

## Myth busting – Significant Risk Transfer (SRT)



Perception:

SRT's prime use is to return capital to shareholders

Reality:

SRT transfers credit risk and frees up capital which is frequently used by banks as a KPI to provide further financing to clients.

Reality: SRT is a tool used by banks to transfer credit risk and free up capital, frequently used by banks as a pre-condition to provide further financing to clients.

- **Significant Risk Transfer (SRT) is empirically proven to be a robust and effective** tool to transfer credit risk of illiquid credit portfolios originated by banks
- **Significant risk transfer transactions (SRT)** are executed over a timeline averaging 6 months with extensive interaction between the bank's supervisory team, the bank and the investor(s) to fully assess the transfer of risk and the terms of the transaction.
- **The objective of these transactions** is to transfer credit risk and free up regulatory capital commensurate to the risk transferred. Many transactions embed contractual incentives upon the bank to meet targets to originate lending to the real economy and to finance the green transition.
- **An important source of capital** - SRT transactions provide banks an important alternative to capital raising at efficient market pricing. Maximising EU bank access to capital over the next decade to meet ever increasing capital needs is important to resolving the EU's own infrastructure transition challenges.
- **Loan portfolio securitized** are predominantly wholesale loans to SMEs, corporates, infrastructure and project finance, making up c.2% of EU outstanding bank lending across 24 member states.

### Issuer Motivations: Why do Risk Transfer Transactions?

While often the primary intent of risk transfer transactions is to achieve RWA and capital relief, the technique's ability to satisfy other objectives and provide additional benefits should not be disregarded

#### A. Protection from Credit Losses / Risk Reduction

- Credit protection afforded to the protection buyer (i.e. the bank) against expected – and more importantly – *unexpected* credit losses stemming from underperformance of the reference portfolio
- Such first-loss or mezzanine risk is transferred from the protection buyer to the protection seller

#### B. Regulatory Capital Relief / RWA Stability

- As a consequence of the above, risk-transfer transactions can achieve a net reduction of aggregate portfolio RWAs, and hence capital absorption, improving the bank's return on tangible equity
- Achieving regulatory capital relief requires adherence to certain additional regulatory rules and guidelines – (i) some generally applicable and known ex-ante and (ii) others explored in often bilateral dialogue with regulators

#### C. Additional Tool in the “Capital Toolkit”

- Risk-transfer transactions can reach certain specialised pockets of demand for risk which don't necessarily overlap with traditional capital investments (equity, AT1, T2) increasing investor diversification
- While regulators may impose certain bilateral limits, these were formulated independently from other existing limits, thus cumulatively providing for a more flexible outcome

#### D. Protection against Stress Tests

- Provide protection and buffers against both internal and external (e.g. regulatory) stress testing
- Limit required capital raising in post-stress test regulated/imposed measures

#### E. Accounting Impairment Relief

- Can mitigate accounting impairments associated with new accounting standards such as IFRS9 and CECL

#### F. Support Issuer Rating

- Risk transfer transactions are recognized by Ratings Agencies as an effective credit loss mitigation tool, and given credit during their analysis, supporting issuer ratings

#### G. Other objectives & benefits

- **Reduce excess risk concentrations (“fall trees”):** using the properties of co-participation of risk-transfer transactions allows banks to reduce their economic exposure to industries and countries to which it has become more exposed to than necessarily required or to create lending capacity for filled up credit lines
- **Run-off portfolios:** accelerate exiting underlying credit risk from run-off portfolios, while potentially exploring long-term solutions
- **Protection against ratings migration:** ratings migration for IRB banks imply increased capital requirements for a set portfolio of exposures. Such increased capital requirements can be mitigated via risk-transfer transactions
- **Increased funding:** certain transactions can provide liquidity to the issuer

