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EY | Assurance | Tax | Transactions | Advisory
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EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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SREP overall assessment

Supervisory measures
Other supervisory measures
Quantitative capital measures
Quantitative liquidity measures

Main areas of SREP assessment
SREP sub-phases of the BAS

ECB application of EBA SREP guidelines

Ongoing supervision

EU Supervisory Center

Supervisory Review and Evaluation Process

Ready for review: Business Model Assessment
Banking & Capital Markets

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Ready for review: Business Model Assessment
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The BMA consists of a comprehensive analysis of banks’ business models to assess their viability and sustainability, and to score related risks. The assessment then feeds into the final overall BMA score, which may generate quantitative capital (Pillar 2) or liquidity measures, as well as other supervisory requirements.

Preparation modules

Why is the Business Model Assessment important?

Preparation modules

Why EY?

Phase 1: Preliminary review

This is one of the most important phases as it sets the overall tone of the exercise.

The phase will cover the description of the overall business, the identification of the key business areas and the peer group selection against which the bank will be benchmarked.

The framework will help present the information in a consistent and credible manner, making sure the overall picture is coherent.

When preparing Phase 1, you will need to consider:

- Reconciling management accounts with published accounts or regulatory reporting
- Presenting a relevant and justifiable breakdown of business lines
- Ensuring the context of macro and market trends is considered, as well as how the bank fares versus peers

Phase 2: Quantitative review

This phase is the most analytical as it provides the parameters for the evaluation of the bank’s business model viability and sustainability.

While the focus of the analysis is on the output, you will need to pay particular attention to the hypotheses embedded in the business plans.

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### Why is the Business Model Assessment Important?

Financial institutions across Europe are being driven by a centralized and consistent European regulatory agenda following the start of the Banking Union. The Supervisory Review and Evaluation Process (SREP) is the framework used to enforce the centralized supervision, of which the Business Model Assessment (BMA) is the first pillar. The BMA consists of a comprehensive analysis of banks’ business models to assess their viability and sustainability, and to score related risks. The assessment then feeds into the final SREP score, which may generate quantitative resolution plans and so forth.

Preparation is key as the BMA could have significant implications on how banks are viewed by the European Central Bank (ECB). Establishing a dialogue with the joint supervisory team (JST) is critical work for banks and needs extensive data preparation, reconciliation — and utmost clarity of communication.

**Get ready for BMA**

- EY has broad experience in delivering supervisory and regulatory projects directly in line with the new BMA requirements. We have completed more projects in this area in the last four years than most.
- Based on our experience and regulatory knowledge, and prompted by the European Banking Authority (EBA) SREP guidelines issued in December 2014, we have designed a detailed framework to help banks prepare for the BMA.

### How EY can help

**Gap analysis**

- Check availability, relevance and timeliness of key performance and risk indicators.
- Assess plausibility of business plan assumptions and check completeness of supporting documentation.
- Assess consistency of business plan with capital plan, funding plan, risk appetite, recovery and resolution plans and so forth.

**Preparation**

- Remedy identified gaps.
- Select peer groups and provide relevant quantitative and qualitative benchmarks.
- Revise and update financial plans and ensure consistency across all plans.
- Prepare clear, robust presentations for the JST.
- Provide process support and advice on responses to JST requests.
- Collect and process requested data and documents, maintaining consistency along the way.
- Prepare answers to JST’s questions.

**Review process**

- Ensure the business model is coherent.
- Make sure the overall picture information in a consistent and credible manner.
- The framework will help present the information in a consistent and credible manner, making sure the overall picture is coherent.

**Phase 1: Preliminary review**

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**Phase 2: Quantitative review**

- Anchoring forward-looking assumptions.
- Being able to defend the likelihood of the hypotheses embedded in the business plans.

**Phase 3: Strategic and risk review**

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### EY BMA framework

**EY approach**

- Preparation modules
  - 1.1 Key business areas
  - 1.2 Peer group
  - 1.3 Business environment
- 2.1 Viability
- 2.2 Sustainability
- 3.1 Business planning
- 3.2 Risk and vulnerabilities

**Overall BMA**

- Preliminary
- Quantitative
- Strategic and risk

- The final results of each phase will be summarized in a single score and related recommendations will be provided.

**Strategic and risk**

- The business model and strategy pose a low level of risk to the viability of the institution
- The business model and strategy pose a medium level of risk to the viability of the institution
- The business model and strategy pose a high level of risk to the viability of the institution

- The business model and strategy risk to the viability of the institution

The outcome is a score, grading banks’ business model according to business model risk evaluation.
Why is the Business Model Assessment important?

Financial institutions across Europe are facing a daunting challenge. The Supervisory Review and Evaluation Process (SREP) framework, adopted by the European Banking Authority (EBA), is the key tool to enforce the new Basel III standards and capital adequacy requirements. The SREP framework is designed to ensure that banks have a comprehensive and integrated view of their business plans and processes, and that they are aligned with the overall strategy, financial forecasting and planning, and risk appetite framework. The SREP framework is critical for the European Central Bank (ECB) to assess the viability and sustainability of banks, and to score related risks.

Preparation is key as the BMA could have a significant impact on the overall outcome of the exercise. The preparation phase is designed to help banks prepare for the BMA by addressing the quality of processes, the clarity of communication, and the consistency of the business plan within the overall business, the parameters for the evaluation of the bank's business model risk, and related recommendations will be provided.

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When preparing Phase 2, you should consider:

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How EY can help

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Why EY?

- Through experience teaching with supervisors
- Specific understanding of BMA process through previous engagements
- Fast-track team with proven, relevant experience, having complementary financial, strategic and regulatory skills
- Role of tools and accelerators

- Quantitative assessment questionnaires
- Quantitative and qualitative benchmarks
- Business trends per market and sector
- Independent sources for projections

EY BMA framework

<table>
<thead>
<tr>
<th>Preparation</th>
<th>Overall BMA</th>
</tr>
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**1. Business model and strategy pose a high level of risk to the viability of the institution**

- The business model and strategy pose a high level of risk to the viability of the institution

**2. The business model and strategy pose a low level of risk to the viability of the institution**

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**3. Business planning**

- Business planning

**4. Business model and strategy**

- The business model and strategy pose a moderate level of risk to the viability of the institution

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The outcome is a score, grading banks’ business model according to business model risk evaluation
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**About EY**

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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**ED None**

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**SREP overall assessment**

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