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Results of the Comprehensive Assessment

The results have been published today of the Comprehensive Assessment of European banks (including 15 Italian banks, 13 of which will fall directly within the perimeter of the Single Supervisory Mechanism), conducted by the ECB together with national supervisory authorities.

The main features of the exercise

- The exercise is a prudential, not an accounting assessment, and therefore does not automatically affect banks' balance sheets.

- It consisted first of all in an asset quality review (AQR) to verify whether banks' common equity tier 1 (CET1) was sufficient to counter the risks inherent in the various assets (loans, securities, etc.) outstanding at end-2013. Capital adequacy was evaluated with respect to a requirement of 8.0 per cent, higher than the regulatory minimum (4.5 per cent) and the minimum augmented by the capital conservation buffer (7.0 per cent).

- The Comprehensive Assessment also included two simulations of hypothetical scenarios for the three years 2014-16 ("stress tests"). The aim was to check the extent to which any drastic worsening of the national and international macroeconomic and financial situation could affect the conditions of the banks and what additional capital would be needed in this case to maintain an adequate level of capitalization.

- The stress tests hypothesized two cases for each country: a baseline scenario, taken from the European Commission's forecast of February 2014, and an adverse scenario. The simulation was conducted on balance-sheet data at end-2013, adjusted to incorporate the AQR results (the "join-up"; see the attached Technical Note). Under the baseline scenario, the banks' capital adequacy was evaluated against a 8.0 per cent capital threshold; under the adverse scenario the requirement was 5.5 per cent, also higher than the regulatory minimum.

- The adverse scenario was deliberately constructed to be a genuine test of banks' resilience in extreme situations. For Italy, the scenario proved very unfavourable because it assumed a deep recession for the entire period 2014-16, coming after the one already suffered by the Italian economy in 2012-13, which in turn followed that of 2008-09. It also assumed a resurgence of the sovereign debt crisis.[1] This hypothetical scenario used for the simulation would therefore indicate a collapse of the Italian economy, with potentially serious consequences for much more than the banking system. Table B gives the main features of the baseline and the adverse scenarios.

[1] Under the hypothetical adverse scenario, the yields on long-term government securities would stand at 5.9 per cent in 2014, 2 percentage points above the figure in the baseline scenario (Table B). For the 15 banks overall, this would have an impact on their capital of almost €4 billion.

The results for the Italian banks based on the information published by the ECB

- The information published today by the ECB shows that, at end-2013, nine Italian banks had potential capital shortfalls, amounting to €9.7 billion[2] (Table A, Column D).

- When account is taken of the capital increases undertaken in the period January-September 2014, illustrated in Column E of the table, the potential capital shortfalls concern four banks,[3] for the lower amount of €3.3 billion (Column F). In all cases the result derives from the stress test. In actual fact, no Italian bank records a capital shortfall as a result of the AQR (Column G of the table), in that the capital increases completed by the Italian banks in January-September 2014 entirely offset the overall gap of €3.3 billion recorded in December 2013 against the reference capital ratio of 8.0 per cent (Column A).

- The capital increases made by the Italian banks in the period January-September 2014 are not, however, the only measures suited to cover the potential shortfalls published by the ECB. Additional suitable measures are illustrated in the following paragraph.

The results integrated with additional information published by the Bank of Italy

- Column H shows the additional capital strengthening measures decided in 2014, which are not shown together with those in Column E. These are mainly related to extraordinary asset divestments, completion of the authorization procedures to use internal models under way for some time, and the elimination of specific capital requirements ("add-ons"). Taking account of these measures the potential shortfalls are reduced from €3.3 billion to €2.9 billion (Column I) and concern two banks: Banca Carige and Banca Monte dei Paschi di Siena, which have been under scrutiny by the Bank of Italy for some time. These shortfalls are entirely attributable to the adverse scenario of the stress test. They amount to 1.6 per cent of the highest-quality capital of the Italian banks and to 0.2 per cent of national GDP.