## Primary strategies employed by banks to manage credit portfolios (Pros and Cons)

- Provide less lending to banking clients
  - + Effective approach to limit credit risk
  - Could impact long term client relationships
  - inhibits financing to real economy
- Sell Portfolios
  - + Sales can be more targeted, no longer have to fund/service assets
  - Assets, particularly Revolving Credit Facilities don't always trade at par
  - Could impact long term client relationships
- CDS
  - + Have the potential of being very targeted
  - The CDS Market does not have the depth or breadth it once had
  - The list of companies that trade on the CDS market is limited which creates challenges in hedging illiquid credits
  - CDS might have accounting asymmetry and introduce market risk
- Credit Insurance
  - + Can be very targeted
  - Introduces additional counterparty risk and capital charges
- Significant Risk Transfer (SRT)
  - + Can cover highly varied portfolios otherwise difficult to derisk at relatively efficient cost
  - Introduce operational complexity

### A typical timeline for a Synthetic SRT conception to close

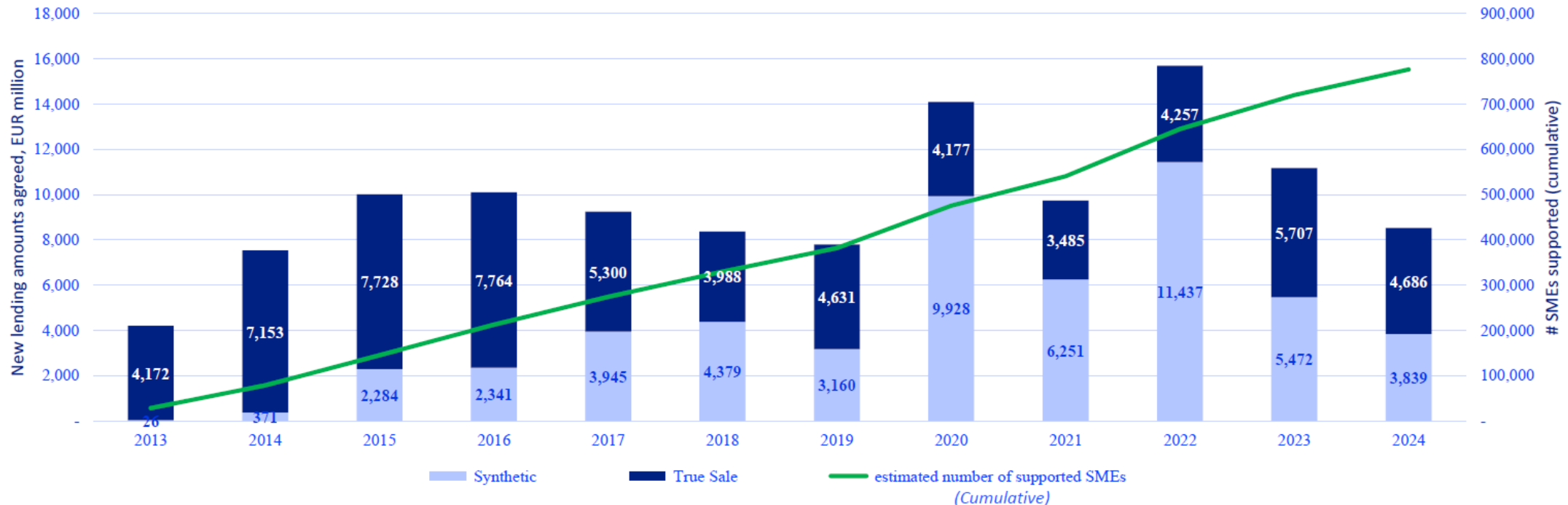
SRT Project tasking	# Days	Start	End
Reference Portfolio + Structure	130	1/1/2025	5/11/2025
Appointment of Third Parties	80	2/5/2025	4/26/2025
Rating Agencies	104	2/19/2025	6/3/2025
Verification Agent	15	5/14/2025	5/29/2025
Legal / Documentation	112	1/29/2025	5/21/2025
Regulatory / Governance	110	2/23/2025	6/13/2025
SSPE Incorporation	40	4/9/2025	5/19/2025
Investors	134	1/1/2025	5/15/2025
ESMA Templates	11	6/5/2025	6/16/2025
Closing	3	7/10/2025	7/13/2025

