

SREP 2022 results press conference

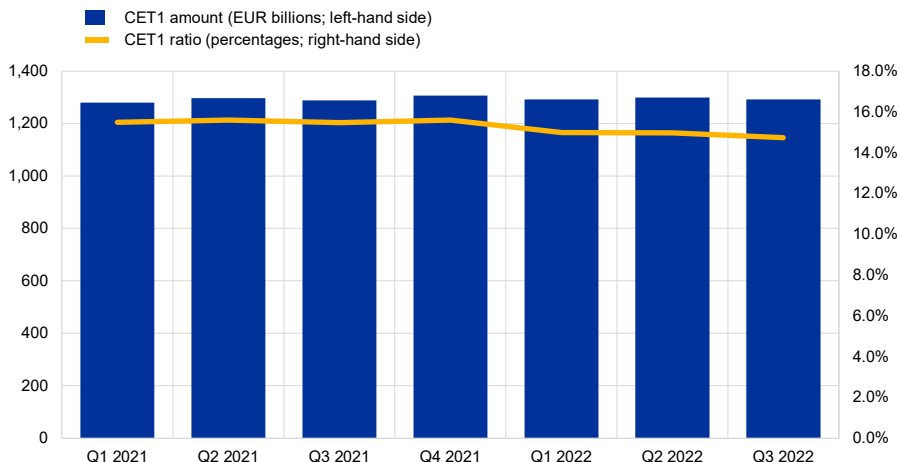
- 1 Main developments in 2022
- 2 Key supervisory concerns and actions
- 3 Looking ahead: main drivers of structural change and supervisory priorities

1. Main developments in 2022

SI continue to maintain solid capital and liquidity positions...

The average CET1 ratio of SIs has remained stable, with only a slight decrease

Significant institutions' average CET1 capital and CET1 ratio

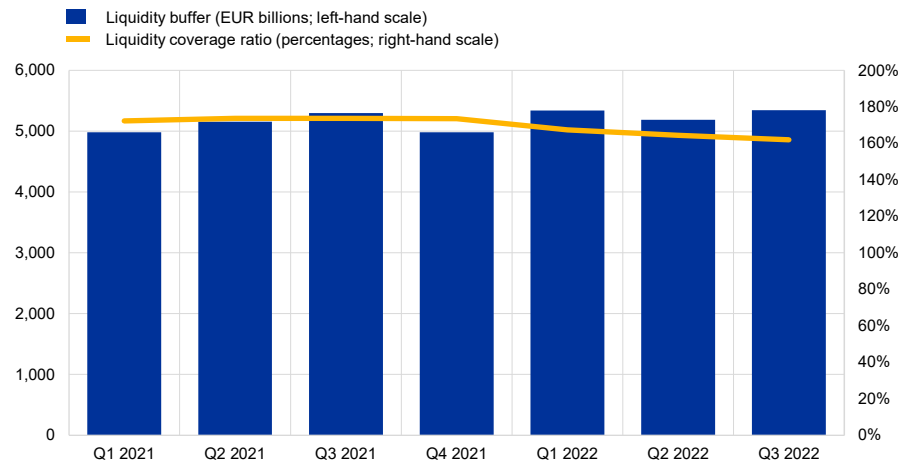


Source: ECB [Supervisory Banking Statistics](#).

Note: Weighted average. Sample selection follows the Supervisory Banking Statistics (SBS) [methodological note](#).

Liquidity coverage ratios continued to be high, thanks in part to the TLTRO programme and other central bank support measures

Significant institutions' average LCR and liquidity buffer



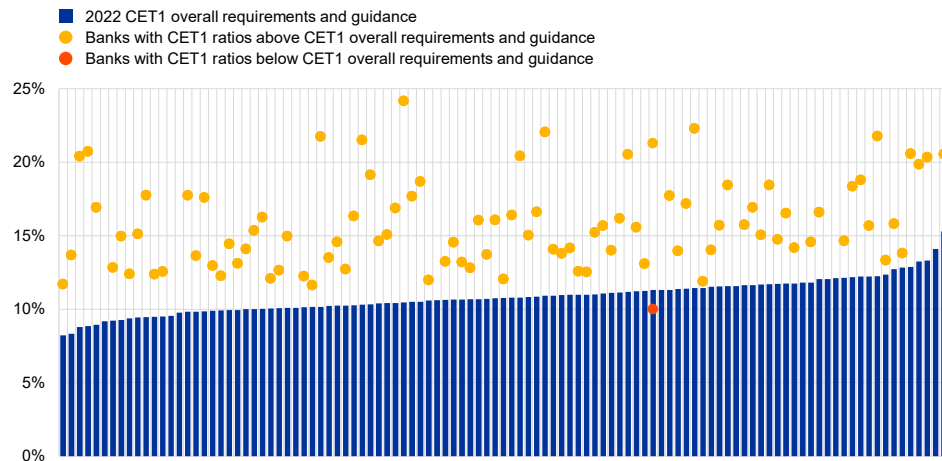
Source: ECB [Supervisory Banking Statistics](#).

Note: Weighted average. Sample selection follows the Supervisory Banking Statistics (SBS) [methodological note](#).

1 Main developments in 2022

... with almost all SIs reporting CET1 ratios above the new requirements and guidance...

Distribution of SIs' CET1 ratios relative to new requirements and guidance



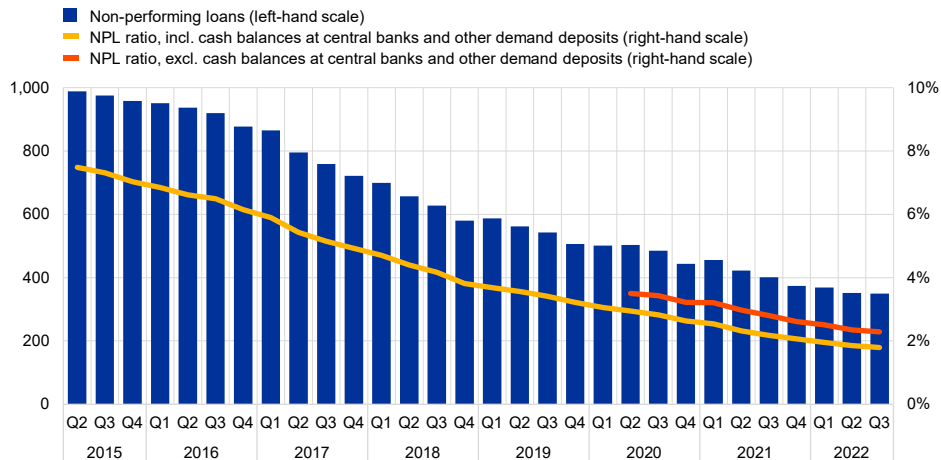
Sources: ECB [Supervisory Banking Statistics](#) and SREP database.

Notes: Pillar 2 CET1 requirements as per published list of P2Rs and Pillar 2 CET1 guidance as per EBA Stress Test 2021. CET1 ratios are as at Q3 2022. Systemic buffers (G-SII, O-SII and SyRB) and countercyclical capital buffers are the levels anticipated for Q1 2023 and included in the 2022 CET1 requirements and guidance. Each blue line represents a significant institution's overall capital requirements and guidance in CET1.

... and a further improvement in asset quality with continuing reduction of NPLs

Asset quality has continued to improve in 2022, with the volume of NPLs reduced by 64% since December 2015

NPL volume (EUR billions) and NPL ratios (percentages)



Source: ECB [Supervisory Banking Statistics](#).

