BRIEFING

Regular public hearing with Danièle Nouy, Chair of the Single Supervisory Mechanism

ECON on 19 June 2017

This note is prepared in view of a regular public hearing with the Chair of the Supervisory Board of the European Central Bank (ECB) as referred to in Regulation 1024/2013 and the Interinstitutional Agreement between the European Parliament and the ECB.

The following issues are addressed in this briefing: information in the public domain relating to the resolution of Banco Popular, the ECB's supervisory expectations for banks relocating to the euro area in the context of Brexit, the Supervisory Banking Statistics for the fourth quarter of 2016, two guidance documents published by the SSM, and a summary of an external briefing paper on banks' structural changes.

I. Banco Popular - the first resolution of a directly supervised bank

On 6 June, the ECB declared the first bank under its direct supervision to be "failing or likely to fail". On the following day, the Single Resolution Board (SRB) adopted a resolution decision, transferring all shares and capital instruments of Banco Popular Español S.A. (Banco Popular) to Banco Santander S.A (Santander) under the new framework for the recovery and resolution of credit institutions and investment firms (Directive 2014/59/EU).

This briefing hence summarises some key information available in the public domain concerning the bank and its business model, the resolution procedure and the involvement of the European institutions, the root causes of the bank's failure, and previous supervisory assessments of the bank's financial health.

Banco Popular - business model and financial results

All information in this section is **based on Banco Popular's 2016 Annual Report** as initially published (the results for 2016 were **later on restated**, according to the information filed with the Spanish Securities Market Commission (CNMV) on 3 April 2017; see next section).

Banco Popular is a Spanish banking group with approximately 12.000 employees (20% fewer than in 2015), 90% of whom work in Spain where the bank operates 1.600 branches.

Banco Popular's business strategy is in particular **focused on small and medium-sized enterprises** (SMEs). Its exposure to SMEs (29% of all exposures) is significantly higher than that of other Spanish banks (on average 10% of all exposures).

At the end of 2016, Banco Popular had a balance sheet size of EUR 147.9 billion, which is 6.8% lower than in the year before. Looking at the bank's activities by business line, next to the SME business the **Real Estate Business** forms another considerable part of the total assets on the balance sheet (EUR 24.3 billion, or 16,4%).

Banco Popular's 2016 Annual Report highlights that the year 2016 was marked by a non-recurring **balance sheet clean-up** and the conclusion of a restructuring plan that aimed to reduce costs, resulting in a **consolidated financial loss of EUR 3.5 billion** (in 2015 the bank reported a profit of EUR

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106 million). Provisions amounted to EUR 5.7 billion; the coverage ratio of non-performing and non-written-off balances improved from 45.5% in 2015 to 52.3% in 2016.

As regards the **solvency** of the bank, Banco Popular's 2016 Annual Report sets out that the pertinent solvency ratio of the banking group stood at **31 December 2016 at 12.13% phased-in CET1** (that is the ratio between common equity Tier 1 capital and risk-weighted assets; the phased-in ratio allows for the gradual application of the capital requirements introduced by the CRD IV directive and CRR regulation; Banco Popular's CET1 fully-loaded ratio at the end of 2016 was notably lower and stood at 8.19%.)

The Annual Report moreover states that (p. 295) "*In accordance with the results of the Supervisory Review and Evaluation Process (SREP), the European Central Bank established a CET 1 capital requirement of 7.875% for Popular in 2017. This includes the regulatory requirement (Pillar 1) of 4.5%, a Pillar 2 requirement of 2%, a capital conservation buffer of 1.25% and a local systemic institution buffer of 0.125% imposed by Banco de España*."

In comparison, the CET1 ratio of 12.13% that Banco Popular reported at 31 December 2016 is just slightly below that of its peers: the ECB's Supervisory Banking Statistics for the fourth quarter 2016 indicate that on average the directly supervised Spanish banks showed a CET1 ratio of 12.59% at 31 December 2016.

