EUROPEAN CENTRAL BANK

EUROSYSTEM

29 July 2016

PRESS RELEASE

STRESS TEST SHOWS IMPROVED RESILIENCE OF EURO AREA BANKING SYSTEM

- Banks better able to absorb economic shocks than in 2014 stress test
- 37 banks supervised by the ECB entered EU-wide stress test with robust average Common Equity Tier 1 (CET1) capital ratio at 13%
- In adverse scenario, average CET1 capital depletion was 3.9 percentage points; average CET1 ratios still higher at 9.1% than in 2014 stress test
- Stress test not a pass/fail exercise; results will feed into 2016 Supervisory Review and Evaluation Process (SREP) decisions in a non-mechanistic way
- Overall supervisory capital expectations for euro area banks to remain broadly stable from 2015

The results of EU-wide bank stress tests show that euro area banks improved their resilience and overall supervisory capital expectations will remain broadly stable compared to 2015, the European Central Bank (ECB) said today.

The stress test coordinated by the European Banking Authority (EBA) for 51 banks in the European Union included 37 significant institutions directly supervised by the ECB, covering about 70% of banking assets in the euro area. The stress test results were published today by the EBA on its website. The 37 ECB supervised banks entered the test with an average Common Equity Tier 1 (CET1) capital ratio of 13%, an improvement on the 11.2% in the last EU-wide stress test in 2014.

In the adverse scenario, the average capital depletion was 3.9 percentage points, higher than the 2.6 percentage points in the 2014 stress test. This was partly due to a more stringent stress test methodology and a tougher adverse scenario that covered again a three-year period and assumed static balance sheets. Thanks to a higher capital level and other improvements since 2014, the final average CET1 ratio in the adverse scenario was nonetheless higher at 9.1%, compared to 8.6% in 2014.

With one exception, all banks show CET1 capital levels well above the benchmark of 5.5% used in 2014 in the hypothetical adverse scenario. This reflects the robustness of overall capital levels at the banks tested in the EBA led stress tests.

“The results reflect the significant amount of capital raised and the additional balance sheet repairs by the banks over the past two years,” said Danièle Nouy, Chair of the ECB’s

Supervisory Board. "The banking sector today is more resilient and can much better absorb economic shocks than two years ago."

In the stress test's adverse scenario, the capital depletion, which was on average 3.9 percentage points, was due to various risk drivers, including the following key drivers:

- Credit risk contributed on average 3.8 percentage points to the overall CET1 depletion.
- Market risk contributed on average 1.1 percentage point, predominately as a result of revaluation losses on assets booked at fair value.
- Operational risk contributed on average 0.9 percentage point due to loss projections for conduct risk, an element introduced in the 2016 exercise for the first time.

In addition, a mix of other factors positively or negatively influenced the capital depletion, including net interest income, income from fees and commissions and administrative expenses. Income factors were stressed as well. In particular, net interest income was significantly stressed in the adverse scenario, with an impact of 1.3 percentage point when compared to the baseline scenario.

Although the stress test is not a pass/fail exercise it will, however, contribute in a non-mechanistic way as one of several input factors to determine Pillar 2 capital in the ECB's overall Supervisory Review and Evaluation Process (SREP). Pillar 2 capital consists of two parts: Pillar 2 requirements and Pillar 2 guidance. The stress test results are used by the ECB in Pillar 2 guidance, taking additionally into account consequences of the static balance sheet assumption and banks' mitigating management actions among other factors. For more details see the Frequently Asked Questions. For that reason, the Pillar 2 guidance cannot be extrapolated from stress test results. The SREP decisions will be finalised at the end of 2016 and become valid from the beginning of 2017.

The ECB expects the Pillar 2 guidance to be met at all times. If a bank does not meet its Pillar 2 guidance, the ECB does not take automatic action but will carefully consider the reasons and circumstances and may define fine-tuned supervisory measures. Pillar 2 guidance is not relevant for the threshold of the maximum distributable amount (MDA) of profits.

NOTES

The averages are weighted by risk exposure amounts (risk-weighted assets) and 2014 figures only refer to the 37 banks participating in the 2016 exercise.

CET1 ratios are a key measure of a bank's financial soundness and are computed in accordance with CRR/CRD IV capital definition, including transitional arrangements during the time horizon of the stress test.

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