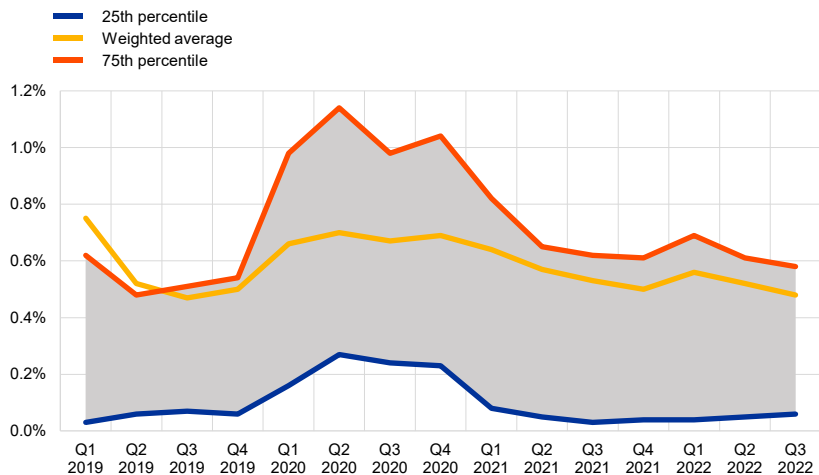
Note: Weighted average. Sample selection follows the Supervisory Banking Statistics (SBS) [methodological note](#).

1 Main developments in 2022

Cost of risk returned to pre-pandemic levels while net interest income continued to increase

SI's cost of risk moved back marginally towards pre-pandemic levels in Q3 2022 after an uptick in Q1

Cost of risk

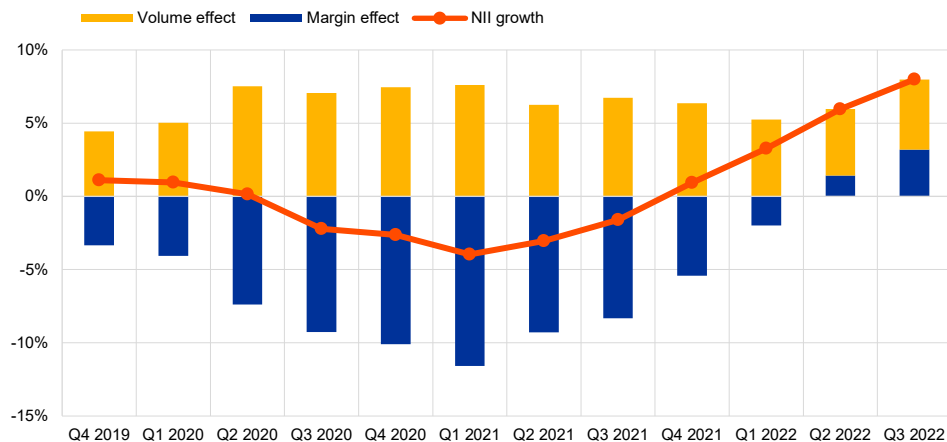


Source: ECB Supervisory Banking Statistics

Note: Weighted average. Sample selection follows the Supervisory Banking Statistics (SBS) [methodological note](#).

NII growth was supported by volume and margin effects in 2022

Increase in NII – breakdown into margin and volume effects



Source: ECB Banking Supervision.

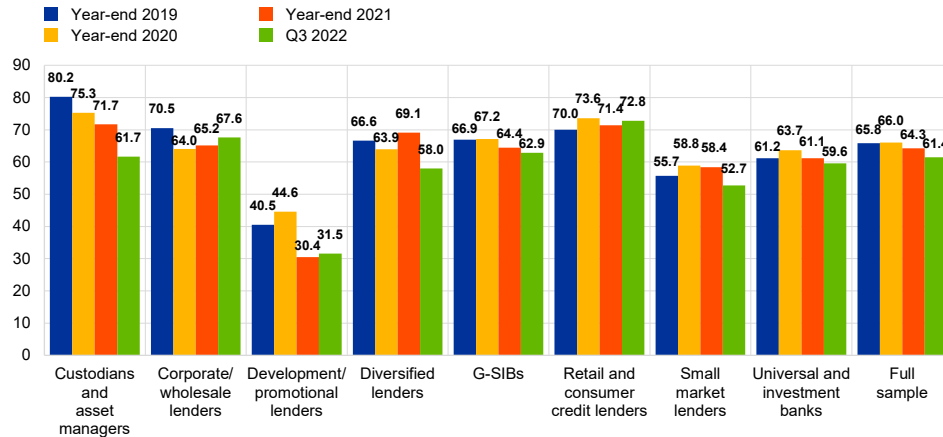
Note: YoY changes, rolling four-quarter annualisation.

1 Main developments in 2022

Average ROE continued to grow despite the macroeconomic and geopolitical pressures, reaching 7.6% at the end of Q3 2022

Banks need to continue focusing on strategic business transformation and steering in uncertain times, keep costs under control and remain vigilant on their risk taking

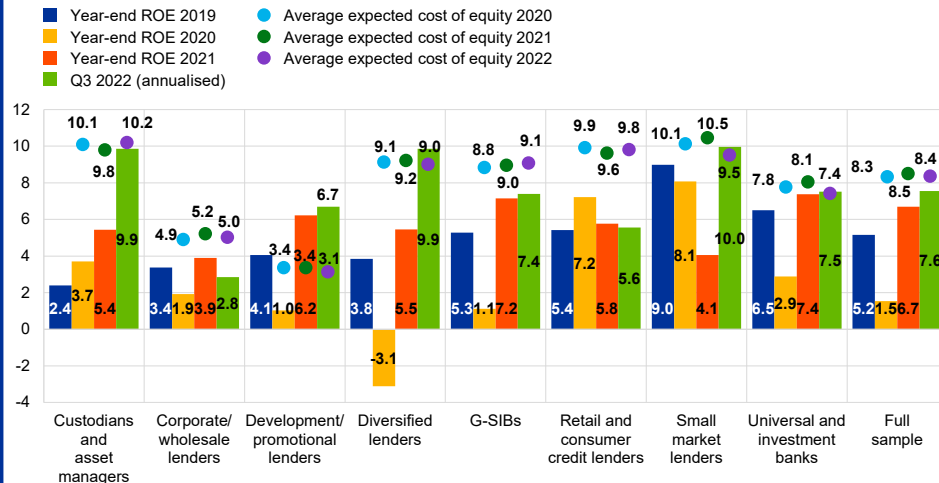
Cost-income ratio by business model (percentages)



Source: ECB [Supervisory Banking Statistics](#).

Note: Weighted average. Sample selection follows the Supervisory Banking Statistics (SBS) [methodological note](#).

Return on equity and cost of equity by business model (percentages)



Source: ECB [Supervisory Banking Statistics](#) and internal calculations.

