EBA publishes 2016 EU-wide stress test results

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- **From a starting point of 13.2% CET1, the stress test demonstrates the resilience of the EU banking sector to an adverse scenario with an impact of 380 bps CET1 on average**
- **The stress test does not contain a pass/fail threshold. It will instead inform supervisors' ongoing review of banks and guide their efforts to maintain capital in the system and support the ongoing repair of balance sheets**
- **Exceptional transparency is provided, with over 16 000 data points per bank, to foster market discipline**

The European Banking Authority (EBA) published today the results of the 2016 EU-wide stress test of 51 banks from 15 EU and EEA countries covering around 70% of banking assets in each jurisdiction and across the EU. The objective of the stress test is to provide supervisors, banks and other market participants with a common analytical framework to consistently compare and assess the resilience of large EU banks to adverse economic developments. Along with the results, the EBA is providing again substantial transparency of EU banks' balance sheets, with over 16,000 data points per bank, an essential step towards enhancing market discipline in the EU.

The EU banking sector has significant shored up its capital base in recent years leading to a starting point capital position for the stress test sample of 13.2 % CET1 ratio at the end 2015. This is 200 bps higher than the sample in 2014 and 400 bps higher than in 2011. The hypothetical scenario leads to a stressed impact of 380 bps on the CET1 capital ratio, bringing it across the sample to 9.4% at the end of 2018. The CET1 fully loaded ratio falls from 12.6% to 9.2%, while the aggregate leverage ratio decreases from 5.2% to 4.2% in the adverse scenario.

The impact is driven by:

- credit risk losses of €-349 bn contributing -370 bps to the impact on the CET1 capital ratio.
- operational risk (€-105 bn or -110 bps) of which conduct risk losses contributed -€71 bn or -80 bps to the CET1 impact
- market risk across all portfolios including CCR (€-98bn or -100bps).

The impact is partially offset by pre provision income flows, although these too are subject to stress factors and constraints in the methodology. For instance net interest income falls 20% in the adverse scenario from 2015 levels.

The 2016 EU-wide stress test does not contain a pass fail threshold. Instead it is designed to support ongoing supervisory efforts to maintain the process of repair of the EU banking sector.

The stress test will therefore be an important input into the supervisory review process in 2016.

As the stress test has a range of constraints designed to ensure comparability and consistency, supervisors will assess mitigating management actions before deciding on the appropriate supervisory action, of which a wide range may be employed. The focus in 2016 will, however, be on setting Pillar 2 Guidance to banks to maintain capital that can support the process of repair and lending into the real economy. Although pillar 2 Guidance is not a legal minimum, and does not impact the threshold for the Maximum Distributable Amount, banks are expected to follow guidance in normal circumstances.

Acting as a central data hub for the entire EU, the EBA is publishing both aggregate results of the EU-wide exercise and granular data for each bank, including detailed information at both the starting and end point of the exercise, under the baseline and the adverse scenarios.

Notes for editors

The 2016 EU-wide stress test is coordinated by the EBA and is carried out in cooperation with the European Central Bank (ECB), the European Systemic Risk Board (ESRB), the European Commission, and the competent authorities from all relevant national jurisdictions. In this process, the EBA has developed a common methodology and templates and plays an important role in ensuring a comprehensive, consistent, and comparable disclosure of the results. The ESRB and the European Commission have developed, respectively, the adverse and the baseline scenarios. Competent authorities (including the Single Supervisory Mechanism – SSM) are responsible for assessing the quality of the data submitted by banks and the reliability of the results; they are also responsible for identifying appropriate supervisory actions, as part their 2016 SREP assessments.