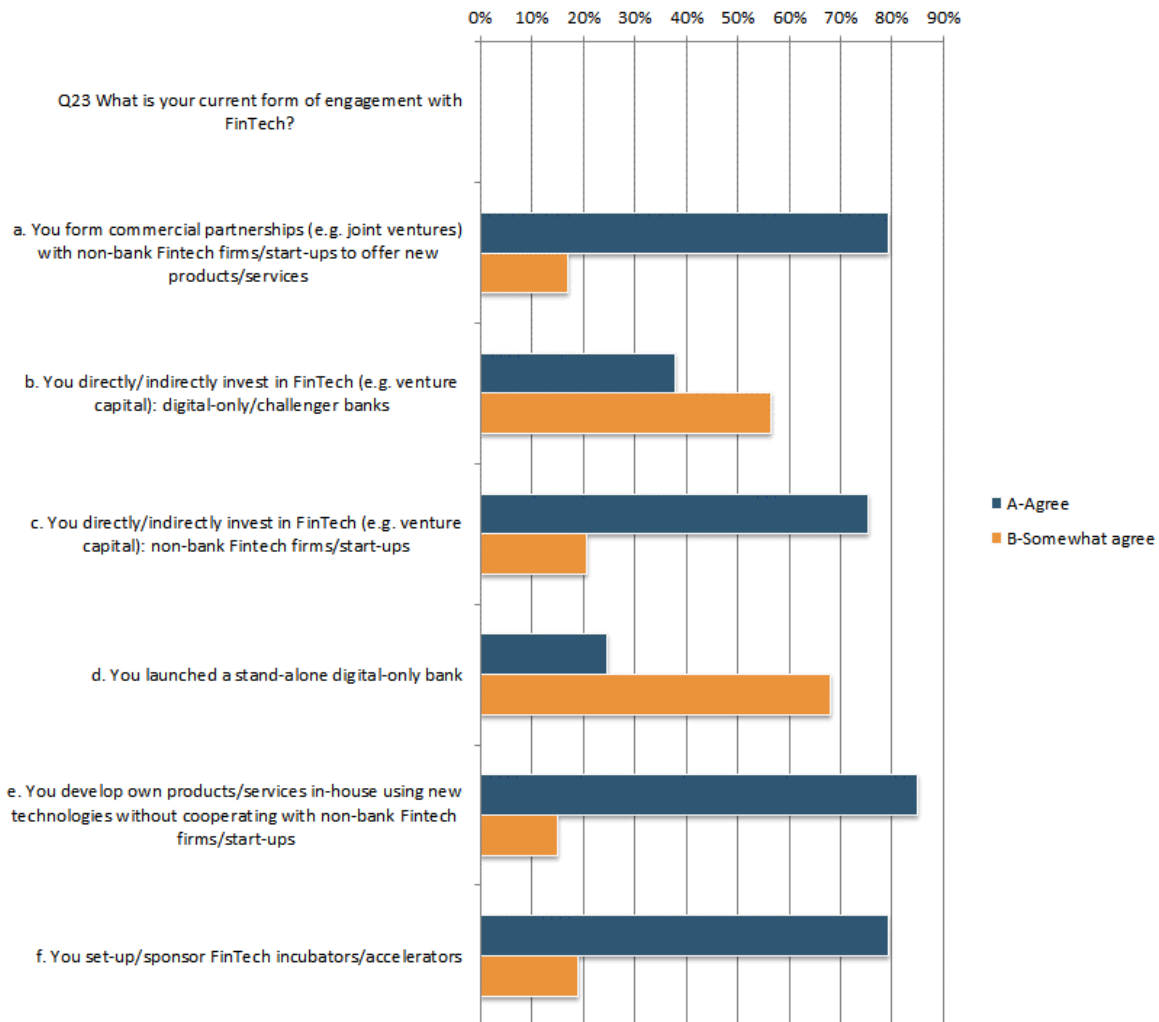


Question 22a: Comparison with past results

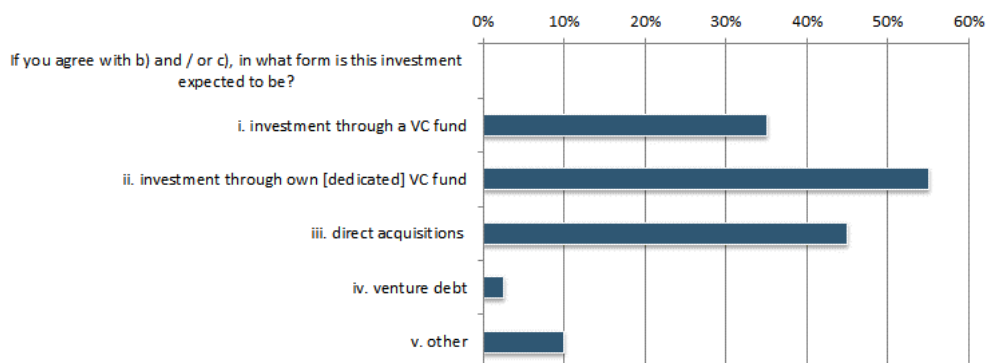


6. FinTech

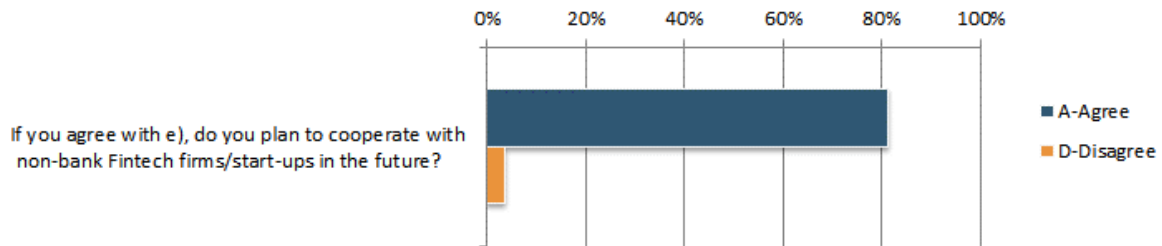
Question 23: December 2018 results



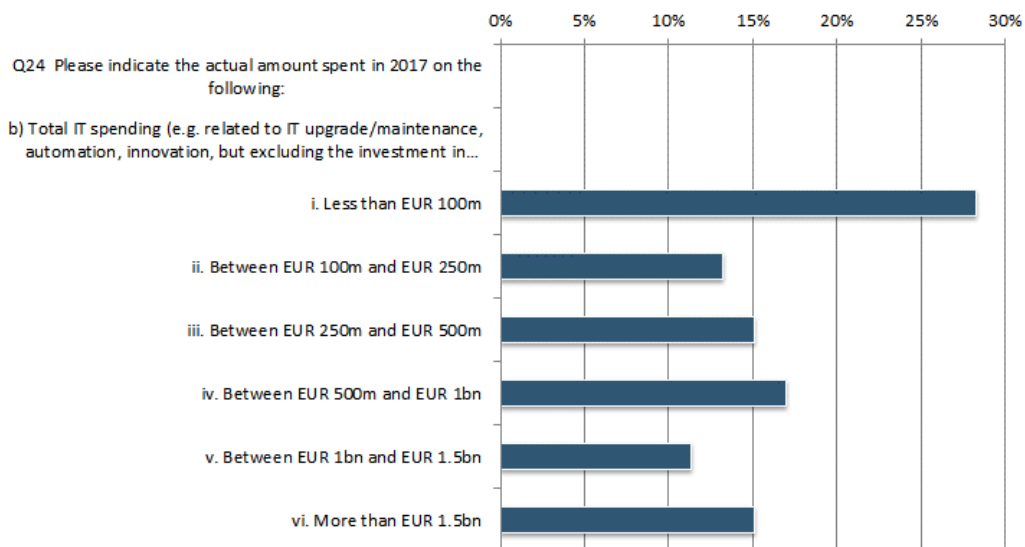
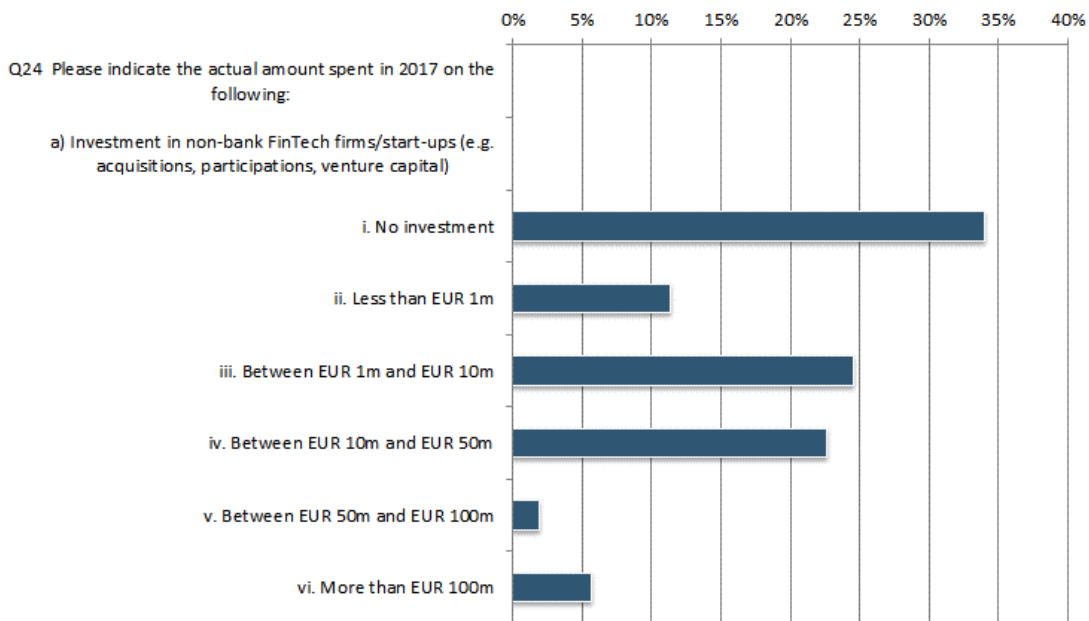
Question 23a: December 2018 results