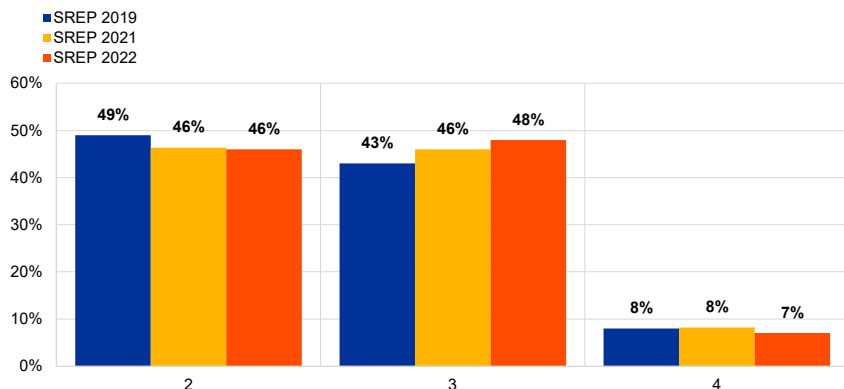
Notes: Weighted average. Sample selection follows the Supervisory Banking Statistics (SBS) [methodological note](#). Cost of Equity as self-reported by SIs. Due to data availability constraints, the sample for cost of equity comprises a lower number of entities than the sample for return on equity. Average expected cost of equity 2022 based on 93 entities.

1 Main developments in 2022

A marginal improvement in individual risk areas did not impact overall SREP scores, which remained broadly the same...

The percentage of banks scoring 3 has increased slightly over the last few SREP cycles

Overall SREP scores by year

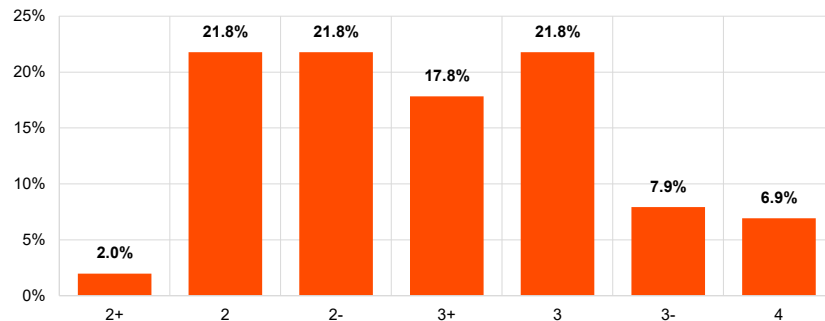


Source: ECB (SREP database).

Notes: There are no banks with an overall SREP score of 1. 2019 SREP values based on 109 decisions; 2021 SREP values based on 108 decisions; 2022 SREP values based on 101 decisions. The evolution of scores does not take into account the qualifiers when applied, i.e. a change from a score of '3' to a score of '3-' is considered as no change. For banks in both 2021 and 2022 SREP cycles, 85 kept the same overall SREP score, 4 worsened and 3 improved, 84 kept the same Business Model score, 3 worsened and 5 improved, 73 kept the same Internal Governance score, 7 worsened and 12 improved, and for Credit Risk, 73 kept the same score, 1 worsened and 18 improved. Rounding differences might apply throughout the document.

Score qualifiers are used to introduce more granular and accurate scoring of the SREP assessment for scores 2 and 3

Distribution of overall SREP scores with qualifiers



Source: ECB (SREP database).

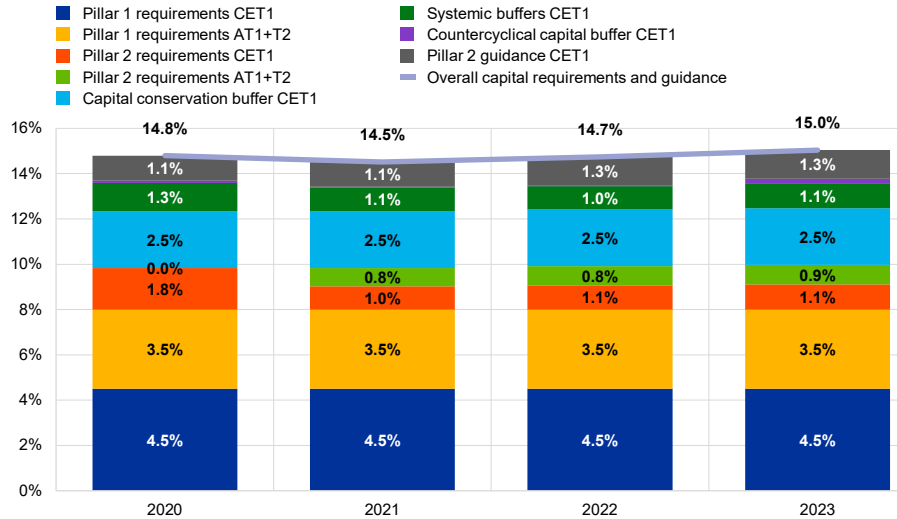
Note: There are no banks with an overall SREP score of 1.

1 Main developments in 2022

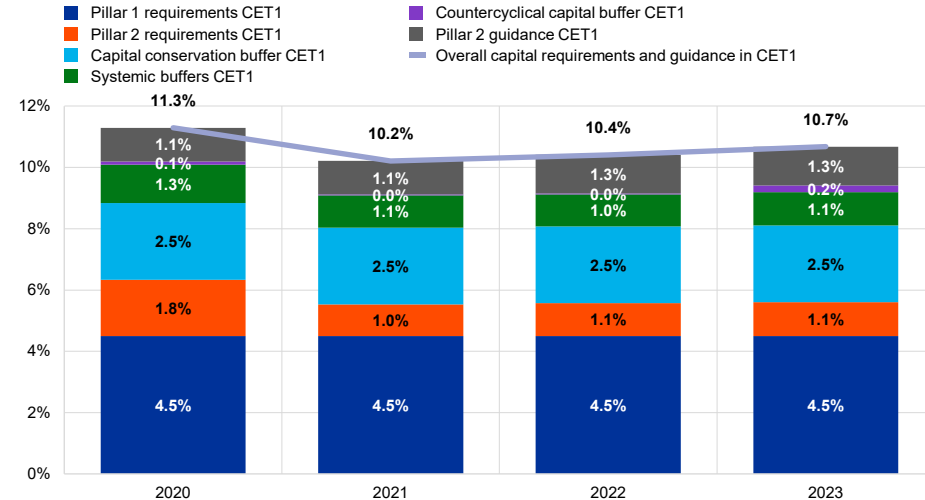
... and 2022 capital requirements and guidance remain aligned with figures from previous years

Marginal increases in the overall capital requirements were driven by the average countercyclical capital buffer. Pillar 2 guidance remained largely unchanged as no SSM-wide stress test was performed in 2022

Overall capital requirements and guidance as a percentage of risk-weighted assets



Overall capital requirements and guidance in CET1 as a percentage of risk-weighted assets



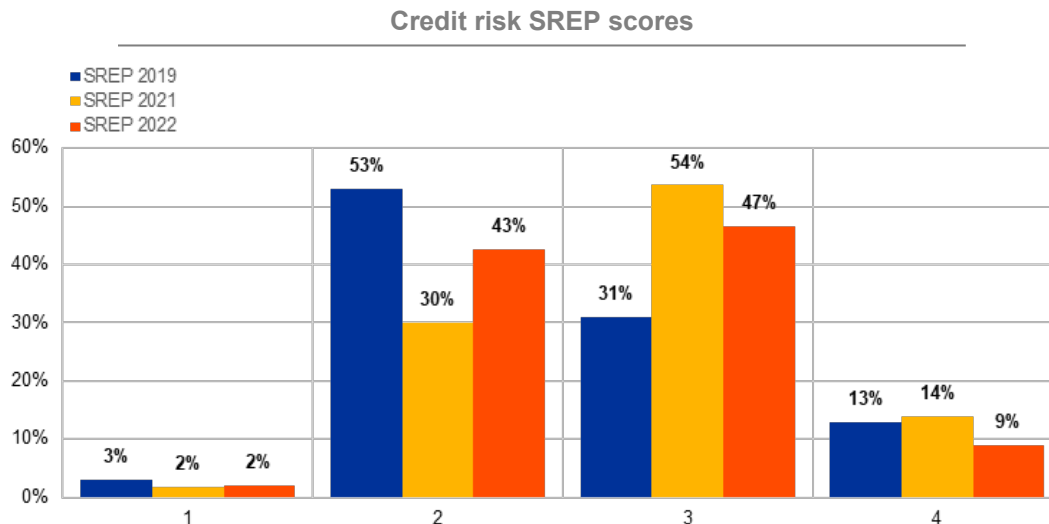
Sources: ECB [Supervisory Banking Statistics](#) and SREP database.