- Unlike publicly offered ABS which announce, price and settle within a 10 day time frame, synthetic SRT transactions typically take over 6 months to negotiate and settle
- Engagement between the bank's supervisory team and the bank's management team is extensive over the course of the execution timeline as indicated in table.
- Extensive due diligence is undertaken by the investor(s) on the transaction with high levels of portfolio level disclosure shared in this process.

## Significant Risk Transfer – a tool to improve velocity of capital, recycling liberated capital from SRT to provide further financing to the economy

By way of example, since 2013 the EIB Group alone, by supporting EU banks via SRT transactions it has participated in, has generated new lending commitments by banks to SMEs of approximately EUR 55billion and EUR 63billion for synthetic and true sale transactions, respectively

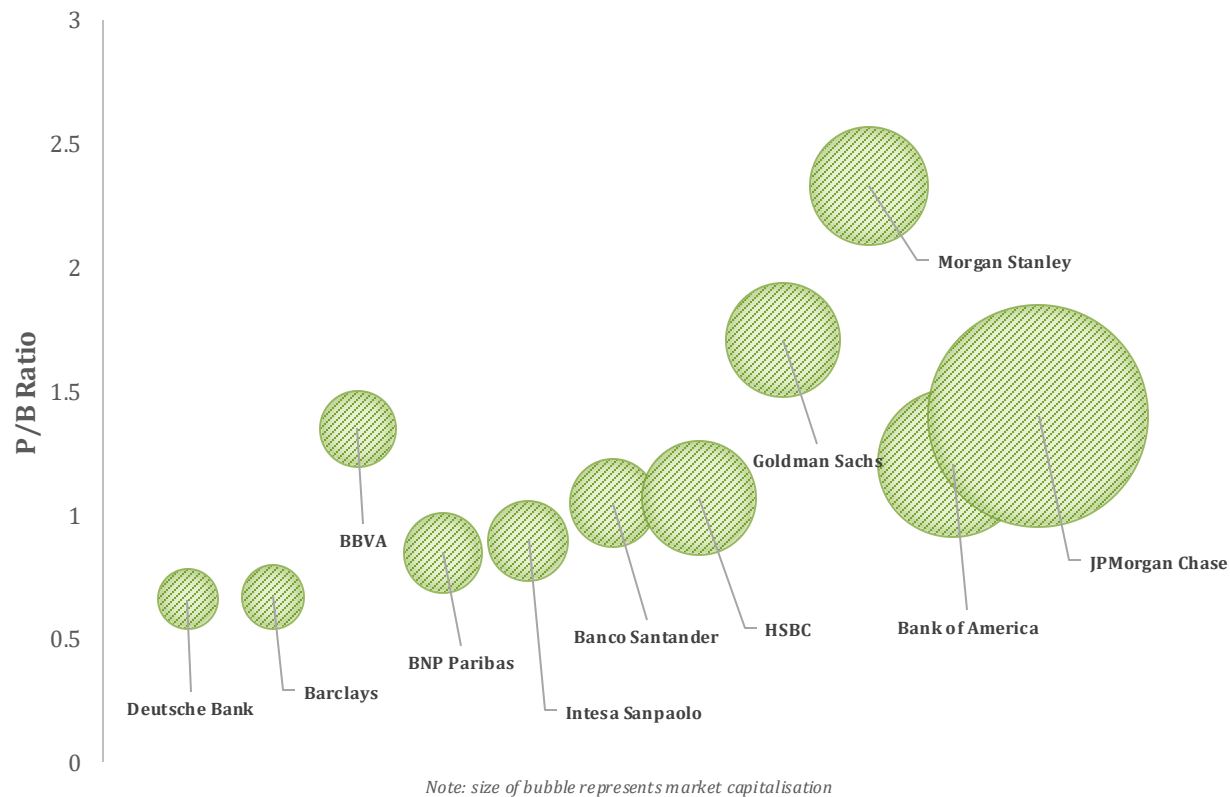
New lending amounts committed per year



Source: EIB Group

## SRT – an additional source of capital to deliver on a bank's strategic priorities

### A comparison of banks price to book ratios: US vs. Europe



- Capital utilisation by European banks to maximise value for all stakeholders is increasingly critical
