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Results of the 2018 EU-wide stress test

The European Banking Authority (EBA) published earlier today the results of the stress test performed on the main 48 European banking groups, including UniCredit, IntesaSanpaolo, BancoBPM and UBI Banca. The exercise is conducted every two years by the EBA, in collaboration with the ECB and the national supervisory authorities. In parallel to the EU-wide EBA stress test, the ECB conducted a stress test exercise also on those banks that are under its direct supervision but are not covered in the EBA sample. The decision whether to publish the results of this second exercise is in the remit of each participating bank.

As in 2016, this year's EBA stress test was not a pass or fail exercise, i.e. it did not stipulate a minimum threshold for capital that must be met by the banks. It is one of the tools available to supervisory authorities to assess the resilience of a bank's capital against hypothetical adverse economic and financial scenarios. The results of the exercise, in combination with other elements, are used to determine the Pillar 2 capital requirement in the annual Supervisory Review and Evaluation Process (SREP).

The stress test was conducted according to the methodology defined by the EBA, which is based on the static balance sheet principle. Accordingly, the resilience of the banks was assessed without taking account of any actions that the institutions might undertake to counter the negative effects of the hypothetical shocks.

The starting point for the stress test was the financial statements at year-end 2017. The two macroeconomic scenarios, baseline and adverse, were defined in January 2018 by the ESRB (European Systemic Risk Board), in collaboration with the ECB. As in 2016, the exercise referred to a three-year period (2018-2020). Further information on the scenarios is available on the EBA website.

This year's exercise took into account the introduction of the new accounting principle IFRS 9, which came into force on 1 January 2018. The European legislator has given banks the option to phase-in the regulatory capital impacts deriving from the first-time application of the new accounting principle (FTA).

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The results of the exercise were obtained by comparing the highest-quality capital indicator (CET1 ratio) as of 31 December 2017 (starting point) and 31 December 2020 (ending point). In order to properly represent the effects of transitional accounting and regulatory arrangements, the results were calculated on both a fully loaded and a transitional basis.

On the whole, EU banks demonstrated resilience under the adverse scenario. The results acknowledge an overall strengthening in the soundness of the European banking system. As regards the four Italian banks included in the sample, the average CET1 ratio depletion under the adverse scenario is 3.9 percentage points on a fully loaded basis. This result is in line with the SSM average and with the EBA sample.

Further information is available at the following links:

EBA – EU-wide stress test 2018

http://www.eba.europa.eu/risk-analysis-and-data/eu-wide-stress-testing/2018

ECB – Press release

https://www.bankingsupervision.europa.eu/press/pr/date/2018/html/ssm.pr181102.en.html

ECB – FAQ

https://www.bankingsupervision.europa.eu/about/ssmexplained/html/stress_test_2018_FAQ.en.html

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