- The results confirm the overall resilience of the Italian banking system, notwithstanding the repeated shocks to the Italian economy in the past six years: the global financial crisis, the sovereign debt crisis, and a double-dip recession. The results also broadly confirm the outcomes of the stress tests conducted last year by the IMF and the Bank of Italy under the Financial Sector Assessment Programme (FSAP).[4]

- Table A, Column I also shows the total capital surplus of the 13 banking groups that hold capital in excess of the thresholds set in the Comprehensive Assessment, amounting to €25.5 billion. This

[2] Banco Popolare, Banca Popolare dell'Emilia Romagna (BPER), Banca Popolare di Milano (BPM), Banca Popolare di Sondrio, Banca Popolare di Vicenza, Banca Carige, Credito Valtellinese, Banca Monte dei Paschi di Siena (MPS), and Veneto Banca.

[3] Banca Popolare di Milano (BPM), Banca Popolare di Vicenza, Banca Carige, and Banca Monte dei Paschi di Siena (MPS).

[4] The results of the FSAP showed that Italy's banking system as a whole would be capable of withstanding the most adverse stress scenario; capital needs were quantified between €6 billion and €14 billion, depending on the definition of capital used. The two exercises differ, however, owing to the very different methodologies adopted.

indicates that, in the Italian banking system overall, there are ample margins of capital held in excess of the requirements established in the exercise.

- To make an accurate cross-country comparison of the outcomes, it is important to recall that according to the data published by Eurostat, the banking and financial systems of various euro-area countries have benefited in recent years from substantial State aid: nearly €250 billion in Germany, almost €60 billion in Spain, around €50 billion in Ireland and the Netherlands, just over €40 billion in Greece, around €19 billion in Belgium and Austria, and nearly €18 billion in Portugal. In Italy State aid amounted to approximately €4 billion.[5]

Information on the two banks with capital shortfalls in the adverse scenario of the stress test

- Banca Monte dei Paschi di Siena's final capital needs to withstand the unfavourable events hypothesized under the adverse scenario of the stress test amounts to €2,111 million. Since November 2013 the group has been subject to a restructuring plan devised by the European Commission; the plan was adopted by the new executives of the bank appointed following the changes at board and management level brought about by the Bank of Italy's interventions in 2011-12. Under the new management significant progress has been made, especially as regards rationalization of processes and cost-cutting measures. The outcome of the Comprehensive Assessment reflects the large impact of the adverse scenario in the stress test, which did not take account of the measures envisaged under the restructuring plan approved by the European Commission. The capital shortfall that has emerged is in part attributable to the planned restitution within the time horizon of the stress test of the residual portion of State aid that this bank continues to hold, in line with commitments entered into with the European Commission. When this commitment is not considered, the capital shortfall amounts to €1,350 million. Banca Monte dei Paschi di Siena will submit a capital plan to the supervisory authorities and proposed changes to the restructuring plan to the European Commission.

- For Banca Carige the final amount of capital required to cope with the unfavourable events hypothesized in the adverse scenario in the stress test stands at €814 million, and in part reflects the banks' low capitalization levels at the start of the exercise, which were not adequately reinforced by the capital increase of 2014. This bank has been under new management since the autumn of 2013, after a series of interventions by the Bank of Italy, including on-site inspections, which revealed malfunctions in governance and oversight arrangements and administrative irregularities. Banca Carige – which is currently at an advanced stage of negotiations for the divestment of the group's insurance companies – will submit a capital realignment plan to the supervisory authorities.