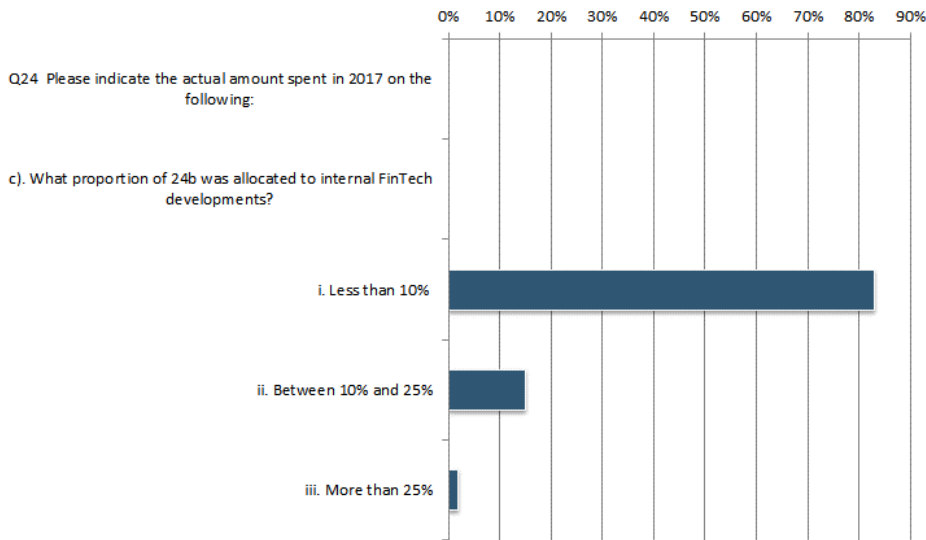


Question 23b: December 2018 results

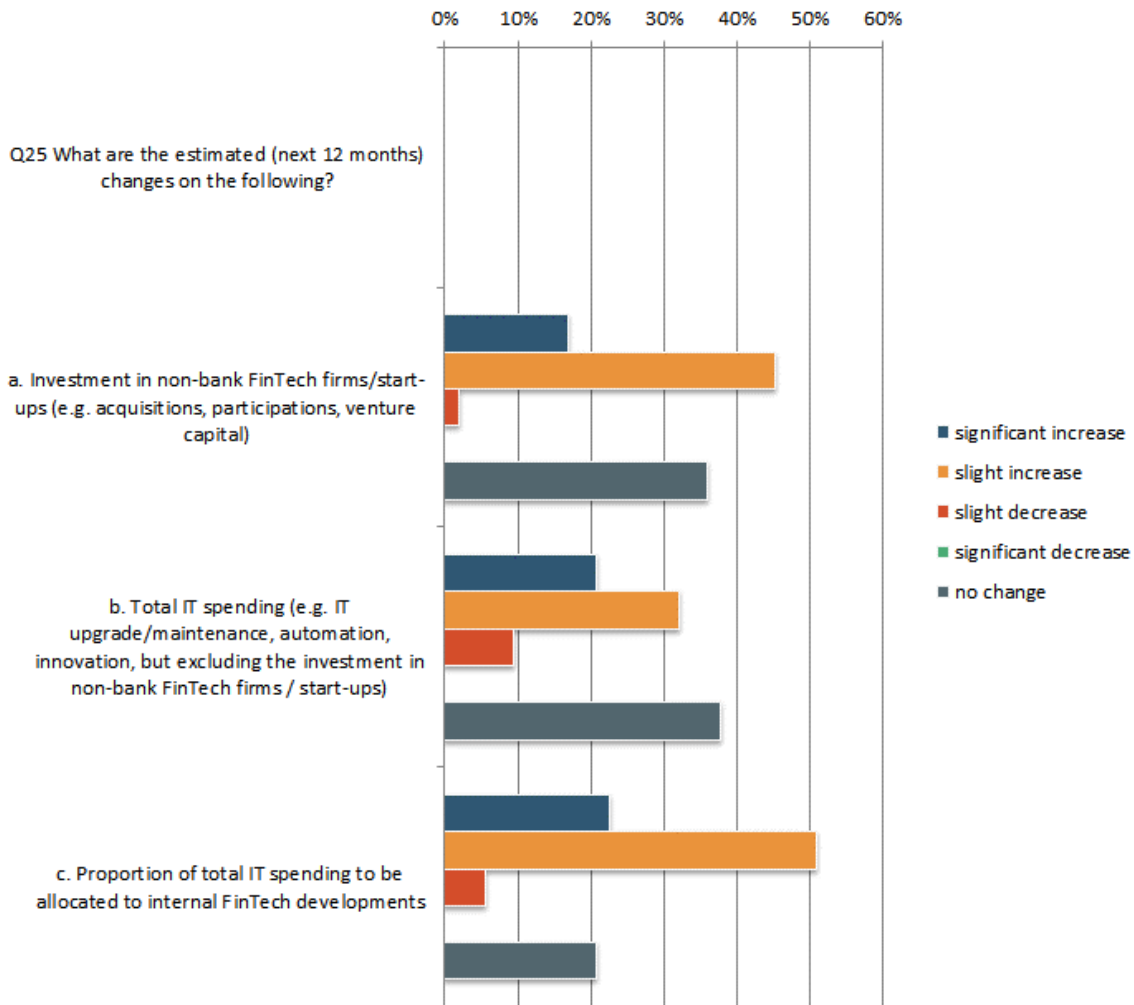


Question 24: December 2018 results

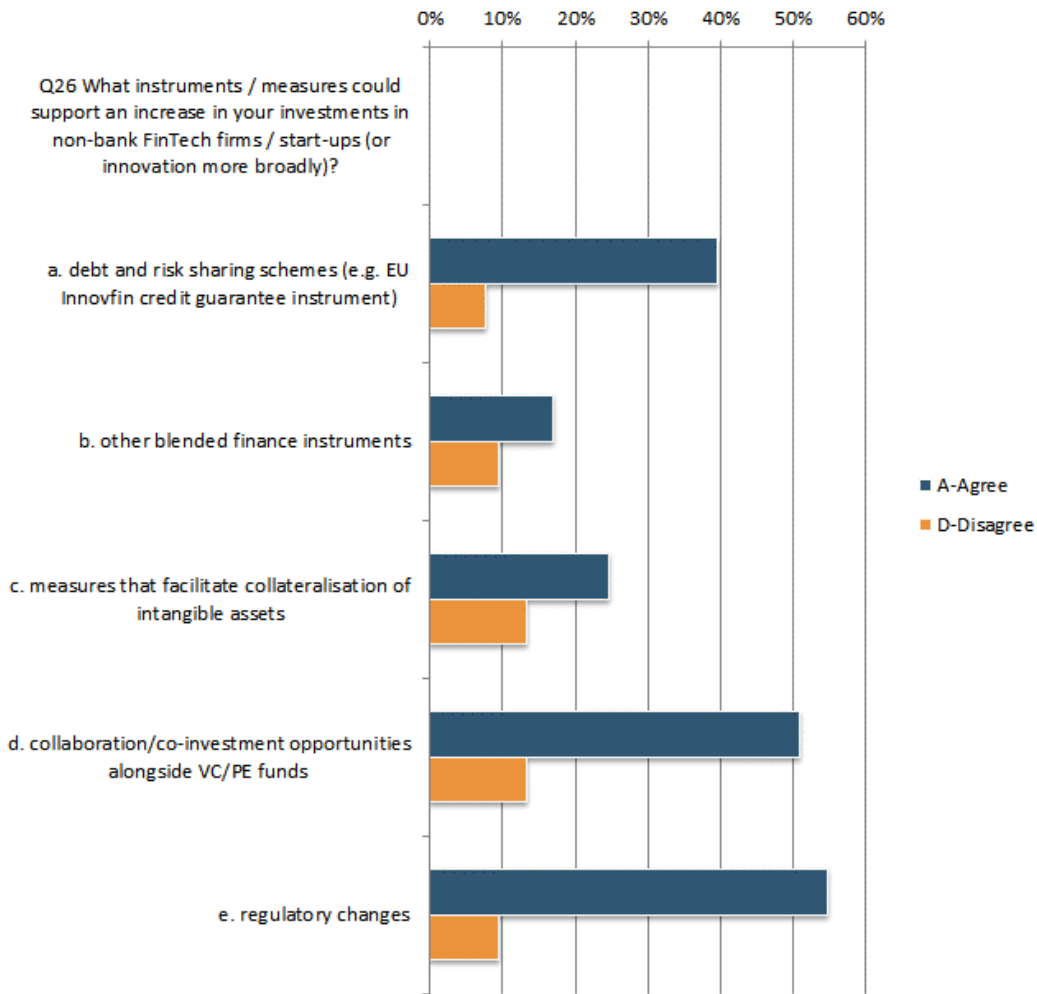




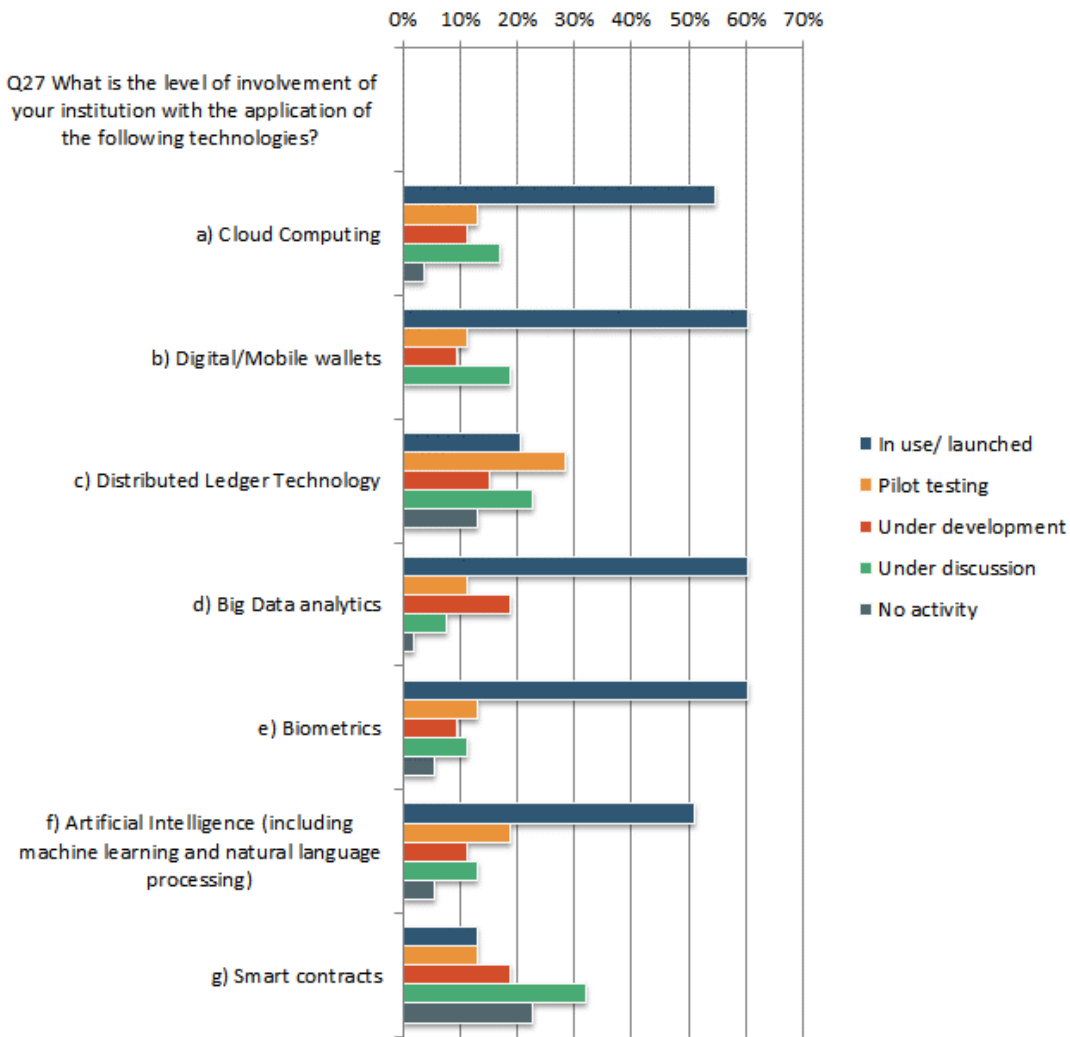
Question 25: December 2018 results



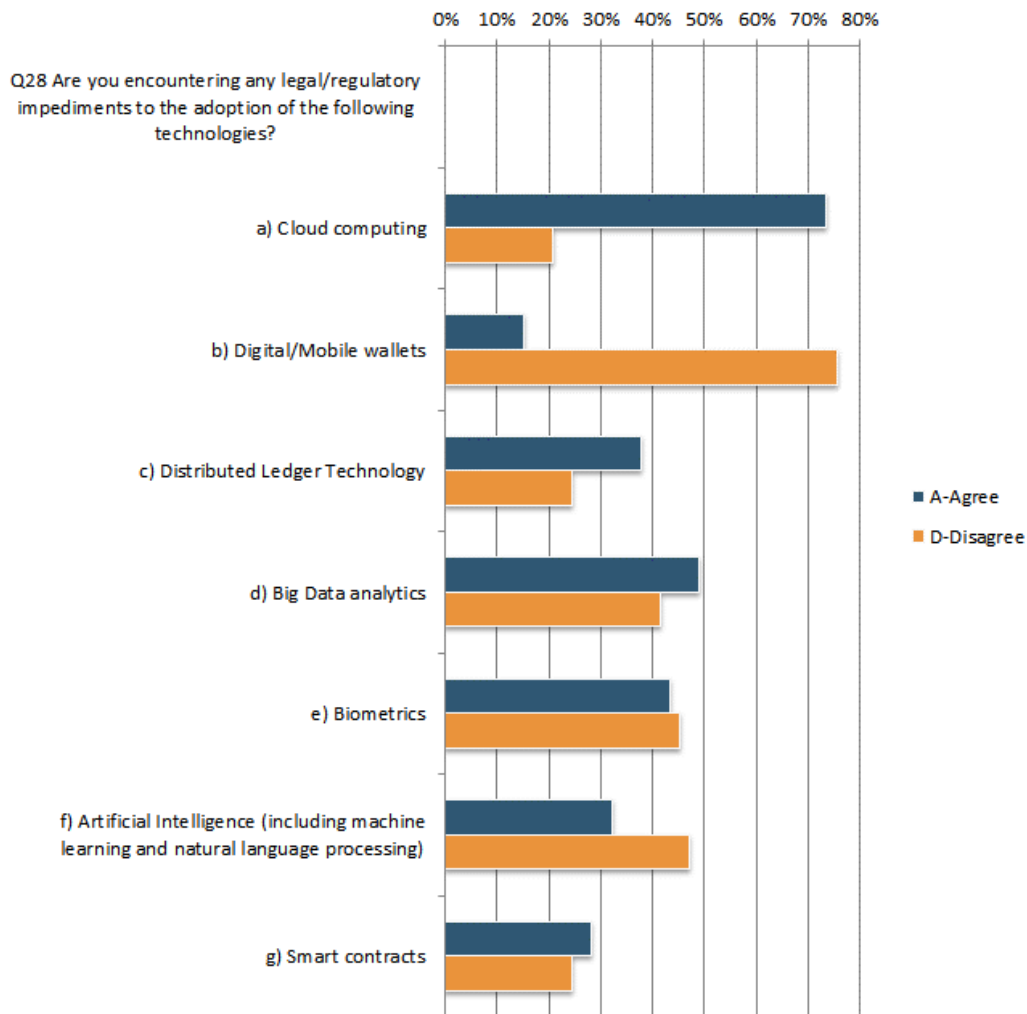
Question 26: December 2018 results



Question 27: December 2018 results

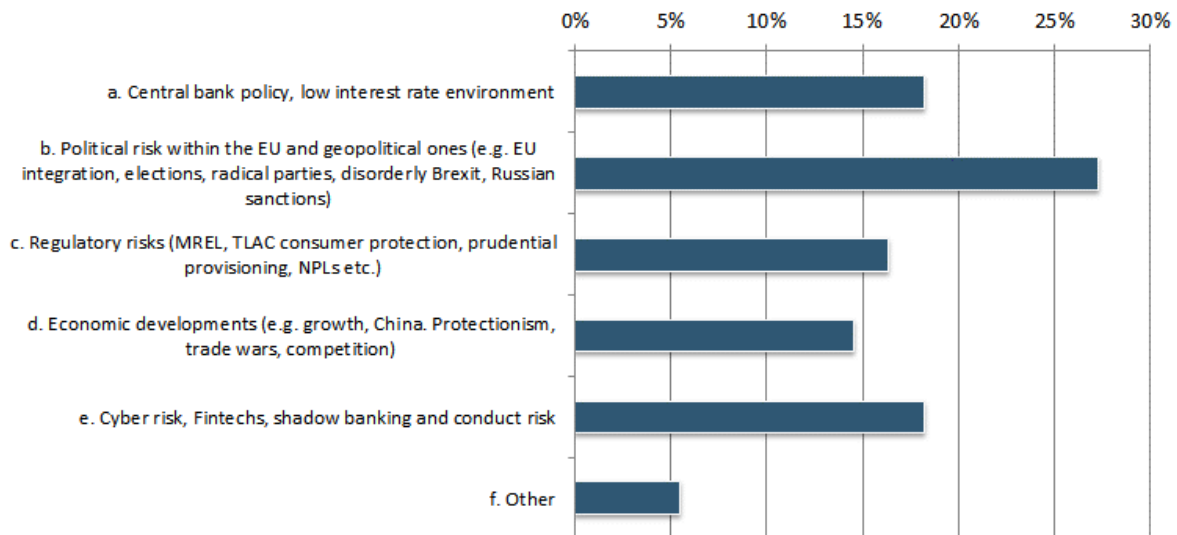


Question 28: December 2018 results



7. General open question

