This document has been prepared to assist the ECB media team with queries on the comprehensive assessment.

<table>
<thead>
<tr>
<th>Description</th>
<th>Number</th>
</tr>
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<tbody>
<tr>
<td>Number of banks in CA</td>
<td>128 (includes 124 banking groups)</td>
</tr>
<tr>
<td>Bank assets covered</td>
<td>85%</td>
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<tr>
<td>Number of NCAs</td>
<td>24</td>
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<tr>
<td>Number of staff initially to work for SSM</td>
<td>Up to 1,000 (approx. 770 involved in supervision)</td>
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<tr>
<td>Countries covered by SSM Regulation</td>
<td>17 (18 when Latvia has joined the euro area)</td>
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</table>
1. LEGAL BASIS AND OTHER GENERAL ISSUES

What is the legal basis for the comprehensive assessment? Why is the ECB undertaking the comprehensive assessment?

- The legal basis of the comprehensive assessment is in article 33(4) of the SSM regulation: “The ECB may require the competent authorities of the participating Member States and the persons referred to in Article 10 to provide all relevant information for the ECB to carry out a comprehensive assessment, including an asset quality review, of the credit institutions of the participating Member State. The credit institution and the competent authority shall supply the information requested.”

What are the main aims of the comprehensive assessment?

- Apart from the legal requirements from the SSM regulation, the exercise aims at enhancing transparency, building confidence, and repairing the banks’ balance sheets.

How will the ECB be improving the transparency?

- The ECB will perform a comprehensive assessment comprised of a supervisory risk assessment, a balance sheet assessment and a stress test, integrated as a single outcome. This assessment includes a complete check-up of prudential risks, re-evaluation of banks’ balance sheets as well as testing of resilience to shocks. Throughout the process, a data integrity validation will be performed on the full domestic and relevant non-domestic exposures.

How will the ECB affect the outlook of the financial system?

- This exercise is aimed at improving the strength of the banks’ balance sheets and at addressing risk considerations. The increase in the strength of the banks will contribute to increased financial stability and stakeholders’ (consumers, investors etc.) confidence.
What are the main components of the comprehensive assessment?

- The comprehensive assessment will be formed of three main components: a supervisory risk assessment, a balance sheet assessment and a stress test. The three exercises will feed into a single final output.

2. LIST OF BANKS

When determining the significance of banks through their asset size – which definition of assets did you apply?

- Since total assets figures can fluctuate between two reporting periods to a degree that may affect the significance of institutions close to the thresholds, we included a safety zone around the threshold to overshoot. Accordingly, the list of institutions includes all those whose total assets as of year-end 2012 meet these criteria at the highest level of consolidation according to audited annual financial figures. These figures were collected and approved by National Supervisory Authorities before being submitted by the ECB.

Have resolution banks been included?

- Banks for which a resolution process is already in place have not been included except for cases where the resolution implies that at least some parts of the banking activities are to be continued.

3. METHODOLOGY

How will the ECB ensure a consistent execution with comparable results across the 18 jurisdictions?

- Apart from the legal aspects, the comprehensive assessment will be watertight due to its robust methodology, rigorous execution, detailed quality assurance, strong governance and multi-layered accountability:
  - The methodology developed by ECB was subject to many rounds of comments from the National Supervisory Authorities in order to ensure a level-playing field.
  - The execution phase will assume individual files reviews, on-site presence and data integrity validations. Specialized knowledge such as audit and appraisal companies will be employed.
The quality assurance will be present at every stage of the exercise with both national and central technical teams to cross check the results.

The governance will ensure various teams of assessing the results and deciding on the appropriate follow up actions. Cross-country teams will also be present at the national level, as well as central staff allocated to individual countries.

The accountability of banks’ management will ensure that any disagreements are avoided up-front. They will have to sign off on the data delivered and on correct implementation of the methodology.

How is the governance of the process organized? What is the role of different parties?