As regards the **liquidity situation** of the bank, Banco Popular's 2016 Annual Report sets out that the bank was compliant with the regulatory Liquidity Coverage Ratio (LCR). The LCR was developed to promote the short-term resilience of the liquidity risk profile of financial institutions by ensuring that they have sufficient High Quality Liquid Assets to survive a significant stress scenario lasting 30 calendar days. The minimum LCR target level is 80% in 2017, and 100% in 2018. Banco Popular's consolidated **LCR at December 2016 was 134.8%.**

Banco Popular - restated financial results for 2016

The results for 2016 as presented in the initial Annual Report 2016 were later on partially restated, according to the information filed with the Spanish Securities Market Commission (CNMV) on 3 April 2017 (see picture 1). Banco Popular sets out in the 1Q17 Results Presentation (p. 11) that "*According to the Significant Event announced the 3rd of April, the €160M provision shortfall linked to NPLs collaterals, which was statistically estimated at first, and the €145M NPL book (net of provisions) in regards to potential derecognition of collateral, are both being analyzed. Final impact due to be announced by 2Q17*".

Picture 1: Banco Popular - Re-expression of accounts for 2016

	Equity (€M)	CET1 PI (% ; €M)	Net Income (2016 €M)
Reported 4Q16	11,365	12.14%	-3,485
Re-stated 4Q16	11,124	11.53%	-3,611
Difference	-241	-0.61%	-126

Source: 1Q17 Results Presentation (p. 11; excerpt)

Box 1: Banco Popular - Timeline of events (including information taken from the financial press)

26/05/2016:	Banco Popular announced a capital increase of EUR 2.5 billion, to be completed in June 2016; the bank is said to be anticipating stronger capital requirements by the ECB at the end of 2016 through the annual SREP process, as well a further provisioning of real estate portfolios by up to EUR 4.7 bn
29/07/2016:	Publication of the 2016 stress test: Banco Popular's transitional CET1 ratio reaches 13.45% in the 2016 in the baseline scenario, down to 7.01% in 2018 in the adverse scenario
01/12/2016:	Banco Popular announced the replacement of its executive chairman, Mr Angel Ron, by Mr Emilio Saracho, in the course of Q1 2017
03/02/2017:	Banco Popular reports a EUR 3.5 bn loss for 2016 because of impairments on its real estate portfolio, which heavily drags the CET1 ratio, a key measure of financial health. The bank is predicted to raise capital again
20/02/2017:	Mr. Emilio Saracho replaces Mr. Angel Ron as Chairman of the bank; he is the former head of investment banking at Santander, and has worked for several investment banks
03/04/2017:	CEO Pedro Larena quits after an audit reveals under-provisioning of bad loan portfolios for EUR 600 million as well an unreported loans to clients to buy shares in the 2016 capital increase; the 2016 financial statement are partially restated
10/04/2017:	General assembly of shareholders; the CEO indicated that the bank needed a capital increase and could possibly be sold to a competitor
05/05/2017:	Banco Popular announces a first quarter loss of EUR 137 million. According to the financial press, the capital needs exceed the bank's current market valuation
16/05/2017:	Banco Popular declares it has been contacted by several potential buyers
31/05/2017:	Reuters reports that Mrs E. König, chair of the SRB, warned EU officials that Banco Popular "*may need to be wound down if it fails to find a buyer*"
01/06/2017:	Banco Popular's AT1 bonds trade at distressed levels following the Reuters report of 31/05/2017
05/06/2017:	Banco Popular requested EUR 2.0 bn of Emergency Liquidity Assistance, according to the financial press
06/06/2017:	Banco Popular requested another EUR 1.6 bn of ELA according to the financial press, and then fell short of eligible collateral: it cannot reopen on the following day; it is reported in the Spanish press that the bank deposited in total about EUR 40 billion in collateral but could only withdraw EUR 3.5 billion in cash; Mr de Guindos, Spain's economy minister, also confirmed on 12/06 that local authorities had been involved in the withdrawal of large deposits in the last days before the resolution The bank is deemed failing or likely to fail by the ECB The SRB then triggered the resolution and launched an accelerated sale process; the provisional value of the bank as assessed by an independent expert was said to be negative in the order of magnitude between EUR (8.2) billion and EUR (2.0) billion
07/06/2017	The bank was sold to Santander for 1 euro; the FROB (Spanish resolution authority) implements the resolution scheme adopted by the SRB
12/06/2017:	Spanish regulators announce a ban on short selling of Liberbank shares for fear of contagion