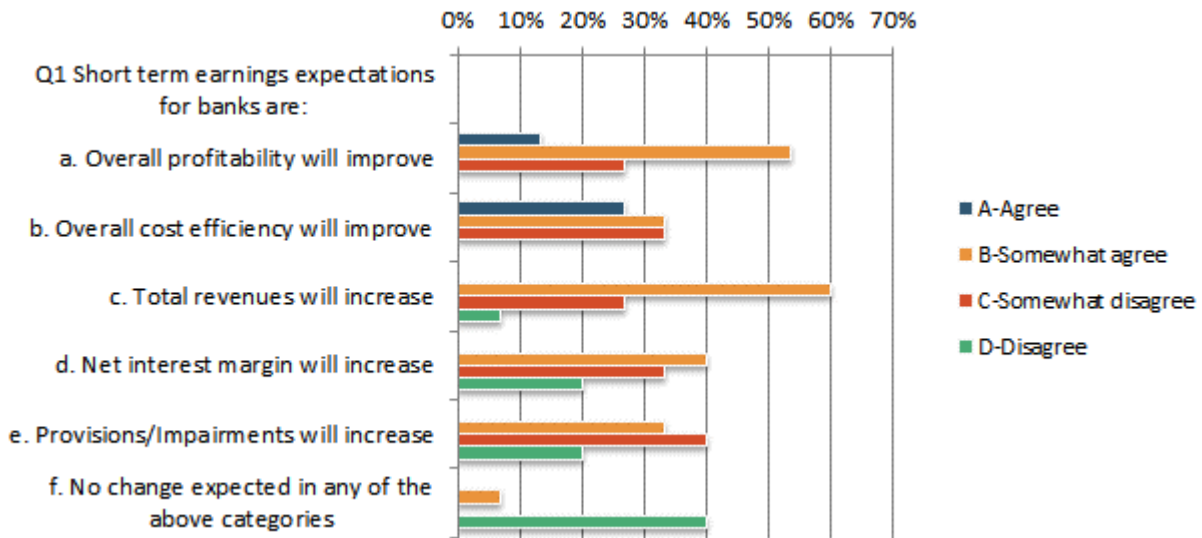
Looking at the EU banking sector, do you expect other sources of risks or vulnerabilities to increase further in the next 6-12 months? Please indicate possible additional sources of risks and vulnerabilities.



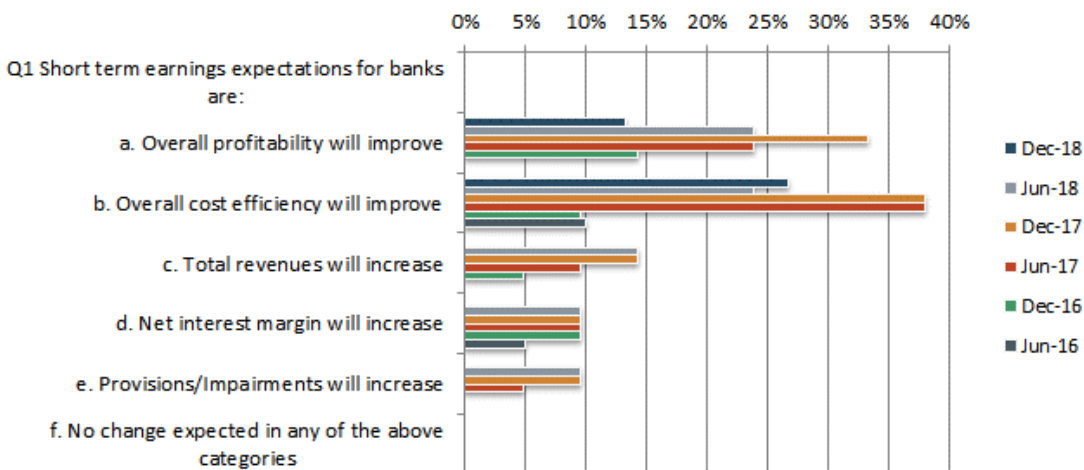
Market analysts' questionnaire

1. Business model / strategy / profitability

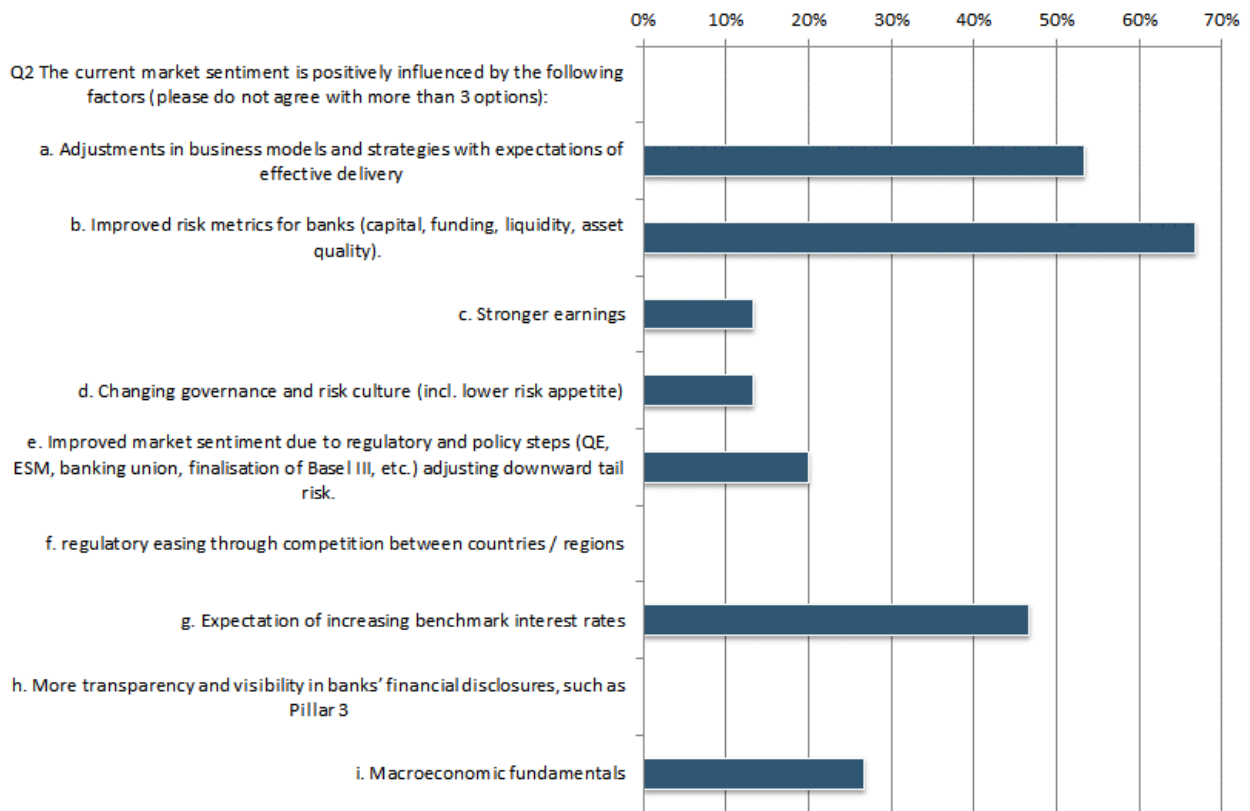
Question 1: December 2018 results



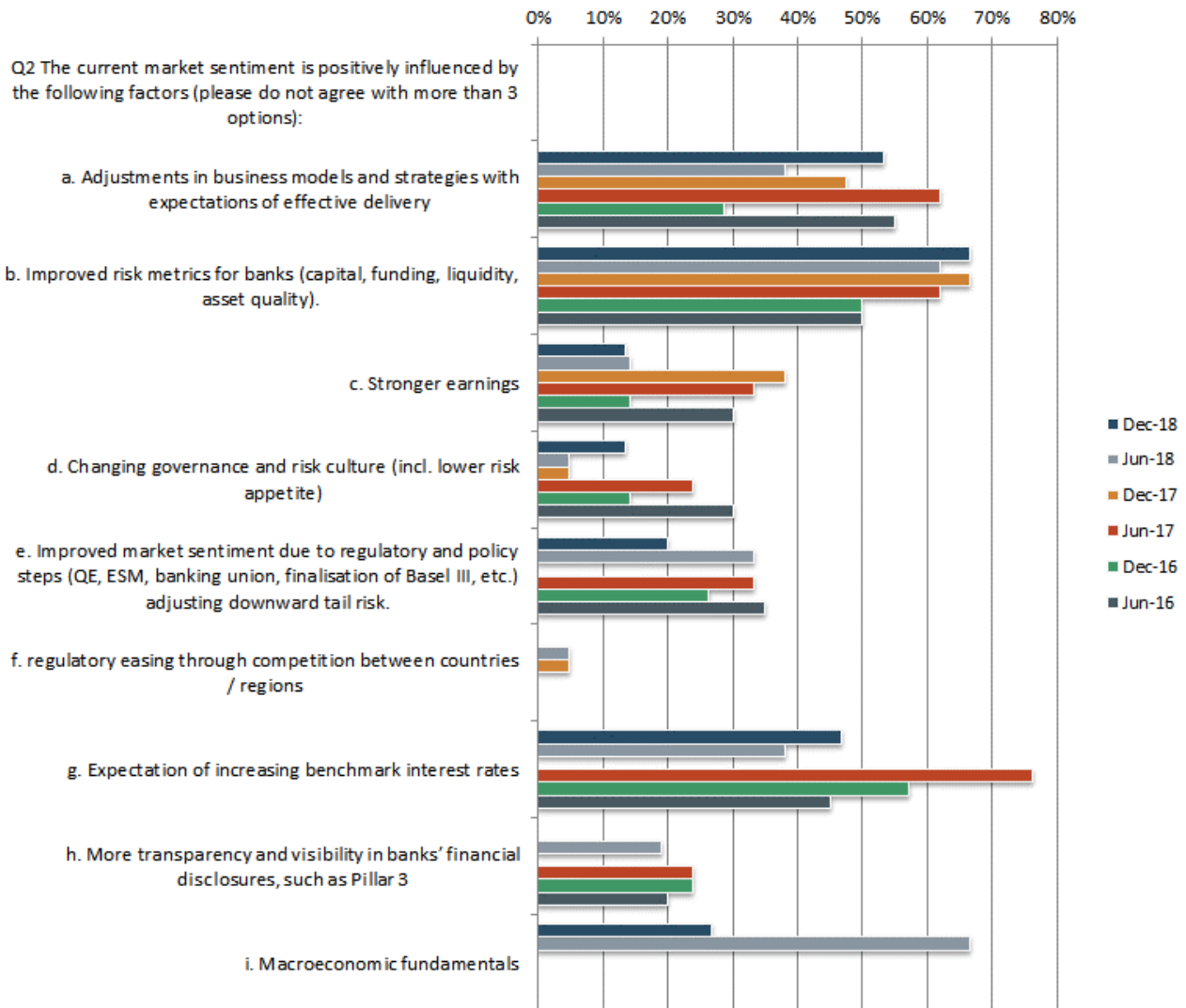
Question 1: Comparison with past results