[5] http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/excessive_deficit/supplementary_tables_financial_turmoil

Table A – Results of the Comprehensive Assessment for Italian banks

(*millions of euros and numbers of banks*)

	Results published by the ECB						Excess/Shortfall after the AQR, including main capital strengthening measures (6)	Results including other capital strengthening measures	
	Excess/Shortfall after the AQR (1)	Excess/Shortfall after the ST baseline (2)	Excess/ Shortfall after the ST adverse (3)	Min Excess/Max Shortfall (4)	Main capital strengthening measures (5)	Excess/Shortfall, including main capital strengthening measures		Other capital strengthening measures (7)	Final Excess/ Shortfall, including all capital strengthening measures
	A	B	C	D = min(A,B,C)	E	F = D+E	**G = A+E**	H	**I = D+E+H**
Banco Popolare	-34	-693	-427	-693	1,756	1,063	**1,722**	120	**1,183**
Banca Popolare dell'Emilia Romagna	162	149	-128	-128	759	631	**921**	0	**631**
Banca Popolare di Milano	-482	-647	-684	-684	518	-166	**36**	879	**713**
Banca Popolare di Sondrio	-148	-183	-318	-318	343	26	**195**	0	**26**
Banca Popolare di Vicenza	-119	-158	-682	-682	459	-223	**340**	253	**30**
Carige	-952	-1,321	-1,835	-1,835	1,021	-814	**69**	0	**-814**
Credito Emiliano	463	480	599	463	0	463	**463**	0	**463**
Credito Valtellinese	-88	-197	-377	-377	415	38	**327**	12	**50**
Iccrea	356	385	256	256	0	256	**356**	0	**256**
Intesa Sanpaolo	10,548	9,419	8,724	8,724	1,756	10,480	**12,304**	417	**10,897**
Mediobanca	205	600	445	205	0	205	**205**	560	**765**
Monte dei Paschi di Siena	-845	-1,516	-4,250	-4,250	2,139	-2,111	**1,294**	0	**-2,111**
Unione di Banche Italiane	2,432	1,848	1,743	1,743	18	1,761	**2,450**	0	**1,761**
UniCredit	6,451	6,167	5,580	5,580	1,235	6,815	**7,686**	1,932	**8,747**
Veneto Banca	-583	-574	-714	-714	738	24	**155**	0	**24**
Total:									
shortfalls (8)	-3,251	-5,290	-9,413	-9,679	8,148	-3,313	**0**	1,132	**-2,924**
excesses (8)	20,617	19,049	17,347	16,971	3,009	21,762	**28,523**	3,041	**25,546**
Number of banks with shortfalls				9		4	**0**		**2**

(1) Capital excess/shortfall with respect to the threshold of 8% for the CET1 ratio at 31/12/2013 (B8 in the template published by the ECB for banks with shortfalls). - (2) Excess/shortfall with respect to the threshold of 8% for the CET1 ratio at 31/12/2013 (B9 in the ECB template). - (3) Excess/shortfall with respect to the threshold of 5.5% for the CET1 ratio at 31/12/2013 (B10 in the ECB template). - (4) Minimum excess or maximum shortfall at 31/12/2013 (B11 in the ECB template). - (5) Main capital strengthening measures taken between January and September 2014 (sum of C1-C6 in the ECB template). - (6) Data taken directly from the results published by the ECB. - (7) Other capital strengthening measures decided in 2014, in addition to those outlined in Column E. - (8) The totals shown in Columns D, F, G and I cannot be obtained by applying the formulas indicated at the top of each column, which are valid only for the data on the individual banks.

Table B – Evolution of Italy's main macroeconomic variables in the stress test

(*per cent*)

	Baseline scenario			Adverse scenario			Deviation (1)
	2014	**2015**	**2016**	**2014**	**2015**	**2016**	
GDP growth rate	0.6	1.2	1.3	-0.9	-1.6	-0.7	-6.1
Long-term interest rates	3.9	4.1	4.3	5.9	5.6	5.8	1.7

Source: ESRB, *EBA/SSM stress test: The macroeconomic adverse scenario* , 17 April 2014.
(1) Sum of the difference between the adverse and baseline scenario for GDP; average of the differences between the levels in the two scenarios for interest rates.