Banco Popular - snap-shot of the resolution procedure

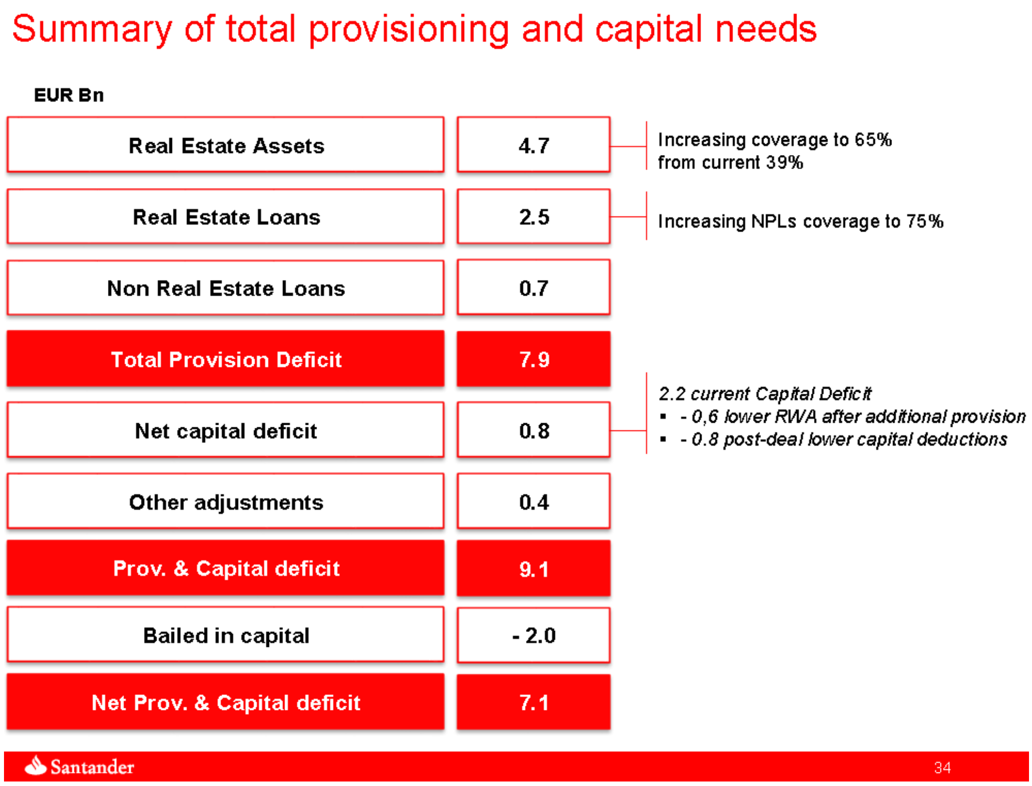
On 7 June, the **SRB transferred all shares of Banco Popular to Banco Santander** for a symbolic price of 1 euro, meaning that Banco Popular with immediate effect operates under normal business conditions as a solvent and liquid member of the Santander Group. The following "snap-shot" sketches which authority had to decide about which aspect in the resolution procedure of Banco Popular, and cites some respective key assessments:

Institution	**Key consideration**	**Assessment**
European Central Bank	Is the **bank failing** or likely to fail?	The ECB determined that Banco Popular Español S.A. was failing or likely to fail. *"The significant deterioration of the liquidity situation of the bank in recent days led to a determination that the entity would have, in the near future, been unable to pay its debts or other liabilities as they fell due".* Press release 7 June 2017
Single Resolution Board	Which resolution tool is the most suitable? Is a **private sector solution** possible? Is a resolution in the public interest?	*"There was no reasonable prospect that any alternative private sector measures or supervisory action would prevent the failure of the Institution within a reasonable timeframe".* *"Resolution action would be necessary in the public interest".* Press release 7 June 2017; Accompanying note
Spanish Executive Resolution Authority FROB	**Implementation** of the necessary resolution actions	"*...the SRB obtained a valuation from an independent expert... This valuation estimates an economic value of the entity of a negative two billion euros (€2,000,000,000) in the baseline scenario and a negative eight billion, 200 million euros (€8,200,000,000) in the most adverse scenario."* "*The economic value and the offer received in the sale of business tender... evidence the existence of losses that must be borne, firstly by shareholders losing their stakes in the entity...*"; "*The FROB's execution of the power to write down and convert the capital instruments fulfils the instructions issued by the SRB in the resolution scheme..."* Decision adopted by FROB's Governing Committee on June 7, 2017 concerning Banco Popular Español S.A
European Commission	**Approval** under EU Bank Recovery and Resolution rules	*"It [the resolution by sale of business] was the best course of action to ensure the continuity of the important functions performed by the bank and to avoid significant adverse effects on financial stability. In this specific case, losses were fully absorbed by shares and subordinated debt."* *"No State aid nor aid from the Single Resolution Fund has been provided and the sale is subject to normal merger and regulatory review."* Press release 7 June 2017

Banco Popular - provisioning deficit and problematic liquidity situation

The ratios in the bank's initial Annual Report 2016 would suggest that at the end of 2016, the bank has neither had a liquidity nor a solvency problem: the reported Liquidity Coverage Ratio stood at 134.8% and the CET1 ratio at 12.13%.
Banco Popular states in its Annual Report 2016 (p. 32) that "*...this year was marked by the non-recurring balance sheet clean-up exercise...*".
A presentation prepared by Banco Santander, the buyer, nevertheless points to the problem of a sizeable **provisioning deficit** for non-performing assets in the order of magnitude of EUR 7.9 billion (see picture 2).

Picture 2: Recapitalisation needs as assessed by the buyer of Banco Popular



Source: Presentation "Banco Popular acquisition - Creating shareholder value through in-market consolidation", p. 34, as published by Santander on 7 June 2017.

The ECB's press statement, on the other hand, states that the assessment that Banco Popular was failing or likely to fail was rooted in the significant **deterioration of the liquidity situation** of the bank (see Box 1).

Banco Popular - previous supervisory assessments

Banco Popular was analysed by ECB in the context of the **2014 Comprehensive Assessment**, the financial health check of those banks that were about to come under direct supervision of the ECB. At that time, the results published for Banco Popular did not reveal any capital shortfall; more specifically, the Asset Quality Review led to a marginal adjustment of Banco Popular's coverage ratio for non-performing exposures (per year end 2013) from 34.75% to 35.29%.

Banco Popular was also part of the 51 banks that were subject to the European Banking Authority's **2016 EU-wide stress test**. The results projected that in the baseline scenario the bank's CET 1 ratio would slightly improve from 13.1% in 2015 to 13.5% per year-end 2018. In the hypothetical stress case scenario, however, Banco Popular's CET 1 ratio was projected to fall to 7%, well below that of its peers, for which in the adverse scenario an average ratio of 9.4% at the end of 2018 was projected.

II. BREXIT - Supervisory expectations for the relocation of banks

The ECB has set out its supervisory expectations for banks that consider relocating to the euro area in the context of Brexit. Related information is published on a dedicated thematic website. The ECB has moreover organised a technical workshop for banks.

Sabine Lautenschläger, Member of the Executive Board of the ECB and Vice-Chair of the Supervisory Board of the ECB, made a few **introductory remarks at the technical workshop** that was organised in Frankfurt on 4 May 2017, emphasising some of the key considerations that banks should keep in mind if planning for a relocation. The following three quotes point at aspects that are worth noting:

- **No shell companies**

"*First of all, we [the supervisory arm of the ECB] will not accept shell companies. Any bank that operates in the euro area must be a "real" bank. And a "real" bank has adequate local risk management, sufficient local staff and operational independence. A "real" bank also does not permanently book all of its exposures back-to-back with another entity in the group; this would make it way too reliant and limit control over its own balance sheet*."

- **Short timeline**

"*From the moment a bank hands in a complete application for a licence, it usually takes between six and twelve months before the process is finished. Against that backdrop, 29 March 2019 is closer than it appears*."