- The AQR governance implies a strong centralised structure that will develop the methodology and the project organisation, that has the oversight of the execution phases and that assures the quality of the results. The staff of NCAs together with staff from the ECB and from other Member States’ NCAs will be overseeing the implementation of the comprehensive assessment at the national level. A programme office will be set up at the ECB and at each authority. There will be a Steering Committee at the ECB and at each national authority. Questions and issues will be shared amongst all programme offices. The ECB will be supported by Oliver Wyman, the international management consultancy, which will provide independent advice on the methodology, the execution and the quality assurance measures. Its services will also be available to support the NCAs. Furthermore, throughout the execution, the NCAs will also call upon the services of private sector expert firms to assist with specific tasks such as file reviews, appraisals and valuations.

What are the timelines of the comprehensive assessment?

- The assessment will start in November 2013 and will take one year to be completed, ending in October 2014.

How cooperative are national supervisors?

- There is a very good atmosphere of collaboration and cooperation with national supervisors. The ECB is working in close cooperation in preparing for the operationalization of the SSM, also as regards the conduct of the comprehensive assessment. Currently we have approximately 80 colleagues from NCAs in
Frankfurt who are working together with the ECB colleagues to ensure that the SSM is operational in November of next year.

- The ECB will manage and oversee the exercise, and detailing its design and strategy, carefully monitoring its execution in close cooperation with the NCAs, performing quality assurance on an on-going basis, assembling the results and finalising and disclosing the overall assessment. The NCAs will execute the exercise at the national level, on the basis of data requirements and methodology developed centrally; in this way, the exercise will effectively harness local knowledge and expertise. To ensure consistency of execution, across countries and banks, quality assurance measures will be fully integrated into all processes.

**How will you deal with inconsistencies in the comprehensive assessment?**

- The ECB welcomes the harmonized definitions, such as the EBA’s definition of NPLs, to guide the exercise. The whole exercise of the comprehensive assessment only makes sense if the exercise is transparent and rigorous – otherwise it would not serve the purpose. Both, harmonisation and transparency are important in the asset quality review. Regarding the treatment of NPL, we envisage using the upcoming harmonised EBA definition which will make it easier to reach a higher degree of transparency. The same is true for what is typically referred to as forbearance (payment holidays, etc.). Here the EBA has also released a definition.

**Will derivatives and complex instruments be included?**

- Yes. Derivatives are in the scope of the exercise. Furthermore, more complex or difficult to value held for trading assets are also included. These assets will be subject to risk-based portfolio selection.

**How will the bottom-up and top-down portfolio selection work?**

- The National Supervisory Authorities will propose risky portfolios subject to minimum coverage at country and bank level. The national proposal will follow harmonized guidelines developed centrally and will comprise supervisory experiences. The ECB will review, challenge and select these national proposals through a centralised developed methodology according to micro- and macro-based risk criteria. These criteria will also contain elements from the supervisory risk assessment (RAS).

**Could you tell us about the methodology that will be used for the stress tests and the respective roles of EBA and the ECB in this exercise?**
● This is clearly too early to say. Since the stress test will be the final part of the exercise agreed with the EBA, we are concentrating on the first two parts of the comprehensive assessment, namely the risk assessment and the asset quality review.

4. OLIVER WYMAN (OW) / CONSULTANTS

How was Oliver Wyman (OW) selected and what will their role be?

● Appointment of OW followed a procurement procedure according to ECB rules.
● OW will support the ECB’s management and coordination of this project and provide independent advice on the methodology, while also aiding in the design, implementation and quality assurance.
● The services provided by OW will also be available to NCAs.
● Any firm of their standing will have conflicts of interest. Such conflicts will be carefully managed and the necessary provisions have been put in place to ensure that this is the case.

Why is it necessary to hire OW?

● As the SSM is a fresh organisation in the process of inception and resources are scarce, independent advisers on project methodology and methodology refinement are needed.

5. BANK DATA

How will you ensure the accuracy and reliability of the bank data collected?

