3 October 2012
EBA

Press Release

EBA publishes final report on the recapitalisation of European banks and paves the way for the transition to the CRDIV framework

The European Banking Authority discloses today the final report on its EU-wide recapitalisation exercise and the data on all individual banks. Overall, the exercise led to an increase of banks' capital positions of more than €200bn. 27 banks with an initial shortfall that submitted capital plans have strengthened their capital position by €116bn. Considering the still challenging market environment, the EBA's Board of Supervisors underlined the need for banks to maintain their capital levels in view of the implementation of the new regulatory framework. In this respect, the EBA will adopt a new Recommendation on capital conservation once the final CRD IV/CRR text is agreed.

Andrea Enria, Chairperson of the European Banking Authority said: "*European banks have made significant progress in boosting their capital positions and in strengthening the overall resilience of the European banking system. With this recapitalisation exercise and a number of other EU-driven remedial actions, more than €200bn has been injected into the European banking system."* He added: *"Banks are now in a better shape to finance the real economy but must continue on the path designed by the new regulatory environment. For this reason, the EBA will ask banks to draw up capital plans to ensure a smooth convergence to the upcoming CRD IV/CRR requirements"*

Final report on the Capital exercise

The report on banks' measures taken to comply with the EBA Recommendation highlights the following:

- For the 27 banks which were requested to submit capital plans, the exercise resulted in an aggregate amount of **€116bn**.
- Overall, taking into account the capital strengthening of the remaining banks in the sample, and the capital injection already realised in Greek banks and in one Spanish bank involved in the exercise, more than **€200bn** have been injected between December 2011 and June 2012.
- Banks' capital strengthening has been achieved mainly via new capital measures such as retained earnings, new equity and liability management.

- For the banks which did not manage to meet the Recommendation using private sources, public backstops have been or will be implemented by the end of 2012, in some cases, with EU and/or international support. In this respect, the EBA remains involved in the asset quality reviews and capital needs assessment currently being undertaken in Spain and Cyprus.
- In line with the Recommendation, capital strengthening has not led directly to a significant reduction in lending into the real economy. A deleveraging process had already started before the capital exercise and will need to continue in an orderly fashion to ensure long term repair of banks' balance sheets.

Next steps and transition to the new CRD IV framework

Despite the positive outcome of the recapitalisation process, the market environment remains challenging. Additional efforts by banks are also required to meet the full CRD IV/CRR implementation, as shown by the recently published EBA Basel III monitoring report.

Therefore, the EBA decided that, once the new legal setting is adopted at EU level, a new Recommendation will be issued and will focus on capital conservation. Its aim will be to ensure that banks do not make strategic use of the capital accumulated in the last year, so as to be able to absorb unexpected losses and to support a smooth convergence to the CRD IV/CRR regulatory requirements.

This new EBA Recommendation will require banks to maintain an absolute amount of CT1 capital corresponding to the level of 9% Core Tier One ratio at the end of June 2012. However, in specific cases, such as restructuring plans or de-risking, a bank may be allowed to go below the required amount of capital.

Banks will be asked to develop appropriate capital plans charting their pathway to CRD IV/CRR implementation. Those plans will be monitored by National supervisors in cooperation with the EBA and within colleges of supervisors.

Dividend distribution and other variable payments will be constrained for banks that would not be able to respect their plans in normal time and under stressed conditions.

The sovereign component of the capital buffers remains in force at September 2011 level until withdrawn and will be considered separately depending on the market environment.

Disclosure of individual banks data

Together with the final report and to ensure a high level of transparency of the EU banking sector, the EBA publishes additional data provided by banks from their 30 June 2012 financial statements. The data disclosed include: capital composition and risk weighted assets and the sovereign exposures as of December 2011 and June 2012.

Note for editors

(1) The *EBA Recommendation on the creation of temporary capital buffers to restore market confidence* was adopted by the Board of Supervisors on 8 December 2011 to address the difficult situation in the EU banking system, especially with regard to the sovereign exposures, by restoring stability and confidence in the markets. The Recommendation called on National Authorities to require banks included in the sample to strengthen their capital positions by building up an exceptional and temporary capital buffer against sovereign debt exposures to reflect market prices as at the end of September 2011. In addition, banks were required to establish an exceptional and temporary buffer such that the Core Tier 1 capital ratio reaches a level of 9% by the end of June 2012.

(2) The initial sample of the Capital Exercise included 71 banks. However, the 6 Greek banks were treated separately as the country is currently under an EU/IMF assistance programme. Moreover, four banks (Öesterreichische Volksbank AG, Dexia, WestLB AG and Bankia) from the original sample have been identified as undergoing a significant restructuring process, and are being monitored separately. Therefore, the individual data published today refers to 61 banks.

(3) On 27 September 2012, the EBA published its second report of the Basel III monitoring which presents the aggregate results on capital, risk-weighted assets (RWAs), leverage and liquidity ratios in EU member states. http://eba.europa.eu/News--Communications/Year/2012/EBA-publishes-results-of-the-Basel-III-monitoring-.aspx