Notes: Sample selection follows the Supervisory Banking Statistics (SBS) [methodological note](#) for 2020 (SBS sample based on 112 entities), 2021 (SBS sample based on 114 entities) and 2022 (SBS sample based on 112 entities). For 2023, the sample is based on 107 entities with applicable P2R in February 2023. The chart shows RWA-weighted data. "Overall capital requirements" means Pillar 1 + P2R + combined buffer requirement [capital conservation buffer + systemic buffers (G-SII, O-SII, SyRB) + countercyclical capital buffer]. The reference date for the combined buffer requirement is Q1 in each year. P2G is added on top of overall capital requirements. Under CRD V, P2R capital should have the same composition as Pillar 1, i.e. at least 56.25% should be CET1 and at least 75% Tier 1.

1 Main developments in 2022

Despite some improvement in scores, the supervisory stance remains cautious in the light of persistent internal control weaknesses...

Credit risk scores improved compared with 2021 but remain marred by deficiencies in internal risk controls



Source: ECB (SREP database).

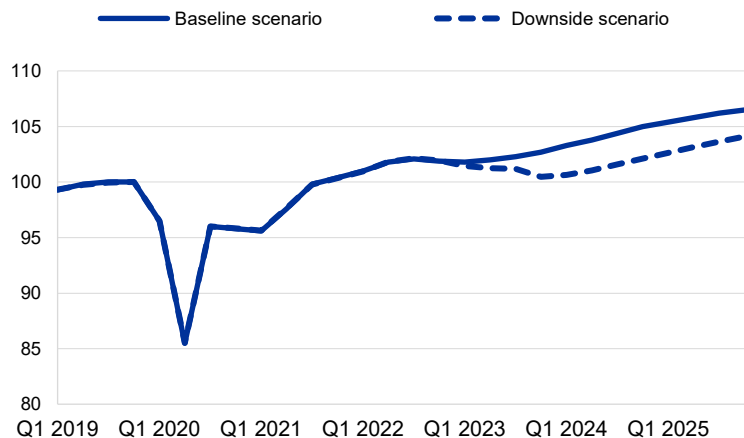
Note: 2019 SREP values based on 109 decisions; 2021 SREP values based on 108 decisions; 2022 SREP values based on 101 decisions.

1 Main developments in 2022

...and prevailing uncertainty. The economic outlook for the euro area has worsened and risks have increased amid the Russian war in Ukraine

The ongoing energy crisis, high inflation, elevated uncertainty and tighter financing conditions weigh on the economic outlook, with the risks of recession in 2023

Real GDP growth projections for the euro area
(annual percentage changes)



Source: Eurosystem staff macroeconomic projections for the euro area, December 2022.

Financial stress could be exacerbated by further geopolitical tensions, translating into new episodes of high volatility and market turbulence

Composite Indicator of Systemic Stress
(Jan 2015 – 6 Jan. 2023; index)



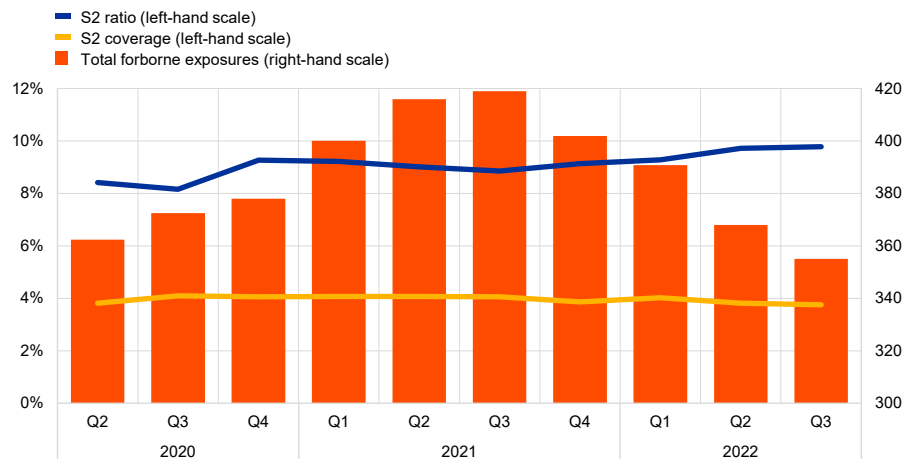
Source: ECB.

Note: Last observation: 6 January 2023.

The deterioration of the macro-outlook is not yet visible in credit impairments, but there are signs of latent risk

Stage 2 ratio and forborne exposures remained above pre-pandemic levels

S2 ratio, S2 coverage (percentage) and total forborne exposures (EUR billions)



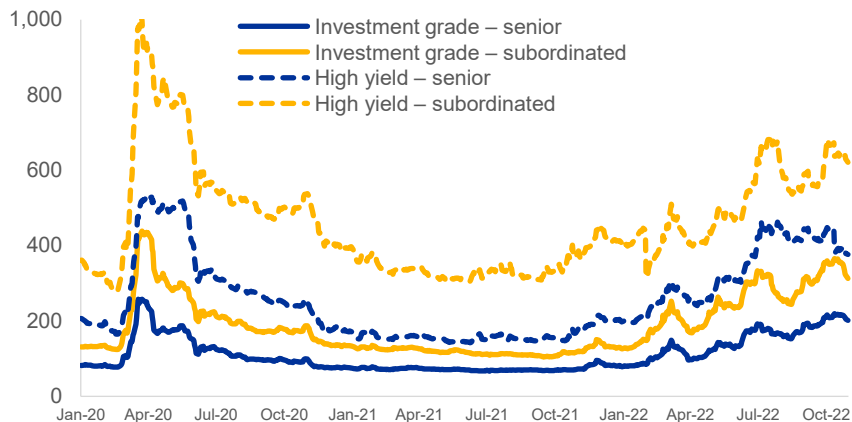
Source: ECB ([Supervisory Banking Statistics](#)).

Notes: Weighted average. Sample selection follows the Supervisory Banking Statistics (SBS) [methodological note](#). S2 ratio and S2 coverage available in SDW as of Q2 2020.

