Risk Assessment Questionnaire – Summary of Results

December 2017

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 responses to the RAQs **carried out between September and October 2017**. 38 banks and 21 market analysts submitted the answers. The RAQ results are published together with the EBA's quarterly Risk Dashboard. They are also one of the sources of the EBA's annual Risk Assessment Report, as published on 24 November 2017

The results 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. Results for the same question 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".

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

Summary of the main results

Against the backdrop of benign market conditions, the results of the EBA's RAQs show that banks' profitability remains a challenge, even though a slight improvement is expected for the near future. Volume growth is anticipated in specific portfolios like SME and retail lending. On the funding side, banks are expected to attain more instruments eligible for MREL going forward, even though the uncertainty on the specific MREL requirements is considered as a constraint to their issuance. Cyber risk and data security are considered as the main drivers for an increase in operational risk. They are also assumed to be the main factors that might negatively influence market sentiment, along with the uncertainties about the UK's decision to leave the EU.

Business model / strategy / profitability

- Most of the banks **expect a change** in their assumed level of **Cost of Equity**. 65% of the banks estimate their CoE between 8% and 10% (up from about 60% in June 2017 and 50% in December 2016), while only less than 8% estimate their CoE at a level below 8% (down from more than 10% in June 2017 and more than 15% in December 2016). The share of banks that agree that their current earnings are covering the CoE remains unchanged at about 50%. Moreover, half of the banks replied that they can operate on a longer-term basis with a Return on Equity (RoE) ranging between 10% and 12% (down from 60% in June 2017). At the same time, the number of banks that are able to operate with a RoE below 10% increased from 20% (June 2017) to now 30%. *(Questions 2, 6 and 7 for banks)*.
- On a similar note, about 75% of banks "agree" and "somewhat agree" that their **profitability** will increase in the next six to twelve months, down from 80% in June. Similarly, more than 80% ("agree" and "somewhat agree") of the market analysts assume that overall profitability will improve, which is unchanged from June 2017. Banks consider net fees and commission income as the main driver for increasing profitability (about 90% "agree" and "somewhat agree"), followed by further costs reduction (about 80% "agree" and "somewhat agree"). Net interest income is considered as the third most important driver (about 60% "agree" and "somewhat agree"). *(Questions 3 and 4 for banks and Question 1 for market analysts)*
- **Geopolitical risks** remain a key risk according to market analysts (agreement of 60% down from more than 65% in June 2017). The uncertainties about the **UK's decision to leave the EU** and **monetary policy trends** rank high in their opinion (agreement of about 30% for each driver), while a smaller number of market analysts see litigation risks as drivers for negative market sentiment (down from almost 70% in December 2016 and 30% in June 2017 to less than 25% in December this year). The general perception on the risks from elections and referendums decreased with respect to June, as drivers such as **IT/cyber risks** or the risk of asset price bubbles (both at 24%). *(Question 3 for market analysts*)
- More than half of market analysts expect material negative implications to EU banks' business, should ongoing negotiations on the **terms of the UK's withdrawal from the EU** end in an inconclusive or disorderly fashion. The answer to this question for banks shows that only 10% of them saw implications for their own business, suggesting a degree of cautious thinking, as a large number of them (almost

40%) expects the **continuity of financial contracts** between parties from the EU 27 and the UK to be a source of concern. *(Question 8 and 9 for banks and Question 4 for market analysts)*

Funding / liquidity

- More than 60% of banks expect a **steepening yield curve** to positively impact their bank's earnings in the next 6 – 12 months, while in June around 30% of them more broadly stated that they would see a material impact (positive or negative). *(Question 10 for banks)*
- Less market analysts expect that banks will be able to issue **AT1 instruments** during the rest of 2017 (about 60% from almost 70% in June) whereas almost 70% of them expect that banks will be able to issue **T2 instruments** (up from less than 60% in June). 60% of them expect that banks will be able to issue **MREL/TLAC eligible debt instruments**. *(Question 7 for market analysts)*
- The majority of banks intend to attain more **instruments eligible for MREL** (agreement of almost 55%; this debt class was newly added in this version of the RAQ), while a smaller number intends to rely on **retail deposits** (35% from 55% in June this year). Only 15% of the banks plan to issue **senior unsecured** funding (45% in June). Also less market analysts expect banks to issue more senior unsecured instrument (down to 40% from almost 60% in June), while 86% of them expect banks to attain more instruments eligible for MREL. Banks believe that the main constraints to issue subordinated instruments eligible for MREL are the **uncertainty on the specific MREL requirements**, namely the amounts (60% of banks) and the eligibility of the instruments (55%). Neither banks nor market analysts assume that more central bank funding will be attained (agreement of 0%, down from almost 20% for banks and 45% for market analysts in June 2016). *(Question 12 and 13 for banks and Question 8 for market analysts)*

Asset volume trends and asset quality

- In line with June 2017 and December 2016, the majority of the banks plan to increase their volumes of **SME financing** (more than 80%), while a smaller number of banks says that they will increase their **consumer credit** and **residential mortgage** exposures. **Trading** is increasingly considered as a portfolio for which volumes are expected to increase (more than 10% from 3% in June), along with structured finance (45% with respect to 30% in June). Market analysts show a similar opinion on the portfolios for which an increase is expected (agreement of about 95% for SME loans) even though they also see an increase in **corporate loans** (for about 90% of them). *(Question 15a for banks and Question 9a for market analysts)*
- The portfolio for which the biggest share of banks plan a decrease in volumes, in line with June 2017, is **Commercial Real Estate** (CRE), including all types of real estate developments (agreement of more than almost 30%, slightly up since June). Compared to June this year, also **sovereign and institutions**, along with **asset finance** (shipping, aircrafts etc.), rank high in the portfolios for which a decrease in volume is expected (both at almost 30% from 20%). Less market analysts consider CRE as a portfolio which will decrease (agreement of 50%, down from 70% in June). Finally, about 90% ("agree" and "somewhat agree") of the market analysts expect more **asset sales** in specific loan portfolios (e.g. CRE) and a lower number (less than 80%) in specific geographies. *(Question 15b for banks and Questions 9b and 11 for market analysts)*

- Banks assume that nearly the same portfolios which they plan to increase in volumes will **improve in terms of asset quality** (namely **SME**, for more than 50% of them but also **corporate loans** with an increasing trend with respect to June). A larger number of banks expect **trading** to improve in terms of asset quality in the next twelve months (almost 20% agreement from 5% in June), which might be the reason for the expected increase in volume reported for this portfolio (see answer to Question 15a for banks). Market analysts' expectations are relatively similar: improvements in asset quality are mainly expected for SME financing (increasing to 75% from 70% in June) and for corporate loans (75% from 50% in June). *(Question 16a for banks and Question 12a for market analysts)*
- A **deterioration in asset quality** is mainly assumed for **asset finance**, even though for a lower portion of respondents (agreement of about 13% by banks, down from 20% in June and about 40% in December 2016), whereas for market analysts the agreement is of almost 60%, up from 50% in June. A higher number of banks expect an increase in the level of **impairments** in the next 12 to 18 months (almost 30% from 20% in June), while more than 40% expect provisions to remain at roughly the same level (down from 55% in June). *(Questions 16b and 18 for banks and Questions 12b for market analysts)*
- Banks consider **lengthy and expensive judiciary processes to resolve insolvency** and to **enforce the repossession of collaterals** as one of the main impediments to resolve non-performing loans (NPL) (agreement of about 55%, slightly down compared to June 2017). The **lack or scarce liquidity of a market for transactions in NPLs and / or collaterals** is considered another important impediment (agreement of about 55% up from 50% in June). *(Question 19 for banks)*

Conduct / reputation / operational risk

- More than 55% of the banks expect an increase in **operational risks** in their institution (up from less than 45% in June). The main drivers identified by the banks are **cyber risk and data security** (around 40% of banks) and compliance with regulatory initiatives (25%). *(Question 22 for banks)*

FinTech

- In this issue of the RAQ banks were also asked to give feedback on how their business is affected by FinTech related trends.
- The majority of banks see FinTech companies as a **threat to revenues** in business lines such as payments and settlements (60%) and retail banking (almost 50%). However, almost 40% of banks instead consider technology as an **opportunity to increase revenues** in the commercial banking line. Banks mostly reported to be using biometric features (as alternative to conventional authentication through the username/password/token systems) and digital wallet solutions for mobile payments using near-field communication (NFC). (*Question 23 and 24 for banks*)
- When asked what their current relation with FinTech companies and emerging technologies/products is, more than 90% of banks responded to be **forming commercial partnerships** (e.g. joint ventures) with existing Fintech companies to offer new products/services. 100% of them believe that the main driver for having a relation with FinTech companies and/or products/services is the increase in revenues. (*Questions 25 and 26 for banks*)

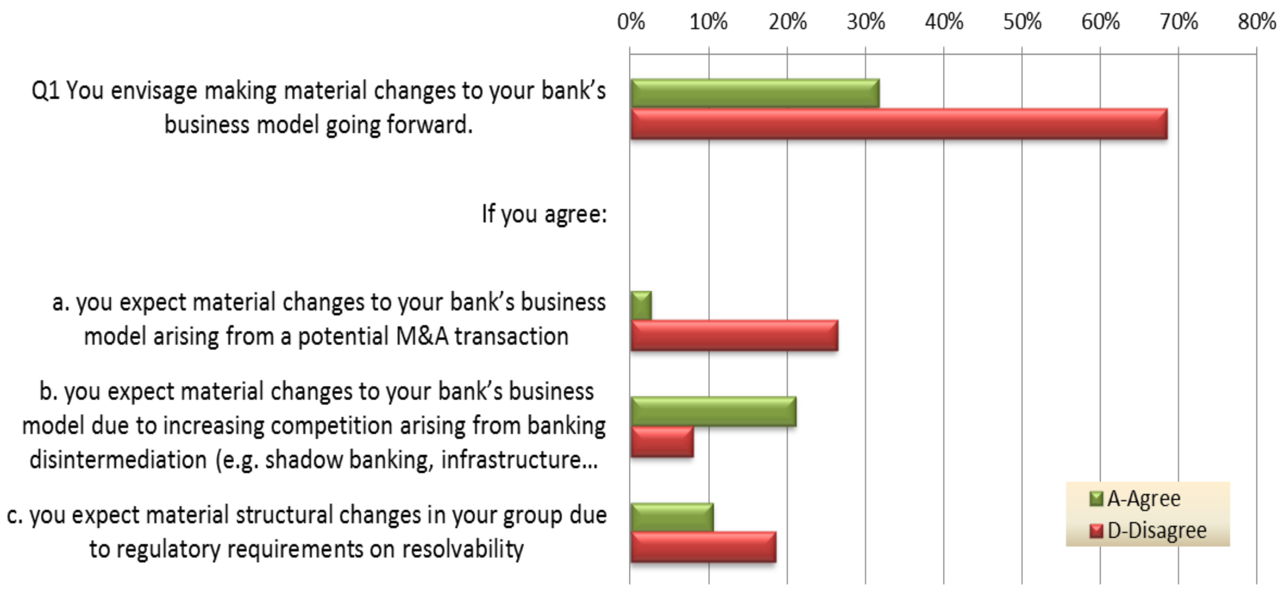
General open questions

- In the open question about sources of risks and vulnerabilities which are expected to increase further in the next six to twelve months, banks mainly refer to **regulatory risks** and other types of risks (such as shadow banking, Fintech and cyber risk). Market analysts mainly refer to the introduction of **new accounting standards**.

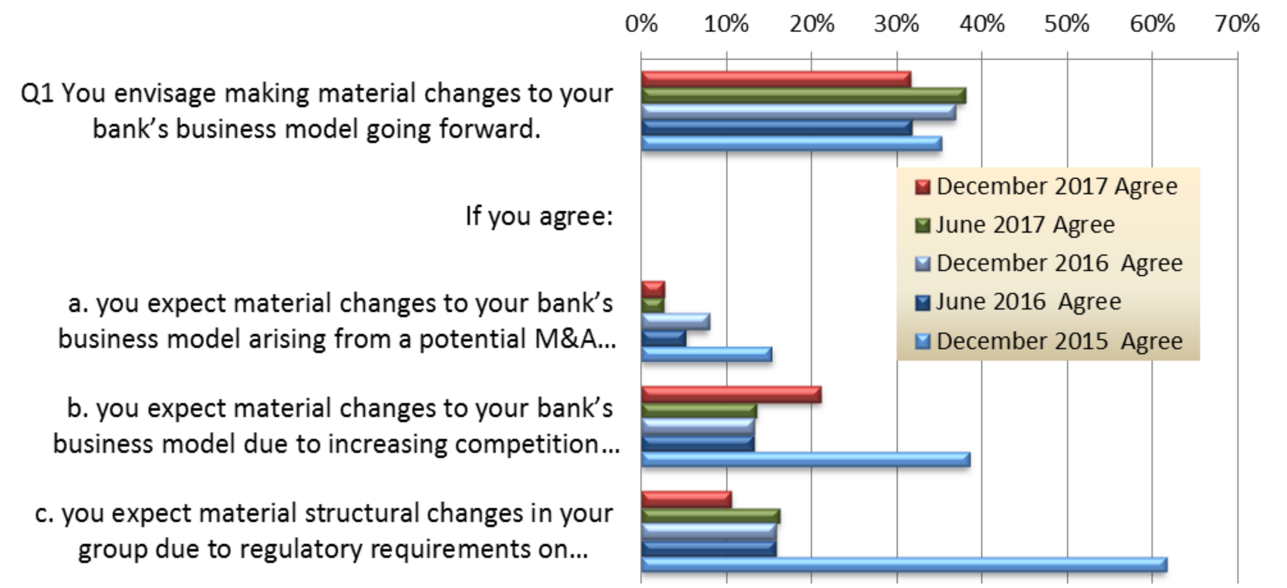
Banks' questionnaire

1. Business model / strategy / profitability

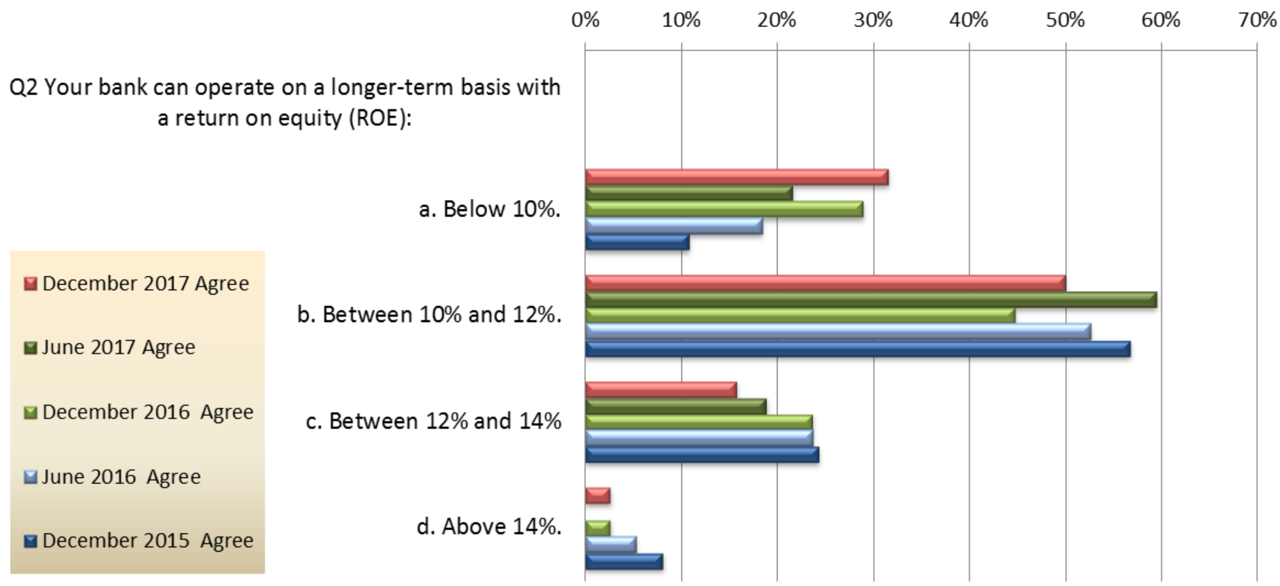
Question 1: December 2017 results



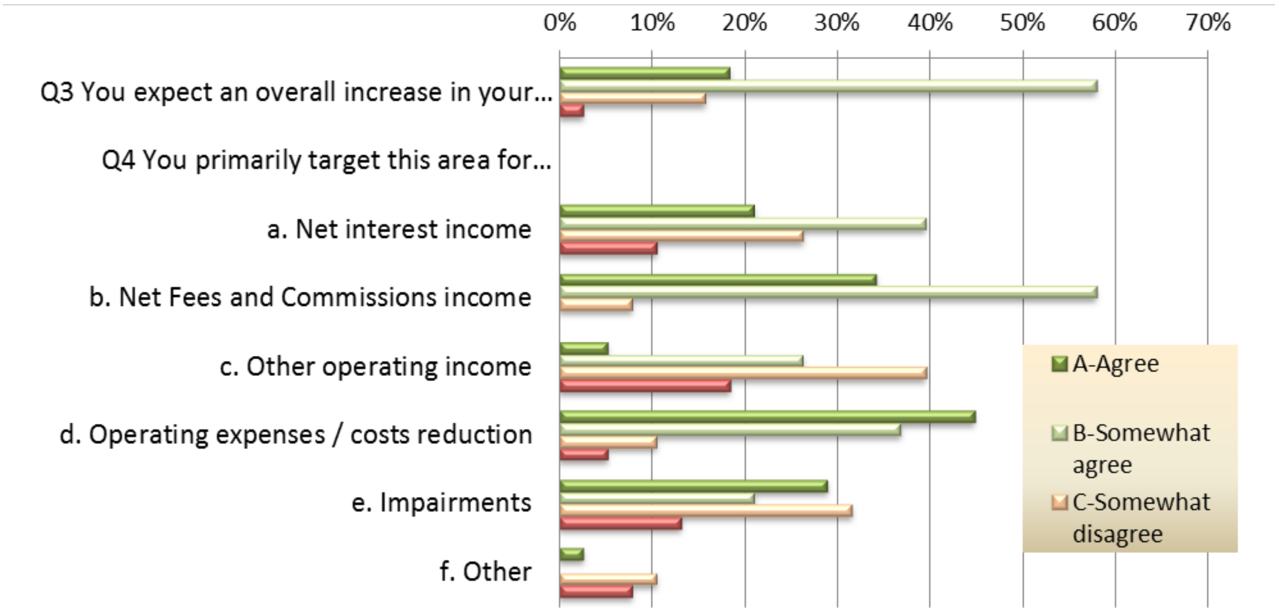
Question 1: Comparison with former results



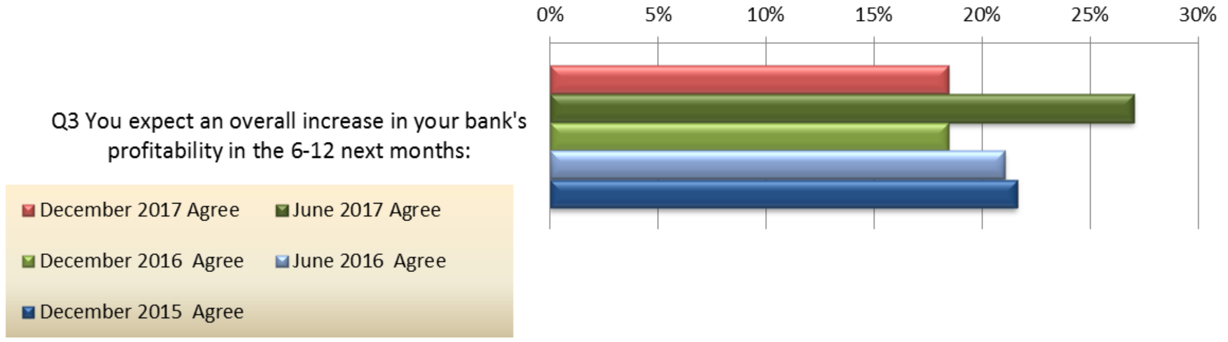
Question 2 (only "agree" as possible answer)



