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The European Banking Authority has today published the stress test results

The European Banking Authority (EBA) has today published the results of the stress test of 51 banks covering approximately 70% of the assets of the European Union's banking sector.

The test provides a common framework to assess the resilience of large European banks to a hypothetical deterioration in macroeconomic and market conditions and introduces levels of transparency essential to foster market discipline. On this occasion capital thresholds have not been defined, but the assessment of the results will be a crucial element for supervisors when determining capital requirements within the framework of the Supervisory Review and Evaluation Processes (SREP) and, in particular, when the Pillar 2 Capital Guidelines[1] are set following consideration of the particular circumstances of each bank.

EU-wide stress test

The stress test has been performed by the participating banks and the competent authorities, in cooperation with the EBA. In the case of euro area banks, the exercise has been coordinated by the ECB, in collaboration with the national competent authorities belonging to the Single Supervisory Mechanism.

In accordance with the methodology approved by the EBA, the banks made three-year projections of results and capital (from December 2015 to December 2018) under two different macroeconomic scenarios: a baseline scenario designed by the European commission and an adverse scenario approved by the European Systemic Risk Board.

The banks' projections are subject to certain constraints established in the methodology, such as the assumption of a static balance sheet during the exercise, restrictions on the recognition of new

1 These Capital Guidelines are not a minimum legal requirement, but supervisors expect institutions to comply with them in normal circumstances.

deferred tax assets and the application of compulsory adjustments to the available for sale sovereign debt portfolio. A significant change in relation to previous exercises is that the assessment of operational risk covers conduct risk.

Main results of the exercise

As indicated in the aggregate report published by the EBA, thanks to the drive to capitalise the European banking system since 2011, the transitional common equity tier 1 capital (CET1) ratio[1] of the 51 banks participating in the test was 13.2% as at end-2015, more than two percentage points (pp) above the level at the start of the 2014 comprehensive assessment. The impact of the adverse scenario shows the importance of this recapitalisation, since with a fall under this scenario of 3.8 pp, the transitional CET1 ratio stands at 9.4%.

The exercise includes 37 significant euro area institutions directly supervised by the ECB. In aggregate terms, these 37 institutions have a transitional CET1 ratio under the adverse scenario of 9.1%, starting from an initial ratio of 13%, which means that the average impact is 3.9 pp.

Reference to Spanish banks

Unlike in the 2014 comprehensive assessment, in which all the significant Spanish banking groups whose supervision was assumed by the ECB from November 2014 participated, only the six largest Spanish banking groups (Santander, BBVA, BFA-Bankia, Criteria-Caixa, Popular and Sabadell) have participated in this exercise.

The breakdown by bank of the impact on the CET1 ratio is summarised in the following table:

Bank	**Transitional CET1 ratio**			**Fully loaded CET1 ratio**		
	31.12.2015	**31.12.2018** Adverse scenario	**Impact pp**	**31.12.2015**	**31.12.2018** Adverse scenario	**Impact pp**
BBVA	12.0%	8.3%	**-3.8**	10.3%	8.2%	**-2.1**
Sabadell	11.7%	8.2%	**-3.5**	11.7%	8.0%	**-3.7**
Popular	13.1%	7.0%	**-6.1**	10.2%	6.6%	**-3.6**
Santander	12.7%	8.7%	**-4.0**	10.2%	8.2%	**-2.0**
BFA-Bankia	14.6%	10.6%	**-3.9**	13.7%	9.6%	**-4.2**
Criteria-Caixa	11.7%	9.0%	**-2.7**	9.7%	7.8%	**-1.8**

The test results for Spanish banks show an appreciable degree of resilience, and they comfortably comply with the capital requirements used as references in previous stress tests.

1 Ratio of the highest quality capital, calculated in accordance with the transitional arrangements laid down in solvency regulations.

An important part of the estimated decline arises in most cases from the impact of the progressive elimination of the transitional arrangements from the solvency framework over the three-year duration of the exercise. If this effect is excluded, the impact of the exercise is significantly reduced, as seen in the development of the fully loaded ratio.
The above figures do not include any recapitalisation measure adopted since 31 December 2015, such as the recent capital increase by Banco Popular.

Publication of the results by banks

The EBA published templates for disclosing the results of each participating bank (https://www.eba.europa.eu/risk-analysis-and-data/eu-wide-stress-testing/2016/results) and an aggregate report on the full results of the exercise for all the banks (https://www.eba.europa.eu/-/results-of-the-2016-eu-wide-stress-test).

The ECB, as the competent authority for the direct supervision of 37 of the 51 banks, has published its assessment of the results of the exercise in a press release (https://www.bankingsupervision.europa.eu/press/pr/date/2016/html/sr160729.en.html).