- **No grandfathering of internal models**

"*Another crucial question for banks that want to relocate is whether they can continue to use their internal models. We are aware that banks would like us to simply grandfather existing model approvals that were given by the British supervisor. We will not do that. It is not feasible from a legal point of view, and it would not be the most prudent thing to do. Internal models need to be approved by the relevant supervisor, also to meet the obligation for equal treatment; therefore, banks that relocate to the euro area would have to seek a new permission from us*."

The overarching principle is that banks across the euro area shall be supervised according to the same high standards, and the ECB aims to ensure that all banks stick to the same standards. All banks that plan to relocate and that fulfill the relevant criteria of significance (related to size, economic importance, cross-border activities, and the receipt of direct public financial assistance) would therefore become subject to a mandatory **Comprehensive Assessment by the ECB.**

III. Supervisory Banking Statistics

Since the second quarter 2016, the ECB publishes aggregate *Supervisory Banking Statistics* on the directly supervised significant banks; that dataset covers inter alia the balance sheet composition and profitability of those banks.

The data published by the ECB on 25 April 2017 for the aggregated fourth quarter 2016 results show that compared to the previous year, banks had both lower net interest income and lower fee income that are their two main sources of income.

Aggregated net interest income decreased from EUR 270.4 billion to EUR 263.0 billion (-2.7%), and aggregated fee income decreased from EUR 134.7 billion to EUR 130.5 billion (-3.1%).

Administrative expenses and depreciation remained very stable; slightly reduced impairments and provisions even had a small positive impact on the banks' overall profitability, but that improvement could not make up for the shortfall of "other net operating income" which came down by some 20% ("other net operating income" is a residual category which can include, for example, recurring items such as income on insurance activities as well as non-recurring one-off gains).

In sum, however, the **overall profitability of directly supervised banks** (see table 1) has been significantly worse in 2016, as compared to the previous year: The aggregated net profits decreased from EUR 60.8 billion to EUR 45.2 billion, which is a **reduction by more than 25%.**

Table 1: Profit and loss figures of ECB directly supervised banks
(year-to-date, for the fourth quarter 2016 and 2015, in EUR millions)

Profit and loss	Q4 2015	Q4 2016	Change
Net interest income	270.429,57	263.031,78	-2,7%
Net fee and commission income	134.673,02	130.503,57	-3,1%
Net trading income	21.836,92	23.045,28	5,5%
Exchange differences, net	1.303,44	2.979,75	128,6%
Net other operating income	53.411,43	42.804,55	-19,9%
Operating income 1)	481.654,37	462.364,93	-4,0%
Administrative expenses and depreciation	-304.659,14	-304.359,86	-0,1%
Net income before impairment, provisions and taxes	176.995,23	158.005,07	-10,7%
Impairment and provisions 2)	-102.909,16	-101.234,71	-1,6%
Other	11.757,85	11.248,08	-4,3%
Profit and loss before tax from continued operation	85.843,92	68.018,44	-20,8%
Profit and loss before tax from discontinued operation 3)	-2.990,33	2,67	-100,1%
Tax expenses or income	-22.056,71	-22.796,82	3,4%
Net profit/loss	**60.796,88**	**45.224,28**	**-25,6%**

Source: ECB Supervisory Banking Statistics, 04/17, T02.01.1

Note: 1) Operating income before administrative expenses and depreciation; 2) Provisions include provisions for "commitments and guarantees given" and "other provisions"; 3) Also includes "extraordinary profit or loss before tax".