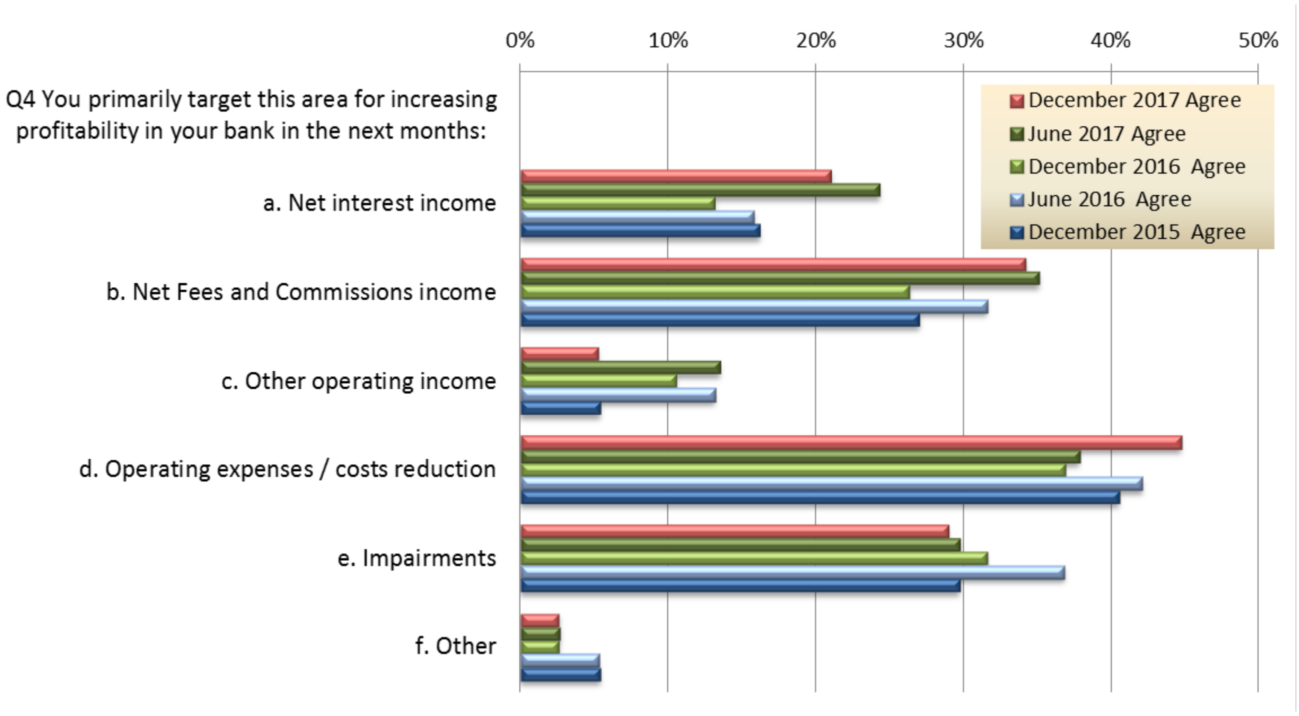
Question 3 and 4: December 2017 results



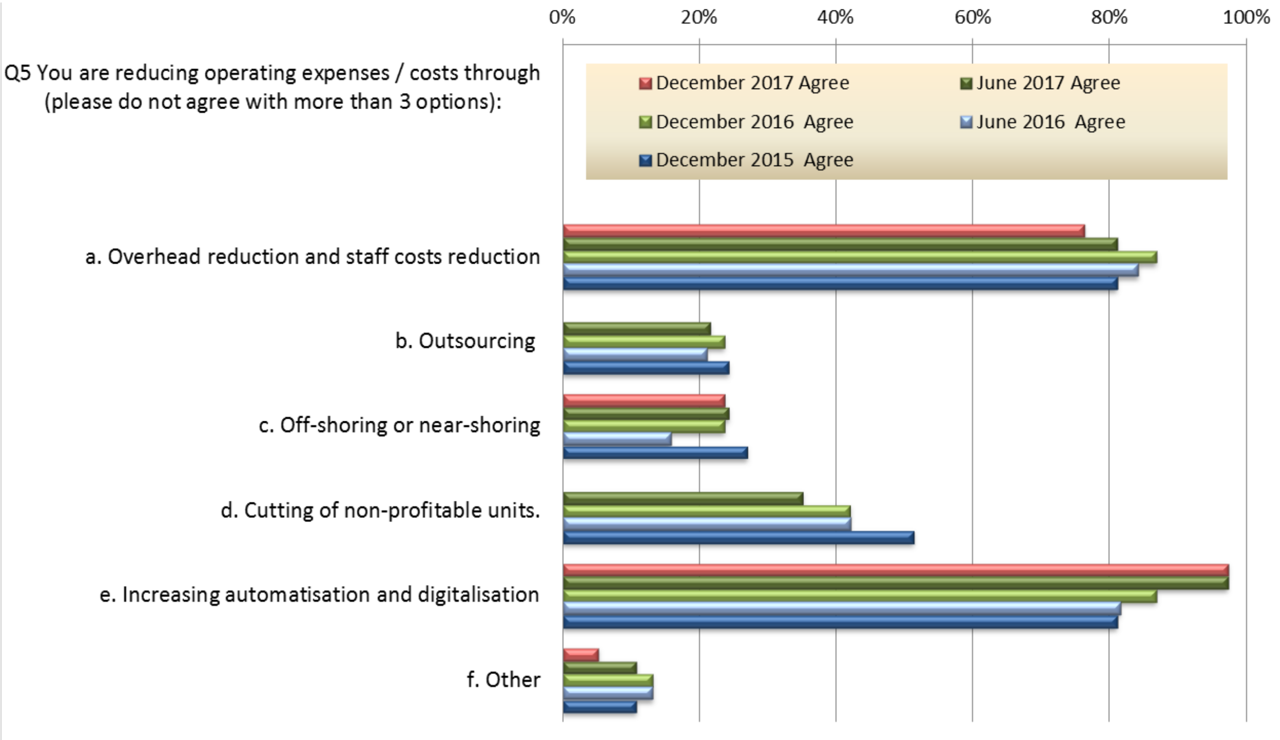
Question 3: Comparison with former results



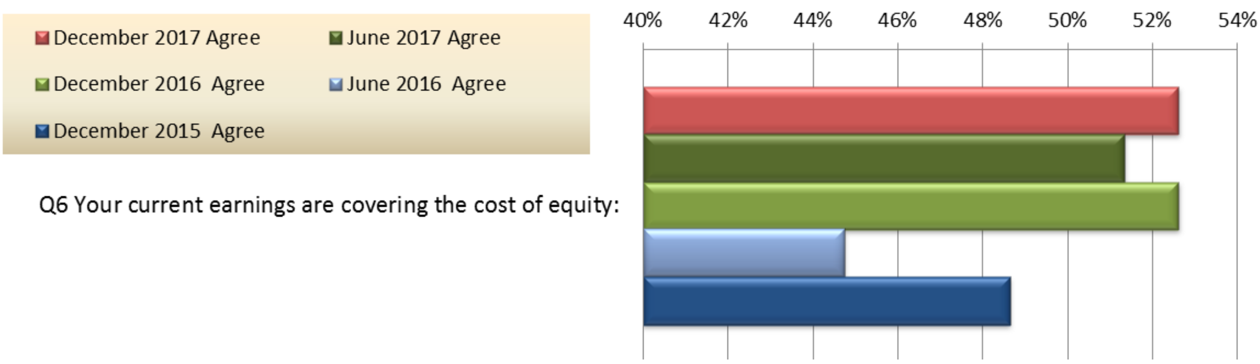
Question 4: Comparison with former results



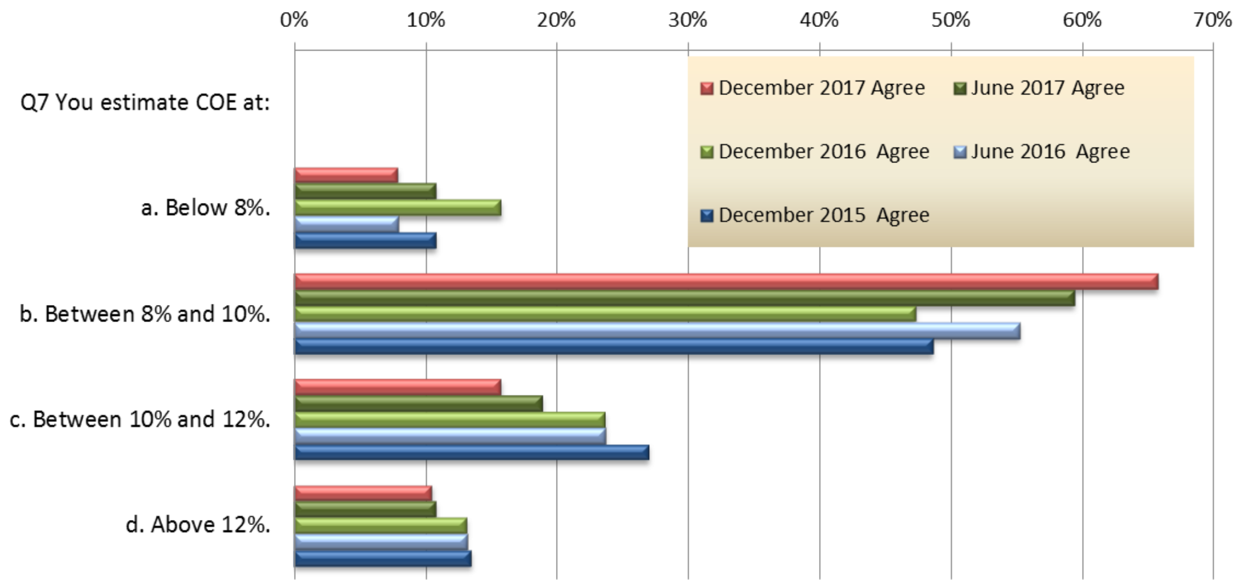
Question 5 (only "agree" as possible answer)



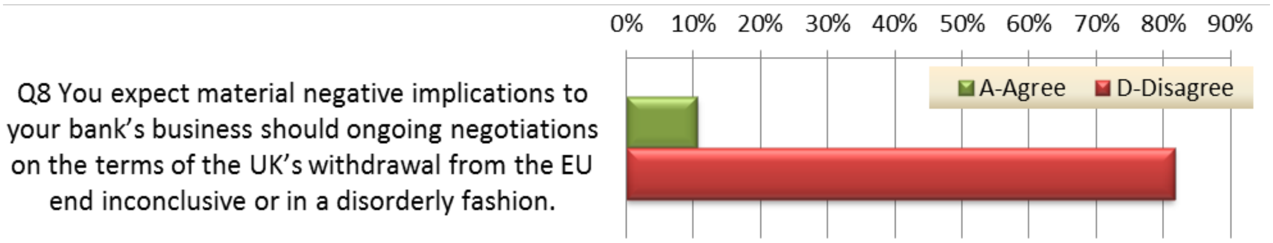
Question 6 (only "agree" as possible answer)



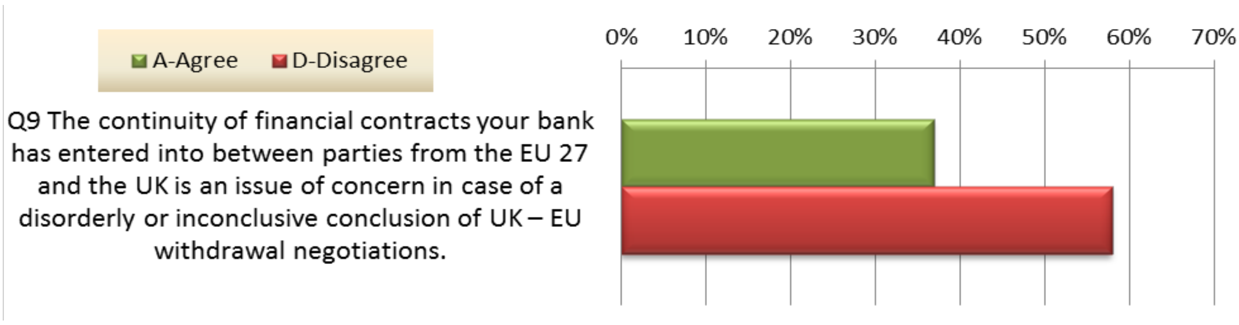
Question 7 (only "agree" as possible answer)



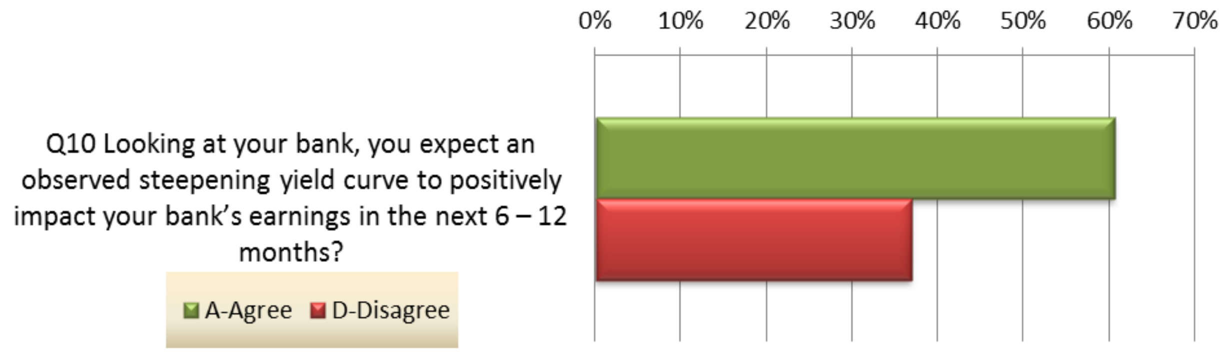
Question 8: December 2017 results



Question 9: December 2017 results

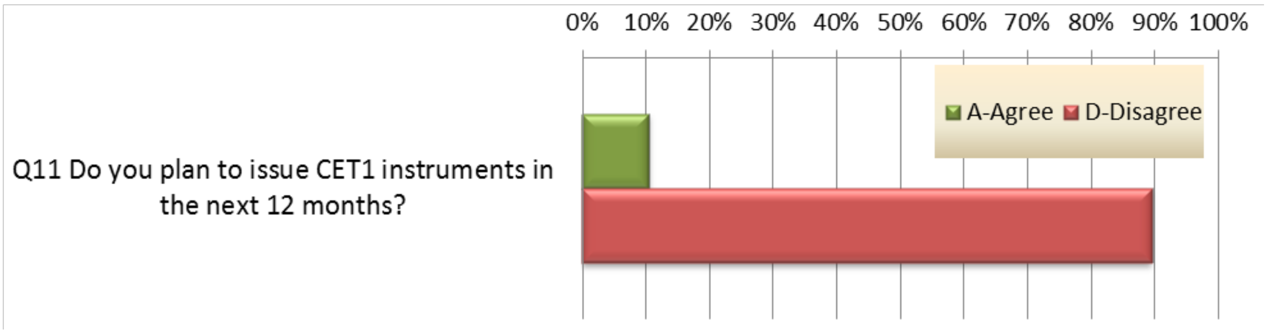


Question 10: December 2017 results

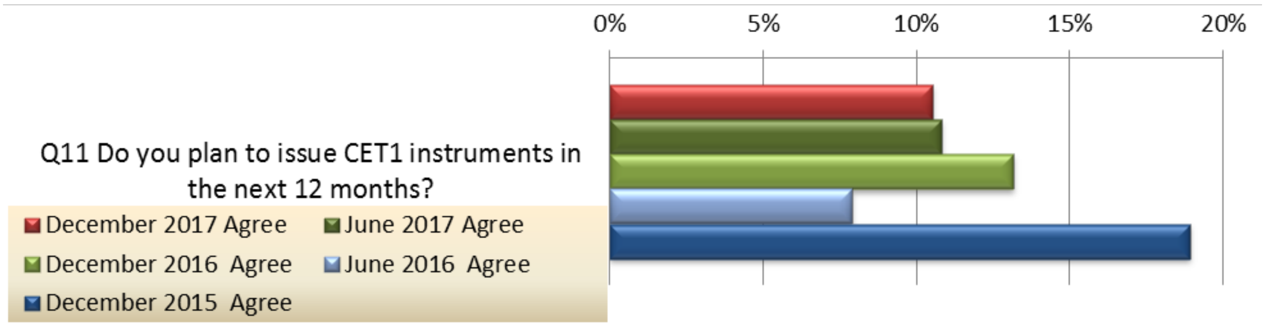


2. Funding / liquidity

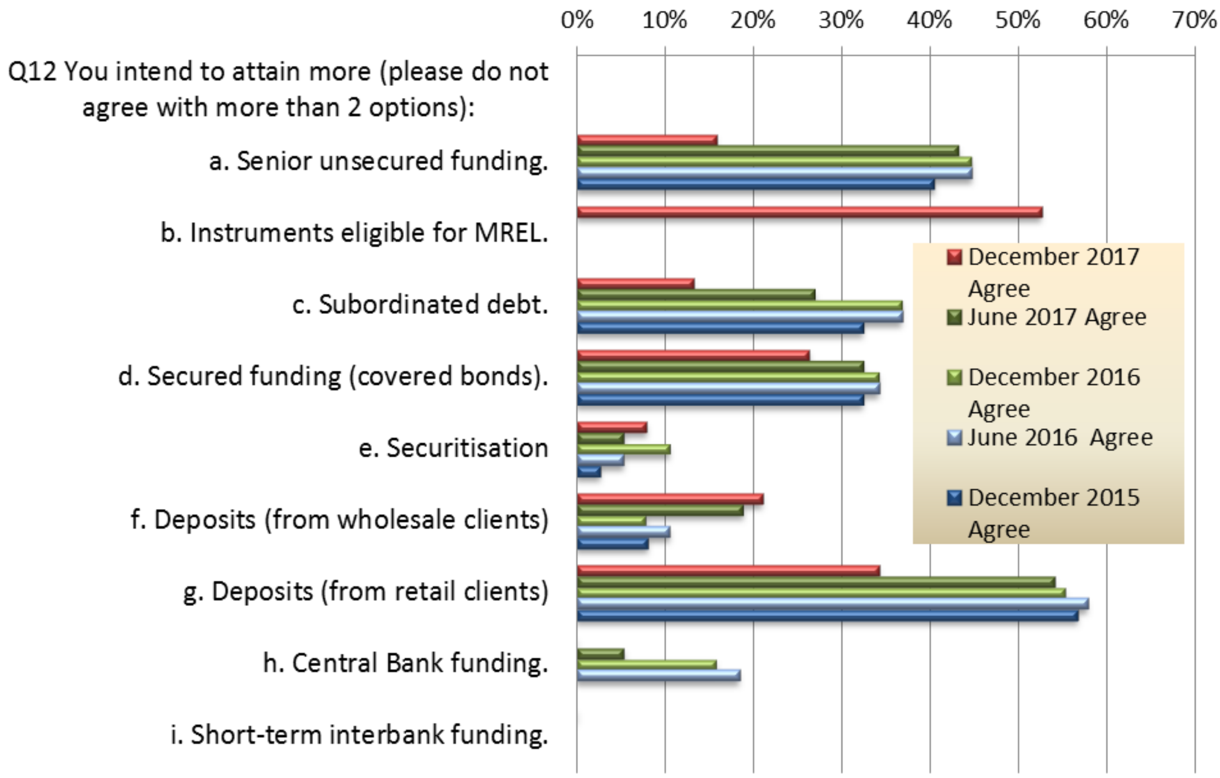
Question 11: December 2017 results



Question 11: Comparison with former results

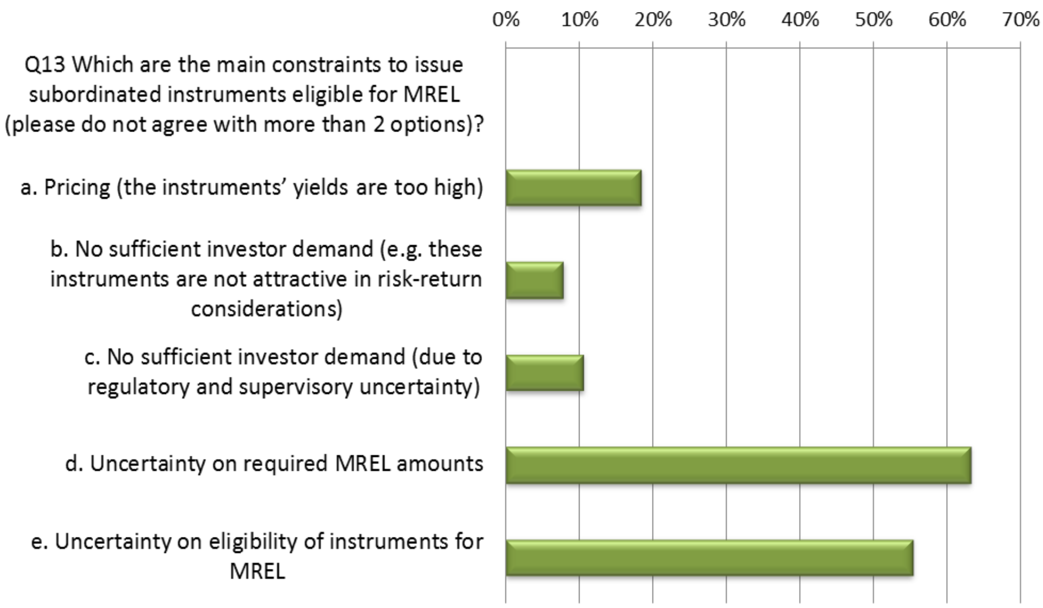


Question 12 (only "agree" as possible answer)



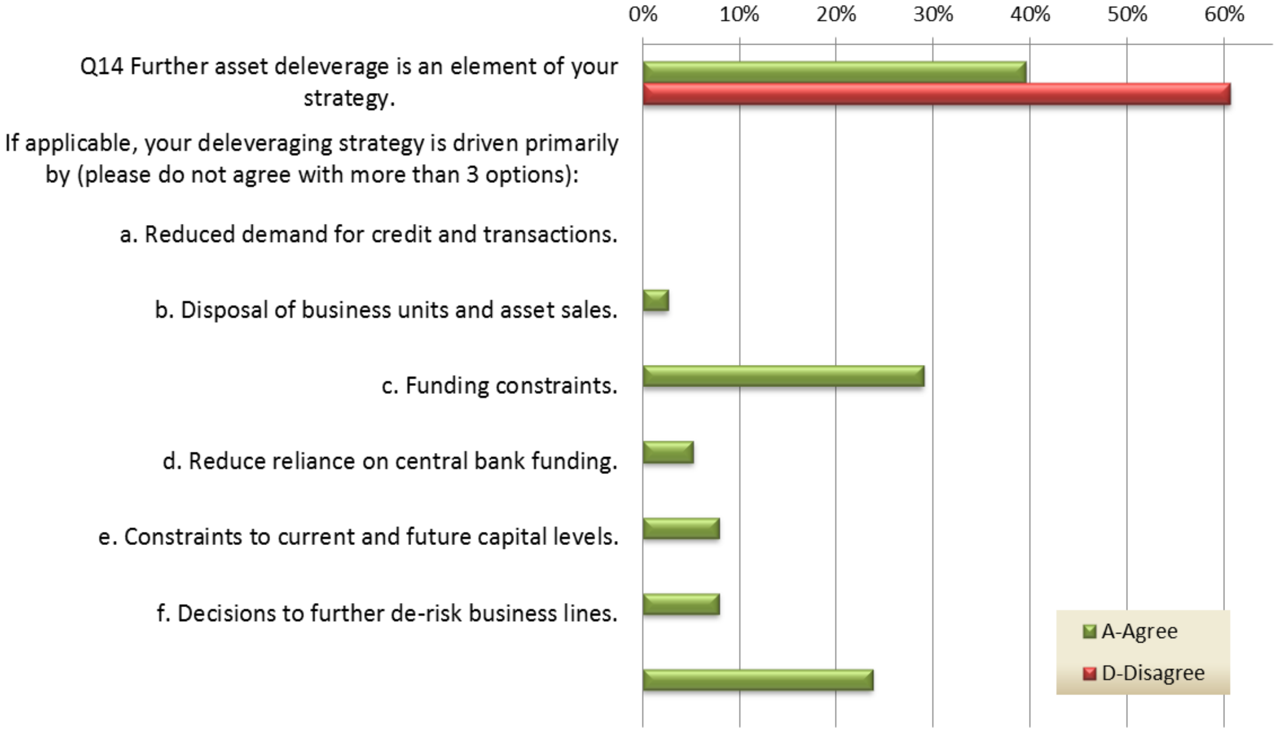
Option b) was newly added to the questionnaire in December 2017 and for this reason it does not show any comparative data for former periods.

