15 July, 2011

Results of the 2011 EU-wide stress test

The European Banking Authority (EBA) published today the results of its 2011 EU-wide stress test of 90 banks in 21 countries[1]. The aim of the 2011 EU-wide stress test is to assess the resilience of the banks involved in the exercise against an adverse but plausible scenario.

For the 2011 exercise, the EBA allowed specific capital increases in the first four months of 2011 to be considered in the results. Banks were therefore incentivised to strengthen their capital positions ahead of the stress test.

The 2011 EU-wide stress test results show that:

- At the end of 2010, twenty banks would fall below the 5% Core Tier 1 Ratio (CT1R) threshold over the two-year horizon of the exercise. The overall shortfall would total EUR 26.8 bn.
- Between January and April 2011, a further net amount of some EUR 50 bn of capital was raised.
- Taking into account these capital raising actions implemented by end April 2011
  - Eight banks fall below the capital threshold of 5% CT1R over the two-year time horizon, with an overall CT1 shortfall of EUR2.5 bn.
  - Sixteen banks display a CT1R of between 5% and 6%.

On the basis of these results, the EBA has also issued its first formal recommendation stating that national supervisory authorities should require banks whose CT1R falls below the 5% threshold to promptly remedy their capital shortfall. The EBA notes that this is not sufficient to address all potential vulnerabilities at this point. Therefore, the EBA has also recommended that national supervisory authorities request all banks whose CT1R is above but close to 5%, and which have sizeable exposures to sovereigns under stress, to take specific steps to strengthen their capital position. These would include, where necessary, restrictions on dividends, deleveraging, issuance of fresh capital or conversion of lower-quality instruments into Core Tier 1 capital.

The EBA will monitor the implementation of these recommendations and produce progress reports in February and July 2012.

The 2011 EU-wide stress test provides an unprecedented level of transparency on banks' exposures and capital composition to allow investors, analysts and other market participants to develop an informed view on the resilience of the EU banking sector.

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1 The EU-wide stress test was conducted on a sample of 91 banks but only 90 banks are included in the results. The results of the baseline and adverse scenarios are hypothetical outcomes and are not to be construed as profit forecast.