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No Spanish bank is required to increase its capital as a result of the EBA stress test

The stress test on the European banking sector coordinated by the European Banking Authority (EBA) shows that no Spanish bank needs to increase its capital as a result of this exercise. The results are consistent with the analyses and actions carried out during the process of restructuring of Spanish credit institutions. The bank recapitalisation required by RDL 2/2011 was the last step in the restructuring process initiated in Spain three years ago, which has enabled balance sheet write-downs, mergers of institutions, changes in corporate models through transfer of the activity of nearly all savings banks to commercial banks and improved governance. The stress test shows that no Spanish bank needs to further increase its capital thanks to the loss-absorbing mechanisms specific to the Spanish financial system, such as general provisions and mandatory convertible bonds. If these funds were stripped out of bank balance sheets, five Spanish institutions would not reach the benchmark of core tier 1 capital of 5% set for this stress test.

The stress test published today was conducted in 21 European Union countries for a total of 90 credit institutions, 25 of which were Spanish. Like last year, the Spanish banking sector was subjected to a totally transparent test, since it included all savings banks and all Spanish listed commercial banks. Strict compliance with the European stress testing requirements would have meant that the results of only four banks would have been released. Moreover, the Banco de España continues to provide highly detailed information which includes a breakdown of hypothetical gross impairment by portfolio, presenting mortgage risk and real estate developer risk separately. The methodology used this year in the stress test is stricter than in 2010, particularly as regards the definition of capital. For this stress test, the EBA has set a minimum capital level of 5% core tier 1, which is much higher than the current core capital requirements in the European Union (2%) and than those of Basel III in the year they come into force (4.5%).

The stress test determines the resilience of the institutions analysed in highly stressed and improbable scenarios and, for this reason, should in no case be taken as a forecast of how the economy will perform or of bank profits and equity. Specifically, the adverse scenario envisages that Spanish GDP will fall by 1% in 2011 and by another 1.1% in 2012, assumptions far removed from any forecast made for the Spanish economy. In terms of the likelihood of occurrence, the adverse scenario applied to Spain has a probability of below 0.5% in both years. The scenarios envisaged for Spain are also harsher than the European average as regards real estate prices, the increase in the risk premium and the decline in the main stock market indices.
The stress test is a useful supervisory tool because it helps to assess the solvency of banks and shows transparently their exposure to risks and capacity to absorb losses. The supervisory remit, however, naturally

extends beyond the performance of stress tests. Therefore the Banco de España, like other supervisors, continuously monitors many other factors such as risk control, the business model, management quality, funding and profitability, which are key to judging the strength and viability of each institution.