Question 13: December 2017 results

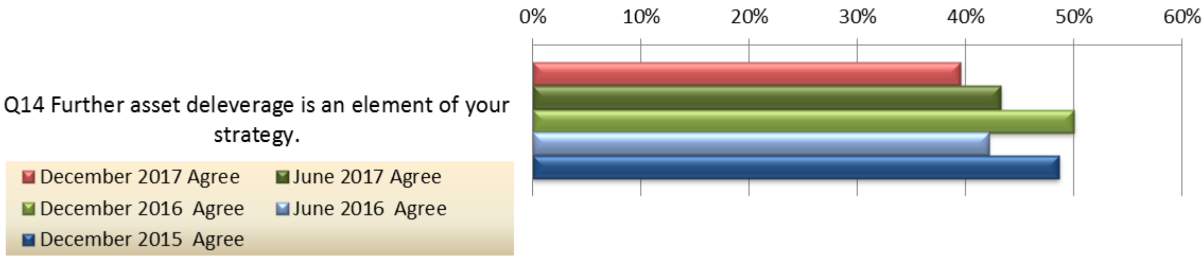


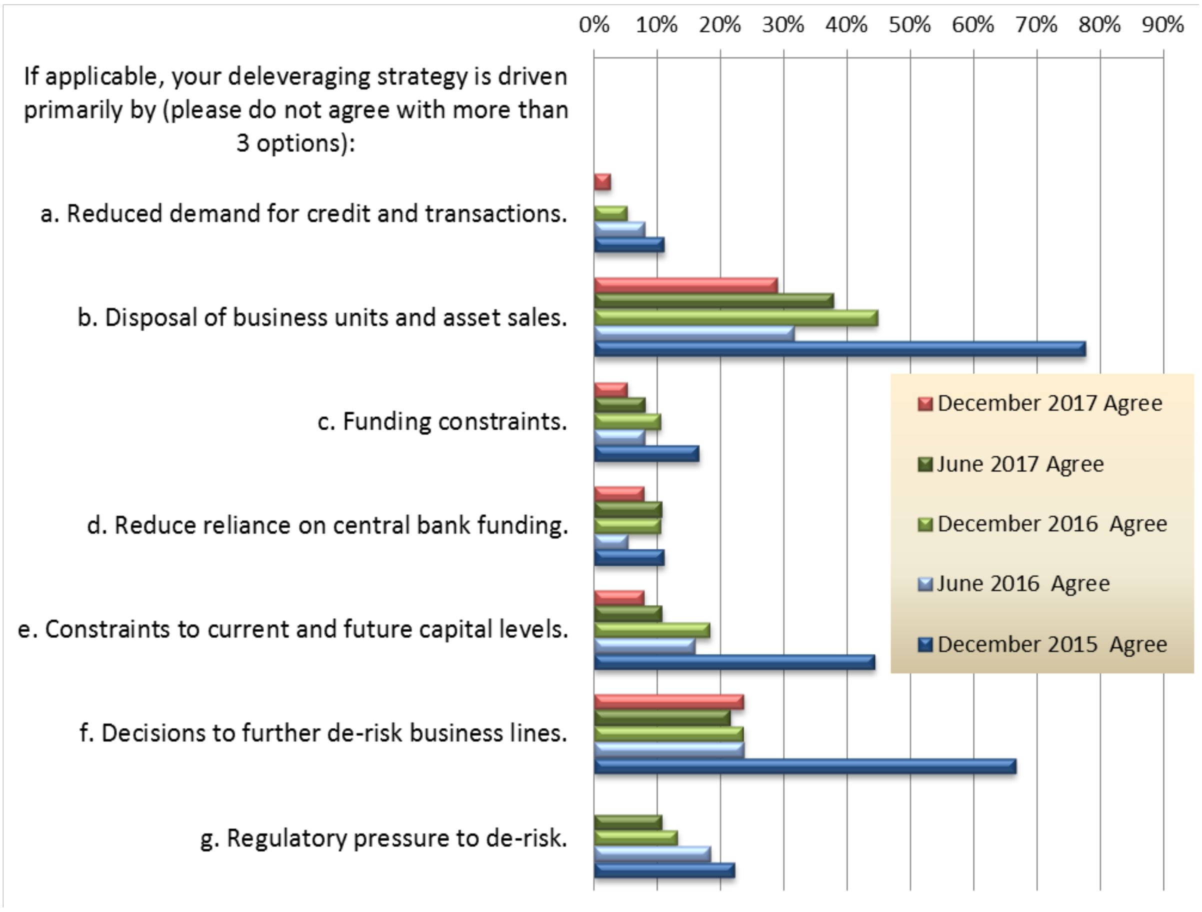
3. Asset volume trends

Question 14: December 2017 results

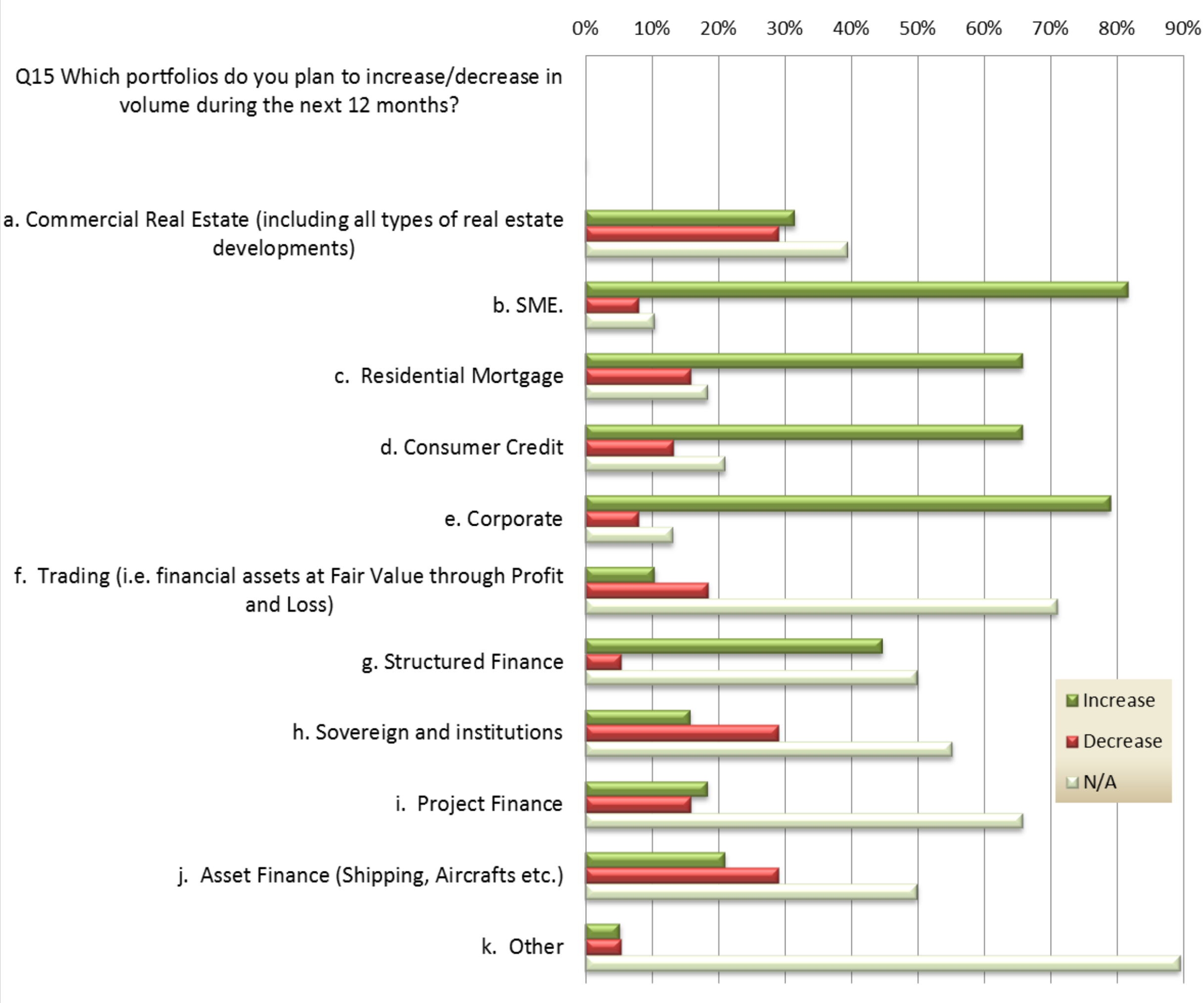


Question 14: Comparison with former results

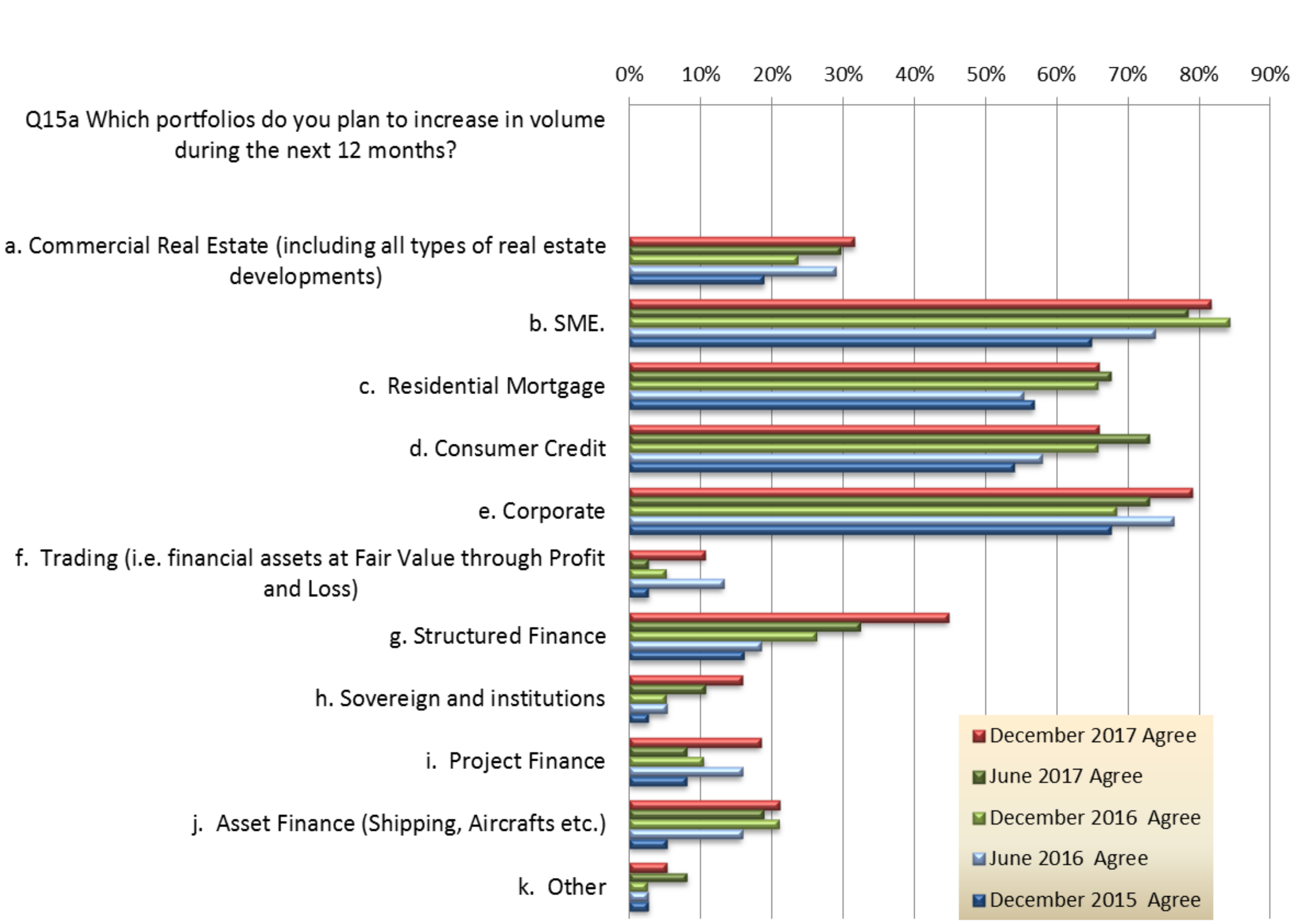



0%
10%
20%
30%
40%
50%
60%
70%
80%
90%
If applicable, your deleveraging strategy is driven primarily by (please do not agree with more than 3 options):
a. Reduced demand for credit and transactions.
b. Disposal of business units and asset sales.
c. Funding constraints.
d. Reduce reliance on central bank funding.
e. Constraints to current and future capital levels.
f. Decisions to further de-risk business lines.
g. Regulatory pressure to de-risk.
December 2017 Agree
June 2017 Agree
December 2016 Agree
June 2016 Agree
December 2015 Agree