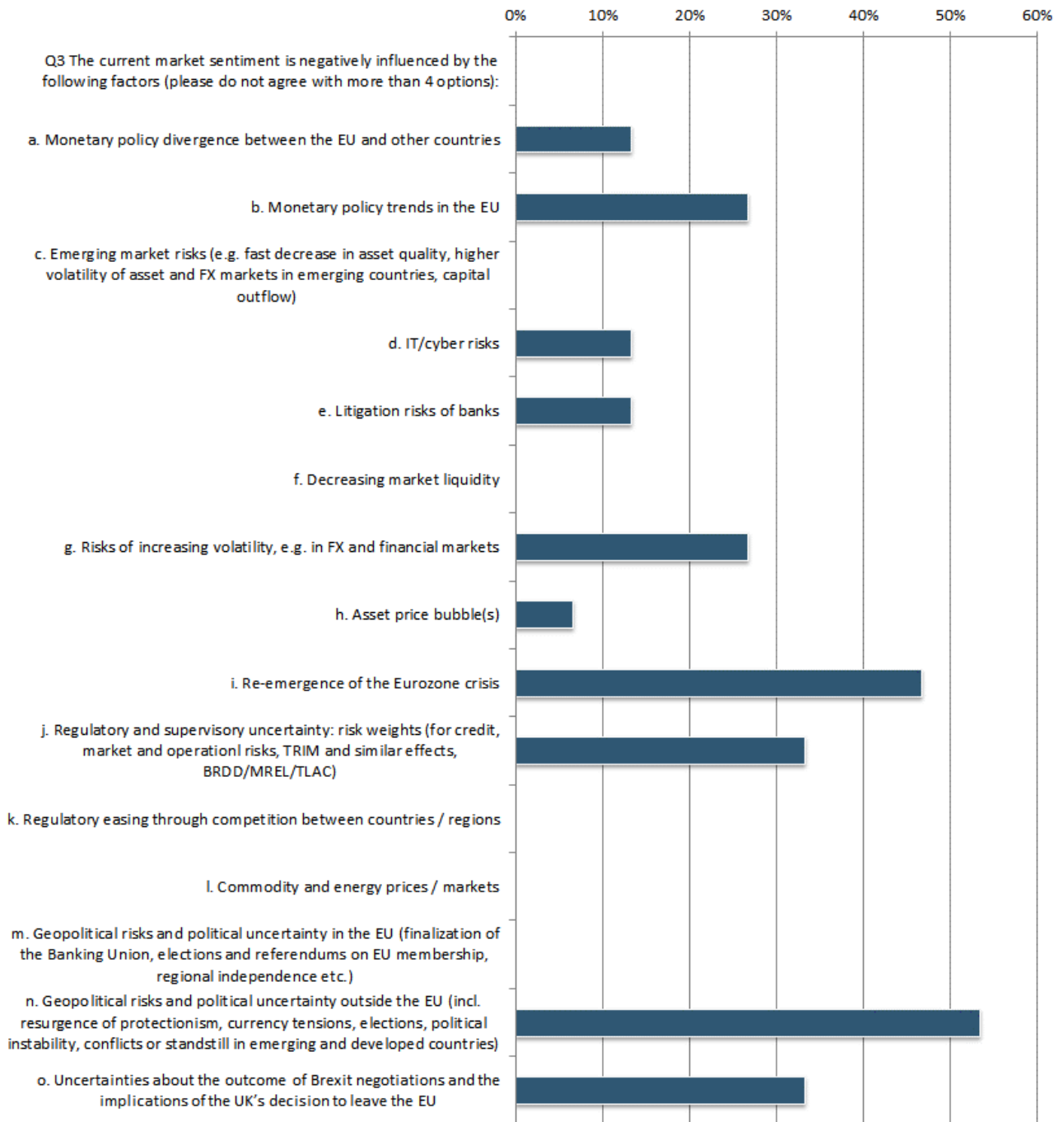
Question 2: December 2018 results (only “agree” as possible answer)



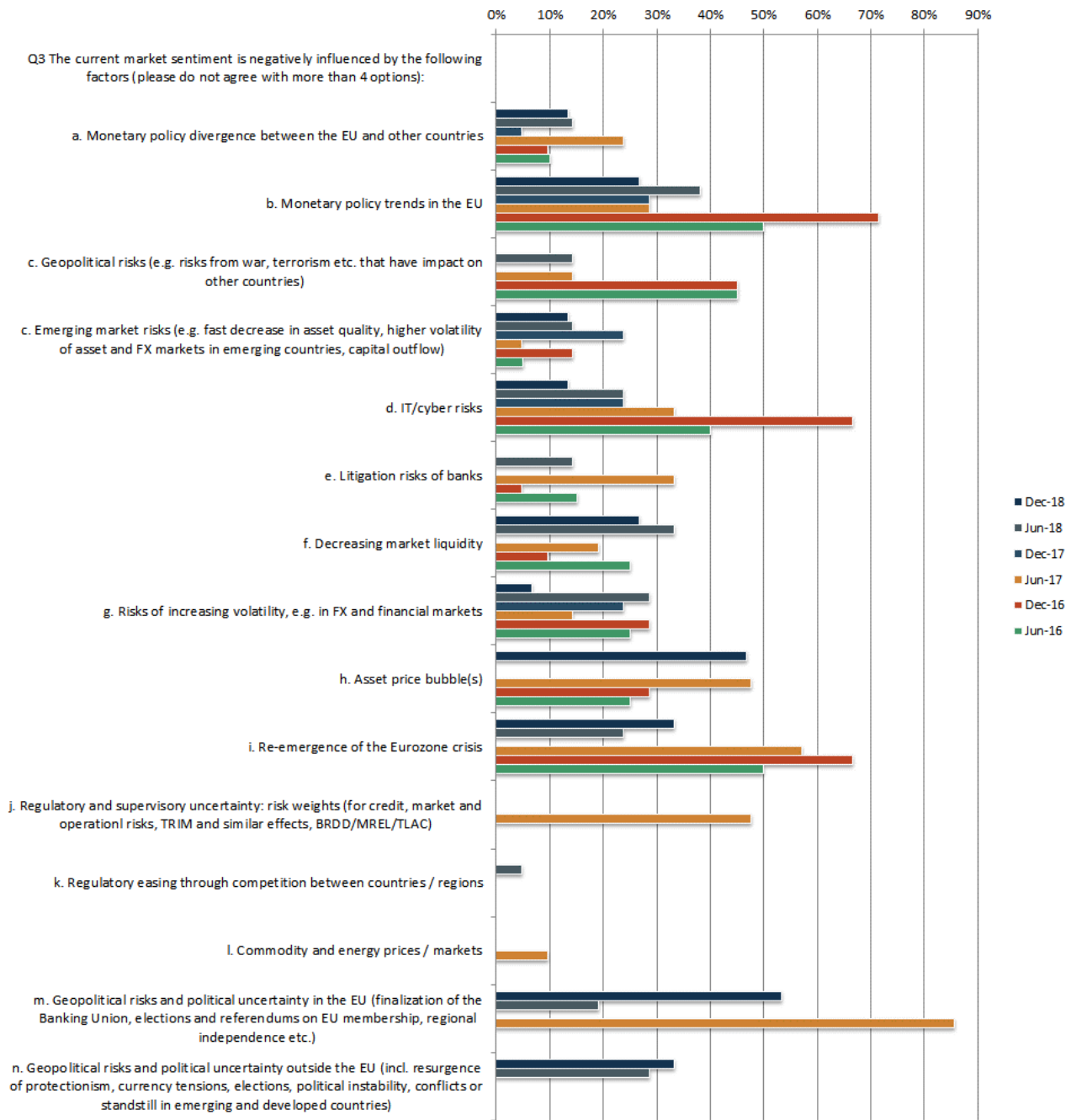
Question 2: comparison with past results (only “agree” as possible answer)



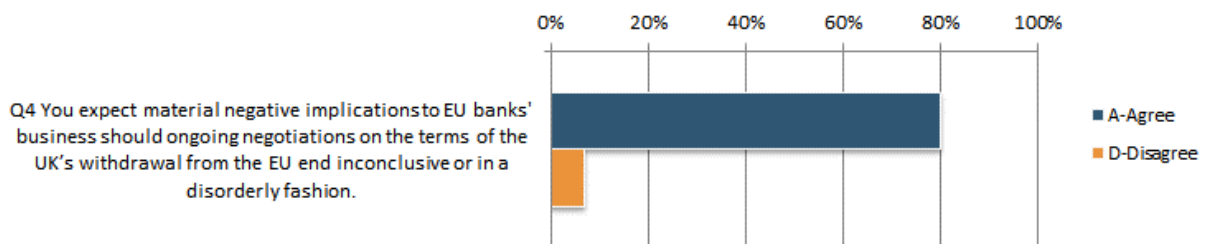
Question 3: December 2018 results (only “agree” as possible answer)



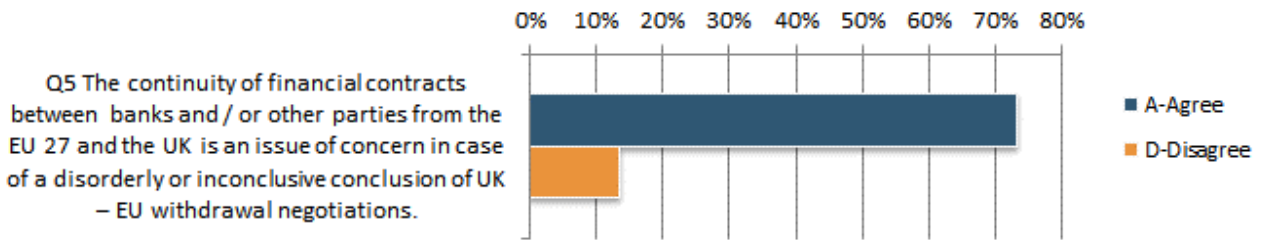
Question 3: comparison with past results (only “agree” as possible answer)



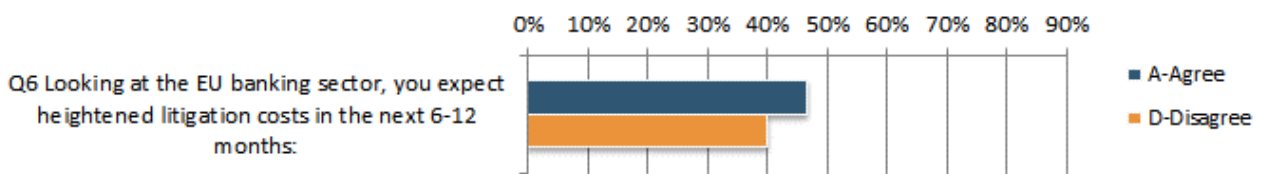
Question 4: December 2018 results (only “agree” as possible answer)



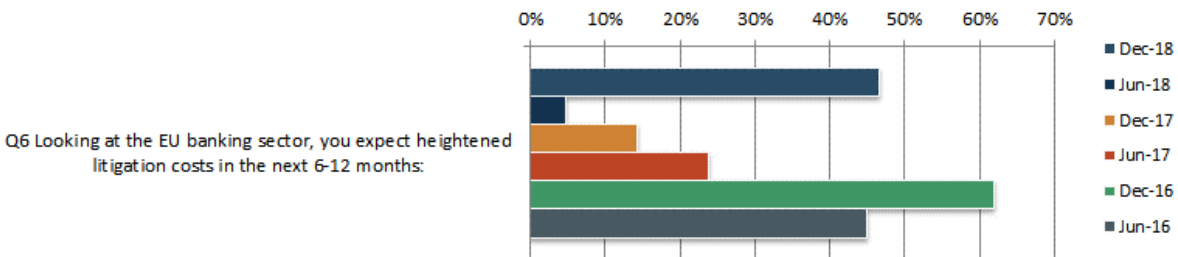
Question 5: December 2018 results (only “agree” as possible answer)



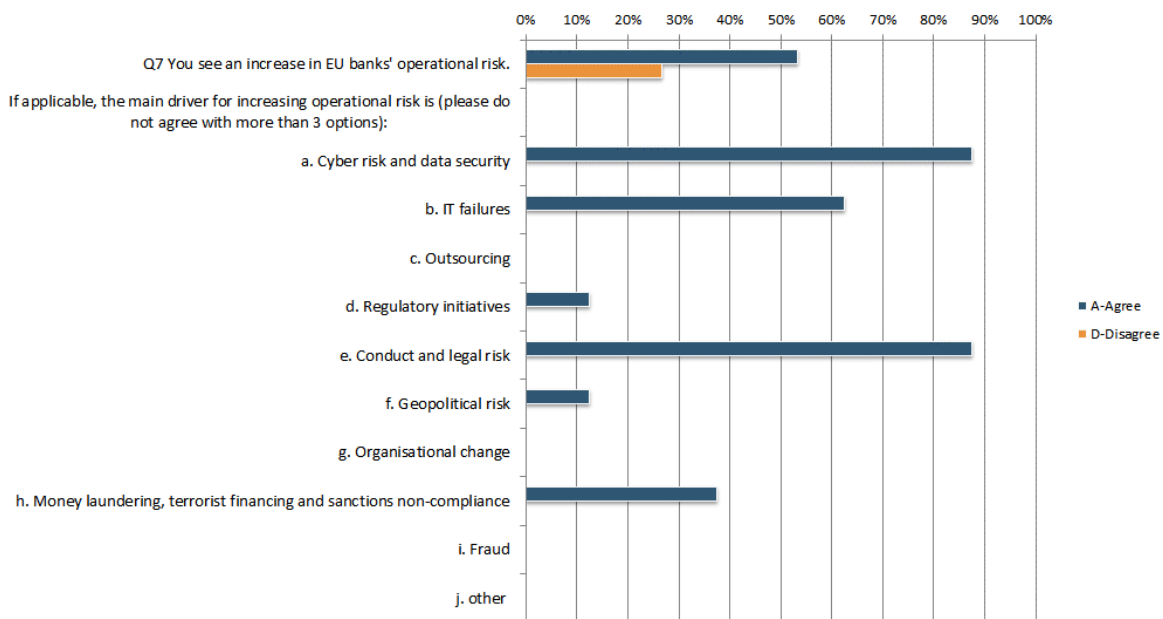
Question 6: December 2018 results (only “agree” as possible answer)



Question 6: comparison with past results (only “agree” as possible answer)