● We will use the principle of three pairs of eyes to look over the data: The national supervisor, the auditor and us, the ECB, who will do the final check.

When will the first data collection take place?

● The first data collection will be launched in November.
● [NCAs will be asked to liaise over the following weeks to help prepare the banks for the initial data collection.]

What is the difference between this and an audit review?

● The asset quality review is a different exercise from a pure review of auditors. The methodology will be intrusive with risk-based individual file reviews and harmonized procedures across the different jurisdictions. A yearly audit may
verify the accuracy of records, the accounting standards compliance and the soundness of internal controls. This assessment is more invasive by taking into account: (i) accounting prudential requirements (e.g. risk considerations for individual banks, definitions according to prudential Union law); (ii) harmonized definitions for variables (e.g. non-performing loans, forbearance, loans classifications etc.); (iii) individual re-evaluations of files and data integrity validation (bottom-up detailed analysis of loan and securities data, review of credit risk monitoring and IT systems, full balance sheet reconciliations). The third parties (i.e. auditors, specialized appraisal companies) involved in such reviews would be different from the ones employed by the banks on a regular basis in order to avoid conflicts of interest.

How will qualitative shortcomings, e.g. a weak risk management, factor into the equation when calculating the capital gap?

- The comprehensive assessment will have both a quantitative and a qualitative output. Apart from the capital shortfall, the exercise will also lead to specific recommendations in areas such as improvement of risk management or governance for specific banks. Nonetheless, qualitative shortcoming can also feed in the capital gap if certain process or controls of banks are found as insufficient.

What's the relation with the stress tests?

- The stress test, aiming at examining the resilience of banks’ balance sheet to stress scenarios, is only one element of the three elements constituting the comprehensive assessment. Another element is a supervisory risk assessment aimed at reviewing, quantitatively and qualitatively, key risks, including liquidity and funding, business models and the adequacy of banks’ governance structure. A third element is an asset quality review aimed at enhancing transparency of banks’ balance sheets, in particular, by reviewing the quality of bank’s assets and thoroughly assessing the adequacy of banks’ asset valuations, collateral valuation and provisions, as well as their capital endowment and leverage.
- There are close inter-linkages between the three elements and together they provide a wide ranging, yet in-depth view of banks’ balance sheets, bringing together both quantitative and qualitative aspects of banks’ risks, and in addition, both point-in-time and forward-looking elements. The comprehensive assessment will conclude with a single disclosure of the outcomes, which will be published prior to the ECB assuming its supervisory role in November 2014.
6. COMMUNICATION / NEXT STEPS

How and when do you plan to communicate the results of the comprehensive assessment? Will you communicate the outcome of each phase (risk assessment, AQR and stress tests)?

- There will only be one final communication towards the end of the exercise, most likely in October 2014.

Could tell us about the status of the framework regulation that the ECB needs to publish 6 months after the entry into force of the SSM Regulation?

- We are still finalising this before it goes to public consultation and publication 6 months from now.

What are the next steps for the set-up of the SSM?

- Finalising the selection procedure for the Chair and Vice-Chair of the Supervisory Board, which we expected to be appointed by the end of the year, if the procedure follows a swift path.
- Publishing the Framework Regulation 6 months after the entry into force of the SSM regulation (publication expected by April 2014).

7. SINGLE RESOLUTION MECHANISM

- All elements of banking union are necessary.
- We encourage all relevant parties to make further progress on the adoption of a Single Resolution Mechanism, as another essential pillar of the banking union besides the SSM. The SRM should be in place ideally by the time the SSM becomes operational. Having the SSM in place without a credible resolution mechanism could undermine the credibility of the SSM. The ECB will soon issue its opinion on the Commission’s proposal.
- At the last ECOFIN summit in Luxembourg all countries expressed their will to find an agreement until the end of the year to have an SRM in place by 2015. We count on that and await a statement on the matter.

8. BACKSTOPS
• Discussions are in progress within the Eurogroup Working Group and directly with the ECB, and should continue with a view to preparing appropriate backstop schemes.