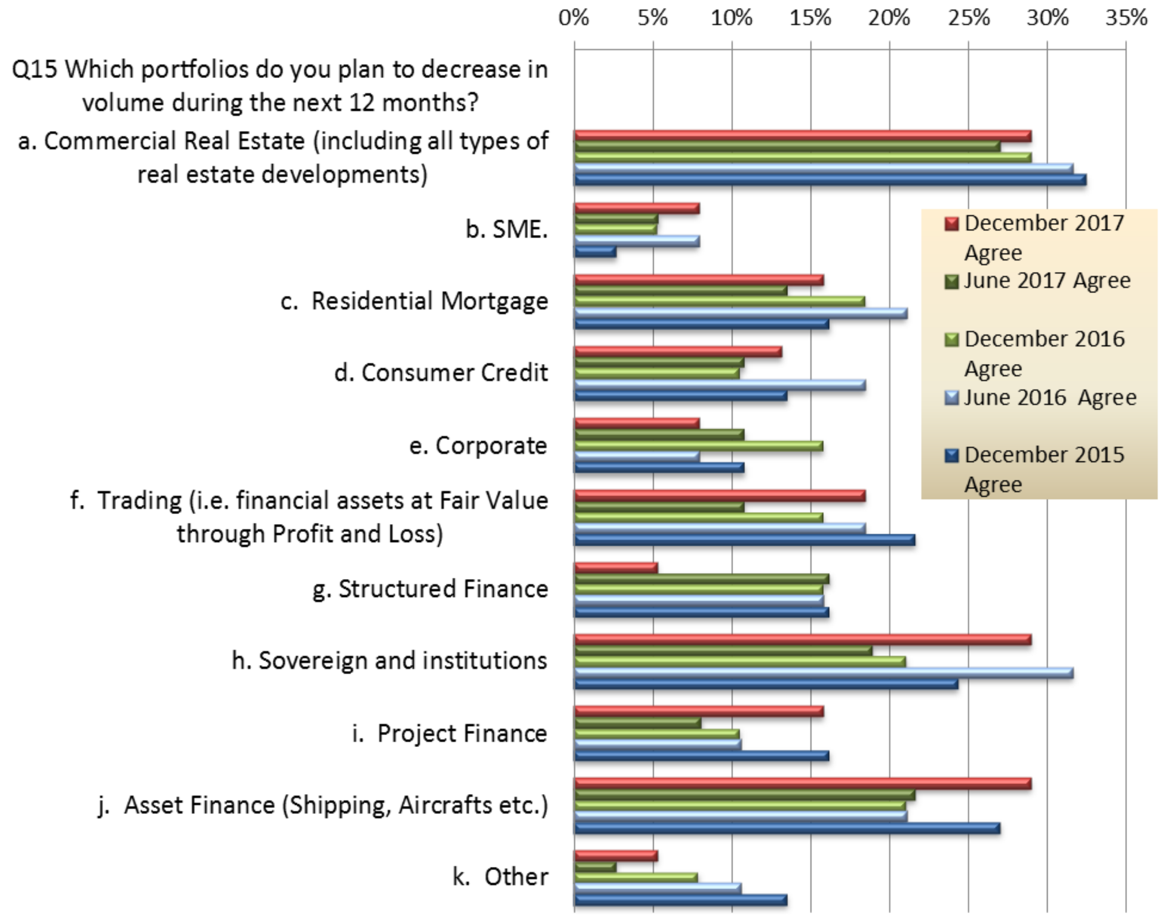
Question 15: December 2017 results



Question 15a: Comparison with former results

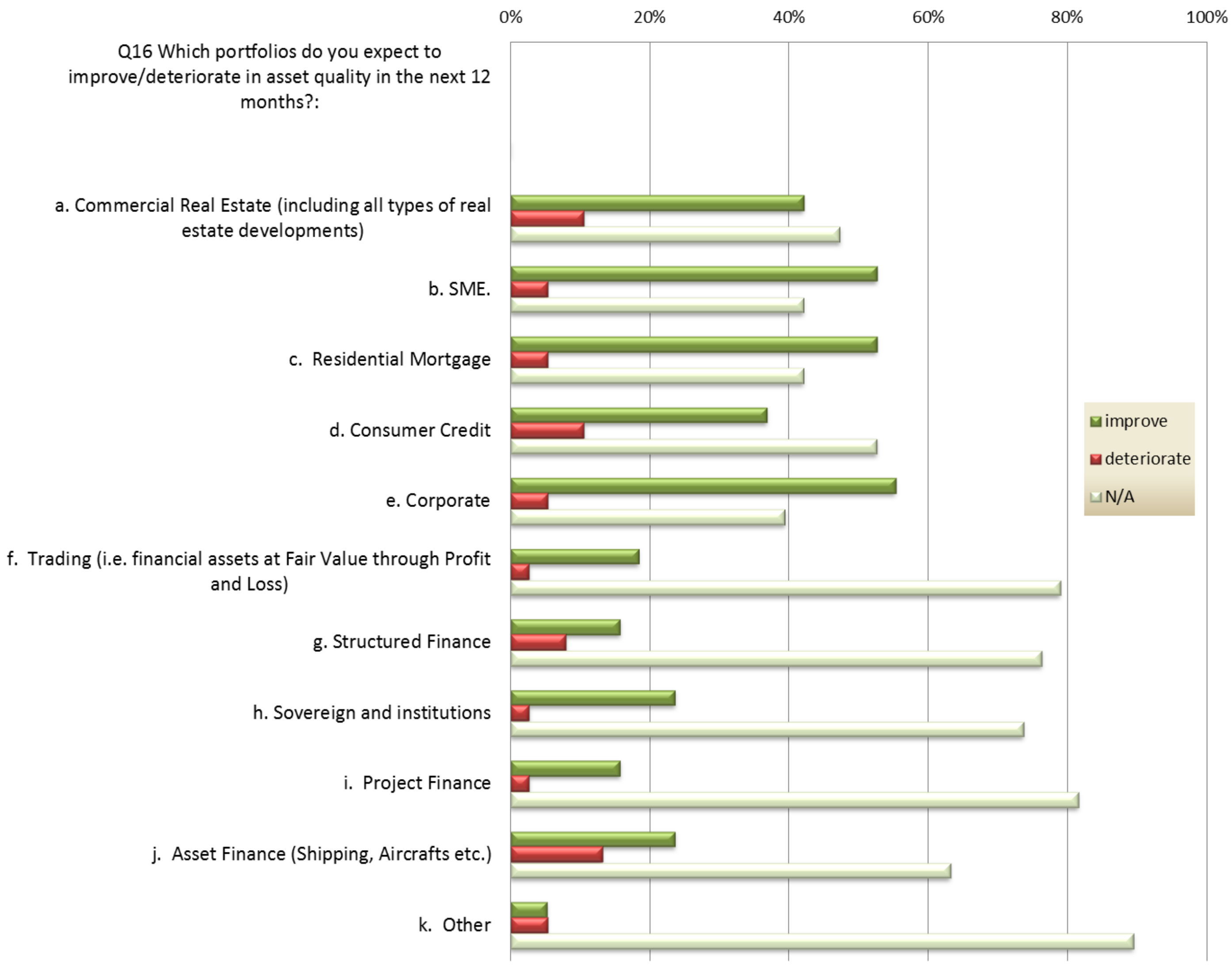


Question 15b: Comparison with former results

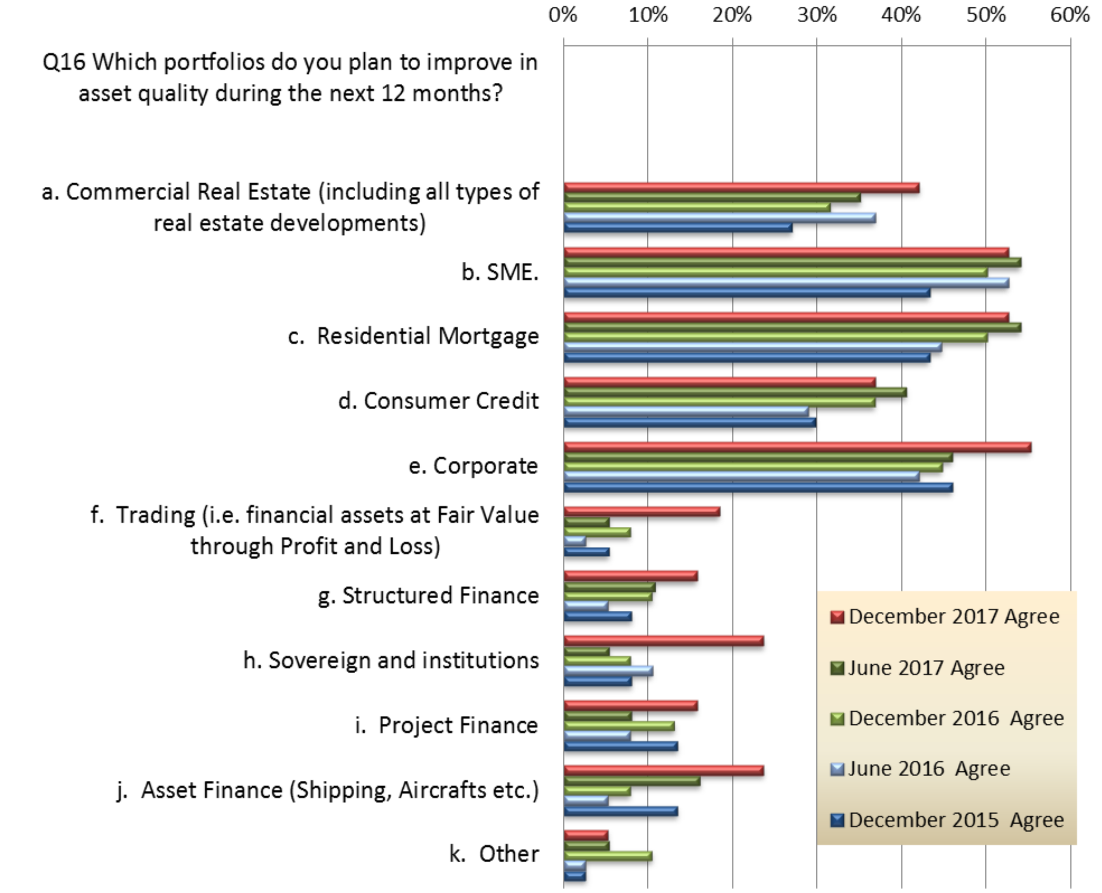


4. Asset quality

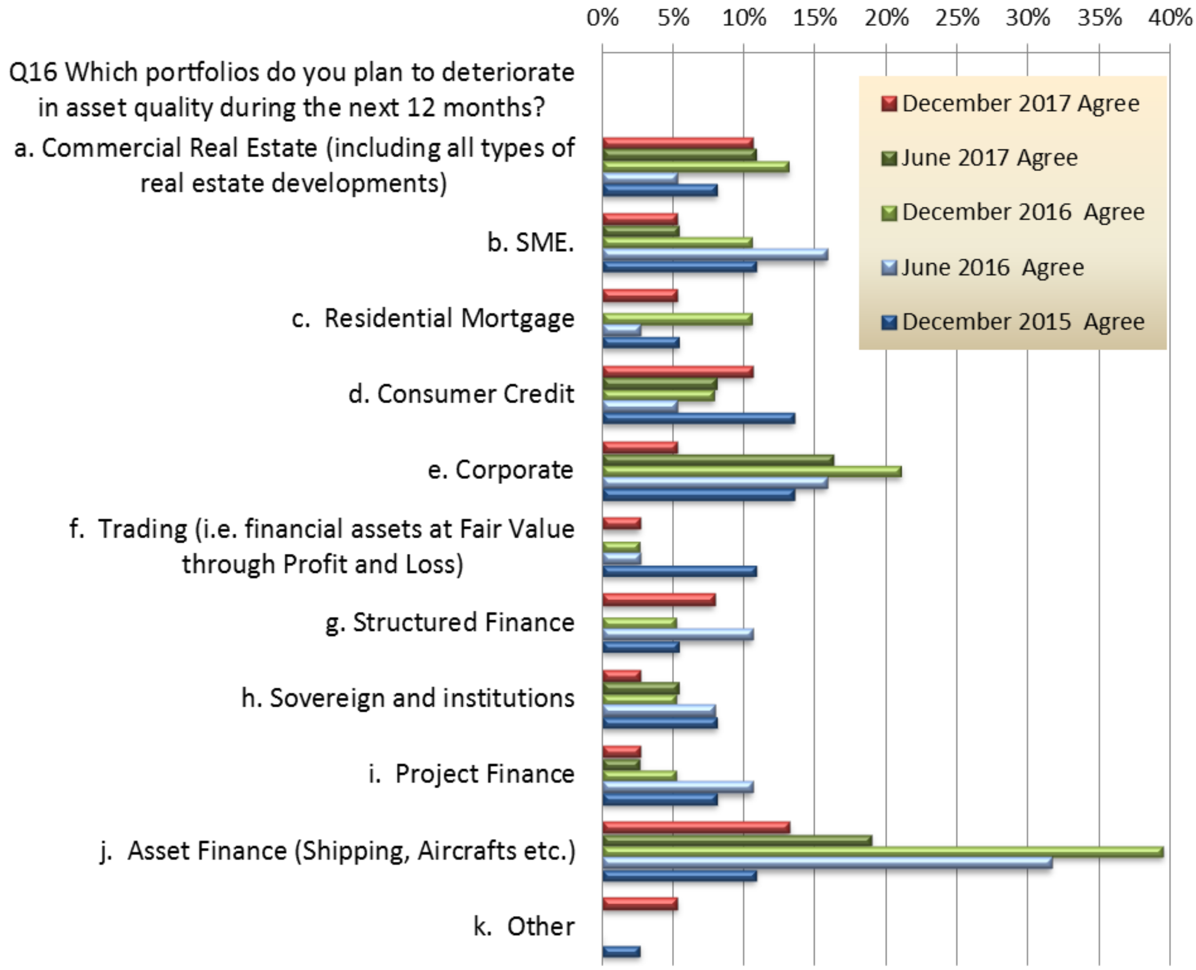
Question 16: December 2017 results



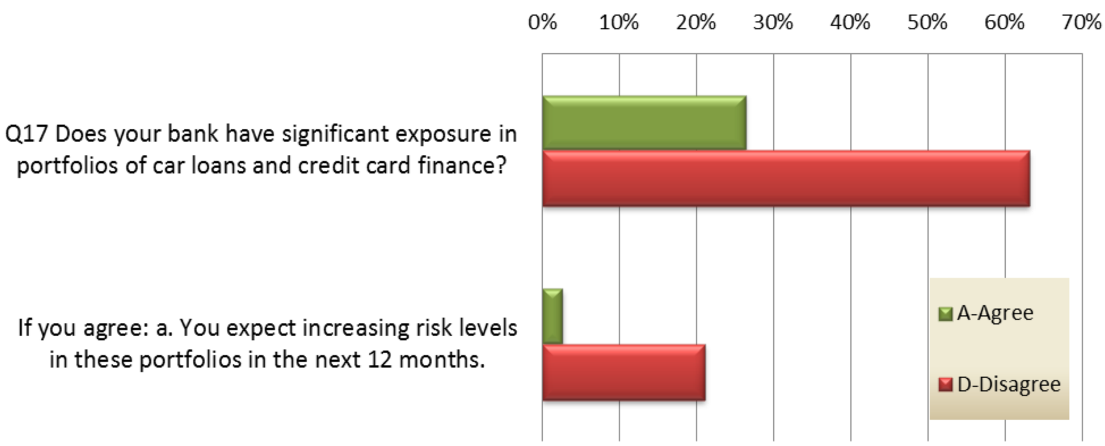
Question 16a: Comparison with former results



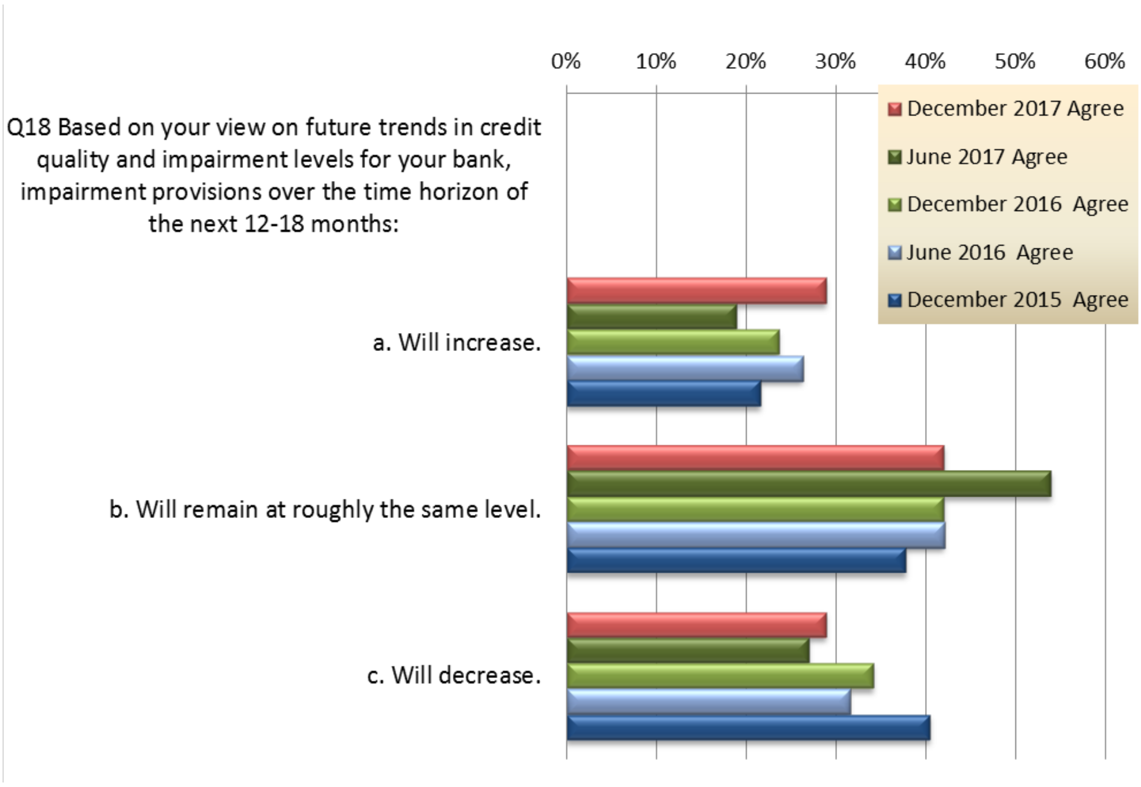
Question 16b: Comparison with former results



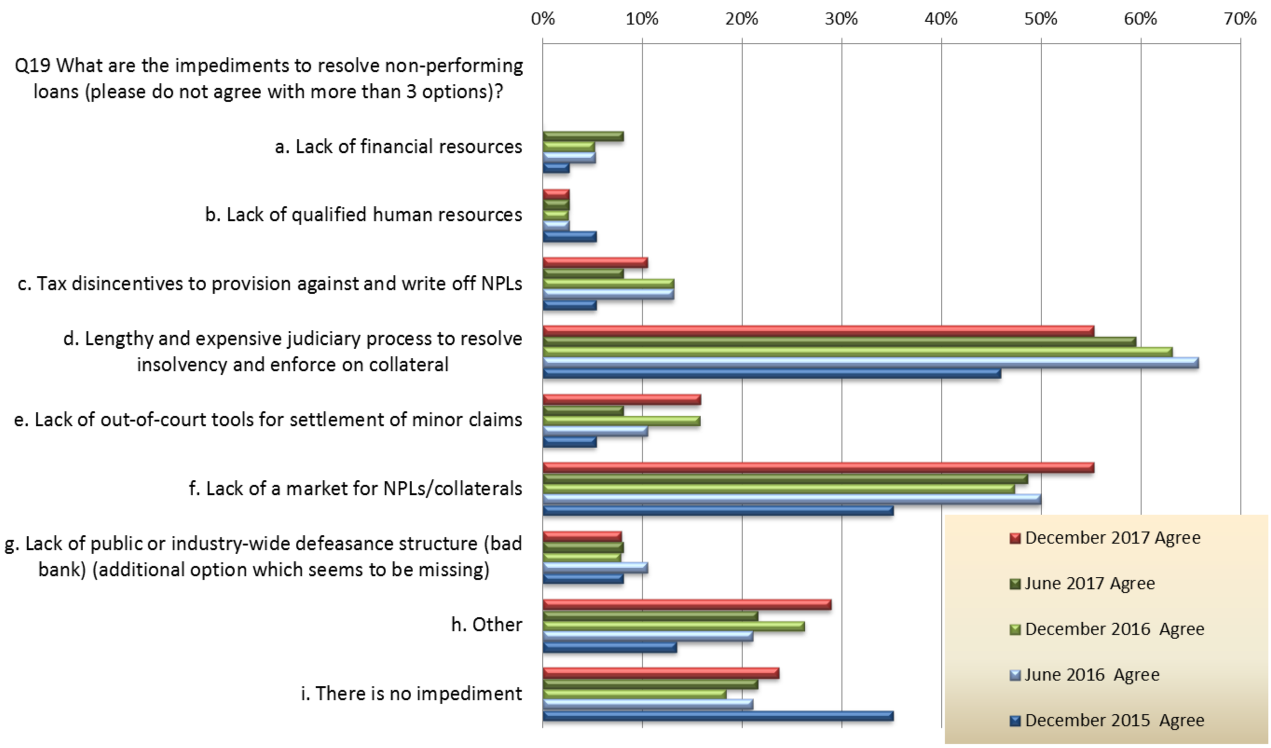
Question 17 (only "agree" as possible answer)



Question 18 (only "agree" as possible answer)

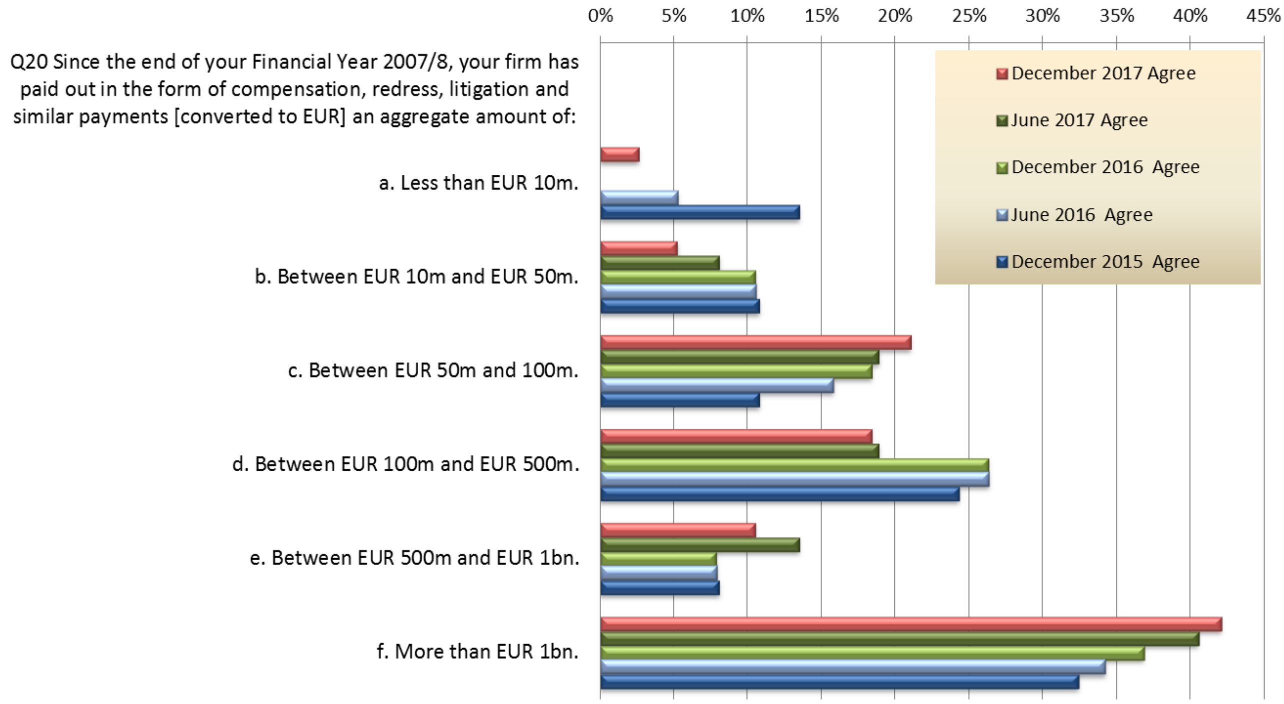


Question 19 (only "agree" as possible answer)