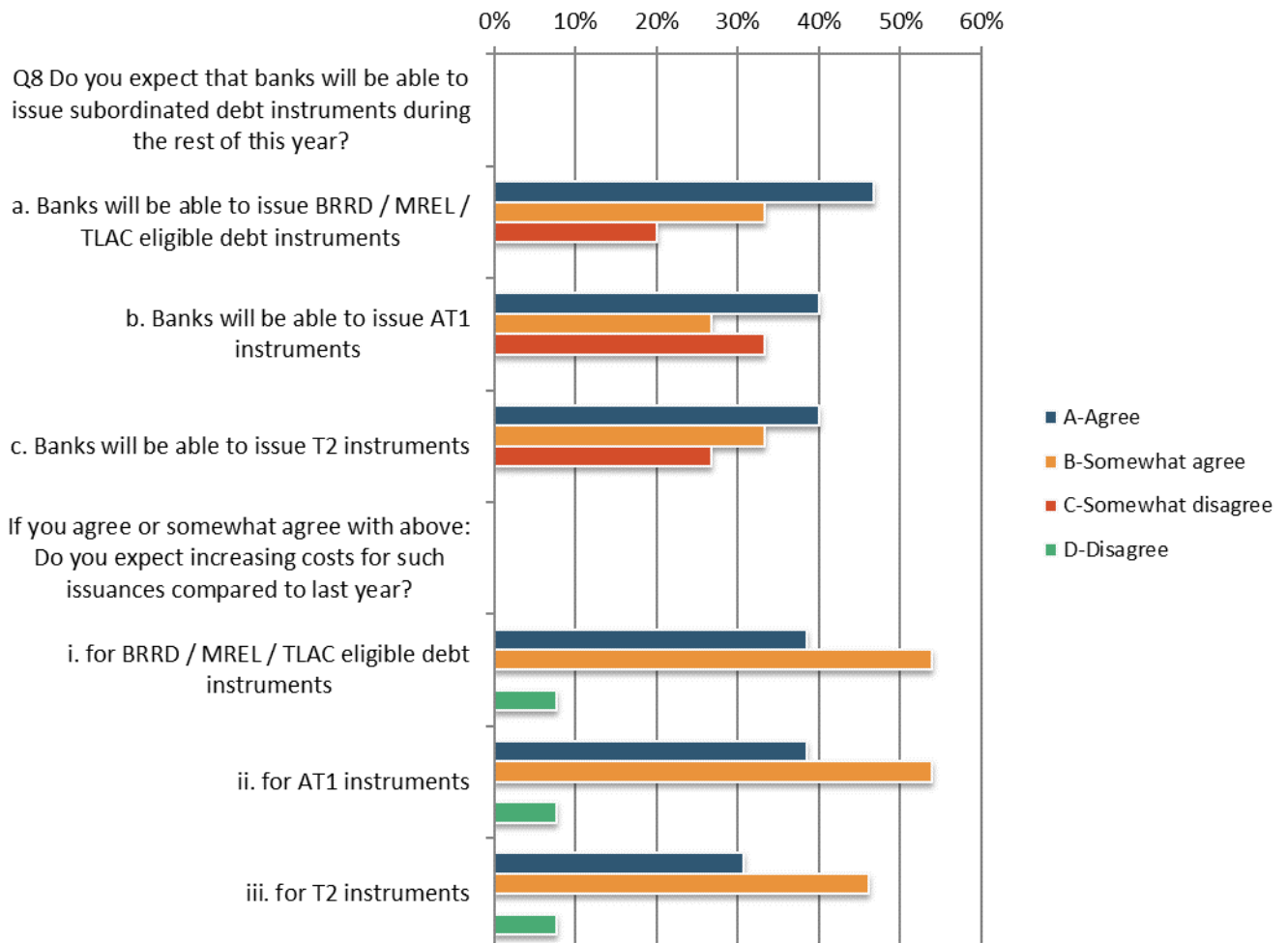


Question 7: December 2018 results (only “agree” as possible answer)

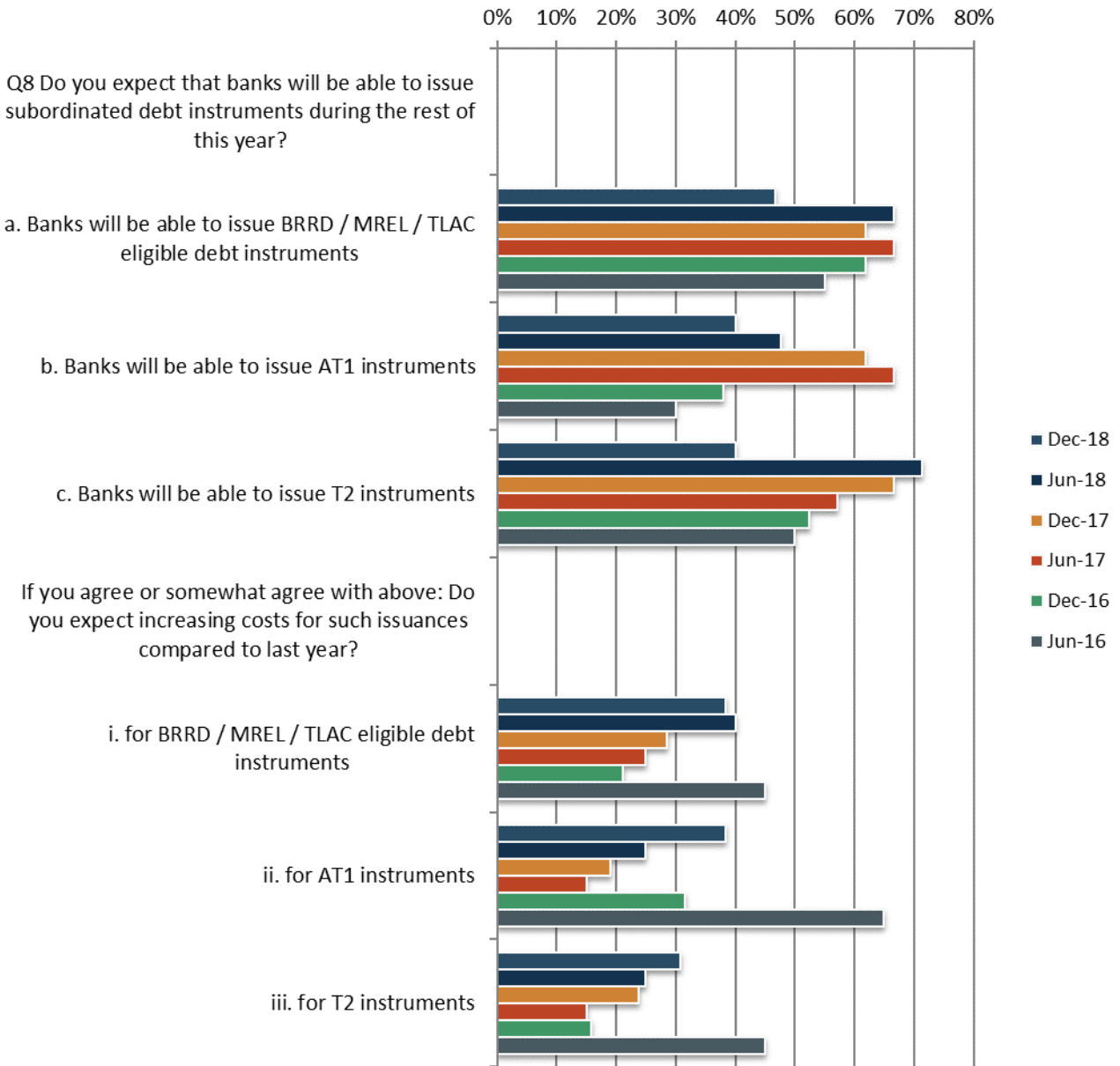


2. Funding / liquidity

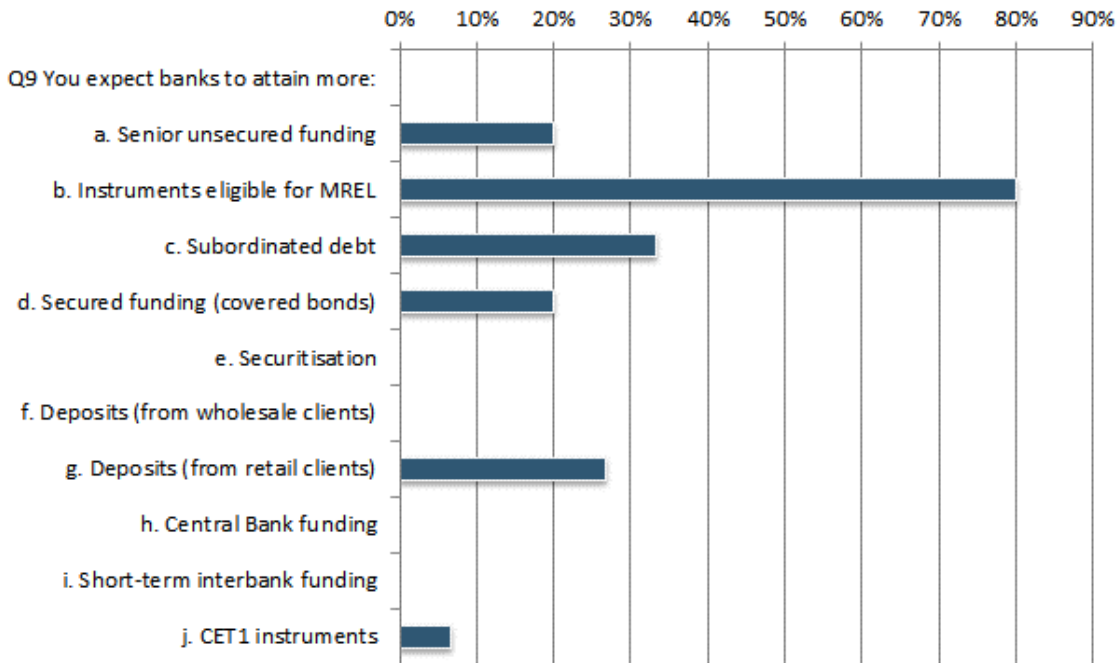
Question 8: December 2018 results



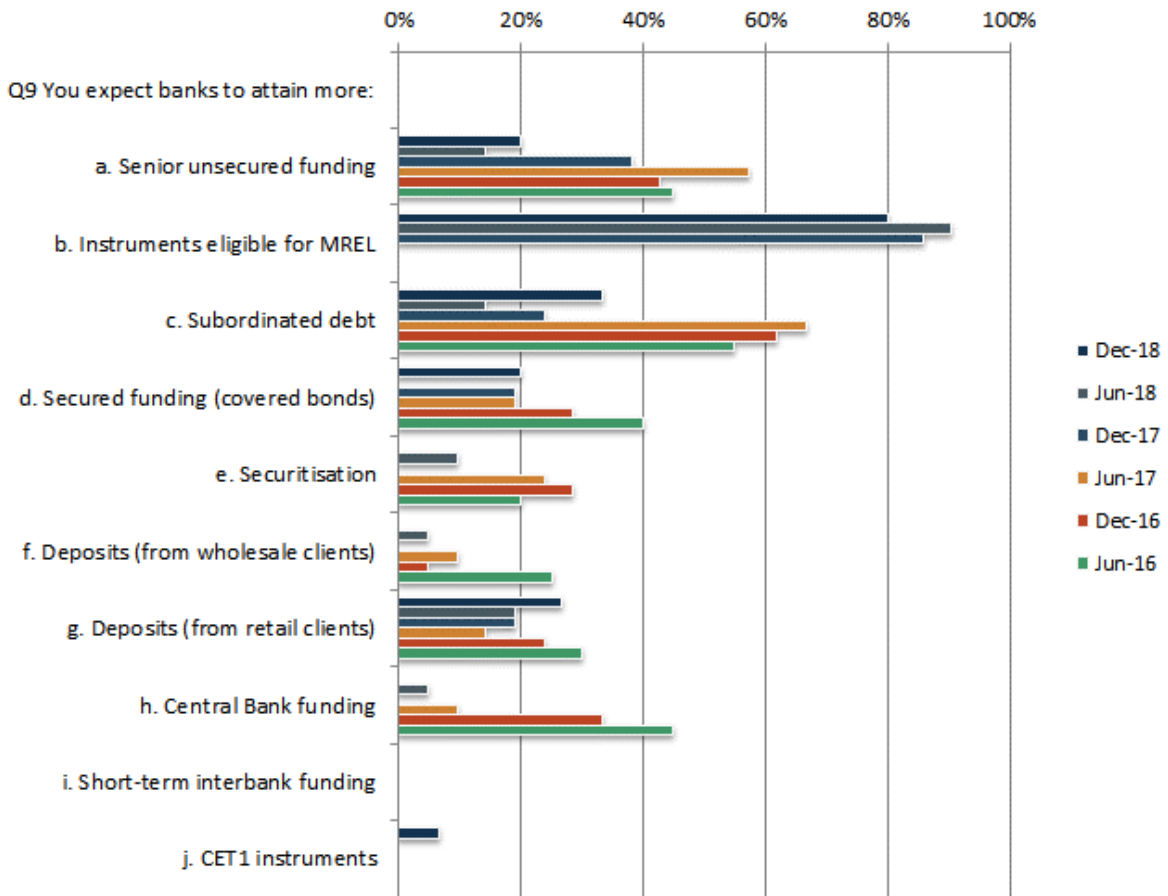
Question 8: Comparison with past results (only agree)



