

## 2016 Stress test results

European Banking Authority (EBA)

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# Introduction

## Context and objective of the document

**In July 2016 the EBA published the results of the EU-wide stress test, designed to be used as an important input into the supervisory review and evaluation process (SREP)**

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### Introduction

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- The objective of the 2016 EU-wide stress test is to provide supervisors, banks and market participants with a common analytical framework to consistently compare and assess the resilience of large EU banks and the EU banking system to adverse economic shocks.
  - In particular this exercise is designed to **inform the supervisory review and evaluation process (SREP)** which will be carried out by competent authorities (CA) in 2016.
- In this context, the EBA published in July the **2016 EU-wide stress test results**, including both aggregate results and granular data for each bank, which will facilitate the consistent comparison and assessment of the resilience of banks to adverse economic shocks. In particular, this document assesses the results relative to the potential impact on:
    - **Capital** (CET1 phase-in and fully loaded)
    - **RWA** for credit, market and operational risk
    - **Provisions and coverage ratio**
    - **P&L** (net interest income, net fee and commission income and aggregate P&L)
    - **Leverage ratio**
  - These results reflect a strong performance by the EU the banking sector due to the **increase of capital ratios**, although individual results of institutions vary significantly.

This document analyzes the main stress test results, focusing on the aggregated results across the EU, as well as on the results of the countries with the highest level of asset volumes within the banking system.

# Introduction

## Bank sample

**The stress test has been carried out on a sample of 51 EU banks, which represent almost 70 percent of the assets within the EU banking system**

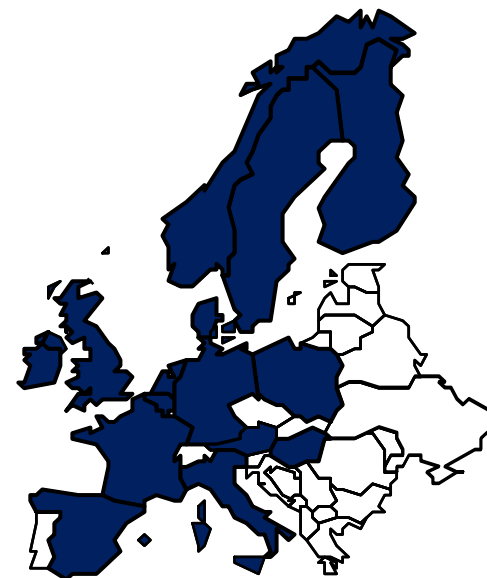
### Banks sample

- **51 EU banks have participated in 2016<sup>1</sup>** (124 banks in the ST2014), covering around 70% of the national banking sector in the EU, in terms of consolidated assets.
- The **level of consolidation** is aligned with that of the CRDIV/CRR framework.
- The banks should hold a minimum of €30 billion in assets in order to be included within the scope.

### Scope of application

-  **Germany: 9 banks**
-  **Spain: 6 banks**
-  **France: 6 banks**
-  **Italy: 5 banks**
-  **UK: 4 banks**
-  **Netherlands: 4 banks**
-  **Sweden: 4 banks**
-  **Denmark: 3 banks**

-  **Belgium: 2 banks**
-  **Austria: 2 banks**
-  **Ireland: 2 banks**
-  **Finland: 1 banks**
-  **Norway: 1 banks**
-  **Poland: 1 banks**
-  **Hungary: 1 banks**