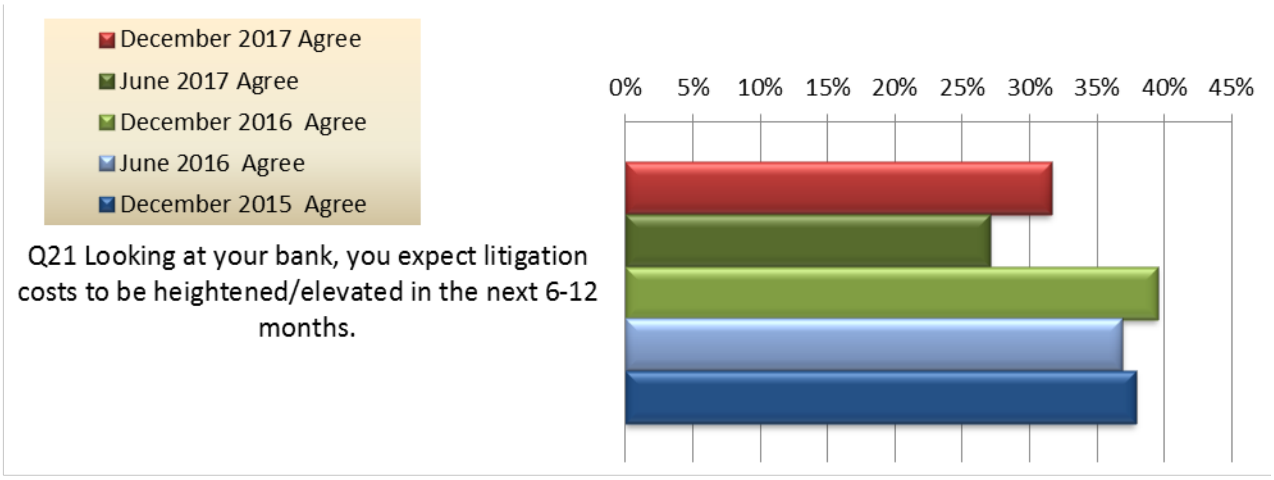


5. Conduct, reputation and operational risk

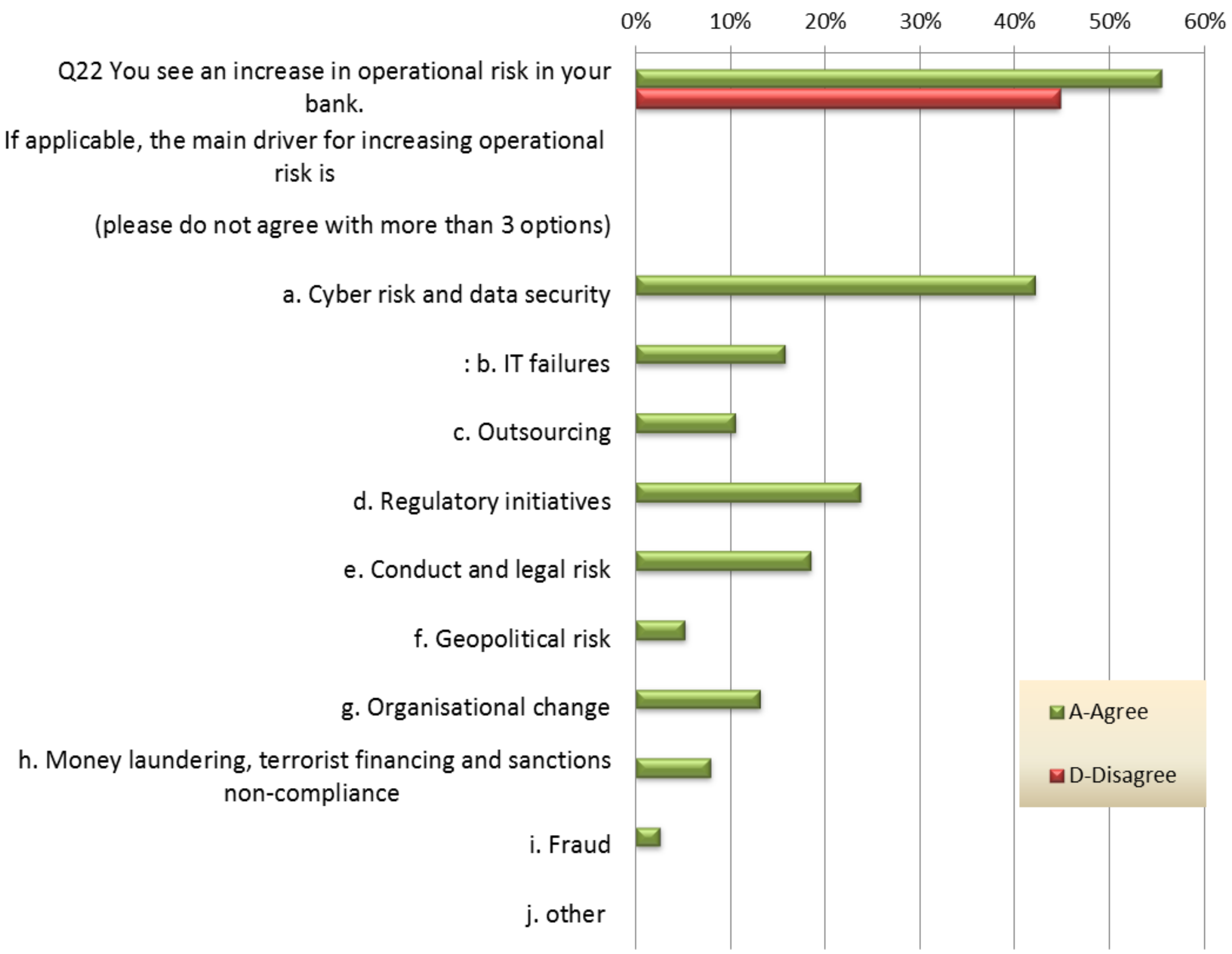
Question 20 (only "agree" as possible answer)



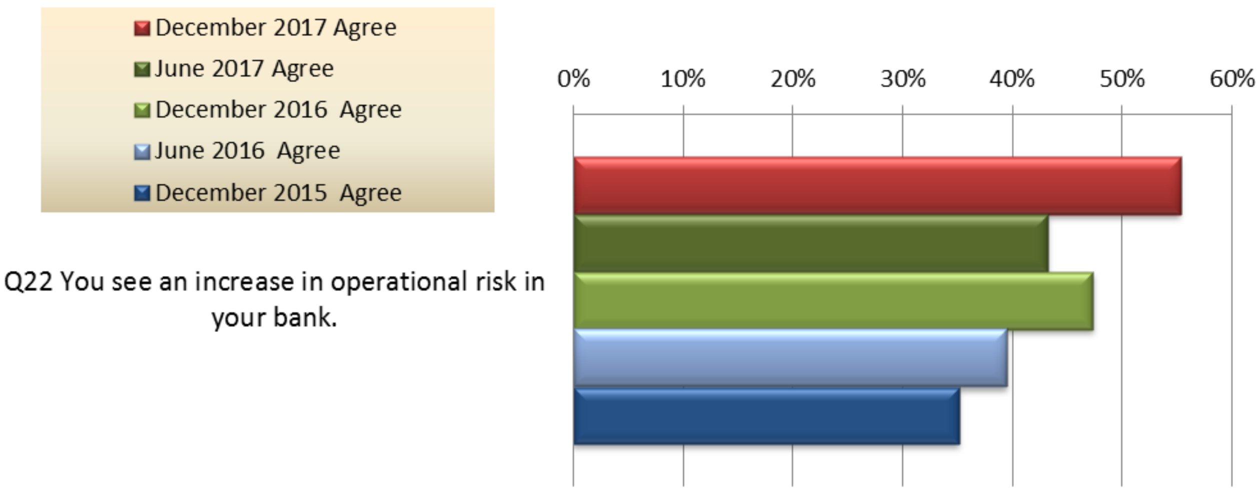
Question 21(only "agree" as possible answer)