Question 9: (only “agree” as possible answer)

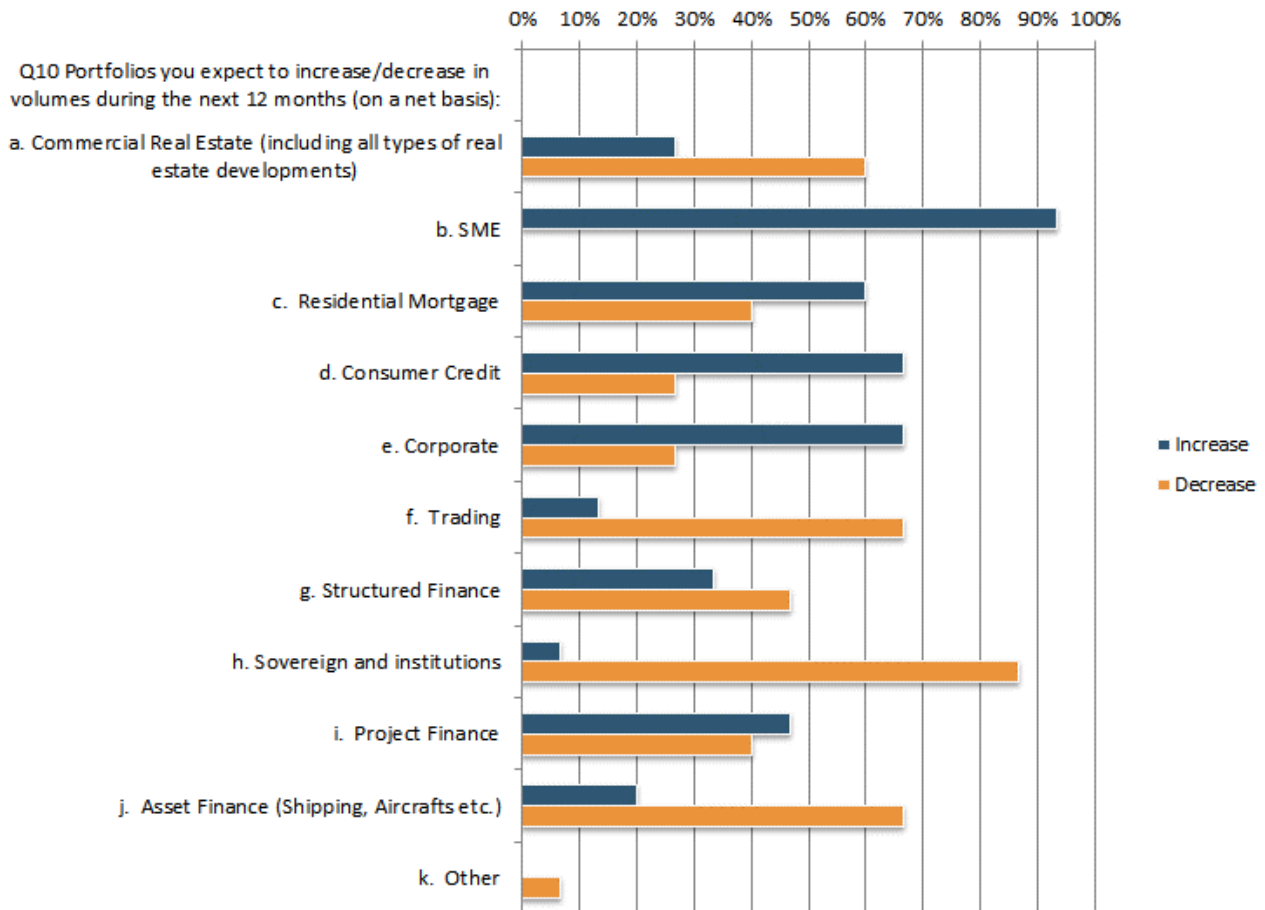


Question 9: comparison with past results (only “agree” as possible answer)

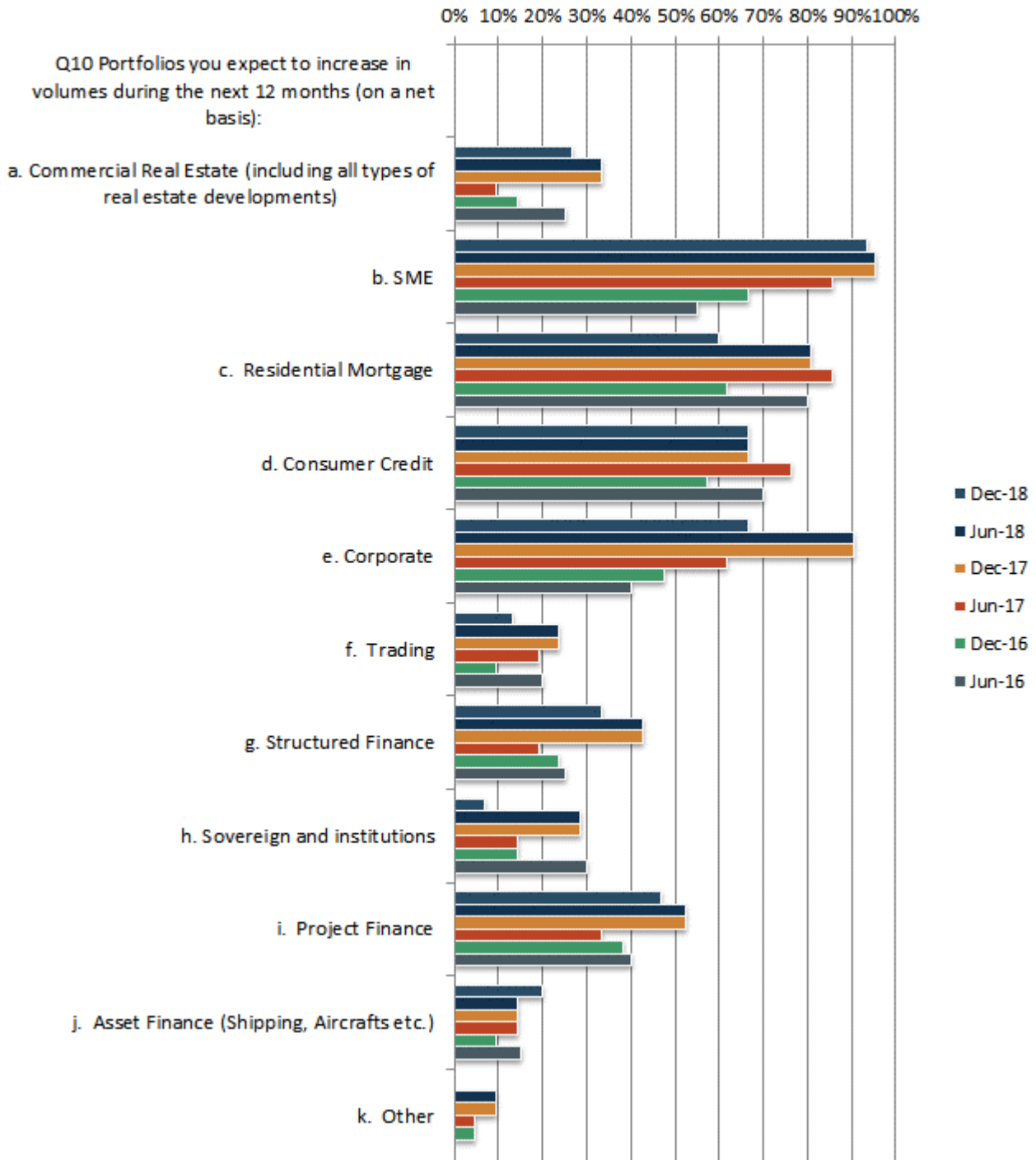


3. Asset composition & quality

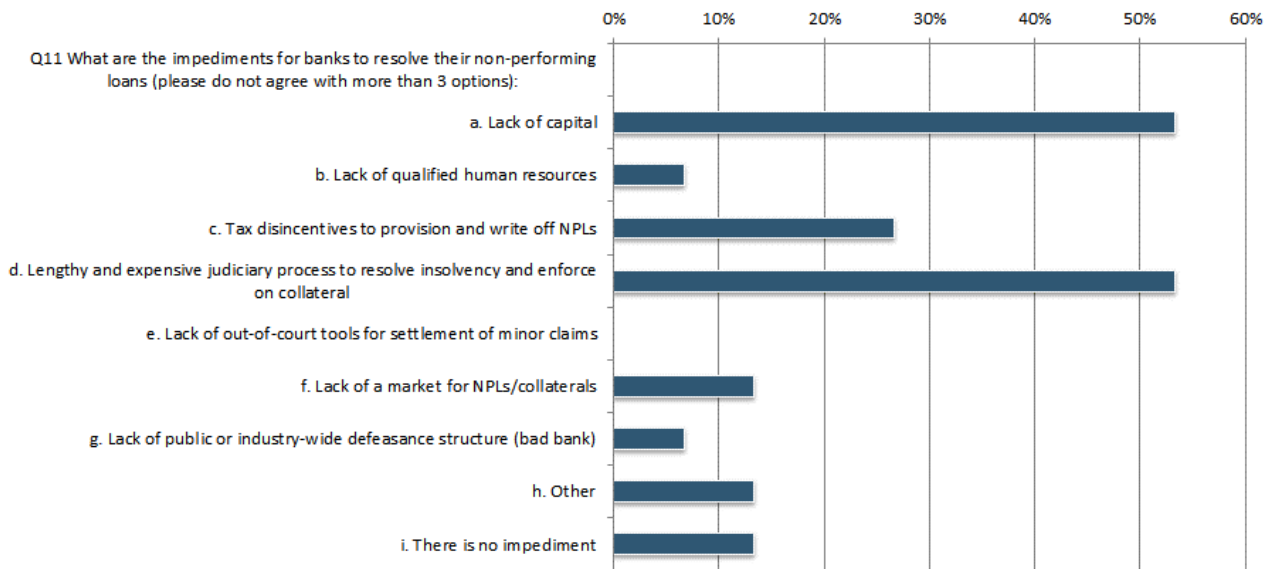
Question 10: December 2018 results



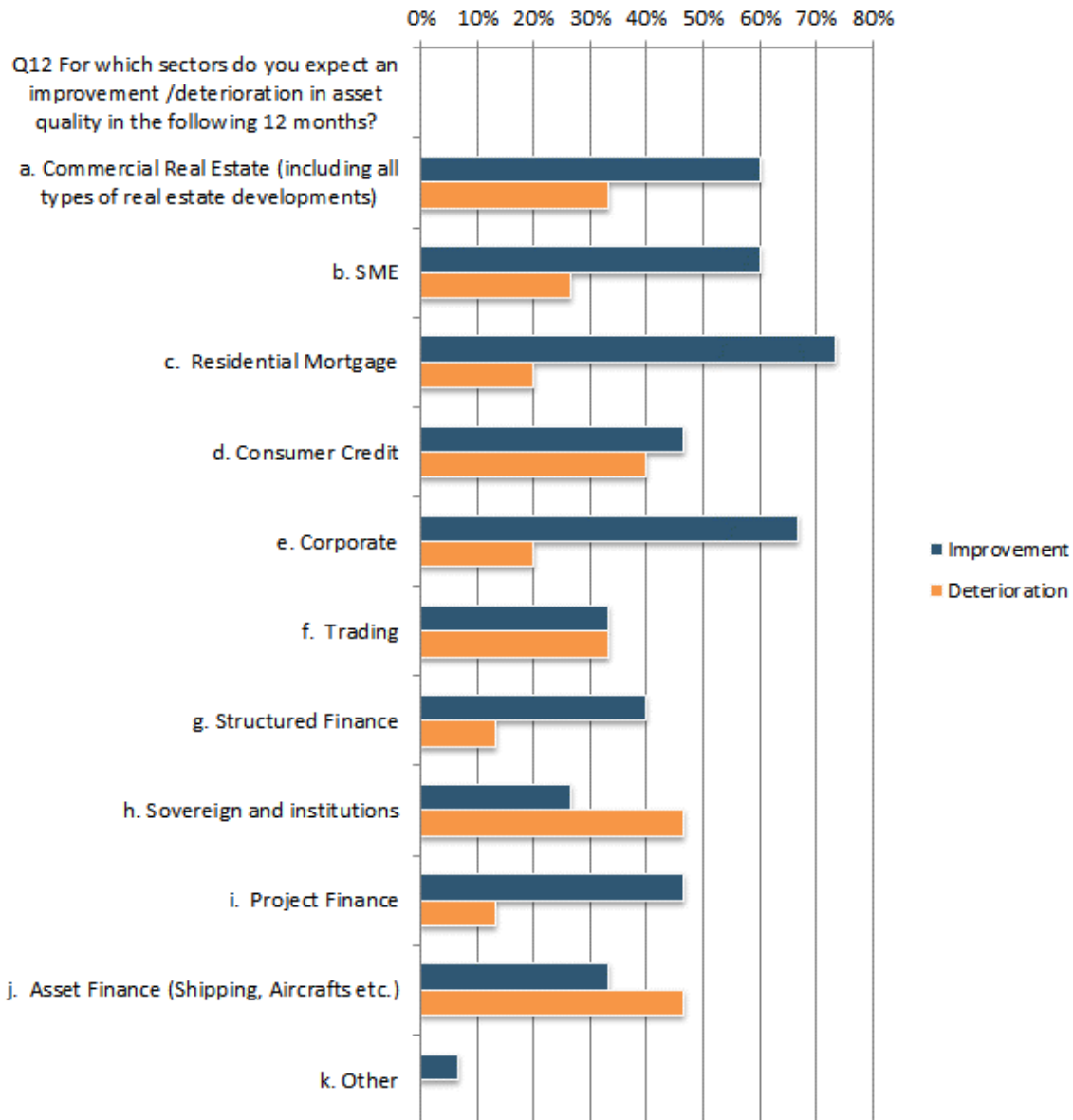
Question 10: comparison with past results