- A bank's key stakeholders include customers, employees, shareholders, and regulators
- SRT is just one tool that delivers value to customers as well as shareholders – both stakeholders that are key to delivering a successful SIU.
- European bank price to book ratios underpin a lack of competitiveness vs. non European peers.
- Improving access by banks to all sources of capital at any time at the most competitive rate is key to offering value to all stakeholders.
- SRT is an important tool for bank's management to access capital to deliver value for all stakeholders
- All capital raising options will need to be available for EU banks to meet EU capital needs over the next decade.

### Top 10 Asset Classes for 2024 Issuance (€ portfolio notional)

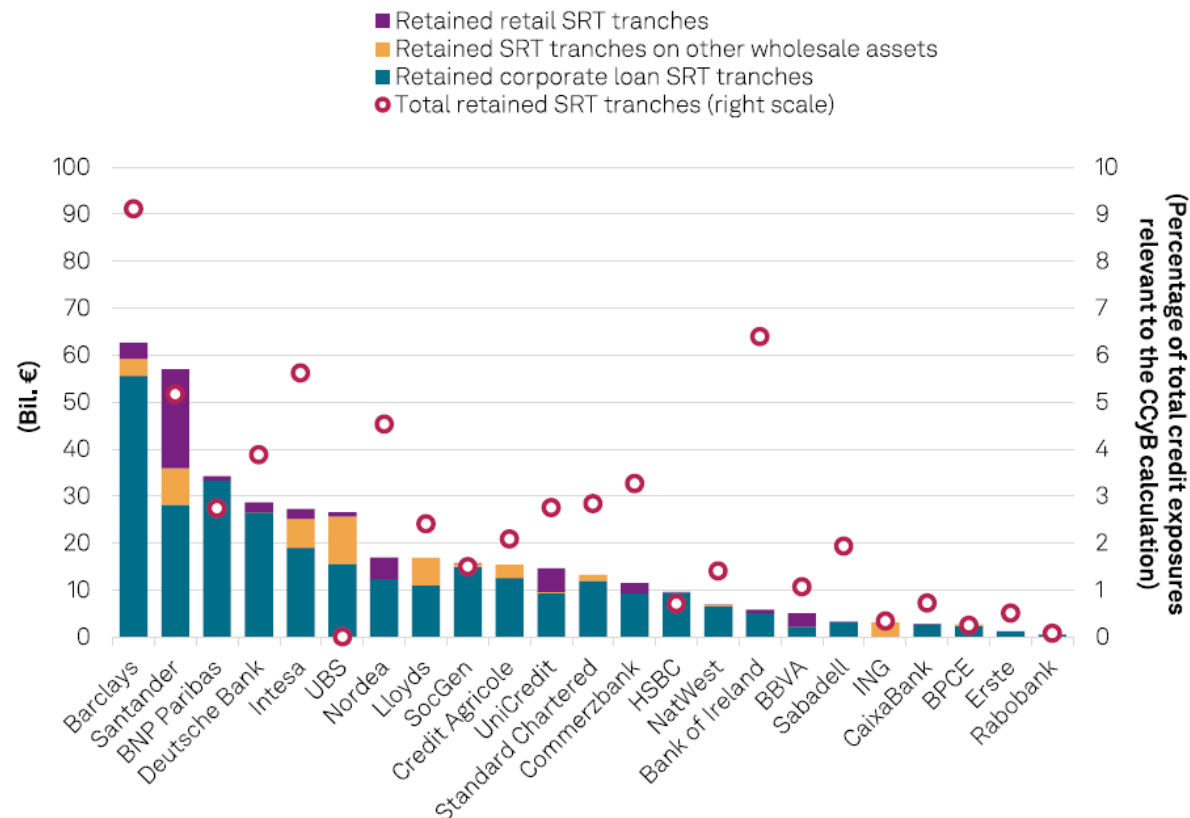
	2024
<b>Corporate and SME loans</b>	107.5
<b>Consumer loans</b>	14.8
<b>Auto loans</b>	7.7
<b>Real estate / Mortgage loans</b>	7.0
<b>Leveraged loans</b>	6.7
<b>Leasing</b>	4.0
<b>Project finance loans</b>	3.5
<b>Transport, infrastructure and energy loans</b>	0.2
<b>Buy now pay later loans</b>	0.0
<b>Undrawn corporate revolving facilities</b>	0.0
<b>Other</b>	4.4
<b>Total</b>	155.7