A lack of diversification in funding sources and deficiencies in funding plans are vulnerabilities requiring enhanced supervisory scrutiny

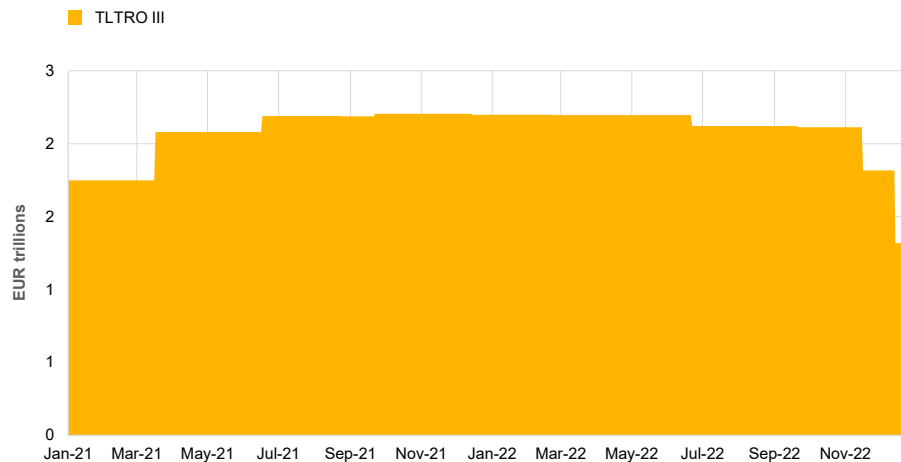
Exceptional monetary policy taken during the pandemic led to banks increasing reliance on central bank funding. The banks are tackling the progressive normalisation of monetary policy and the end of TLTRO III operation by amending their funding plans in an environment of rising funding costs and competition

Evolution of banks' funding spreads
(OAS; Jan 2020 – Nov 2022; LHS: basis points)



Source: S&P Dow Jones Indices LLC and/or its affiliates via the ECB's Statistical Data Warehouse.

TLTRO III operations

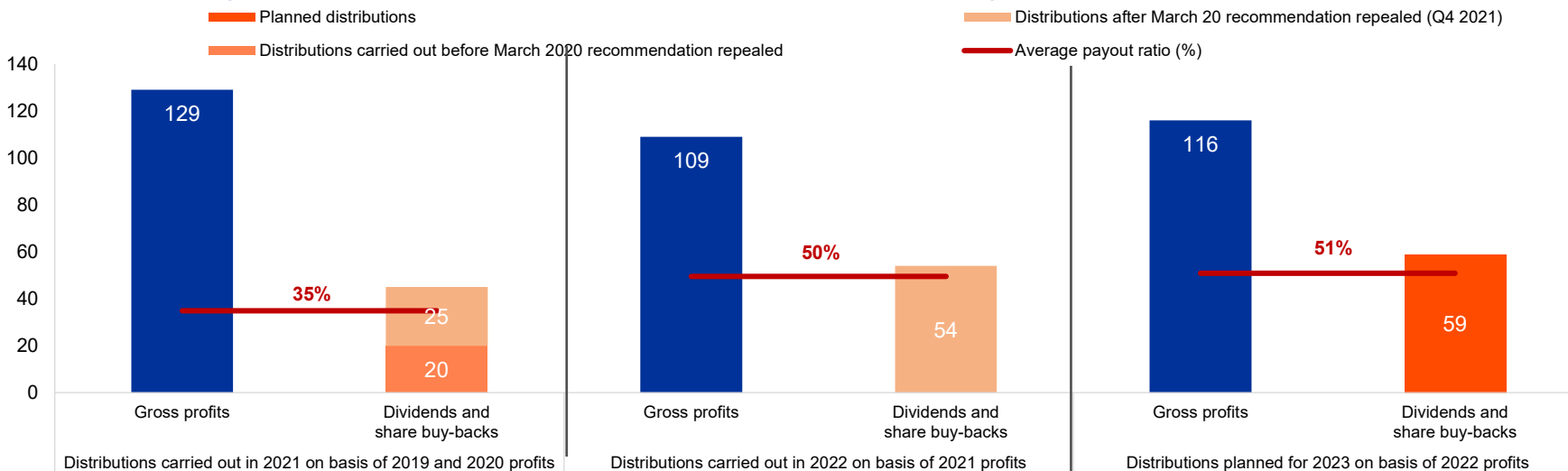


Source: ECB ([Standing facilities](#), [TLTRO](#), [Minimum reserves and liquidity](#)).

Planned distributions in 2023 look sustainable

Overall, bank distribution plans for 2023 are in the same ballpark as the previous year as a share of total profits. Distributions are anchored in bank-specific capital projections under baseline and adverse scenarios. Distributions are an important element of the supervisory dialogue resulting in a handful of banks adjusting their plans

Significant institutions' planned and actual distributions according to information available to JSTs (EUR bn)



Source: ECB.

Notes: JSTs' internal surveys on banks' planned profit distributions and data collected from banks in November 2022. 2021 profits higher than shown in previous communication as fully audited profits were not available yet. The number of SIs can change from one reference period to another owing to amendments to the list of SIs following assessments by ECB Banking Supervision. "Gross profits" are total net profits attributable to owners, in line with supervisory reporting, and do not include losses. On [27 March 2020](#) the ECB asked banks not to distribute dividends or buy back shares during the COVID-19 pandemic. A similar recommendation was made in [July 2020](#), and in [December 2020](#) the ECB asked banks to limit their distributions. Finally, in [July 2021](#) it was decided that the ECB's dividend recommendation would not be extended beyond September 2021.

2. Key supervisory concerns and actions

SI are carrying out strategic initiatives to adapt or transform their business, but their efforts are not yet enough to improve business model scores

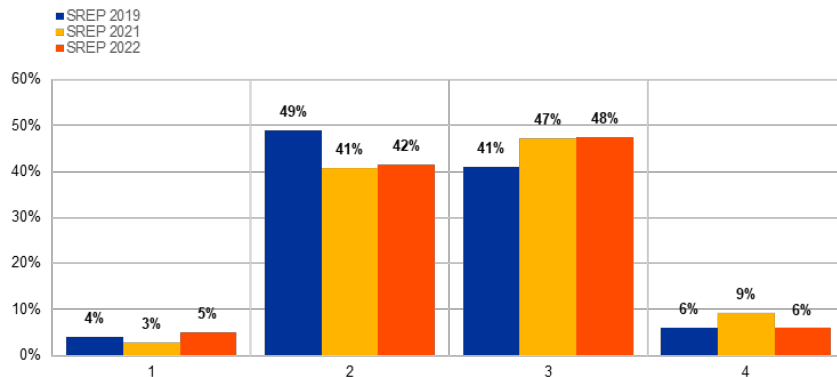
M&A activity remains low and domestic. Nevertheless, banks are actively engaging in business transformation and strategic re-orientation of activities

Business model rebalancing observed at SIs in 2022

- Sale of non-core or loss-making business lines and market exits
- Sale of non-performing loan portfolios
- Acquisition of business lines such as leasing, factoring, wealth management, custody and securities services
- Strategic partnerships to enable technological innovation

Despite banks' efforts, structural deficiencies persist. Scores improved for 5% of banks, associated with enhancements in strategic steering and a rebound in sustainable sources of revenue

Business model SREP scores



Source: ECB (SREP database).

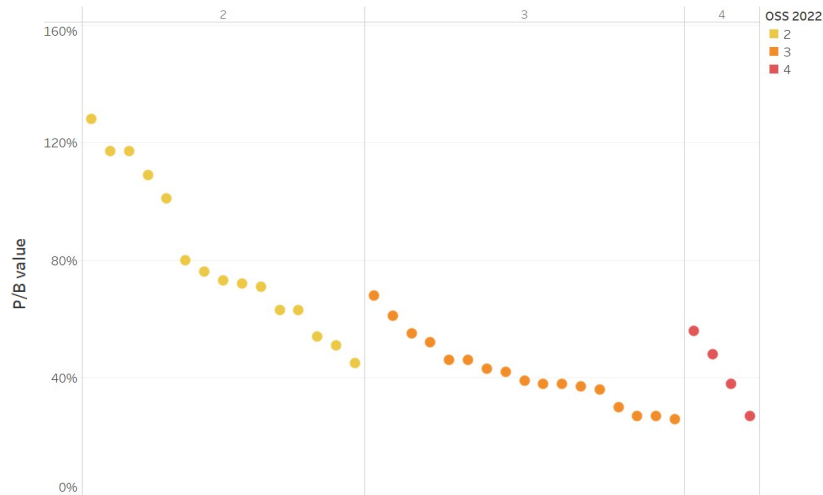
Note: 2019 SREP values based on 109 decisions; 2021 SREP values based on 108 decisions; 2022 SREP values based on 101 decisions.

