

ASSET QUALITY REVIEW SERVICES

Conducting rigorous balance sheet assessments across the EU in 2014



AQR 2014: a critical moment for the EU

Diverse banking systems – consistent, rigorous approach

2014 will be a big year for European banks and their supervisors.

In October 2013, the EBA issued a recommendation requiring competent authorities of all EU Member States to complete asset quality reviews (AQRs) of all relevant credit institutions by 31 October 2014.

At Mazars, we have a keen awareness of the challenges this presents for you as you prepare to carry out the AQRs on banks within your supervisory jurisdiction. Moreover, we are committed to ensuring that bank balance sheets do not contain hidden losses. And we want you to be able to undertake supervision with strong confidence in your banks' capital footing. We provide a full spectrum of AQR services and would be delighted to bring our experience to bear in assisting you with the forthcoming reviews.

For countries participating in the Single Supervisory Mechanism, the AQRs will be an opportunity to demonstrate effective ECB coordination with national authorities and a strong start to unified supervision. For countries outside of the SSM, national assessments of whether banks have properly valued the assets on their balance sheets should be conducted with the same rigour as those within the SSM. We have extensive experience working within the diversity of banking systems across the EU. Yet we think it is important that the AQRs demonstrate a consistent approach. We want to help you deliver a rigorous assessment of bank asset quality to boost investor confidence in their solvency.

This means providing transparency into the credit quality of the loan portfolios and lending practices of each bank. It means basing the assessments on qualitative and quantitative observations obtained from interviews with bank personnel, the analysis of the loan level data, and the underlying collateral. And it also means performing in-depth loan file reviews on samples of loans to assess the underwriting quality of the loans. Employing the EBA's new definitions of non-performing loans and forbearance will be critical to ensure consistency and comparability of results.

A credible partner

Mazars is a trusted partner to regulatory agencies in reviewing the asset quality of some of Europe's most significant credit institutions.

In Ireland, we were subcontracted by BlackRock in support of the Central Bank of Ireland's PCAR 2012 analysis, and performed a Distressed Credit Operations Review and Asset Quality Review of portfolios of SME loans held by two subject Irish Banks. Our ongoing work with Ireland's National Asset Management Agency includes assessing the sustainability of outstanding debt and ability of borrower to repay over agreed period, as well as making recommendations regarding debt restructuring and optimum courses of action.

As monitoring trustee to the European Commission with respect to Lloyds Banking Group, our responsibilities include monitoring the £181 billion asset reduction required by the Commission. We are also the Commission's monitoring trustee for Alpha Bank, who asked us to conduct an asset quality review of its impaired Retail and Corporate credit portfolios of €11.7 billion and €5.5 billion respectively.

For Dexia, we are currently providing a number of services, including auditing ex-FSA and illiquid assets since 2008, and reviewing the principles and models used to price interest rate, inflation, hybrid, FX, equity and structured credit products.

In our role supporting France's SFEF, we are performing reviews in 13 French financial institutions, including a collateral quality review held by the banks and examination of a sample of credit files. In addition, we have recently been awarded AQR projects for the Central Bank of the Netherlands and Grupo Banco Galicia Nova.

A dedicated service

As an integrated, global firm, Mazars brings the experience its professionals have gained working across the world on assignments for banks of all sizes. We are accessible and we combine partner-led service with continuity of support from a team dedicated to the banking sector. Our approach offers senior, experienced teams, comprising skilled people and experienced staff from our banking practice. We have a local team of experts in your country, as well as a coordination team with deep experience with cross-border projects. Experience, knowledge and client service are the foundations of our approach and we firmly believe we can help you through the crucial AQR process in 2014.

Should you require any further information on how we can assist you please contact:

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Mazars LLP is the UK firm of Mazars, an international advisory and accountancy organisation, and is a limited liability partnership registered in England with registered number OC308299. A list of partners' names is available for inspection at the firm's registered office, Tower Bridge House, St Katharine's Way, London E1W 1DD.

We are registered to carry on audit work in the UK and Ireland by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference number C001139861.

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