- Portfolios referencing corporate and SME lending dominated SRT activity in 2024, representing 75% approx. of lending

Source: [AFME Securitisation data report](#)



## Bank's non trading book exposures to originated SRT



The data for BPCE and UBS include all originated securitizations, some of which may not be SRTs. Total credit exposures relevant to the CCyB calculation exclude certain counterparties such as governments and central banks. The figure for total credit exposures relevant to the CCyB calculation is not available for UBS. CCyB--Countercyclical buffer, SRT--Significant risk transfer. Source: Tables SEC1 and CCyB1 from June 2024 Pillar 3 reports.  
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- EU banks have been using SRT for over 20 years to transfer risk and free up regulatory capital
- Internal Ratings Based banks have been the principal beneficiaries of this tool over this period
- 40% of lending in the EU has originated by Standard Formula banks that have limited access to SRT, largely due to the lack of risk sensitivity of the EU prudential framework
- The majority of SRT portfolios referenced is lending to SME and corporate clients
- The countercyclical capital buffer (CCyB)
- Link to report: <https://www.spglobal.com/ratings/en/regulatory/article/241106-banking-brief-barclays-and-santander-lead-european-banks-significant-risk-transfer-activity-s13315516>

## SRT as a percentage of overall lending as at YE 2024

	Residential mortgages	Consumer loans	Large corporate loans	SME loans
	SRT as % of outstanding loans 2024	SRT as % of outstanding loans 2024	SRT as % of outstanding loans 2024	SRT as % of outstanding loans 2024
Austria	0.7%	1.1%	0.7%	5.5%
Belgium	0.1%	0.0%	0.4%	3.2%
Bulgaria	0.0%	0.0%	0.8%	6.5%
Croatia	4.4%	41.7%	0.7%	2.1%
Cyprus	0.0%	0.0%	0.0%	0.0%
Czechia	0.0%	0.0%	4.2%	6.0%
Denmark	0.0%	0.0%	0.6%	1.4%
Estonia	0.0%	0.0%	0.4%	1.9%
Finland	0.0%	0.0%	1.2%	1.2%
France	0.0%	0.0%	0.0%	1.4%
Germany	0.0%	1.7%	1.4%	0.6%
Greece	3.4%	0.0%	4.2%	33.5%
Hungary	2.5%	0.0%	0.1%	0.0%
Ireland	0.7%	0.0%	0.0%	0.0%
Italy	0.2%	1.6%	3.1%	2.2%
Latvia	0.0%	0.0%	0.8%	4.0%
Lithuania	0.0%	0.0%	0.4%	1.3%
Luxembourg	0.0%	0.0%	0.0%	0.0%
Malta	0.0%	0.0%	0.0%	0.0%
Netherlands	0.0%	0.0%	0.0%	0.6%
Poland	0.0%	9.4%	2.5%	3.4%
Portugal	3.7%	2.0%	1.4%	9.6%
Romania	0.0%	0.0%	1.5%	6.7%
Slovakia	0.0%	0.0%	7.7%	15.4%
Slovenia	0.0%	0.0%	0.4%	0.0%
Spain	0.5%	3.8%	1.9%	5.5%
Sweden	0.0%	3.7%	0.5%	0.5%
EU	0.2%	2.1%	3.1%	2.9%
UK	0.1%	1.0%	1.0%	5.6%