The aggregate *Supervisory Banking Statistics* give furthermore some information on the situation of **NPLs** of directly supervised banks, an issue that also ranks high in EBA's most recent Risk Dashboard for Q4 2016, due to its likelihood and impact. The data shows in table T03.05.1 that over the one-year period under review (4Q 2016 as compared to 4Q 2015), the **average NPL ratio has improved** from 7.03% in 4Q 2015 to 6.17% in 4Q 2016. Table 2, however, shows that the situation of significant banks with regard to NPLs was very heterogeneous at country level:

Table 2: NPL ratios of loans and advances by country (EUR billions; percentages)

Country (Q4 2016)	Loans and advances	Non-performing loans and advances	Non-performing loans ratio
Belgium	432,78	14,63	*3,38%*
Germany	2.658,61	65,35	*2,46%*
Estonia	*confidential*	*confidential*	*confidential*
Ireland	206,74	32,88	*15,90%*
Greece	243,53	111,67	*45,86%*
Spain	2.359,43	134,72	*5,71%*
France	4.035,66	147,18	*3,65%*
Italy	1.638,81	248,48	*15,16%*
Cyprus	52,61	19,88	*37,78%*
Latvia	*confidential*	*confidential*	*3,18%*
Lithuania	17,53	0,66	*3,78%*
Luxembourg	63,51	1,16	*1,83%*
Malta	13,07	0,57	*4,39%*
Netherlands	1.733,64	42,09	*2,43%*
Austria	348,25	19,91	*5,72%*
Portugal	174,78	34,05	*19,48%*
Slovenia	15,20	2,34	*15,38%*
Finland	232,64	3,71	*1,60%*
Total	**14.251,28**	**879,79**	***6,17%***

Source: ECB Supervisory Banking Statistics, 04/17, T03.05.2

At the same time, the **coverage ratio** for NPLs - a measure of a bank's ability to absorb potential losses from its NPLs - has improved from 43.99% in 4Q 2015 to 44.55% in 4Q 2016; again, the coverage ratios are very heterogeneous at country level (see table 3):

Table 3: Coverage ratios for NPLs - all exposures - by country (EUR billions; percentages)

Country (Q4 2016)	Total exposures			
	Performing		Non-performing	
	Amount	*Coverage ratio*	Amount	*Coverage ratio*
Belgium	768,25	*0,11%*	16,01	*41,44%*
Germany	3.870,71	*0,25%*	70,74	*36,43%*
Estonia	*confidential*	*confidential*	*confidential*	*confidential*
Ireland	243,52	*0,43%*	33,48	*33,81%*
Greece	199,50	*1,03%*	112,79	*47,79%*
Spain	3.279,92	*0,64%*	141,32	*43,16%*
France	6.474,60	*0,26%*	160,53	*49,13%*
Italy	2.610,42	*0,27%*	262,85	*46,92%*
Cyprus	39,39	*0,51%*	20,44	*39,01%*
Latvia	13,07	*0,31%*	*confidential*	*28,22%*
Lithuania	*confidential*	*0,13%*	0,68	*30,54%*
Luxembourg	112,25	*0,04%*	1,26	*33,18%*
Malta	21,49	*0,24%*	0,60	*34,50%*
Netherlands	2.382,88	*0,11%*	44,20	*34,02%*
Austria	506,56	*0,33%*	21,04	*53,14%*
Portugal	219,18	*0,47%*	38,21	*42,57%*
Slovenia	21,29	*1,11%*	2,55	*62,03%*
Finland	334,46	*0,07%*	4,20	*26,49%*
Total	**21.134,91**	***0,30%***	**931,42**	***44,55%***

Source: ECB Supervisory Banking Statistics, 04/17, T03.06.2

IV. Recent SSM publications

Since the last regular public hearing of the Chair of the SSM on 23 March 2017, the ECB published two guidance documents that are summarized as follows:

15 May 2017: ECB Guide to fit and proper assessments

The ECB "Guide to fit and proper assessments" aims to clarify the supervisory criteria and the process that is applied when the ECB has to determine the suitability of candidates who shall become board members. The guide is applicable to all institutions under the direct supervision of the ECB, yet it is not a legally binding document, nor does it advocate any particular governance structure.

The Guide sets out that the suitability of members of the management body is assessed against five criteria: (i) experience; (ii) reputation; (iii) conflicts of interest and independence of mind; (iv) time commitment; and (v) collective suitability. The Guide sets out, for example, the length of banking experience that is usually required to hold a position on a bank's board, and describes in more detail which situations might create potential material conflicts of interest.

