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CEBS'S PRESS RELEASE ON THE RESULTS OF THE EU-WIDE STRESS TESTING EXERCISE

Supervisory authorities and central banks in the EU routinely conduct stress testing exercises in the context of their regular risk assessment of the banking sector and as a way to assess the risks facing individual institutions.

In May 2009, the ECOFIN mandated CEBS to coordinate, in cooperation with the European Commission and the ECB, an EU-wide forward-looking stress test of the banking system, building on common guidelines and scenarios, for a sample of 22 major European cross-border banking groups. The objective of the exercise was to increase the level of aggregate information among policy makers in assessing the resilience of the European financial system.

ECOFIN Ministers and Governors were provided today with a presentation by CEBS of the outcome of the EU-wide stress test on an aggregated basis.

Under the baseline scenario, reflecting current macro-economic projections, the banks' aggregate Tier 1 capital ratios will be well above 9%, compared to the present Basel minimum requirement of 4%.

Ministers and Governors noted that, should economic conditions be more adverse than currently expected, this would have significant impact on the potential losses for the banks concerned. Under such adverse scenario, the potential credit and trading losses over the years 2009-2010 could amount to almost € 400 bn.

However, the financial position and expected results of banks are sufficient to maintain an adequate level of capital also under such negative circumstances. Notably, the aggregate Tier 1 ratio for the banks in the sample would remain above 8% and no bank would see its Tier 1 ratio falling under 6% as a result of the adverse scenario.

This resilience of the banking system reflects the recent increase in earnings forecasts and, to a large extent, the important support currently provided by the public sector to the banking institutions, notably through capital injections and asset guarantees, which has augmented their capital buffers.

It should be noted that a stress testing exercise provides estimates, based on what-if scenarios and on a number of critical assumptions, which are subject to many sources of uncertainty, regarding in particular the sustainability of current banks' earnings, as well as macro economic and market trends. Although the sample ensures a significant coverage, the results of the stress test cannot necessarily be extrapolated to the whole EU banking system.

Ministers and Governors welcomed this exercise. They appreciated that under the conditions applied in the exercise large EU banks appear sufficiently capitalised to head off a severe macroeconomic deterioration. They stressed at the same time that banks should continue strengthening their financial position, whilst ensuring a continued availability of credit to the economy. They will continue to closely monitor the situation and intend to react as appropriate, if needed, in a coordinated manner.

National authorities remain responsible for the follow-up to the exercise with respect to the individual banking groups. CEBS was invited to stand ready to regularly report to Ministers on the overall situation in the EU banking sector.

BACKGROUND

The aim of the stress test was to enhance the level of aggregate information among policy makers in assessing the resilience of the European banking system. The objective was not to assess individual banks' recapitalisation needs.

The exercise was based on the situation at the end of 2008, and was conducted for the period 2009-2010, on a sample of 22 major European cross-border institutions representing 60% of the total assets of the EU banking sector on a consolidated basis.

The exercise included two major elements:

1- An assessment of credit risks based on two sets of commonly agreed macro economic scenarios –a baseline and adverse scenario, representing for the latter a severe but plausible shock- based on the input provided by the European Commission and the European Central Bank

2- A sensitivity analysis on the trading book / market risk positions, based on commonly agreed parameters.

The following tables provide more details on some of the most important components of the baseline and adverse scenarios:

Main macro-economic assumptions applied in the exercise

	Realised		Baseline		More Adverse	
	2008	1H 2009	2009	2010	2009	2010
EU 27						
GDP	0.7%	-4.8%	-4.0%	-0.1%	-5.2%	-2.7%
Unemployment	7.6%	8.9%	9.4%	10.9%	9.6%	12.0%
Eurozone						
GDP	0.9%	-4.7%	-4.0%	-0.1%	-5.2%	-2.7%
Unemployment	8.2%	9.4%	9.9%	11.5%	10.0%	12.5%
US						
GDP	1.1%	-3.6%	-2.9%	0.9%	-3.7%	-0.3%
Unemployment	7.2%	9.5%	8.9%	10.2%	9.2%	11.2%

Yearly changes in property prices for Europe and the US

% change from previous year	Baseline		More Adverse	
Europe	2009	2010	2009	2010
Commercial Property Prices	-13%	-6%	-17%	-13%
Residential Property Prices	-8%	-5%	-14%	-15%
US	2009	2010	2009	2010
Commercial Property Prices	-15%	-10%	-25%	-20%
Residential Property Prices	-15%	-10%	-25%	-20%

For a better assessment of the risk profile of each individual institution, the exercise was carried out by the national supervisory authorities for their respective jurisdiction and under their responsibility. The outputs were subsequently aggregated by CEBS. Consistency and comparability of the results were increased through the provision of (1) the commonly agreed scenarios, (2) benchmark risk parameters as provided by the ECB, and (3) commonly agreed, process and guidelines as provided by CEBS.