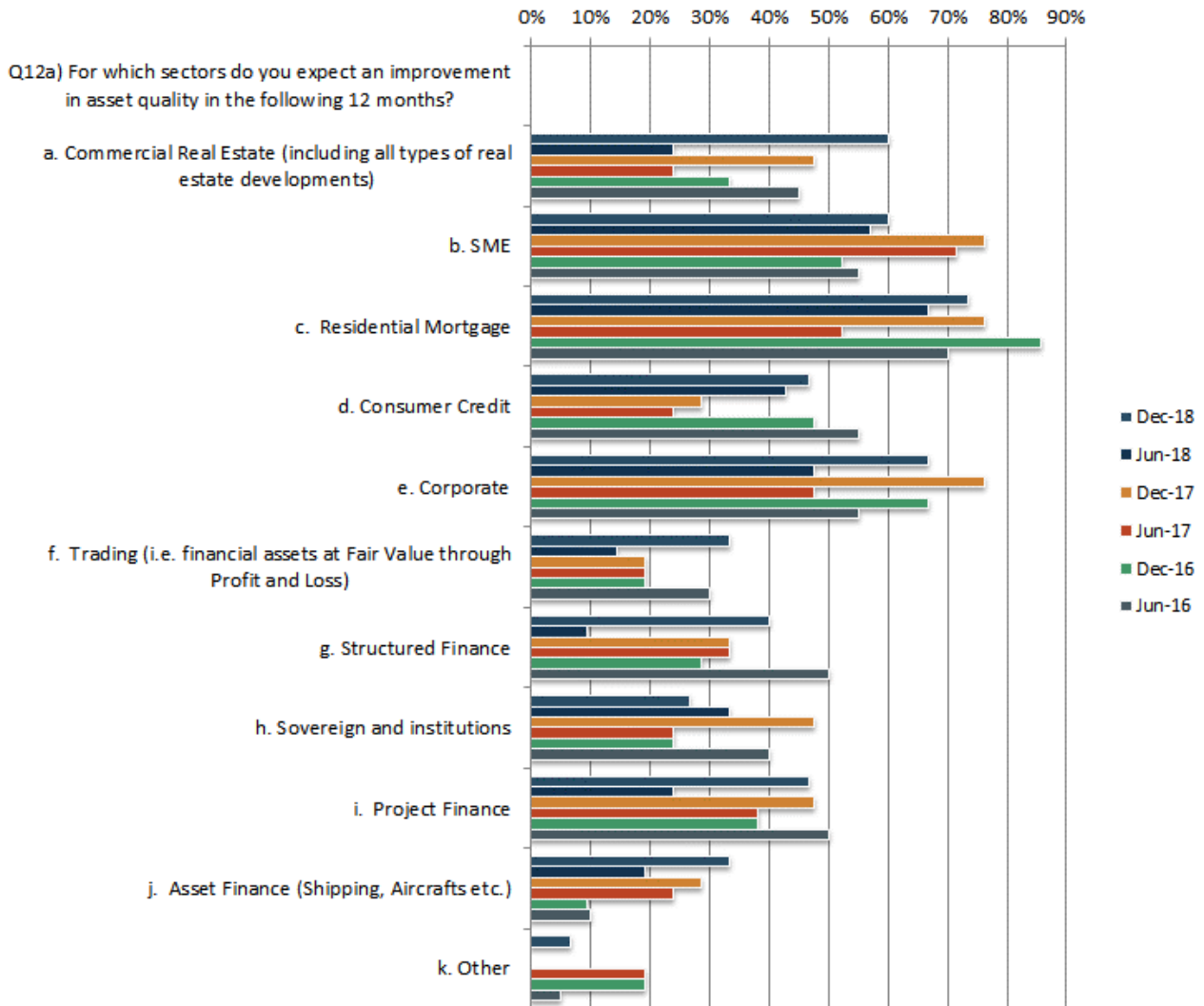
Question 11: December 2018 results

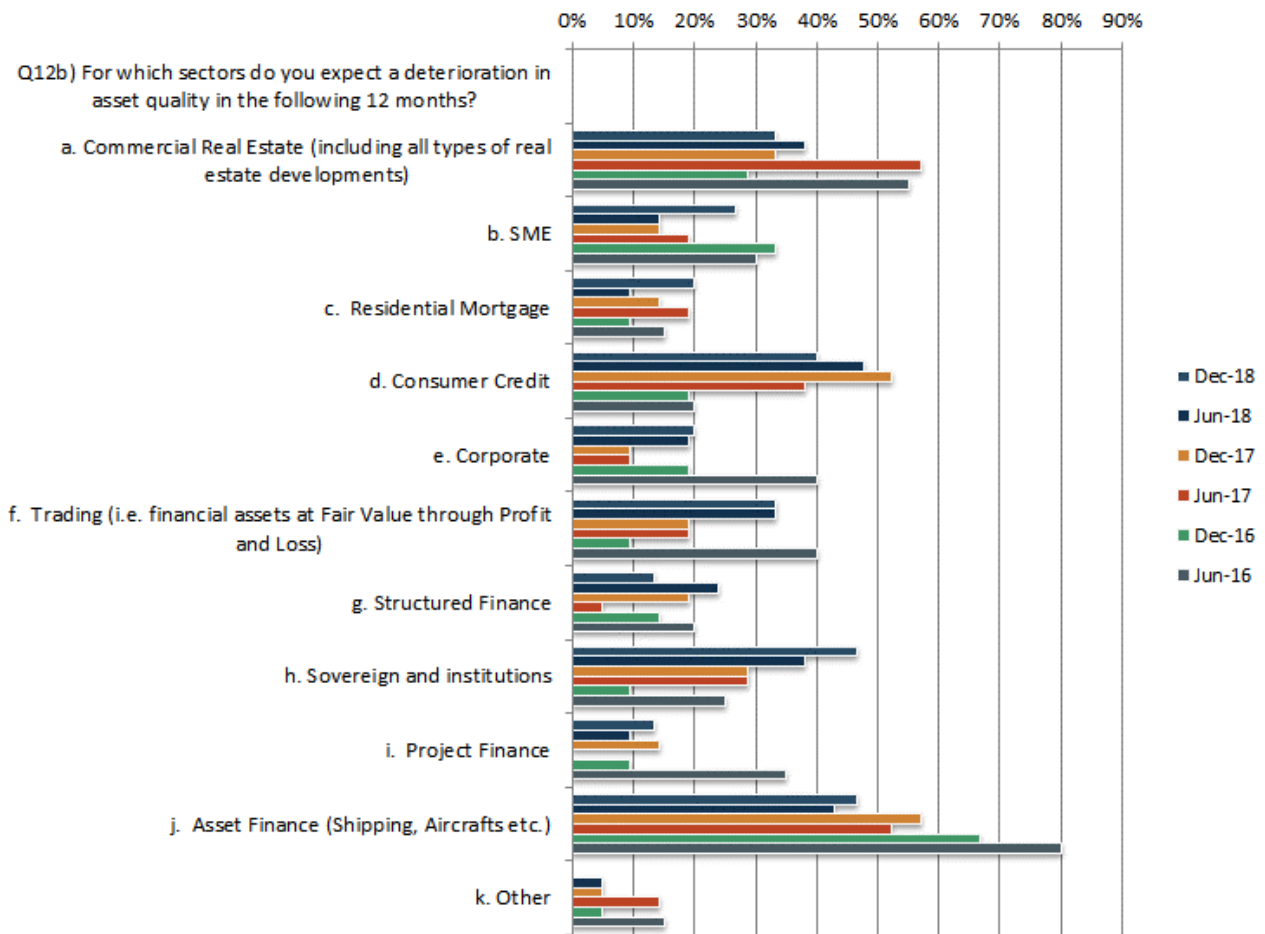


Question 12: December 2018 results

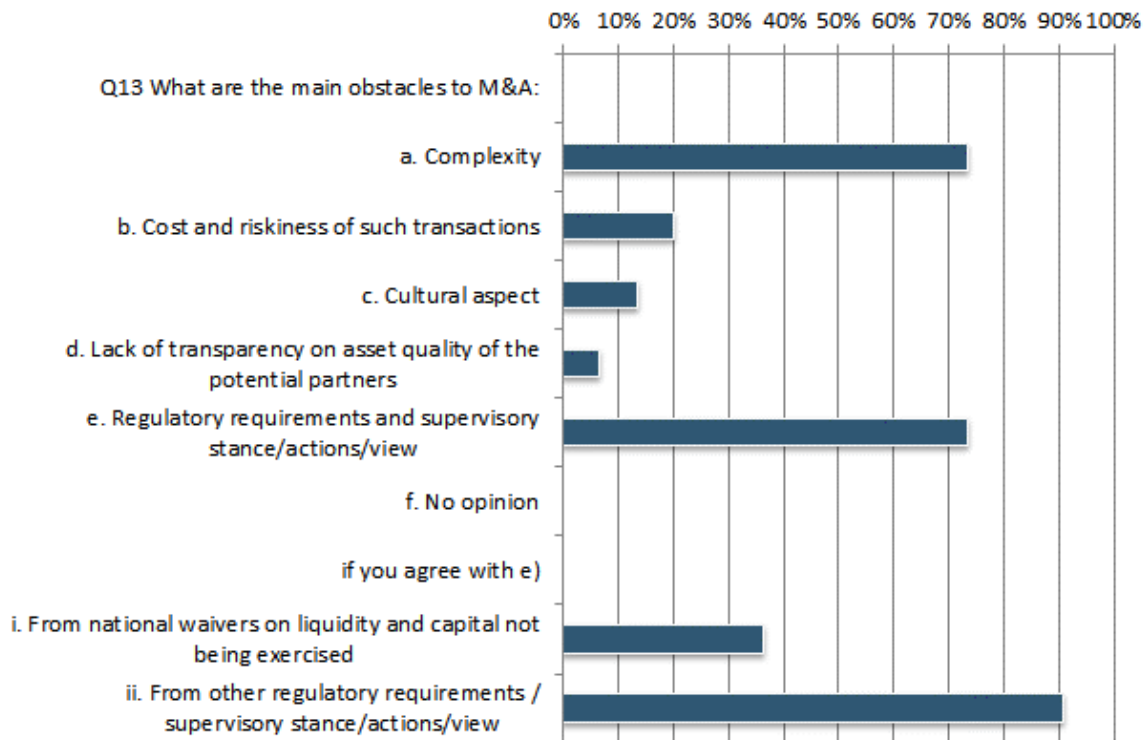


Question 12a & b: comparison with past results



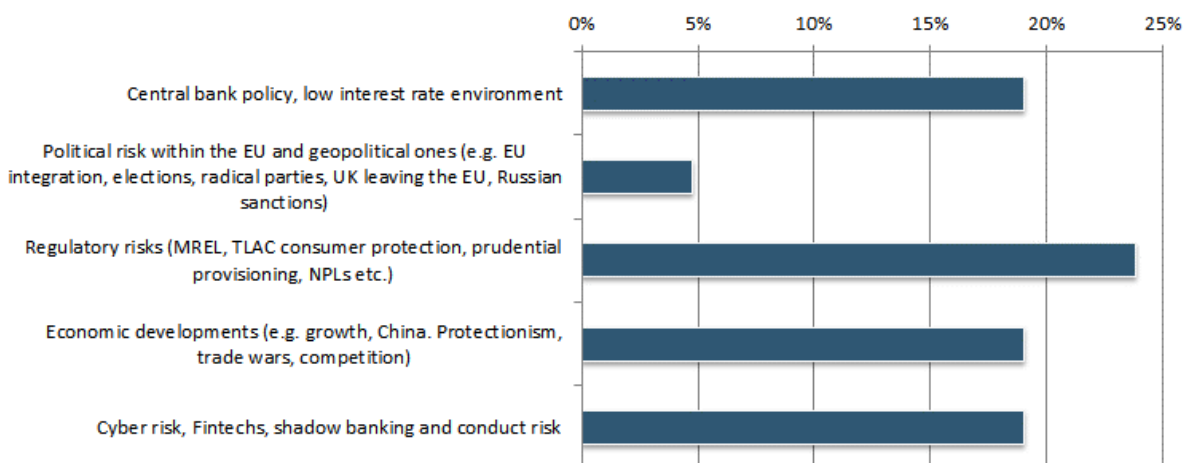


Question 13: December 2018 results



4. General open question

Q14 Looking at the EU banking sector, you expect other sources of risks or vulnerabilities to increase further in the next 6-12 months. Please indicate possible additional sources of risks and vulnerabilities.



Appendix: Risk Assessment Questionnaire for banks

[added on the following pages]

Risk Assessment Questionnaire for Banks Autumn 2018

Fields marked with * are mandatory.