16 May 2017: ECB Guidance on leveraged transactions

The ECB issued guidance on leveraged transactions – that are loans to a borrower who already has high amounts of debt – not least in view of the low interest rate environment and the banks' ensuing search for yield strategies that are inherently more risky and require a higher level of monitoring.

That guidance aims to foster sound origination and risk management practices and sets out the supervisor's expectations regarding the risk management and reporting requirements. It is applicable to all significant banks directly supervised by the ECB, though the ECB will apply the principle of proportionality and adjust its level of intrusiveness depending on the banks' risk profile.

The scope of the guidance encompasses all types of loan or credit exposure where the borrower's post-financing level of leverage exceeds a "Total Debt to EBITDA" (earnings before interest, tax, depreciation and amortisation) ratio of 4 times, and all types of loan or credit exposures where the borrower is owned by one or more medium-term investor (financial sponsor). Some transactions, on the other hand, are excluded from that definition, for example loans with natural persons and public sector entities, loans below EUR 5 million, loans to SMEs, and specialised lending.

List of supervised entities

The ECB regularly publishes a complete list of significant and less significant institutions. The most recent list of supervised entities (as of 1 January 2017) was published on 28 March 2017, showing that currently 125 entities are directly supervised (previously: 126). The specific grounds for classifying a given entity as significant are always indicated in the published list. Changes to the list, however, are not singled out or shown separately. A comparison to the previous list reveals that the entity UBS (Luxembourg) S.A. in Luxembourg is no longer directly supervised, as it has for a period of three consecutive calendar years no longer met any of the criteria that would justify its classification as significant institution, resulting in a delisting according to Article 47(1) of the SSM Framework Regulation.

Box 2: Summary of an external draft briefing paper:
"*Have European banks actually changed since the start of the crisis? An updated assessment of their main structural characteristics*"

On request of ECON coordinators, EGOV commissioned the update of a previous briefing paper on bank structures. A draft of that updated briefing paper, written by Ata Can Bertay (Ozyegin University) and Harry Huizinga (Tilburg University), was received on 15 June 2017. The final version will be circulated to ECON members.

The following paragraphs are a citation from the Executive Summary of the draft briefing, highlighting the most important findings:

"This briefing paper documents broad trends regarding Eurozone banking market performance and structure during 2003-2016. The main focus of this briefing paper is on the 125 banks that are directly supervised by the European Central Bank (ECB) as the single supervisor in the Single Supervisory Mechanism (SSM). Our data sources for bank-level information are Bankscope (for the period 2003-2015) and Orbis Bank Focus (for the years 2015-2016) of Bureau Van Dijk.

We consider a range of variables related to bank profitability, activity mix, size, balance sheet composition, and loan impairment. Our main objective is to see whether the observed trends are consistent with the objective of improved financial stability.

From the data, we identify **several positive trends** in recent years:

- The size of the average Eurozone G-SIB has continued to decline.
- The average directly supervised bank and the average Eurozone G-SIB have increased their ratios of loans to total assets, while they have reduced their ratios of government securities to total assets.
- The average directly supervised bank and the average Eurozone G-SIB have increased their ratios of customer deposit funding to total liabilities, while they have reduced their ratios of wholesale short-term funding to total liabilities.
- Directly supervised banks generally have been able to materially increase their capitalization rates.

In addition, there are several trends that **raise potential supervisory concerns**:

- In recent years, the average directly supervised bank and the average Eurozone G-SIB have achieved returns on assets that are positive but close to zero, in part reflecting low net interest margins and rising ratios of overhead to assets.
- The average Eurozone G-SIB remains considerably less well capitalized than the average directly supervised bank, and has been able to increase its capitalization much less in recent years.
- The ratio of non-performing loans to total loans of directly supervised banks remains very high, even if it has declined during 2014-2016 after reaching a peak in 2013.
- During 2003-2016, the pattern of loan loss provisioning of directly supervised banks has been highly countercyclical.

...Concerns about the cyclicality of loan loss provisions are in part addressed by the implementation of International Financial Reporting Standard 9 (IFRS 9) on Financial Instruments planned for January 1, 2018, which aims to implement a forward-looking, expected loss model of loan loss provisioning."