Question 22: December 2017 results

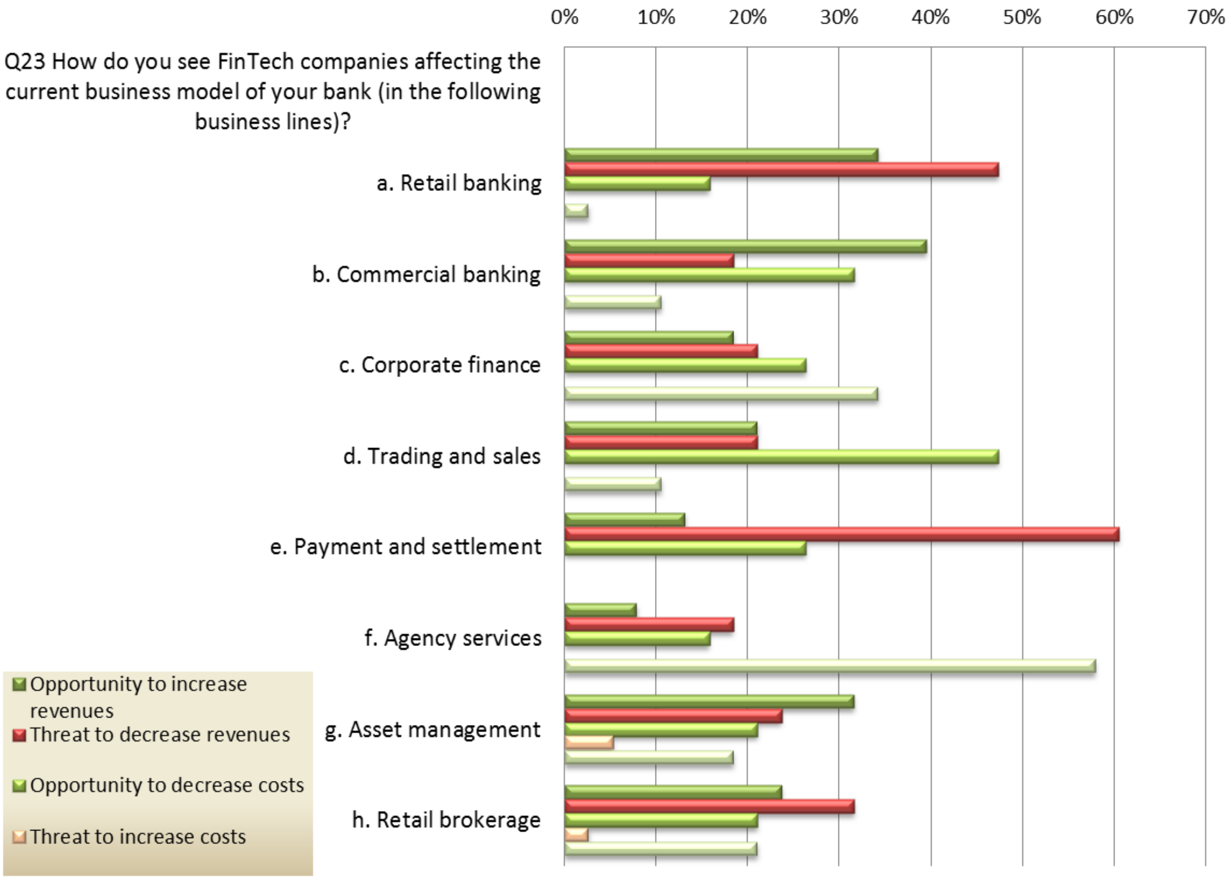


Question 22: Comparison with former results

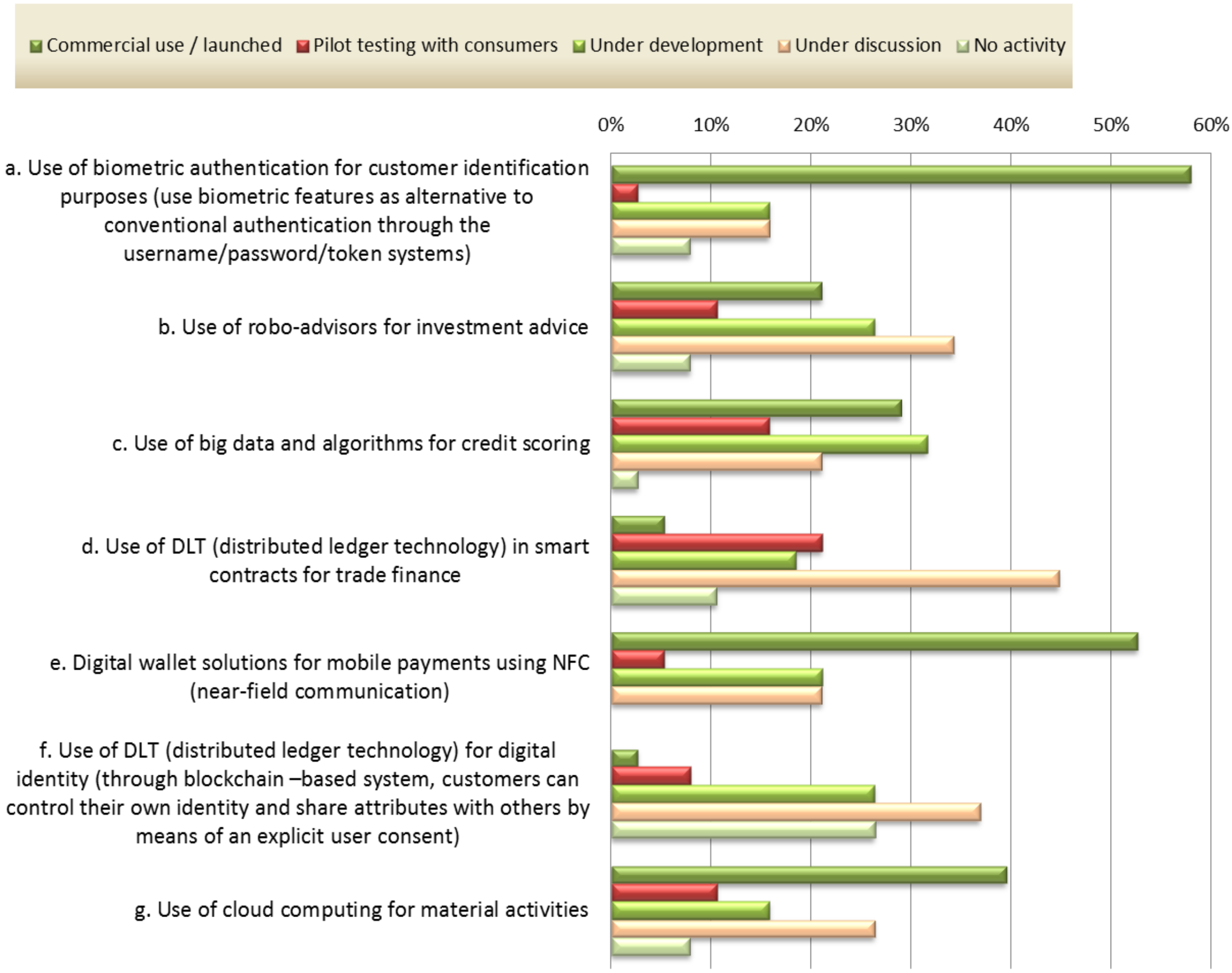


6. FinTech

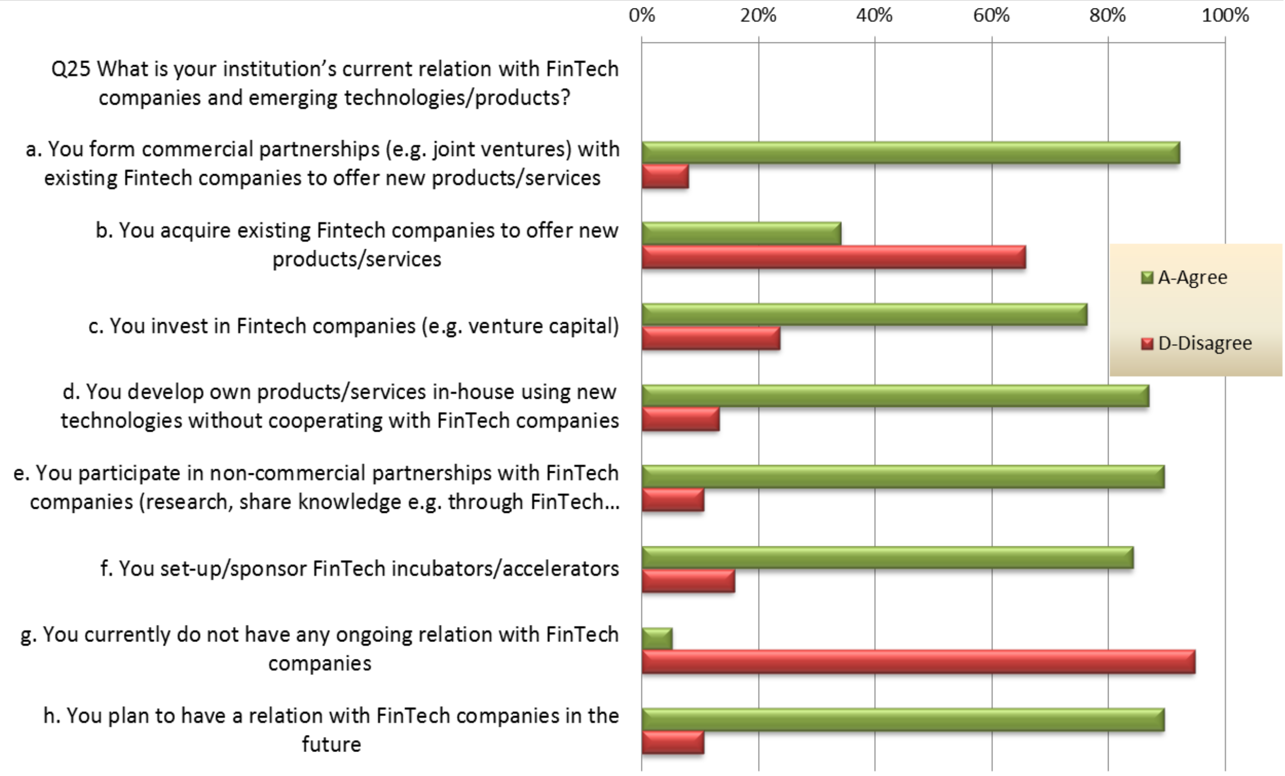
Question 23: December 2017 results



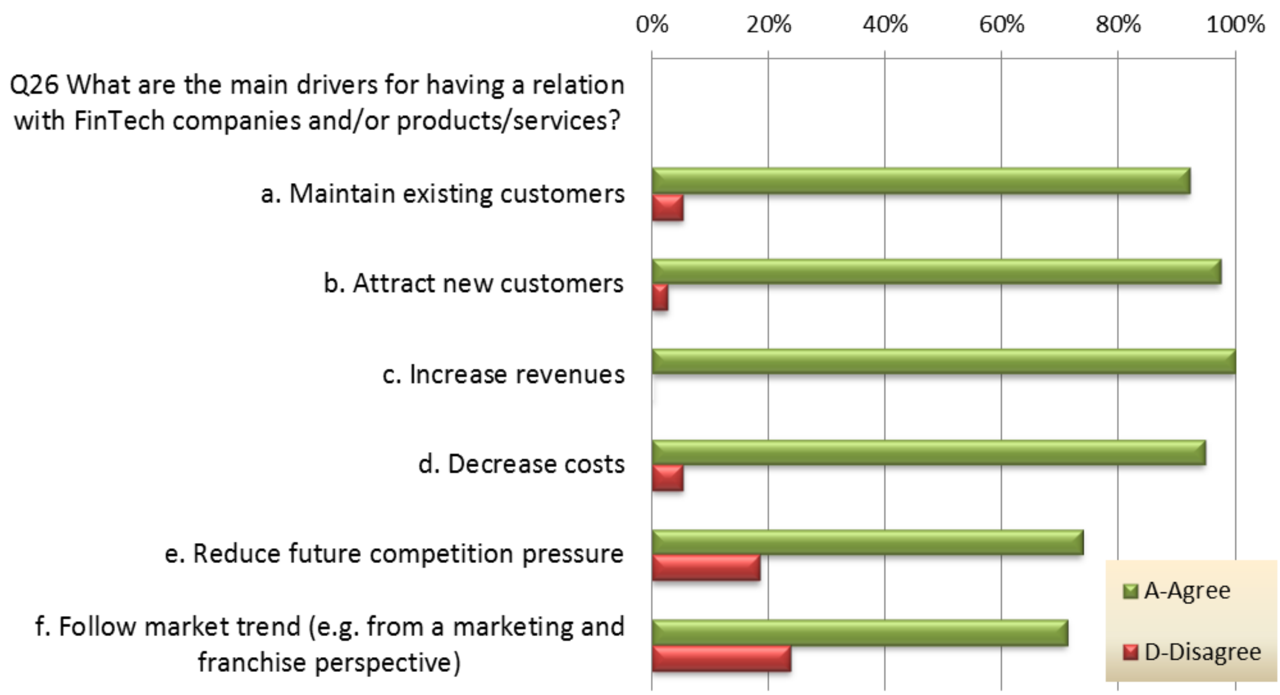
Question 24: December 2017 results



Question 25: December 2017 results

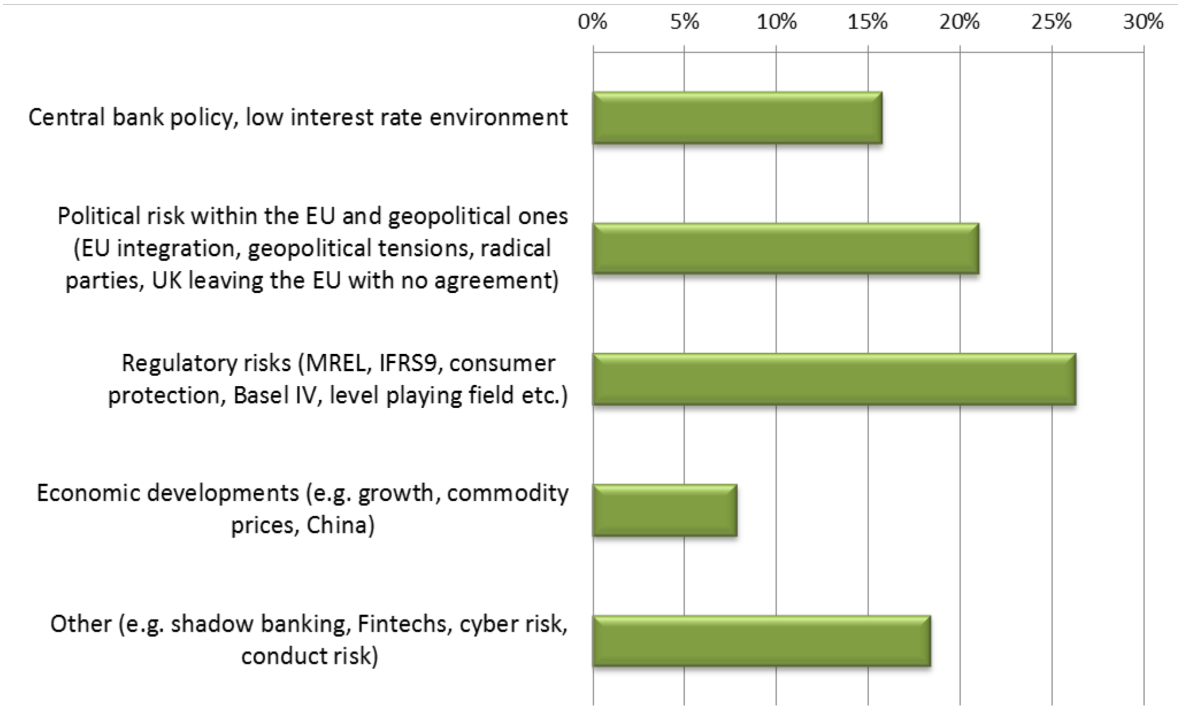


Question 26: December 2017 results



7. General open question

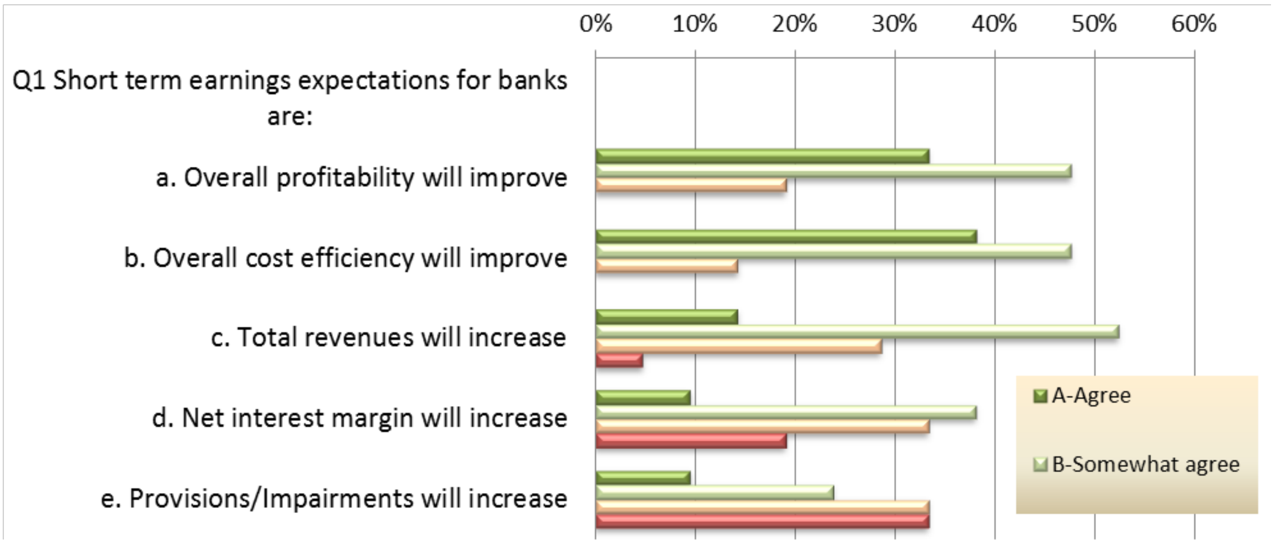
Looking at the EU banking sector, you expect other sources of risk or vulnerabilities to increase further in the next 6-12 months. Please indicate possible additional sources of risks and vulnerabilities:



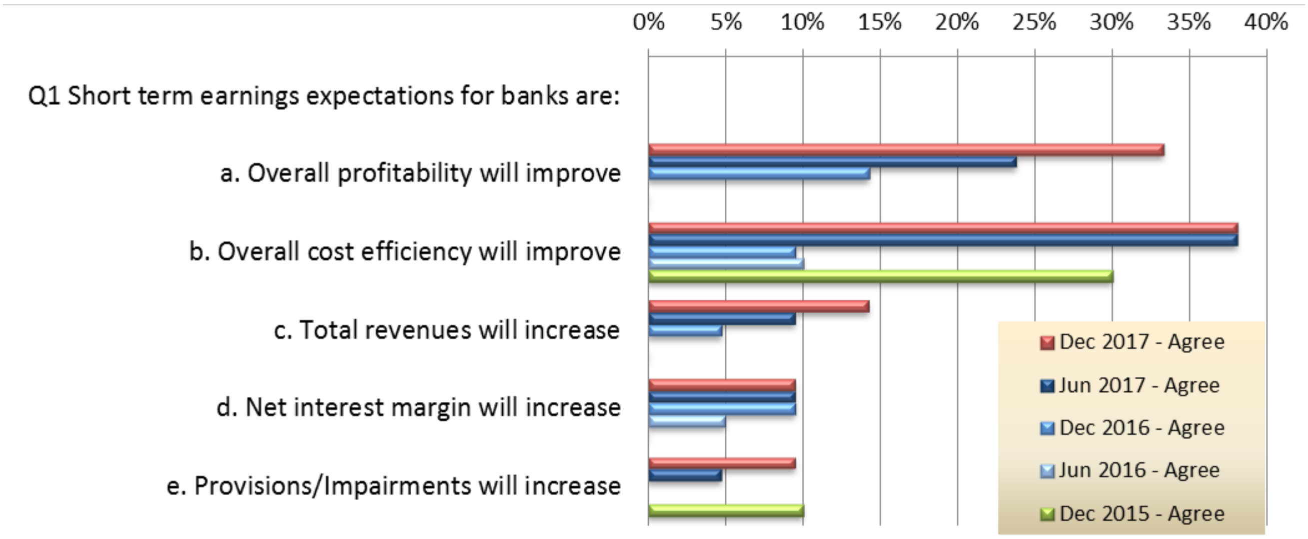
Market analysts' questionnaire

1. Business model / strategy / profitability

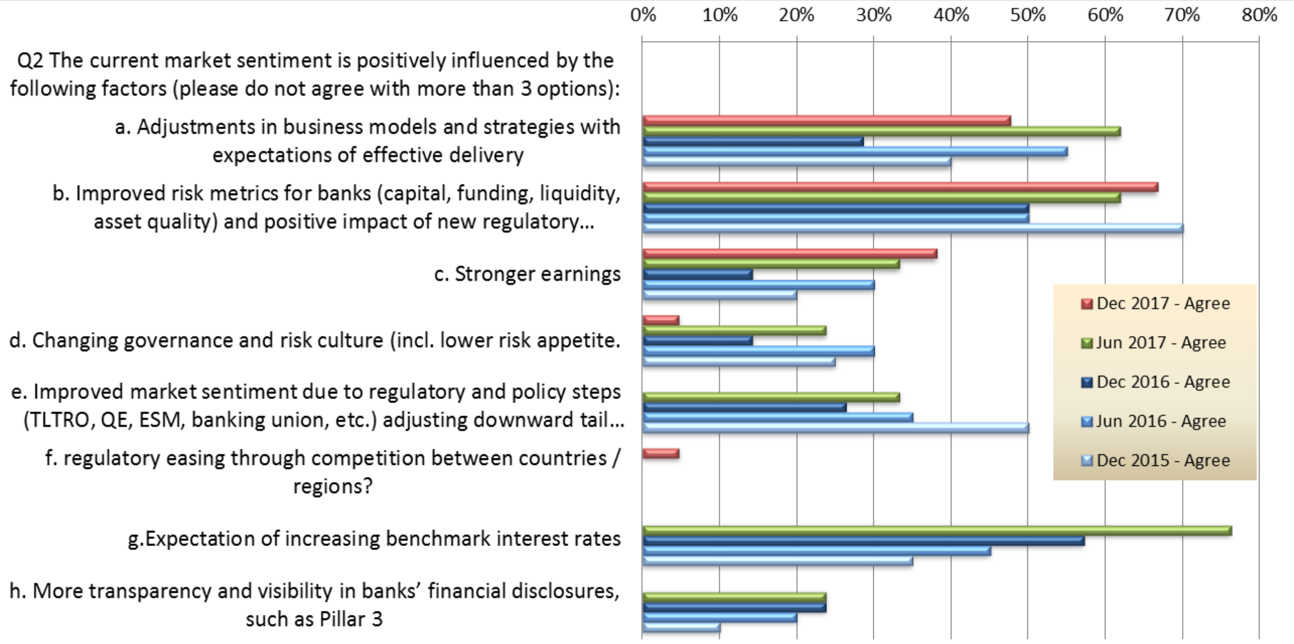
Question 1: December 2017 results



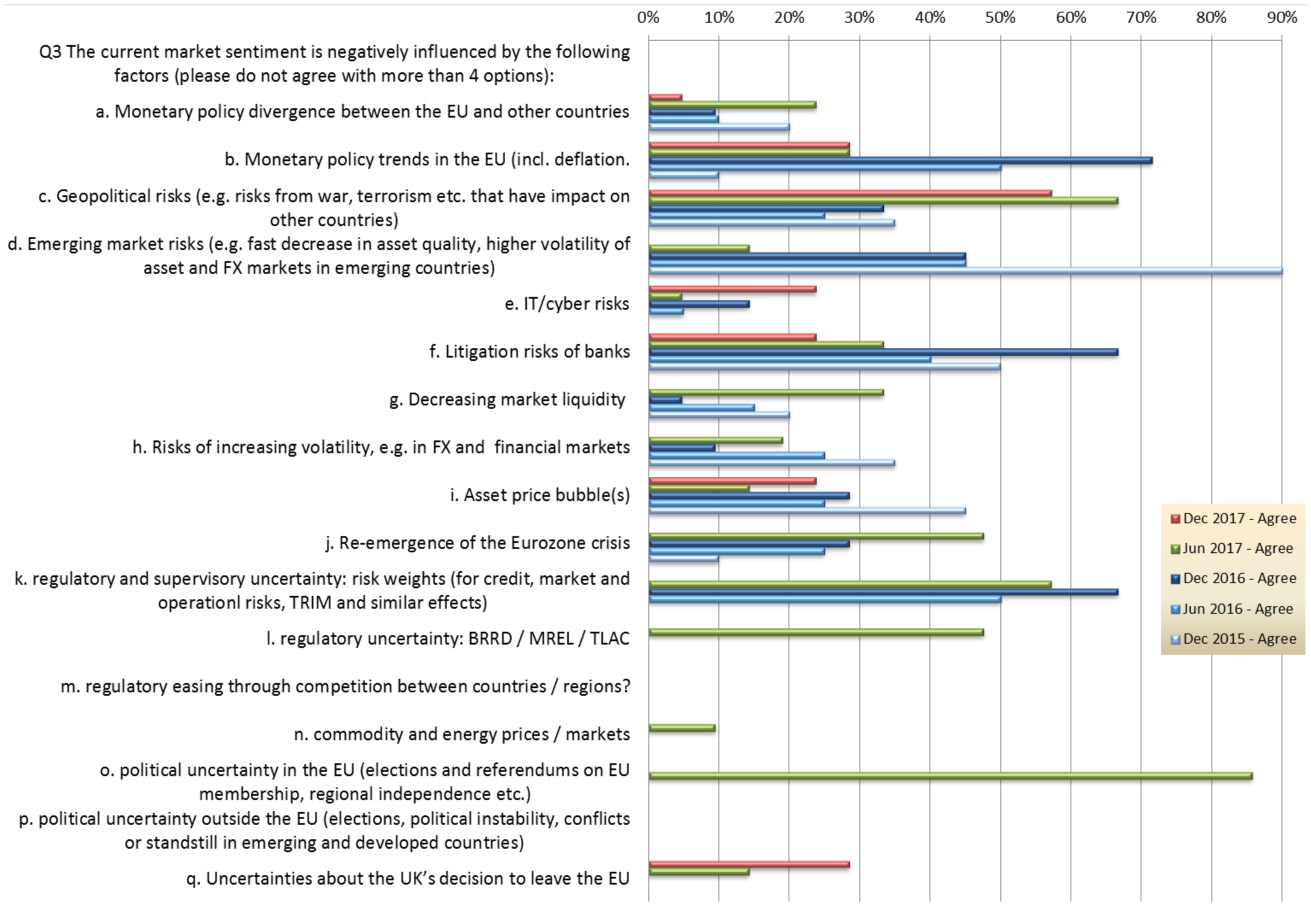
Question 1: Comparison with former results



Question 2 (only "agree" as possible answer)

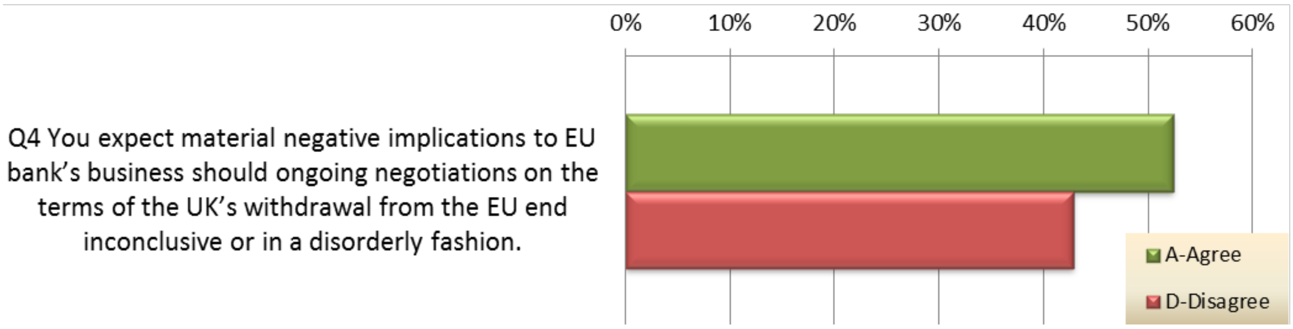


Question 3 (only "agree" as possible answer)

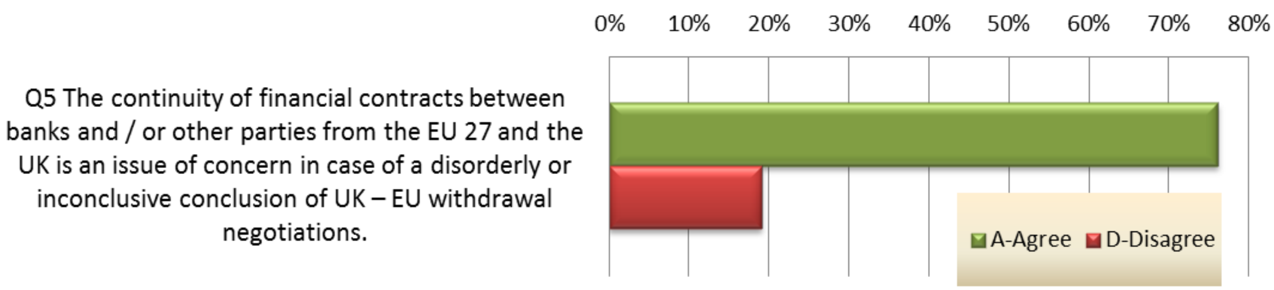


Questions without comparative data for former periods were newly added to the questionnaire in June 2017. The possible answer 3.o) was slightly reworded with respect to June this year.

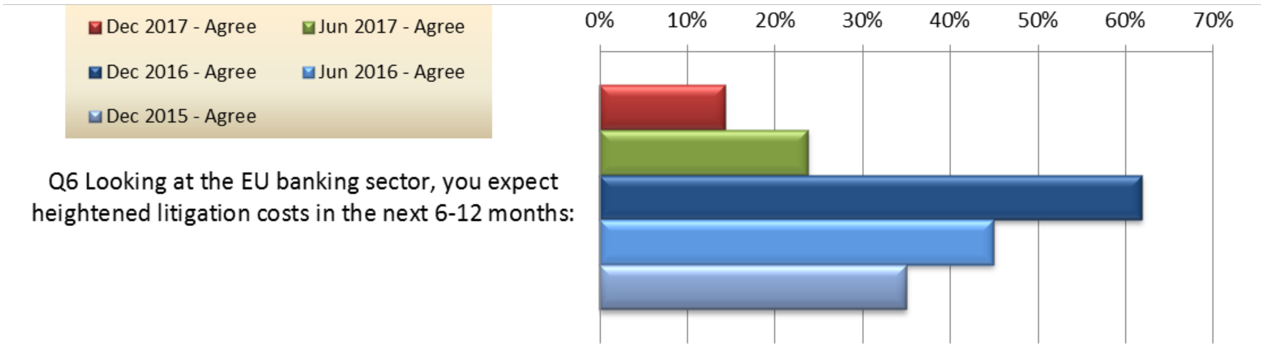
Question 4: December 2017 results



Question 5: December 2017 results

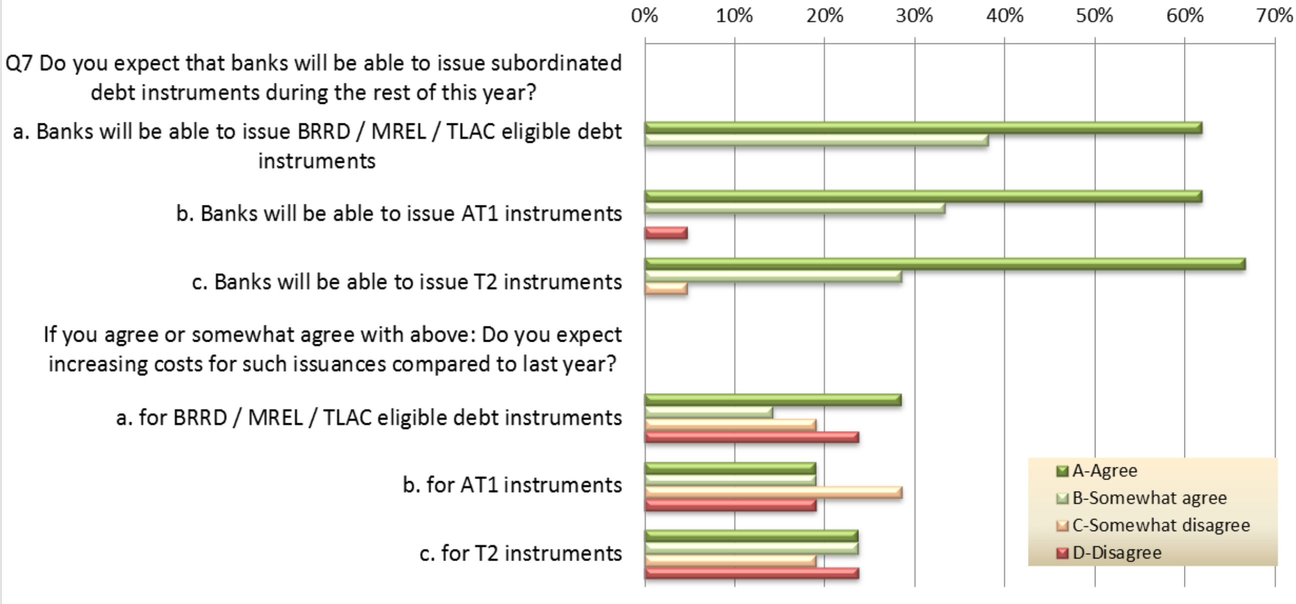


Question 6 (only "agree" as possible answer)