2 Key supervisory concerns and actions

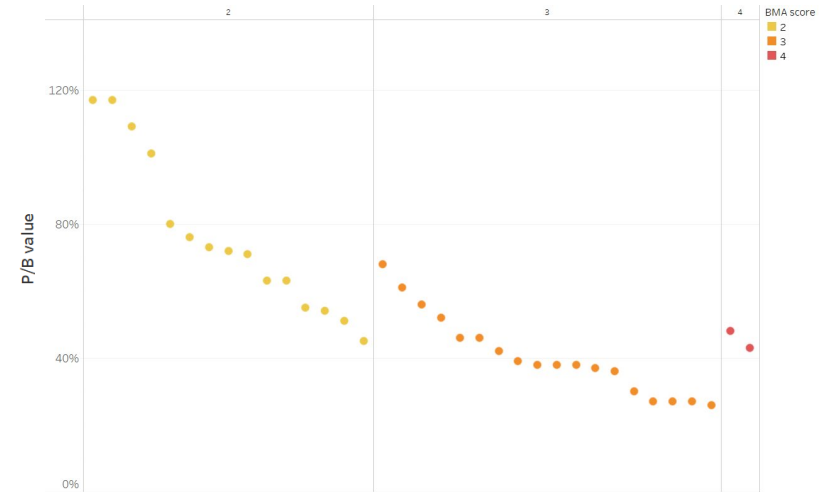
In general, the market valuations of listed SIs remain significantly below book value, indicating comparatively high risk and/or low profitability

Overall, the price-to-book value is correlated with the overall SREP score and the business model score

Price-to-book value and overall SREP scores



Price-to-book value and business model scores



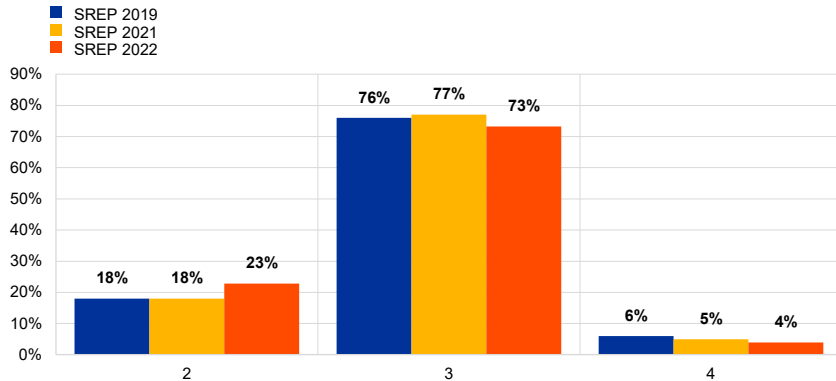
Source: Bloomberg.
The y-axis only includes the overall range, to preserve statistical confidentiality.

2 Key supervisory concerns and actions

Internal governance and risk management remains area of greater concern for ECB Banking Supervision, with a special focus on data aggregation

Main findings on effectiveness of management bodies, risk management, compliance and internal audit functions, fragmented IT and data aggregation

Internal governance SREP scores

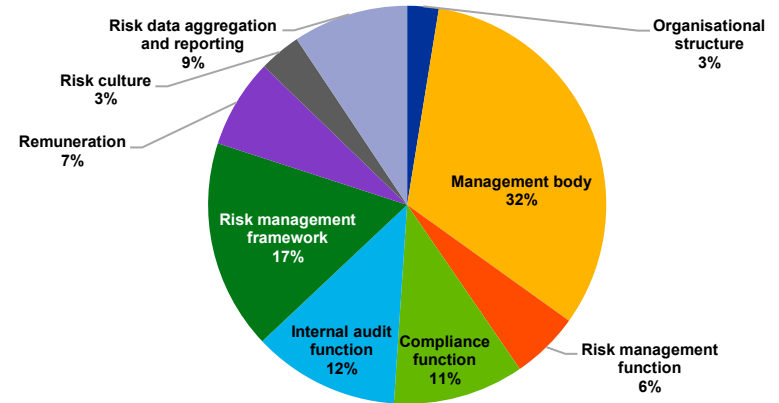


Source: ECB (SREP database).

Notes: 2019 SREP values based on 109 decisions; 2021 SREP values based on 108 decisions; 2022 SREP values based on 101 decisions. There are no banks with an Internal Governance score of 1.

Around one third of the measures were raised in the area of management body, targeting almost half of the significant institutions

Breakdown of qualitative measures relating to internal governance and risk management



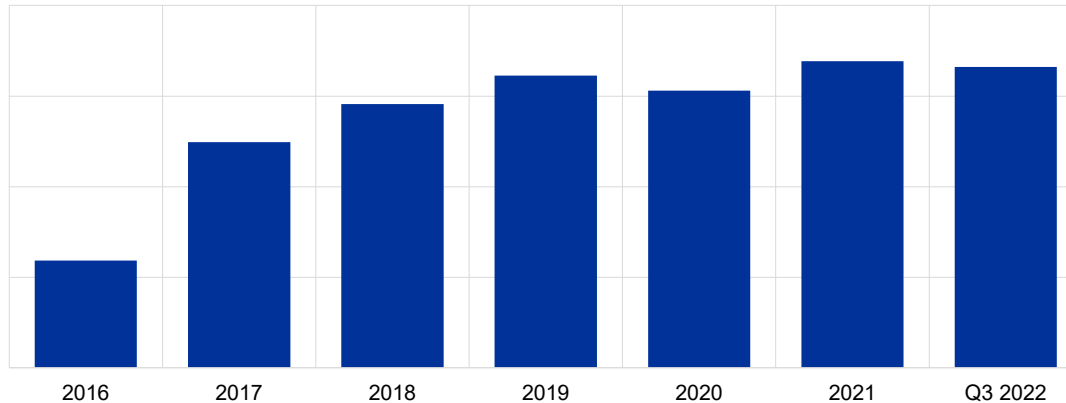
Source: ECB (SREP database).

Notes: 2022 SREP values based on 101 decisions. This chart does not include weaknesses which may have already been addressed by supervisory actions outside of the 2022 SREP cycle. One qualitative measure could be allocated to several subcategories.

The lack of adequate progress in risk data aggregation and reporting is putting pressure on banks to step up efforts

Most measures address inadequate data quality and completeness, inefficient data aggregation capabilities and reporting, delays in the execution of the undertaken projects and remediation plans, as well as inadequate oversight of the management bodies

Total open supervisory measures* in the area of RDAR



Source: ECB (SREP database).

