EUROPEAN CENTRAL BANK

EUROSYSTEM

PRESS RELEASE

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ECB 2018 stress test analysis shows improved capital basis of significant euro area banks

- Banks directly supervised by ECB show improved capital basis with higher capital buffers than in 2016
- Average final CET1 for all 87 banks after adverse stress scenario stood at 10.1%, up from 8.8% in 2016
- For 54 medium-sized banks not covered by EBA stress test, average final CET1 after adverse stress scenario was 11.8%, up from 8.5% in 2016

The European Central Bank (ECB) today published aggregate results for the 2018 stress test for all participating banks under its supervision.

The 87 banks covered in the report include 33 euro area banks that were part of the EU-wide stress test coordinated by the European Banking Authority (EBA). The ECB conducted additional stress tests on 54 significant institutions which it directly supervises and which were not part of the EBA stress test. Both sets of results form the aggregate report released today. The reference date for the 2018 stress test was 31 December 2017.

The results show that the 87 banks directly supervised by the ECB have become more resilient to financial shocks over the past two years. Despite a more severe adverse scenario than in the 2016 stress test, the average Common Equity Tier 1 (CET1) capital ratio of all 87 banks after a three-year stress period was 10.1%, up from 8.8% two years ago. The CET1 ratio is a key measure of a bank's financial soundness.

Looking at the 54 medium-sized banks tested solely by the ECB, the results show that they have become better capitalised, increasing their ability to absorb financial shocks. In addition to the EBA sample (33 banks), which covers around 70% of euro area banking assets, they represent a further 9% of banking assets in the euro area.

Thanks to the continuous build-up of capital in recent years, these 54 banks also entered the stress test with a stronger capital base, with an average CET1 ratio of 16.9% going into the test, up from 14.7% in 2016.

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The 54 banks also exited the stress test with higher capital buffers than two years ago. Despite a more severe adverse scenario, the banks still had an average final CET1 of 11.8% at the end of the test, compared to 8.5% in 2016. The capital depletion of an aggregate 5.1 percentage points in the adverse scenario was also smaller than the 6.2 percentage points two years ago

Compared with the 33 EBA-tested banks, the medium-sized banks exhibit a greater CET1 ratio depletion (5.1 percentage points against 3.8 percentage points). This is mainly driven by lower income generation from net interest income and smaller client revenues from market operations under the adverse scenario.

The 54 medium-sized banks also include several state development banks, which tend to have low interest margins owing to lower risk-taking.

Despite increased resilience overall among medium-sized banks, challenges remain for euro area banks and the ECB will monitor the progress of work on business models and legacy issues.

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NOTES:

For better comparability, all CET1 capital ratios mentioned here reflect the "fully loaded" basis, which assumes that banks already fulfil all regulatory capital requirements that are subject to transitional arrangements.

The sample of 54 medium-sized banks solely tested by the ECB in 2018 is not exactly the same as the sample in 2016.

The EBA coordinated the EU-wide stress test of 48 banks, of which the ECB supervises 33. The EBA published its stress test results on 2 November.

The ECB applied largely the same methodology as the EBA when stress testing the 54 medium-sized banks. Some significant banks directly supervised by the ECB were not part of either stress test, mostly because they are subsidiaries of banks already covered by the EBA exercise or in the process of merging or restructuring.

As in previous years, the stress test was not a "pass or fail" exercise. However, it helps the supervisor to determine Pillar 2 capital in its annual Supervisory Review and Evaluation Process (SREP). Supervisors ask banks to build up Pillar 2 capital as a prudential capital buffer in addition to their legally required minimum capital. Pillar 2 is tailored to a bank's characteristics, such as its business model, governance structure and risk management framework. The ECB is currently finalising the 2018 SREP decisions for the banks under its supervision.

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