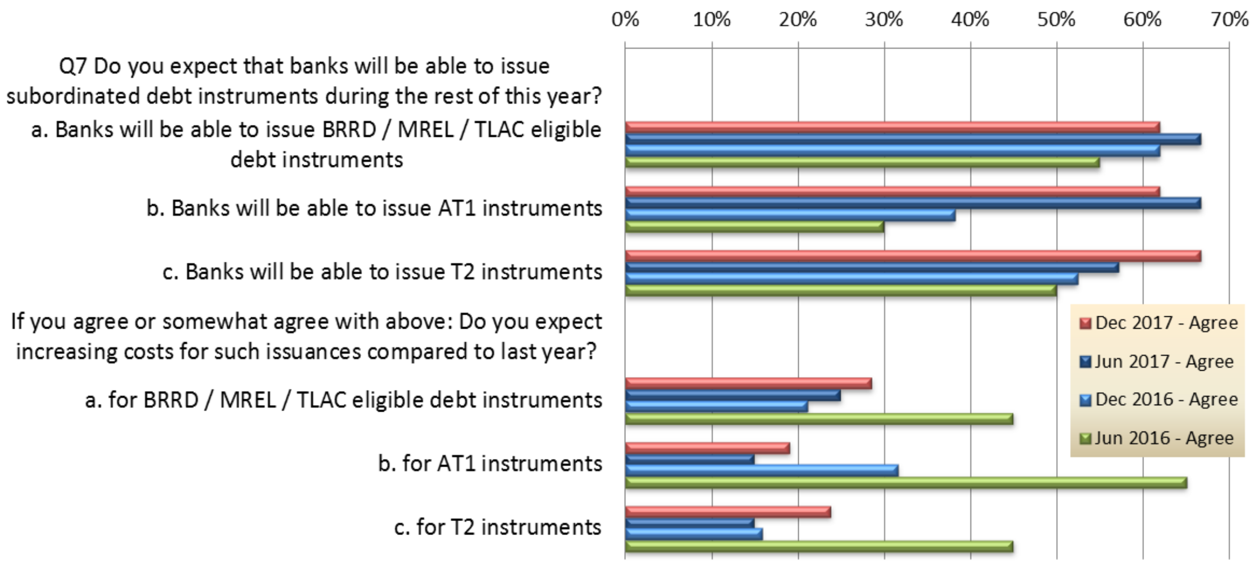


2. Funding / liquidity

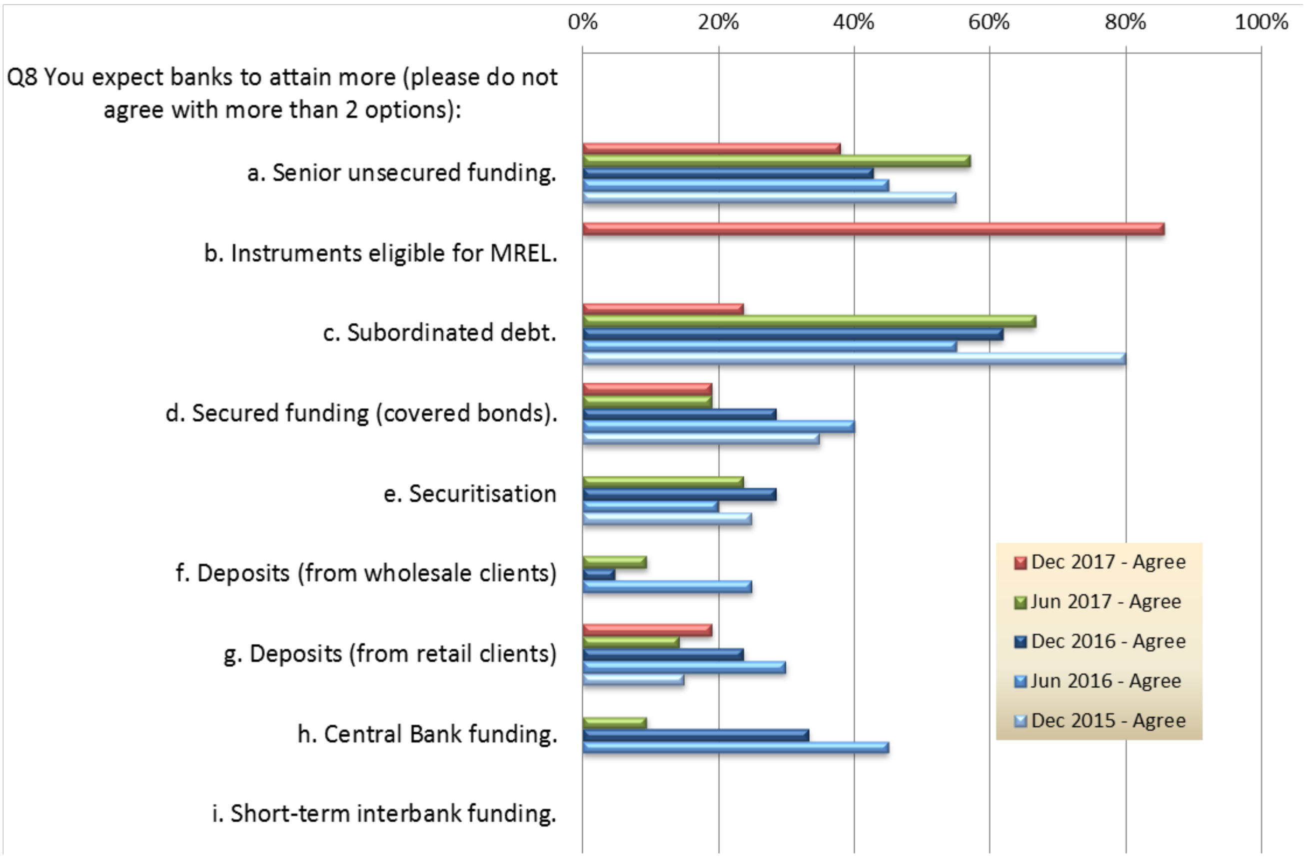
Question 7: December 2017 results



Question 7: Comparison with former results



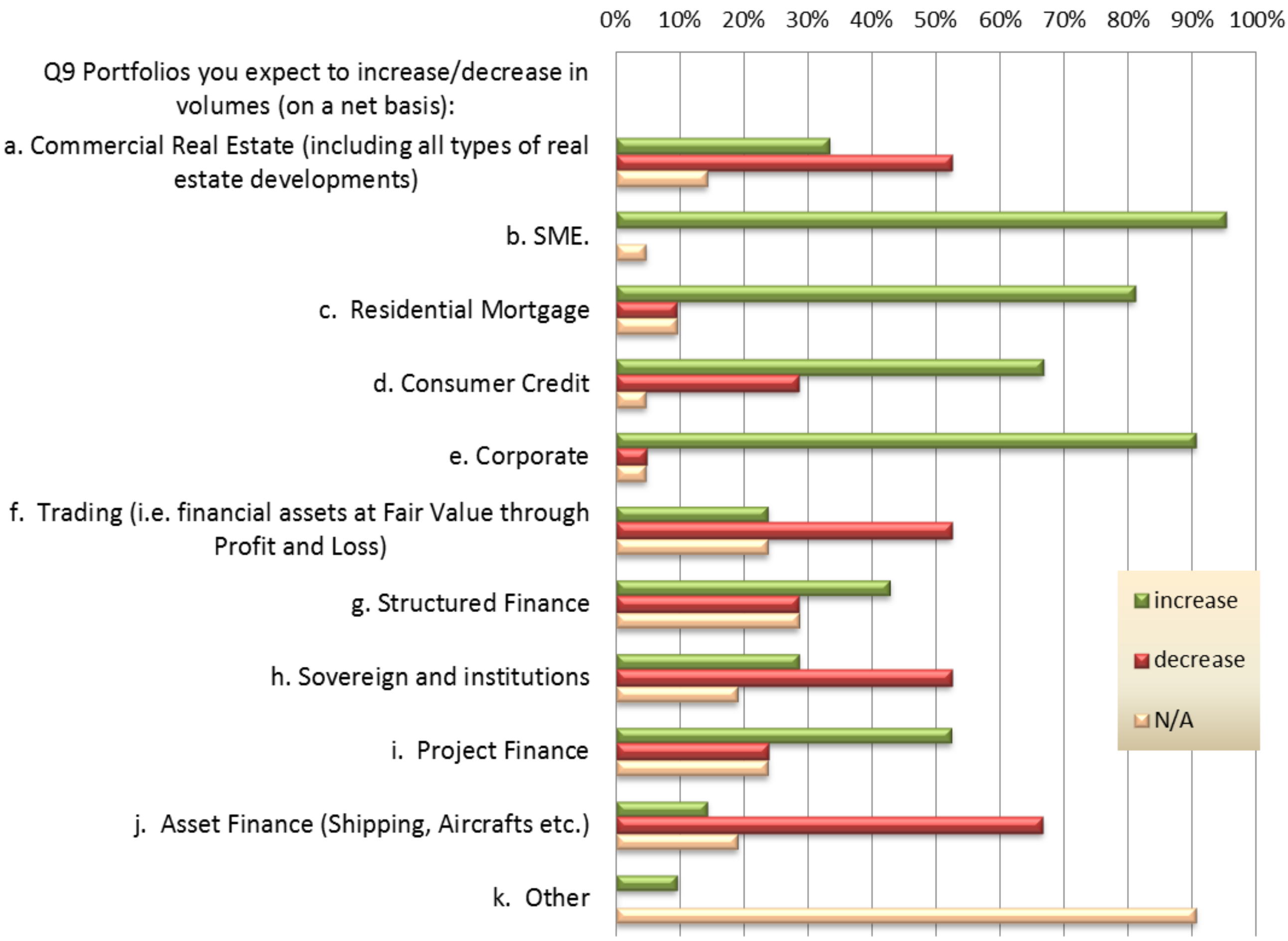
Question 8 (only "agree" as possible answer)



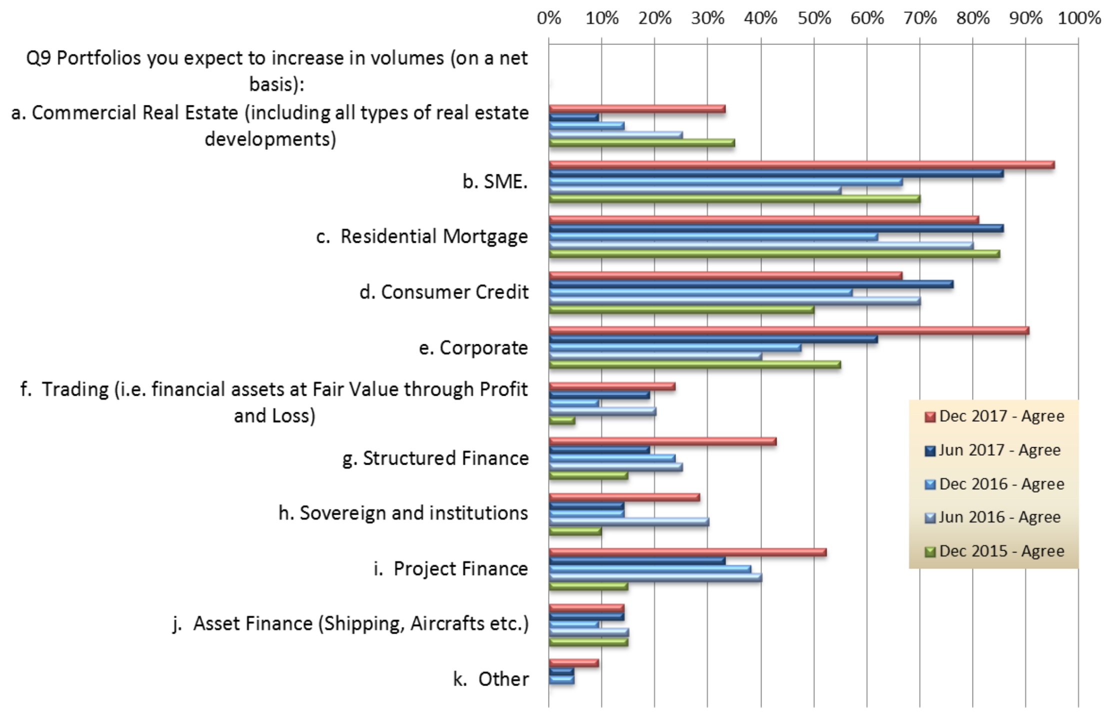
Option b) was newly added to the questionnaire in December 2017 and for this reason it does not show any comparative data for former periods.

3. Asset volume trends

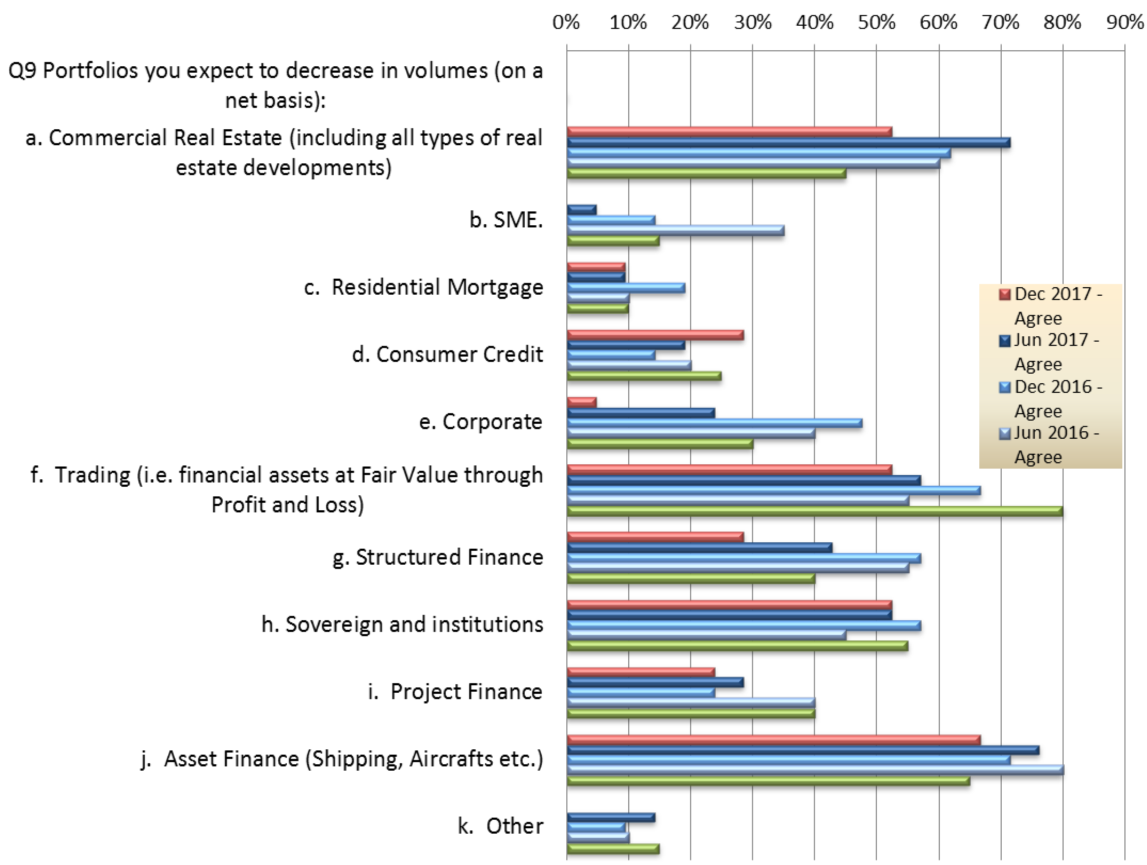
Question 9: December 2017 results



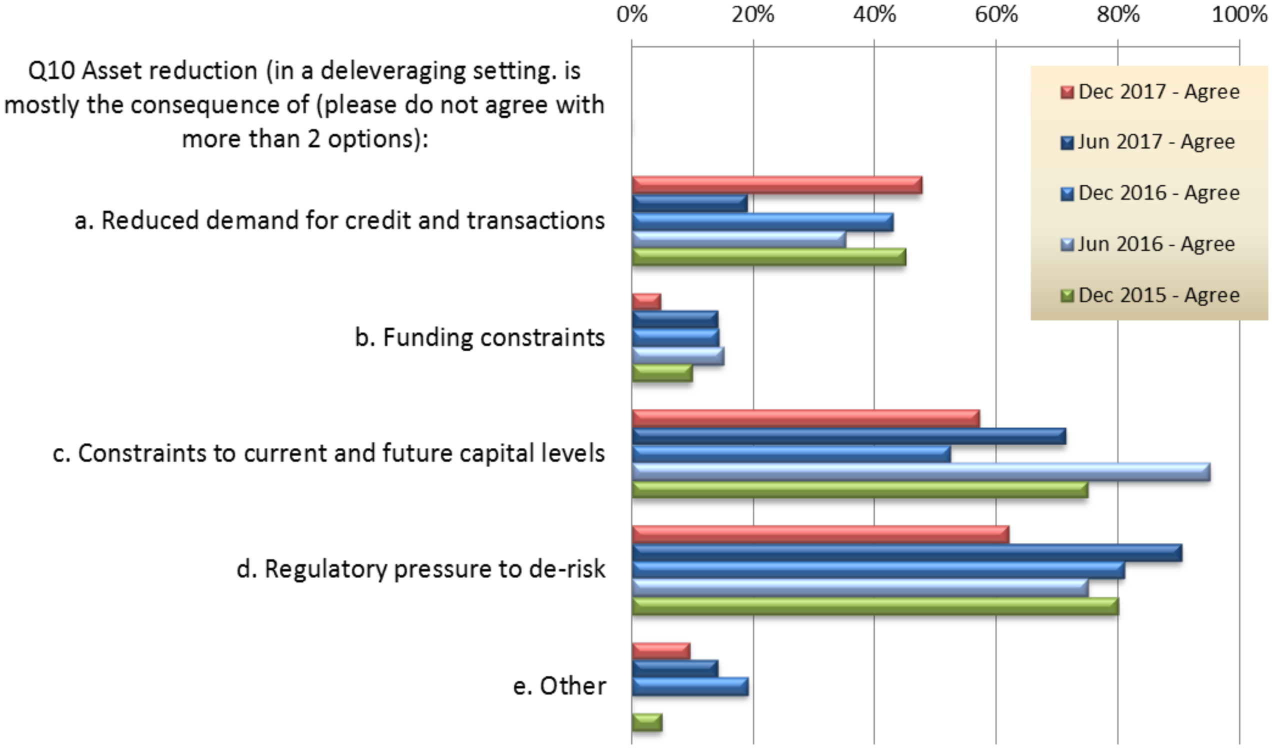
Question 9a: Comparison with former results



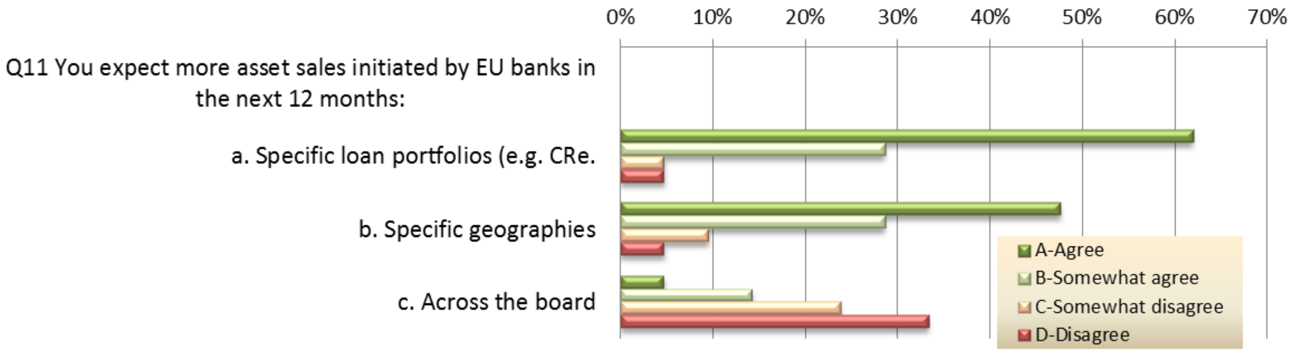
Question 9b: Comparison with former results



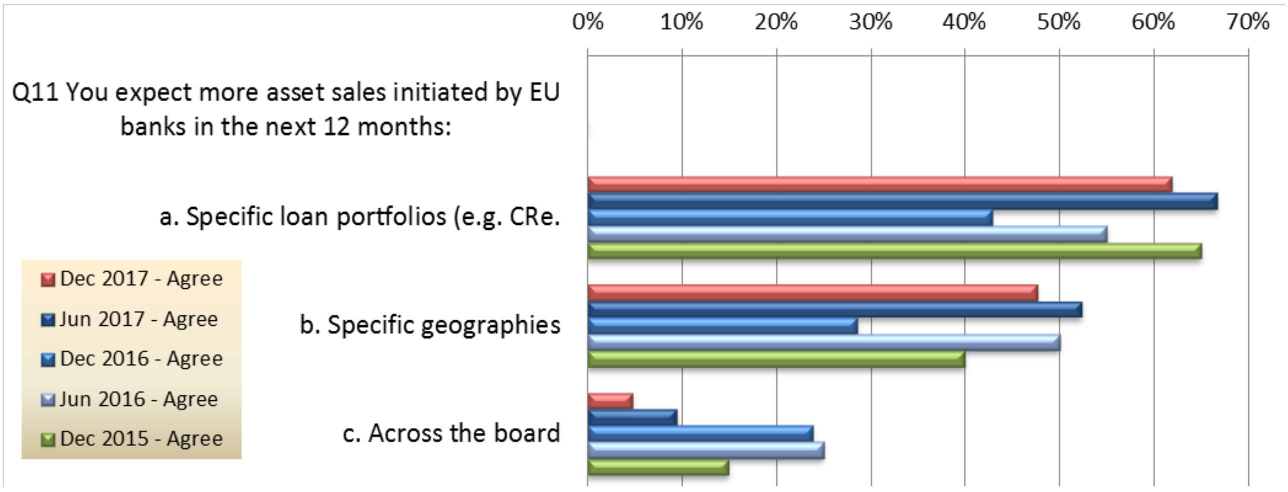
Question 10 (only "agree" as possible answer)