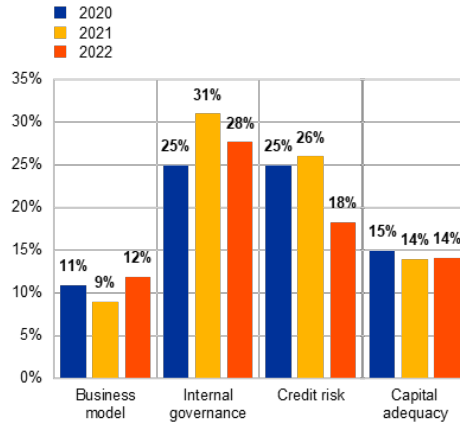
*Total open supervisory measures computed as the difference between cumulative open measures and cumulative closed measures.

2 Key supervisory concerns and actions

Bank-specific concerns regarding credit risk were addressed by supervisors issuing a significant number of SREP qualitative measures

Despite decreasing, persistent weaknesses in credit risk – the most relevant area after governance – have resulted in a high share of measures

Qualitative measures in selected areas

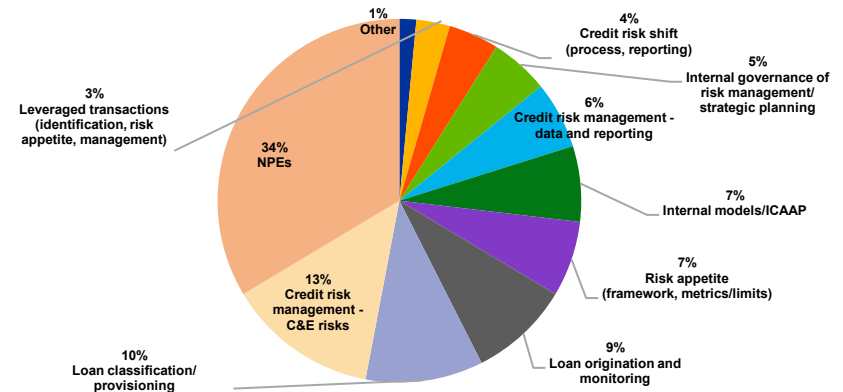


Source: ECB (SREP database).

Note: 2020 SREP values based on 112 decisions; 2021 SREP values based on 108 decisions; 2022 SREP values based on 101 decisions.

44% of the qualitative measures relate to focus areas of the “Dear CEO letter” initiative and to the implementation of the EBA’s Guidelines on loan origination and monitoring

Breakdown of qualitative measures relating to credit risk



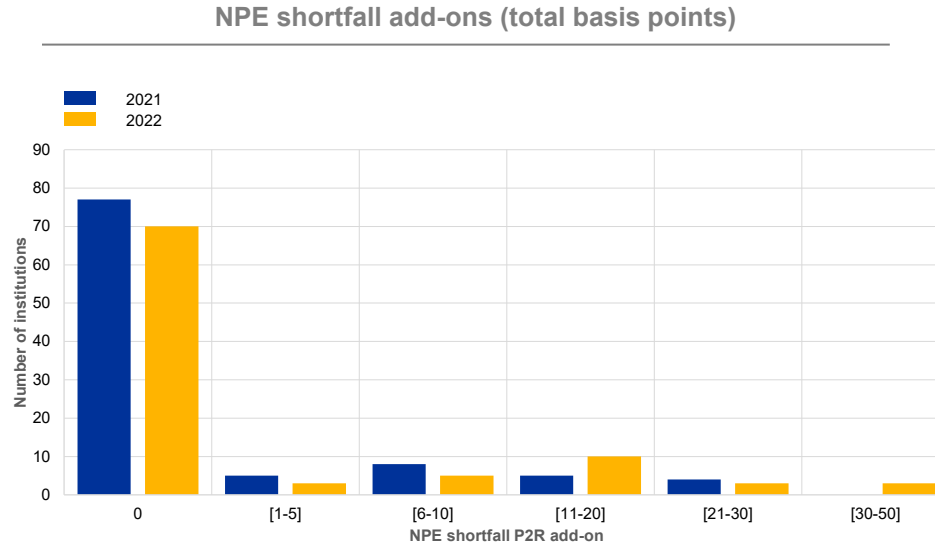
Source: ECB (SREP database).

Notes: 2022 SREP values based on 101 decisions. This chart does not include weaknesses which may have already been addressed by supervisory actions outside of the 2022 SREP cycle.

2 Key supervisory concerns and actions

The 2022 SREP cycle resulted in NPE P2R add-ons for 24 SIs where a shortfall was identified relative to the ECB's coverage expectations

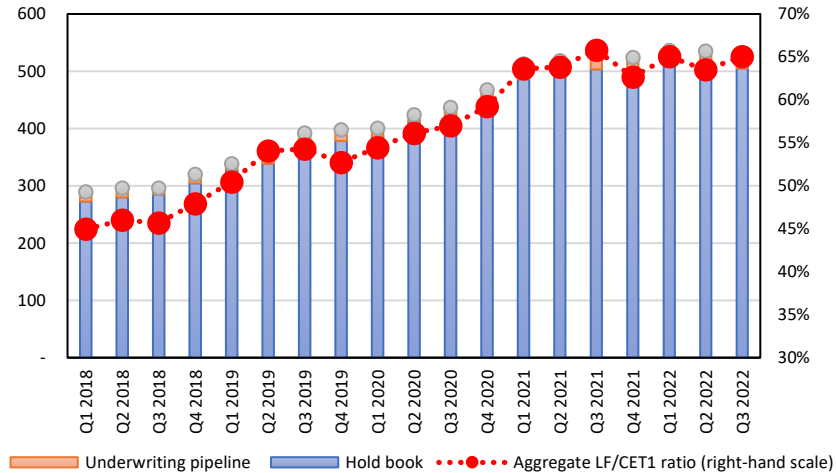
Some banks appear to opt for the capital add-on to remedy the shortfall of provisions with lower quality capital. Supervisors strongly encourage NPE coverage through provisions or capital deductions



Capital add-ons were implemented for leveraged finance in 2022

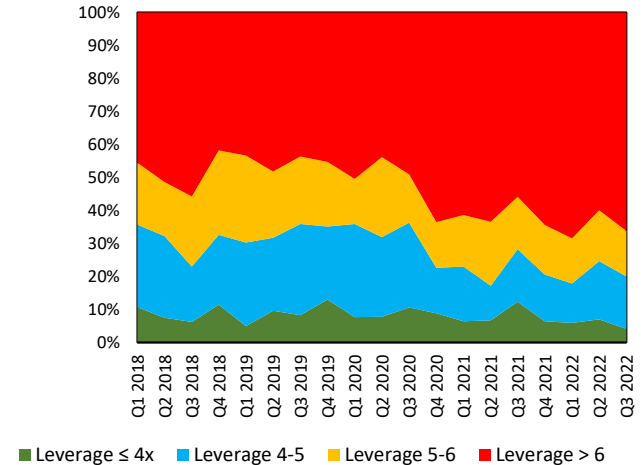
Granting of leveraged loan slowed down in recent quarters, but outstanding volumes remain at historical highs. The ECB increased its efforts to enforce the ECB Guidance on leveraged transactions by sending “Dear CEO letters” to 29 banks with material LF activity, asking them to strengthen their risk appetite framework

Sl's LF outstanding exposure (left-hand scale: EUR billions; right-hand scale: percentage of CET1 capital)



Source: ECB

Counterparty leverage levels (new issuances, share of total SI notional)