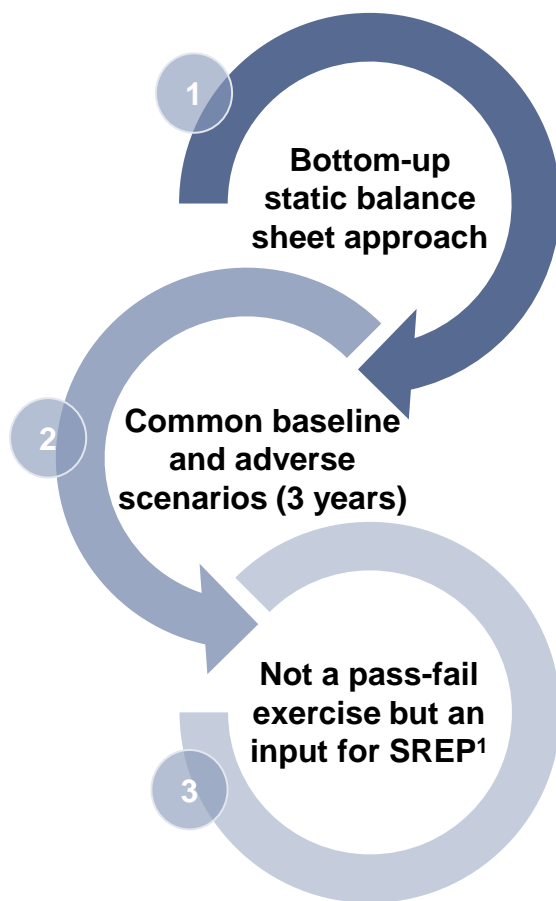


# Introduction

## Key aspects

The stress test has used a bottom-up static balance sheet approach and a common baseline and adverse scenario although, unlike the 2014 stress test, this is not a pass-fail exercise

### Key aspects



- The 2016 exercise has been conducted following a **bottom-up** and a **static balance sheet approach**.
- Banks' projections are subject to **conservative constraints** that included in the EBA methodology.
- **Banks under restructuring** are subject to the **same assumptions**, including the static balance sheet assumption.

- The stress test is based on **common baseline** and **adverse scenarios**.
- The time horizon of the exercise is **2016-2018** based on data as of end-2015.

- The 2016 exercise is **not be a pass-fail exercise**, i.e. no capital threshold is defined. Instead, it is an **import input for the 2016 SREP**, under the responsibility of competent authorities (CAs).
- For this purpose all main regulatory capital ratios are assessed including **fully loaded ratios**, and the **leverage ratio**.

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# Main results

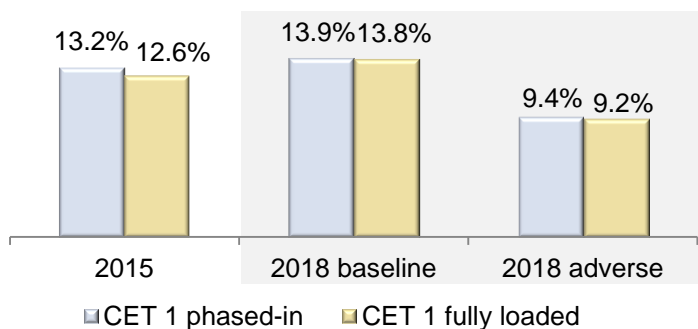
## EU

The phase-in CET1 ratio decreases from 13.2% in 2015 to 9.4% in 2018 under the adverse scenario, due to a capital reduction of €269 bn and an increase by 10% of RWA (the impact is mostly driven credit risk RWAs)