Question 11: December 2017 results

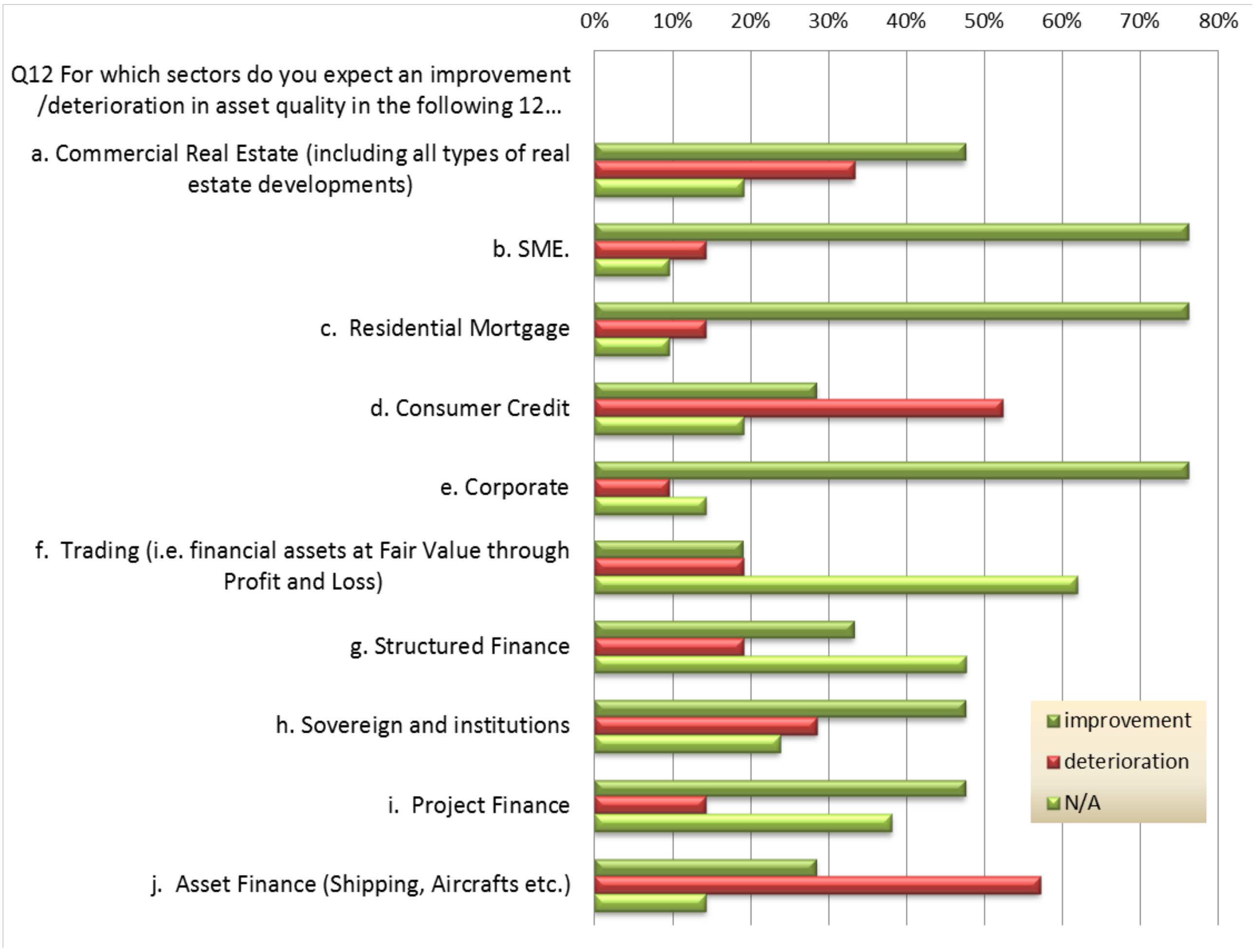


Question 11: Comparison with former results

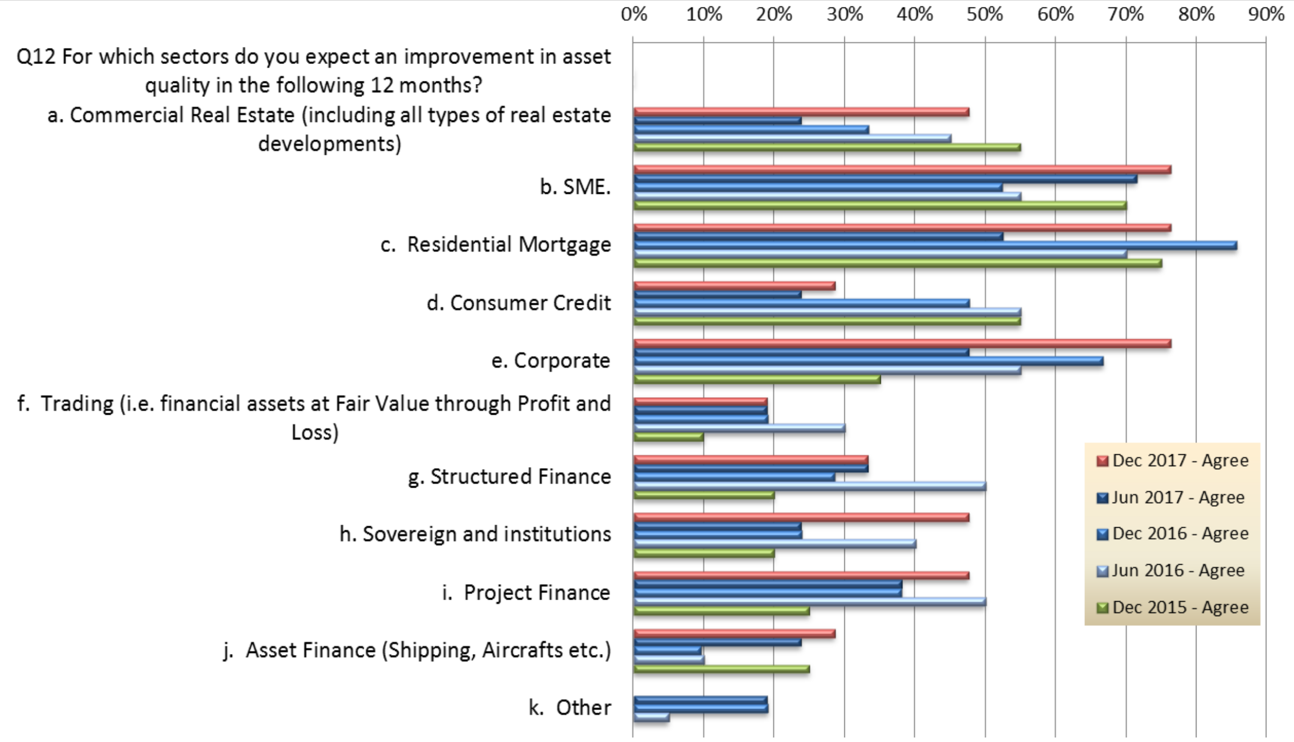


4. Asset quality

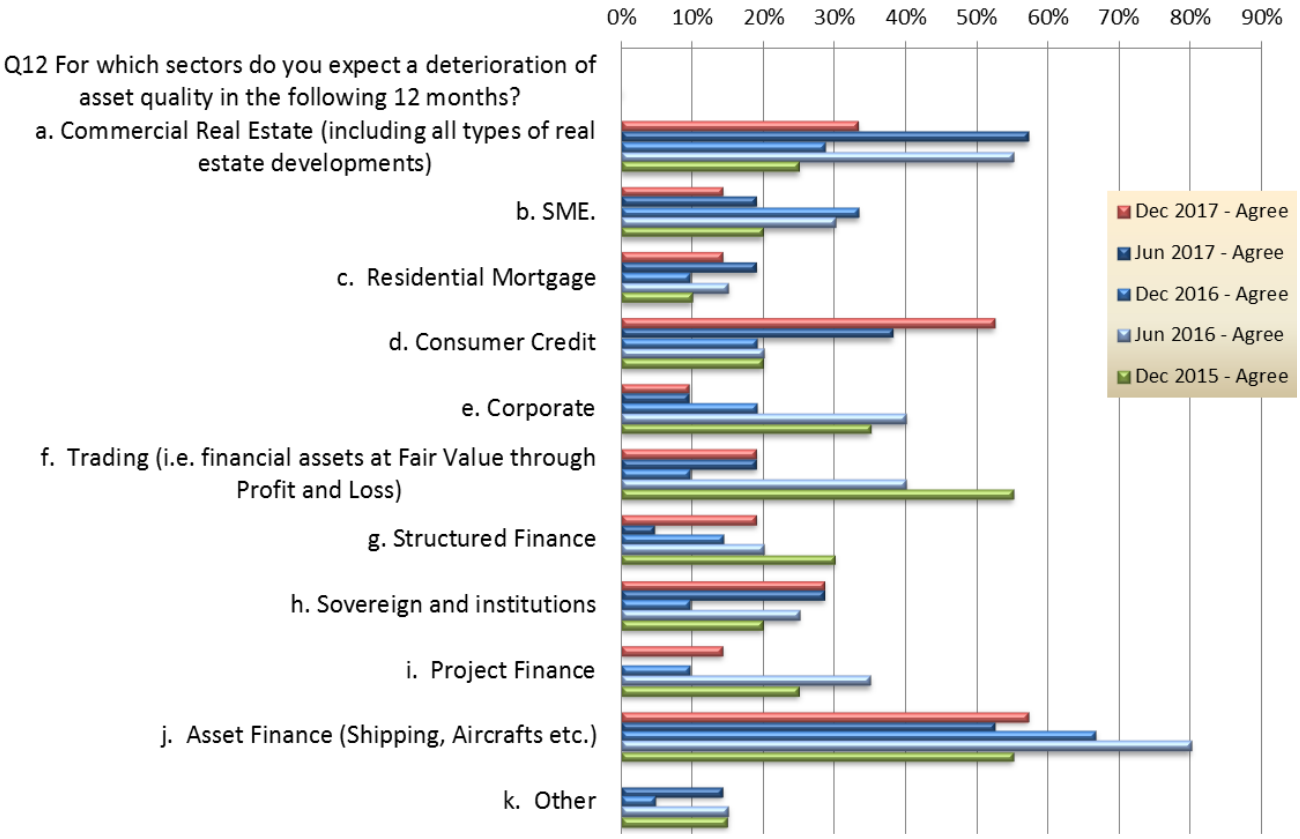
Question 12: December 2017 results



Question 12a: Comparison with former results



Question 12b: Comparison with former results



Appendix: Risk Assessment Questionnaire for banks

[added on the following pages]

Risk Assessment Questionnaire for Banks
Autumn 2017

Fields marked with * are mandatory.

Respondent information

* First Name

* Last Name

* Position

* Division

* Banking institution

* Email address

Business model/strategy/profitability

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

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

- Agree
- Disagree
- N/A

If you agree:

	Agree	Disagree	N/A
* a. you expect material changes to your bank's business model arising from a potential M&A transaction			
* b. 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)			
* c. you expect material structural changes in your group due to regulatory requirements on resolvability			

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

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

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

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

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

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

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

	Agree	Somewhat Agree	Somewhat Disagree	Disagree	N/A
* a. Net interest income	○	○	○	○	○
* b. Net Fees and Commissions income	○	○	○	○	○
* c. Other operating income	○	○	○	○	○
* d. Operating expenses / costs reduction	○	○	○	○	○
* e. Impairments	○	○	○	○	○
* f. Other	○	○	○	○	○

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

between 1 and 3 choices

- ☐ a. Overhead reduction and staff costs reduction
- ☐ b. Outsourcing
- ☐ c. Off-shoring or near-shoring
- ☐ d. Cutting of non-profitable units
- ☐ e. Increasing automatisation and digitalisation
- ☐ f. Other

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

- ○ Agree
- ○ Disagree
- ○ N/A

*** Q7 You estimate COE at:**

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

*** Q8 You expect material negative implications to your bank's 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

*** Q9 The continuity of financial contracts your bank has entered into between 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

*** Q10 Looking at your bank, you expect an observed steepening yield curve to positively impact your bank's earnings in the next 6 – 12 months.**

- Agree
- Disagree
- N/A

Funding/liquidity

*** Q11 Do you plan to issue CET1 instruments in the next 12 months?**

- Agree
- Disagree

*** Q12 You intend to attain more (<u>please do not agree with more than 2 options</u>):**

between 1 and 2 choices

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

*** Q13 Which are the main constraints to issue subordinated instruments eligible for MREL (<u>please do not agree with more than 2 options</u>)?**

between 1 and 2 choices

- a. Pricing (the instruments' yields are too high).
- 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

*** Q14 Further asset deleverage is an element of your strategy.**

- Agree
- Disagree
- N/A

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

between 1 and 3 choices

- a. Reduced demand for credit and transactions.
- b. Disposal of business units and asset sales.
- c. Funding constraints.
- d. Reduce reliance on central bank funding.
- e. Constraints to current and future capital levels.
- f. Decisions to further de-risk business lines.
- g. Regulatory pressure to de-risk.

Q15 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)			
* b. SME			
* c. Residential Mortgage			
* d. Consumer Credit			
* e. Corporate			
* f. Trading (i.e. financial assets at Fair Value through Profit and Loss)			
* g. Structured Finance			
* h. Sovereign and institutions			
* i. Project Finance			
* j. Asset Finance (Shipping, Aircrafts etc.)			
* k. Other			

Asset composition & quality

Q16 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)	○	○	○
* b. SME	○	○	○
* c. Residential Mortgage	○	○	○
* d. Consumer Credit	○	○	○
* e. Corporate	○	○	○
* f. Trading (i.e. financial assets at Fair Value through Profit and Loss)	○	○	○
* g. Structured Finance	○	○	○
* h. Sovereign and institutions	○	○	○
* i. Project Finance	○	○	○
* j. Asset Finance (Shipping, Aircrafts etc.)	○	○	○
* k. Other	○	○	○

* **Q17 Does your bank have significant exposure in portfolios of car loans and credit card finance?**

○ a. Agree
○ b. Disagree
○ c. N/A

* **If you agree: You expect increasing risk levels in these portfolios in the next 12 months.**

○ Agree
○ Disagree
○ N/A

* **Q18 Based on your view on future trends in credit quality and impairment levels for your bank, impairment provisions over the time horizon of the next 12-18 months:**

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

*** Q19 What are the impediments to resolve 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 against 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) (additional option which seems to be missing)
- h. Other
- i. There is no impediment

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

*** Q21 Looking at your bank, you expect litigation costs to be heightened/elevated in the next 6-12 months.**

- Agree
- Disagree
- N/A

*** 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 (<u>please do not agree with more than 3 options</u>):**

between 1 and 3 choices

- ☐ 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 How do you see FinTech companies affecting the current business model of your bank (in the following business lines)? Please select the most relevant answer for each business line.

	Opportunity to increase revenues	Threat to decrease revenues	Opportunity to decrease costs	Threat to increase costs	No impact / not relevant
* a. Retail banking	○	○	○	○	○
* b. Commercial banking	○	○	○	○	○
* c. Corporate finance	○	○	○	○	○
* d. Trading and sales	○	○	○	○	○
* e. Payment and settlement	○	○	○	○	○
* f. Agency services	○	○	○	○	○
* g. Asset management	○	○	○	○	○
* h. Retail brokerage	○	○	○	○	○

Please note: For the purposes 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, Standing Committee on Assessment of Vulnerabilities, “FinTech: Describing the Landscape and Framework for Analysis”, 16 March 2016)

For definitions of business lines please refer to Table 2 in Article 317 of Regulation (EU) No 575/2013.

Q24 What is the level of involvement of your institution in the following FinTech related activities?

	Commercial use / launched	Pilot testing with consumers	Under development	Under discussion	No activity
* a. Use of biometric authentication for customer identification purposes (use biometric features as alternative to conventional authentication through the username/password/token systems).	○	○	○	○	○
* b. Use of robo-advisors for investment advice.	○	○	○	○	○
* c. Use of big data and algorithms for credit scoring.	○	○	○	○	○
* d. Use of DLT (distributed ledger technology) in smart contracts for trade finance.	○	○	○	○	○
* e. Digital wallet solutions for mobile payments using NFC (near-field communication).	○	○	○	○	○
* f. Use of DLT (distributed ledger technology) for digital identity (through blockchain – based system, customers can control their own identity and share attributes with others by means of an explicit user consent).	○	○	○	○	○
* g. Use of cloud computing for material activities.	○	○	○	○	○

Q25 What is your institution's current relation with FinTech companies and emerging technologies /products?

	Agree	Disagree
* a. You form commercial partnerships (e.g. joint ventures) with existing Fintech companies to offer new products/services.	○	○
* b. You acquire existing Fintech companies to offer new products/services.	○	○
* c. You invest in Fintech companies (e.g. venture capital).	○	○
* d. You develop own products/services in-house using new technologies without cooperating with FinTech companies.	○	○
* e. You participate in non-commercial partnerships with FinTech companies (research, share knowledge e.g. through FinTech incubators/accelerators).	○	○
* f. You set-up/sponsor FinTech incubators/accelerators.	○	○
* g. You currently do not have any ongoing relation with FinTech companies.	○	○
* h. You plan to have a relation with FinTech companies in the future.	○	○

Q26 What are the main drivers for having a relation with FinTech companies and/or products /services?

	Agree	Disagree	N/A
* a. Maintain existing customers.	○	○	○
* b. Attract new customers.	○	○	○
* c. Increase revenues.	○	○	○
* d. Decrease costs.	○	○	○
* e. Reduce future competition pressure.	○	○	○
* f. Follow market trend (e.g. from a marketing and franchise perspective).	○	○	○

General issues

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

Appendix: Risk Assessment Questionnaire for market analysts

[added on the following pages]

Risk Assessment Questionnaire for Market Analysts
Autumn 2017

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	○	○	○	○	○
* b) Overall cost efficiency will improve	○	○	○	○	○
* c) Total revenues will increase	○	○	○	○	○
* d) Net interest margin will increase	○	○	○	○	○
* e) Provisions/Impairments will increase	○	○	○	○	○

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

between 1 and 3 choices

- ☐ a) Adjustments in business models and strategies with expectations of effective delivery
- ☐ b) Improved risk metrics for banks (capital, funding, liquidity, asset quality) and positive impact of new regulatory requirements.
- ☐ c) Stronger earnings
- ☐ d) Changing governance and risk culture (incl. lower risk appetite)
- ☐ e) Improved market sentiment due to regulatory and policy steps (TLTRO, QE, ESM, banking union, 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

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

between 1 and 4 choices

- [ ] a) Monetary policy divergence between the EU and other countries
- [ ] b) Monetary policy trends in the EU (incl. deflation)
- [ ] c) Geopolitical risks (e.g. risks from war, terrorism etc. that have impact on other countries)
- [ ] d) Emerging market risks (e.g. fast decrease in asset quality, higher volatility of asset and FX markets in emerging countries)
- [ ] e) IT/cyber risks
- [ ] f) Litigation risks of banks
- [ ] g) Decreasing market liquidity
- [ ] h) Risks of increasing volatility, e.g. in FX and financial markets
- [ ] i) Asset price bubble(s)
- [ ] j) Re-emergence of the Eurozone crisis
- [ ] k) Regulatory and supervisory uncertainty: risk weights (for credit, market and operationl risks, TRIM and similar effects)
- [ ] l) Regulatory uncertainty: BRRD / MREL / TLAC
- [ ] m) regulatory easing through competition between countries / regions?
- [ ] n) Commodity and energy prices / markets
- [ ] o) Political uncertainty in the EU (elections and referendums on EU membership, regional independence etc.)
- [ ] p) Political uncertainty outside the EU (elections, political instability, conflicts or standstill in emerging and developed countries)
- [ ] q) Uncertainties about the UK's decision to leave the EU

*** Q4 You expect material negative implications to EU bank's 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

B. Funding/liquidity

Q7 Do you expect that banks will be able to issue subordinated debt instruments 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	○	○	○	○	○
* b) Banks will be able to issue AT1 instruments	○	○	○	○	○
* c) Banks will be able to issue T2 instruments	○	○	○	○	○

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
* a) for BRRD / MREL / TLAC eligible debt instruments	○	○	○	○	○
* b) for AT1 instruments	○	○	○	○	○
* c) for T2 instruments	○	○	○	○	○

* **Q8 You expect banks to attain more (please do not agree with more than 2 options):**

between 1 and 2 choices

- ☐ 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.

C. Asset composition & quality

Q9 Portfolios you expect to increase/decrease in volumes (on a net basis):

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

* **Q10 Asset reduction (in a deleveraging setting) is mostly the consequence of (<u>please do not agree with more than 2 options</u>):**

between 1 and 2 choices

- ☐ a) Reduced demand for credit and transactions
- ☐ b) Funding constraints
- ☐ c) Constraints to current and future capital levels
- ☐ d) Regulatory pressure to de-risk
- ☐ e) Other

Q11 You expect more asset sales initiated by EU banks in the next 12 months:

	Agree	Somewhat Agree	Somewhat Disagree	Disagree	N /A
* a) Specific loan portfolios (e.g. CRE)	◯	◯	◯	◯	◯
* b) Specific geographies	◯	◯	◯	◯	◯
* c) Across the board	◯	◯	◯	◯	◯

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

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

Q13 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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