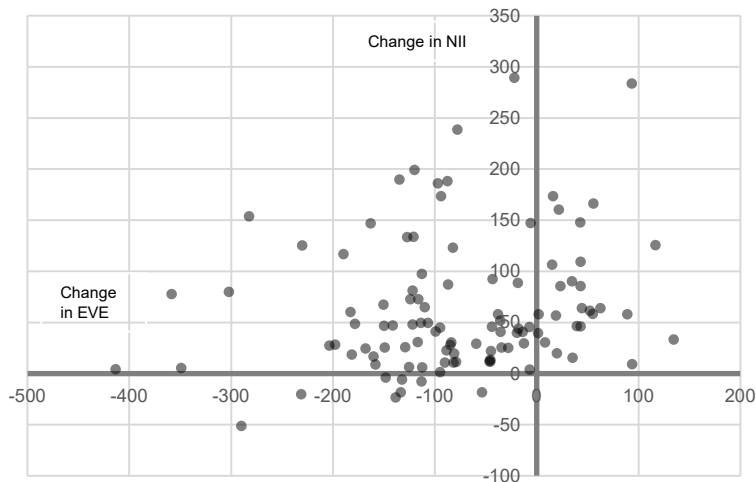
2 Key supervisory concerns and actions

Further thematic work was conducted in 2022 to address existing weaknesses which will be followed up in the 2023 SREP cycle

Interest rate risk in the banking book

- Banks are supported by their profitability from the earnings channel, but should carefully monitor and measure the impact of rising interest rates on their economic value of equity.

Scatter plot for 200 bps IR increase



Source: ECB staff calculations.
Note: Changes in equivalent CET1% impact.

Credit spread risk in the banking book

- Banks should consider the impact from credit spread fluctuations, irrespective of their accounting classification regarding credit spread risk.

Counterparty credit risk

- A targeted review of governance and management of counterparty credit risk highlighted material shortcomings related to customer due diligence, definition of risk appetite, stress testing and default management.

Real estate lending

- Reviews of banks' practices in managing commercial real estate and residential real estate exposures showed that among other weaknesses, banks might not have the ability to deal with emerging risks in a timely manner.

Composition of bank management bodies

- Most significant institutions still have weaknesses regarding diversity at board level.

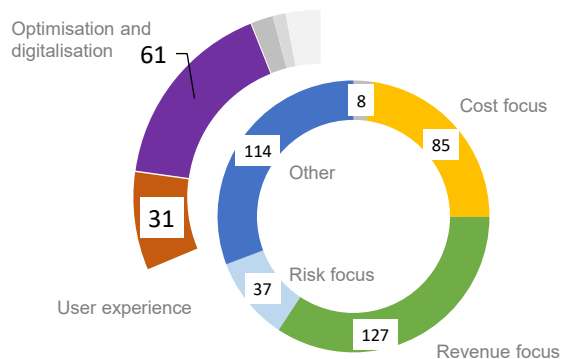
3. Looking ahead: main drivers of structural change and supervisory priorities

3 Looking ahead: main drivers of structural change and supervisory priorities

Banks' digital strategies aim at retaining customers and gaining efficiency; at the same time, related investments remain limited and entail new risks

43% of banks' top five projects aim to enhance revenues/customer experience. 83% of banks see process automation as a key lever to reduce costs

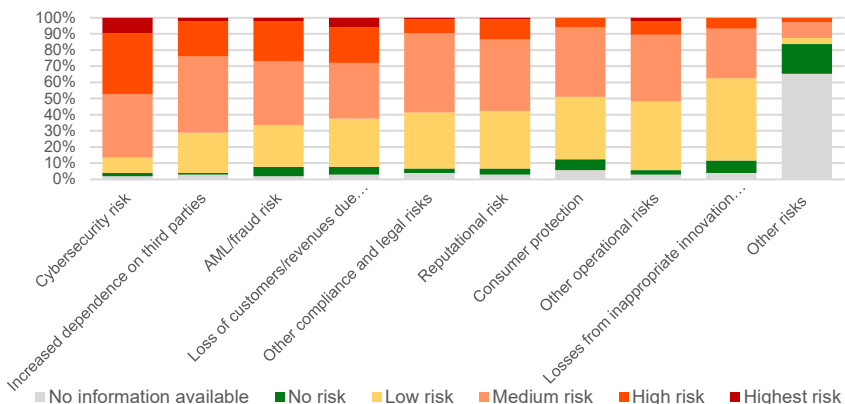
Objectives of key digital projects



Source: ECB.
Note: The horizontal assessment of the survey on digital transformation & Fintech.

Banks' investments on digital transformation remain limited (<3% of operating income*). Banks' self-assessments indicate that key risks are cybersecurity, third-party dependence, AML/fraud, lack of internal skills and potential loss of customers

Key risks associated with digital transformation

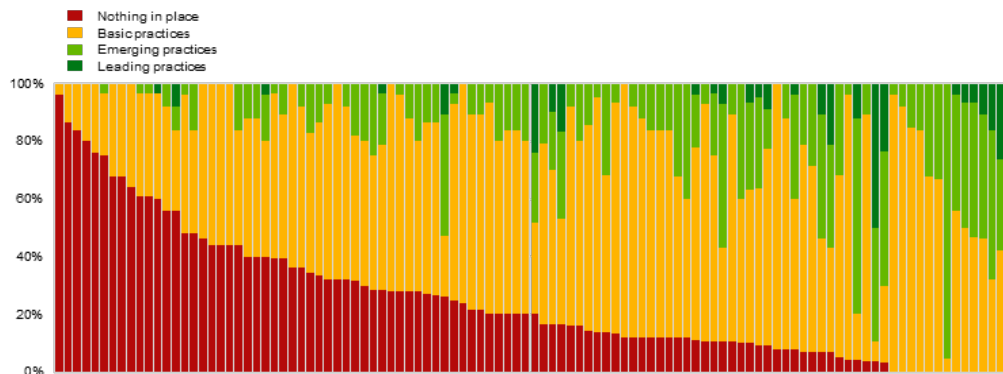


Source: ECB
Note: The horizontal assessment of the survey on digital transformation & Fintech.
* FINREP – Net Operating Income

Climate risk now forms an integral part of day-to-day supervision and qualitative measures for severe weaknesses were issued in the SREP 2022

More than 30 SIs received qualitative measures as part of the 2022 SREP cycle. On top, banks also received feedback highlighting shortcomings to be addressed by the end of 2024 at the latest, with staggered deadlines. The vast majority of C&E SREP measures related to strategic and operational planning.

Bank-by-bank results of the 2022 thematic review



3 Looking ahead: main drivers of structural change and supervisory priorities

The 2023-25 supervisory priorities aim to strengthen banks' resilience to immediate shocks and also address more structural vulnerabilities


Priority 1: Strengthening resilience to immediate macro-financial and geopolitical shocks


Shortcomings in **credit risk management**, including exposures to vulnerable sectors  Credit risk

Lack of **diversification in funding sources** and **deficiencies in funding plans**  Funding risk

Priority 2: Addressing digitalisation challenges and strengthening management bodies' steering capabilities

Deficiencies in **digital transformation strategies**  Business model

Deficiencies in **operational resilience frameworks**, namely IT outsourcing and IT security/cyber risk  Operational risk

Deficiencies in **management bodies' functioning** and steering capabilities
Deficiencies in **risk data aggregation and reporting**  Governance

Priority 3: Stepping up efforts in addressing climate change

Material exposures to **physical and transition risk drivers**  Climate-related and environmental risk

Additionally, the 2023 EU-wide stress test exercise will be a prioritised activity in 2023.