Respondent information

* First Name

* Last Name

* Position

* Division

* Banking institution

* Email address

Business model/strategy/profitability

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

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

- Agree
- Disagree
- N/A

If you agree:

at least 2 answered row(s)

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

*** Q2 What are the main obstacles to M&A? (please do not agree with more than 2 options):**

at most 2 choice(s)

- a) Complexity
- b) Cost and riskiness of such transactions
- c) Cultural aspect
- d) Lack of transparency on asset quality of the potential partners
- e) Regulatory requirements and supervisory stance/actions/view
- f) No Opinion

*** If you agree with e)**

- i. From national waivers on liquidity and capital not being exercised
- ii. From other regulatory requirements / supervisory stance/actions/view

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

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

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

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

Q5 You primarily target this area for increasing profitability in your bank in the next months:

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

*** If you agree with b) what is the main area to increase net fees and commission income?**

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

*** Q6 You are reducing operating expenses / costs through (please do not agree with more than 3 options):**

at most 3 choice(s)

- a) Overhead reduction and staff costs reduction
- b) Outsourcing
- c) Off-shoring or near-shoring
- d) Cutting of non-profitable units
- e) Increasing automatisisation and digitilisation
- f) Other

*** Q7 Your current earnings are covering the cost of equity:**

- Agree
- Disagree
- N/A

*** Q8 You estimate COE at:**

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

*** Q9 You expect material adverse implications for you bank's business from current political and economical developments?**

- Agree

- Disagree
- N/A

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

at most 2 choice(s)

- a) Brexit
- b) Economic challenges in EU member states
- c) Potential adverse developments in emerging market economies
- d) Resurgence of global protectionism
- e) Other adverse international trends

*** Q10 You expect material negative implications to your bank's business in the case of an inconclusive or disorderly end to the negotiations governing the exit of the UK from the EU or if a transition period is not agreed upon.**

- Agree
- Disagree
- No Opinion

*** Q11 Your bank has in place contingency plans to deal with risks stemming from a potentially inconclusive or disorderly end to the negotiations governing the exit of the UK from the EU, including risks to the continuity of contracts, to transfer of data, and to access to CCPs and other FMIs.**

- Agree
- Disagree
- No Opinion

*** Q12 Looking at your bank, you expect potentially rising interest rates to positively impact your bank's earnings?**

- Agree
- Somewhat Agree
- Somewhat Disagree
- Disagree
- No Opinion

Q13 Preparations in view of the replacements of IBOR based reference rates and implementation of alternative risk free reference rates:

*** 13a Your bank is working on solutions for the replacement of IBOR benchmark rates (EURIBOR / EONIA, LIBORs etc.).**

- Agree
- Disagree
- N/A

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

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

13b In which area would you currently see the biggest challenges and potentially the biggest risks in your preparations in view of the IBOR replacements?

	Agree	Somewhat Agree	Somewhat Disagree	Disagree	N /A
* i. Related to existing business on the asset side (e.g. variable rate loans)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* ii. Related to existing funding (e.g. debt securities issued with variable rates)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* iii. Related to other existing instruments / business (e.g. derivatives)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* iv. Related to new business (e.g. newly issued debt securities, variable rate loans or derivatives)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* v. Related to changes in the bank's internal operations, capabilities and systems (e.g. valuation models)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* vi. I would not see any big challenges / big risks related to the IBOR replacements.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Funding/liquidity

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

at most 2 choice(s)

- a) Senior unsecured funding
- b) Instruments eligible for MREL
- c) Subordinated Debt
- d) Secured funding (covered bonds)
- e) Securitisations
- f) Deposits (from wholesale clients)
- g) Deposits (from retail clients)
- h) Central Bank funding
- i) Short-term interbank funding
- j) CET1 instruments

*** Q15 Which are the main constraints to issue subordinated instruments eligible for MREL (please do not agree with more than 2 options)?**

at most 2 choice(s)

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

Asset volume trends

Q16 Which portfolios do you plan to increase/decrease in volume during the next 12 months?

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

Asset composition & quality

Q17 Which portfolios do you expect to improve/deteriorate in asset quality in the next 12 months?

	Improve	Deteriorate	N /A
* a) Commercial Real Estate (including all types of real estate developments)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* b) SME	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* c) Residential Mortgage	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

* d) Consumer Credit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* e) Corporate	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* f) Trading	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* g) Structured Finance	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* h) Sovereign and institutions	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* i) Project Finance	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* j) Asset Finance (Shipping, Aircrafts etc.)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* k) Other	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

*** Q18 What are your most commonly applied strategies for NPL reduction (please do not agree with more than 2 options)?**

at most 2 choice(s)

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

*** Q19 What are the impediments to resolve non-performing loans (please do not agree with more than 3 options):**

at most 3 choice(s)

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

If h: please provide the key impediments

Conduct, Reputation and Operational risk

*** Q20 Since the end of your Financial Year 2007/8, your firm has paid out in the form of compensation, redress, litigation and similar payments [converted to EUR] an aggregate amount of:**

- a) Between EUR 0m and EUR 100m.

- b) Between EUR 100m and EUR 500m.
- c) Between EUR 500m and EUR 1bn.
- d) Between EUR 1bn and EUR 5bn.
- e) Between EUR 5bn and EUR 10bn.
- f) Between EUR 10bn and EUR 20bn.
- g) More than EUR 20bn

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

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

*** Q22 You see an increase in operational risk in your bank.**

- Agree
- Disagree
- N/A

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

at most 3 choice(s)

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

FinTech

Q23 What is your current form of engagement with FinTech? (Please note that for the purposes of this questionnaire, FinTech is defined as ‘Technologically enabled financial innovation that could result in new business models, applications, processes, or products with an associated material effect on financial markets and institutions and the provision of financial services’ (Financial Stability Board).)

	Agree	Disagree	N /A
* a) You form commercial partnerships (e.g. joint ventures) with non-bank Fintech firms/start-ups to offer new products/services	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

* b) You directly/indirectly invest in FinTech (e.g. venture capital): digital-only/challenger banks	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* c) You directly/indirectly invest in FinTech (e.g. venture capital): non-bank Fintech firms/start-ups	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* d) You launched a stand-alone digital-only bank	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* e) You develop own products/services in-house using new technologies without cooperating with non-bank Fintech firms/start-ups	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* f) You set-up/sponsor FinTech incubators/accelerators	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

If you agree with b) and / or c), in what form is this investment expected to be?

- i. Investment through a VC fund
- ii. Investment through own [dedicated] VC fund
- iii. Direct acquisitions
- iv. Venture Debt
- v. Other

Q24 Please indicate the actual amount spent in 2017 on the following:

*** Q24a Investment in non-bank FinTech firms/start-ups (e.g. acquisitions, participations, venture capital)**

- i. No investment
- ii. Less than EUR 1m
- iii. Between EUR 1m and EUR 10m
- iv. Between EUR 10m and EUR 50m
- v. Between EUR 50m and EUR 100m
- vi. More than EUR 100m

*** Q24b Total IT spending (e.g. related to IT upgrade/maintenance, automation, innovation, but excluding the amount reported in question a) above).**

- i. Less than EUR 100m
- ii. Between EUR 100m and EUR 250m
- iii. Between EUR 250m and EUR 500m
- iv. Between EUR 500m and EUR 1bn
- v. Between EUR 1bn and EUR 1.5bn
- vi. More than EUR 1.5bn

*** Q24c What proportion of 24b was allocated to digital innovation/new technologies?**

- i. Less than 10%
- ii. 10-25%
- iii. More than 25%

Q25 What are the estimated (next 12 months) changes on the following?

	Significant increase	Slight increase	Slight decrease	Significant decrease	No change
* a) Investment in non-bank FinTech firms/start-ups (e.g. acquisitions, participations, venture capital)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* b) Total IT spending (e.g. IT upgrade/maintenance, automation, innovation, but excluding the amount reported in question a) above).	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* c) Proportion of b) was allocated to digital innovation/new technologies	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Q26 What instruments / measures could support an increase in your investments in fintech companies (or innovation more broadly)?

	Agree	Disagree	No Opinion
* a) Debt and risk sharing schemes (e.g. EU Innovfin credit guarantee instrument)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* b) Other blended finance instruments	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* c) Measures that facilitate collateralisation of intangible assets	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* d) Collaboration/co-investment opportunities alongside VC/PE funds	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* e) Regulatory changes	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Q27 What is the level of involvement of your institution with the application of the following technologies?

	In use / launched	Pilot testing	Under development	Under discussion	No activity
* a) Cloud computing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* b) Digital/Mobile wallets	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* c) Distributed Ledger Technology	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* d) Big Data analytics	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* e) Biometrics	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

*f) Artificial Intelligence (including machine learning and natural language processing)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*g) Smart contracts	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Q28 Are you encountering any legal/regulatory impediments to the adoption of the following technologies?

	In use / launched	Under discussion	No activity
*a) Cloud computing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*b) Digital/Mobile wallets	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*c) Distributed Ledger Technology	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*d) Big Data analytics	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*e) Biometrics	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*f) Artificial Intelligence (including machine learning and natural language processing)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*g) Smart contracts	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

General issues

Q29 Looking at the EU banking sector, you expect other sources of risk or vulnerabilities to increase further in the next 6-12 months. Please indicate possible additional sources of risks and vulnerabilities.

Appendix: Risk Assessment Questionnaire for market analysts

[added on the following pages]

Risk Assessment Questionnaire for Market Analysts

Autumn 2018

Fields marked with * are mandatory.

Respondent information

* First Name

* Last Name

* Position

* Division

* Company

* Email adress

Please select your choice for every box.

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

A. Business model/strategy/profitability

Q1 Short term earnings expectations for banks are:

	Agree	Somewhat agree	Somewhat disagree	Disagree	N /A
* a) Overall profitability will improve	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* b) Overall cost efficiency will improve	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* c) Total revenues will increase	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* d) Net interest margin will increase	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* e) Provisions/Impairments will increase	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* f) No change expected in any of the above categories	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

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

at most 3 choice(s)

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

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

at most 4 choice(s)

- a) Monetary policy divergence between the EU and other countries
- b) Monetary policy trends in the EU
- c) Emerging market risks (e.g. fast decrease in asset quality, higher volatility of asset and FX markets in emerging countries)
- d) IT/cyber risks
- e) Litigation risks of banks
- f) Decreasing market liquidity
- g) Risks of increasing volatility, e.g. in FX and financial markets
- h) Asset price bubble(s)
- i) Re-emergence of the Eurozone crisis
- j) Regulatory and supervisory uncertainty: risk weights (for credit, market and operational risks, TRIM and similar effects, BRDD/MREL/TLAC)
- k) Regulatory easing through competition between countries / regions

- l) Commodity and energy prices / markets
- m) Geopolitical risks and political uncertainty in the EU (finalization of the Banking Union, regional independence etc.)
- n) Geopolitical risks and political uncertainty outside the EU (incl. resurgence of protectionism, currency tensions, elections, political instability, conflicts or standstill in emerging and developed countries)
- o) Uncertainties about the outcome of Brexit negotiations and the implications of the UK's decision to leave the EU

*** Q4 You expect material negative implications to EU banks' business should ongoing negotiations on the terms of the UK's withdrawal from the EU end inconclusive or in a disorderly fashion.**

- Agree
- Disagree
- N/A

*** Q5 The continuity of financial contracts between banks and / or other parties from the EU 27 and the UK is an issue of concern in case of a disorderly or inconclusive conclusion of UK – EU withdrawal negotiations.**

- Agree
- Disagree
- N/A

*** Q6 Looking at the EU banking sector, you expect heightened litigation costs in the next 6-12 months:**

- Agree
- Disagree
- N/A

*** Q7 You see an increase in EU banks' operational risk.**

- Agree
- Disagree
- N/A

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

	Agree	Disagree	N /A
* a. Cyber risk and data security	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* b. IT failures	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* c. Outsourcing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* d. Regulatory initiatives	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* e. Conduct and legal risk	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
* f. Geopolitical risk	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

*g. Organisational change	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*h. Money laundering, terrorist financing and sanctions non-compliance	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
*i. Fraud	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
j. Other	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

B. Funding/liquidity

Q8 Do you expect that banks will be able to meet their subordinated debt instruments issuance plans during the rest of this year?

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

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

	Agree	Somewhat agree	Somewhat disagree	Disagree	N /A
i) for BRRD / MREL / TLAC eligible debt instruments	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
ii) for AT1 instruments	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
iii) for T2 instruments	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

*** Q9 You expect banks to attain more (please do not agree with more than 2 options):**

at most 2 choice(s)

- a) Senior unsecured funding
- b) Instruments eligible for MREL.
- c) Subordinated debt
- d) Secured funding (e.g. covered bonds)
- e) Securitisation
- f) Deposits (from wholesale clients)
- g) Deposits (from retail clients)
- h) Central Bank funding

- i) Short-term interbank funding.
- j) CET1 instruments

C. Asset composition & quality

Q10 Portfolios you expect to increase/decrease in volumes during the next 12 months (on a net basis):

at least 11 answered row(s)

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

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

between 1 and 3 choices

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

if h) Other: please provide the key impediments

Q12 For which sectors do you expect an improvement/deterioration in asset quality in the following 12 months?

at least 11 answered row(s)

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

*** Q13 What are the main obstacles to M&A:**

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

If you agree with e):

- i) From national waivers on liquidity and capital not being exercised
- ii) From other regulatory requirements / supervisory stance/actions/view

Q14 Looking at the EU banking sector, you expect other sources of risk or vulnerabilities to increase further in the next 6-12 months. Please indicate possible additional sources of risks and vulnerabilities.



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