- Chart shows an approximate photo of the percentage of outstanding credit risk as at year end 2024 that has been transferred using SRT by market broad market segment and country.
- SRT has been used across 24 Member States to transfer credit risk off MS bank balance sheets.
- To date, the risk transferred remains relatively low, but varies substantially across MS and market segments
- Its usage has been adopted predominantly by banks using IRB models, largely driven by economic challenges arising from the Bank Prudential Framework

Sources: ECB,BoE, Refinitiv, SCI, RTRA

Several assumptions were made in the process of compiling this data

## European bank lending as a percentage of overall lending as at YE 2024

	Residential mortgages: potential for SRT as % of all total outstanding loans	Consumer loans: potential for SRT as % of all total outstanding loans	Large corporate loans: potential for SRT as % of all total outstanding loans	SME loans: potential for SRT as % of all total outstanding loans
Austria	0.85%	0.11%	1.30%	0.18%
Belgium	1.53%	0.06%	0.86%	0.28%
Bulgaria	0.08%	0.06%	0.10%	0.06%
Croatia	0.07%	0.00%	0.06%	0.04%
Cyprus	0.05%	0.01%	0.05%	0.01%
Czechia	0.46%	0.09%	0.29%	0.07%
Denmark	1.97%	0.10%	1.25%	0.13%
Estonia	0.08%	0.01%	0.06%	0.01%
Finland	0.67%	0.11%	0.52%	0.15%
France	8.06%	1.26%	6.04%	2.85%
Germany	10.05%	1.22%	6.96%	1.44%
Greece	0.16%	0.05%	0.36%	0.05%
Hungary	0.08%	0.07%	0.10%	0.12%
Ireland	0.54%	0.08%	0.31%	0.06%
Italy	2.67%	0.78%	2.17%	1.51%
Latvia	0.03%	0.00%	0.03%	0.01%
Lithuania	0.08%	0.01%	0.06%	0.02%
Luxembourg	0.28%	0.04%	0.34%	0.05%
Malta	0.05%	0.01%	0.02%	0.01%
Netherlands	3.70%	0.05%	2.24%	0.28%
Poland	0.74%	0.29%	0.38%	0.22%
Portugal	0.63%	0.12%	0.23%	0.20%
Romania	0.14%	0.10%	0.13%	0.12%
Slovakia	0.26%	0.04%	0.11%	0.02%
Slovenia	0.05%	0.02%	0.04%	0.03%
Spain	3.10%	0.62%	1.41%	1.42%
Sweden	2.26%	0.17%	1.39%	0.34%
UK	12.40%	1.93%	3.13%	0.98%

- This chart depicts EUR notional capacity that exists across IRB and STD banks in Europe as a percentage of total lending across the economic bloc.
- Evidently, residential mortgage lending in France, Germany and UK are the largest segments of lending across Europe, followed by lending to investment grade corporates in the same countries.
- It does not make comment on the RW density of those portfolios which will often be a driver of SRT activity.
- As indicated in the previous slide, SRT has been used broadly across member states to transfer credit risk and free up capital with some relatively large pockets of lending that may be a focus of SRT upon the implementation of a more risk sensitive and proportionate regulatory framework
- SRT can make a significant contribution to managing credit risk and bank capital across member states on both wholesale and retail lending