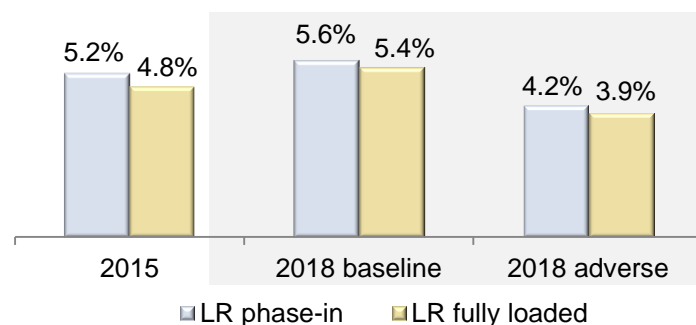


### Capital and RWAs

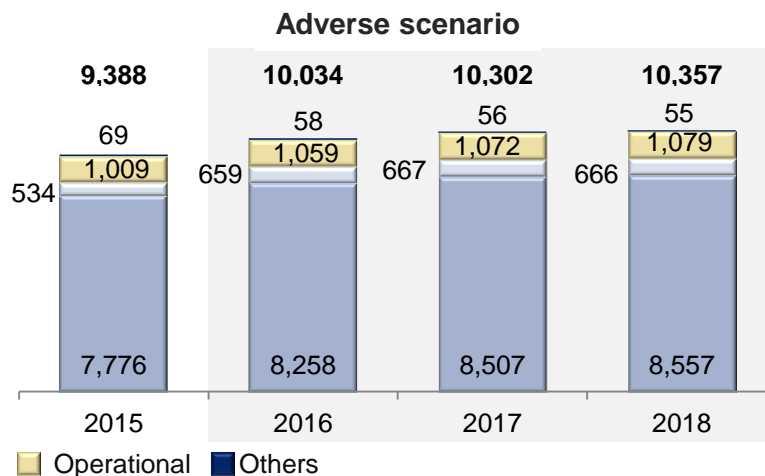
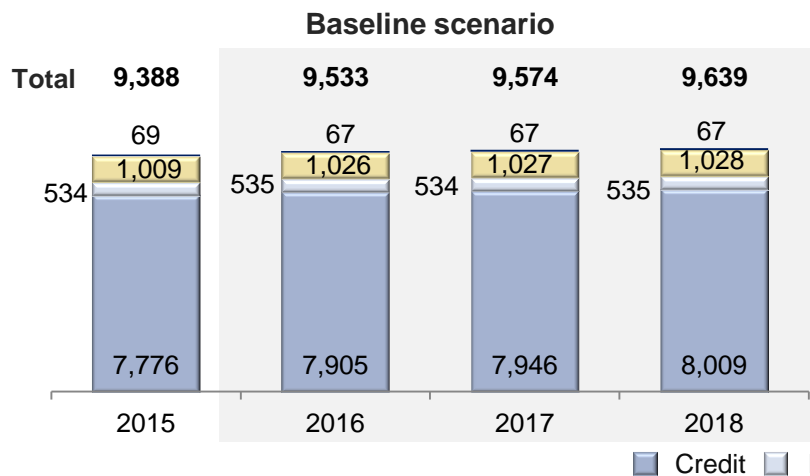
Ratio CET 1



Leverage ratio (LR)



RWAs by risk type (€ bn)



■ Credit ■ Market ■ Operational ■ Others

# Main results

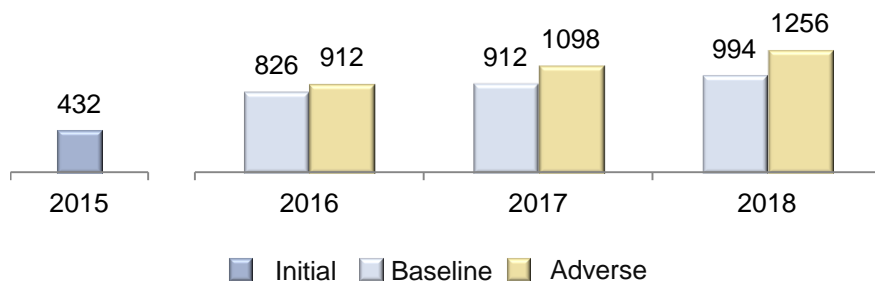
## EU

**Provisions across the EU increases by 191% between 2015 and 2018 (adverse scenario); and the coverage ratio decreases between 2015 and 2018 under the two prescribed scenarios**



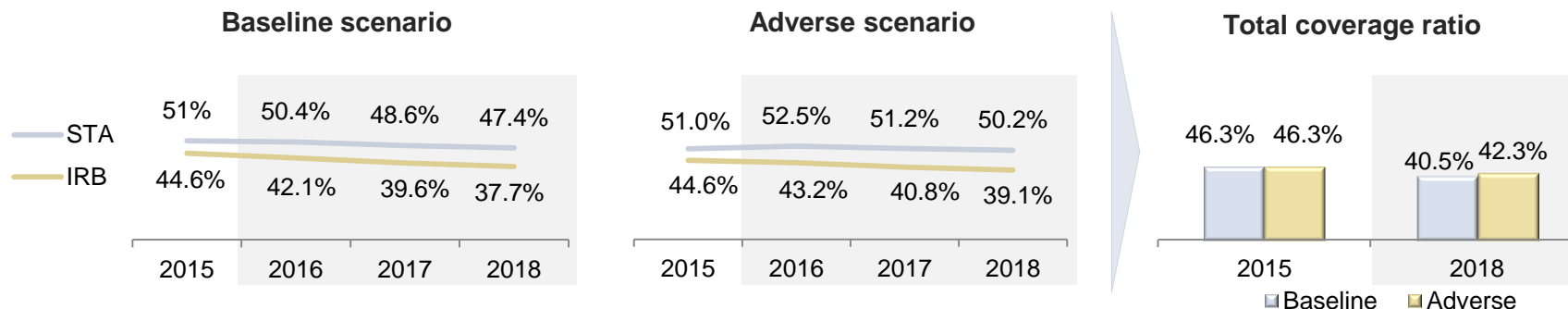
### Provisions and coverage ratio

#### Provisions (€ bn)



- The amount of aggregate provisions under the adverse scenario as of end of 2018 is €1,256 bn, due to the arising losses from credit risk (€349 bn in 2018).

#### Coverage ratio (STA, IRB and total)





# Main results

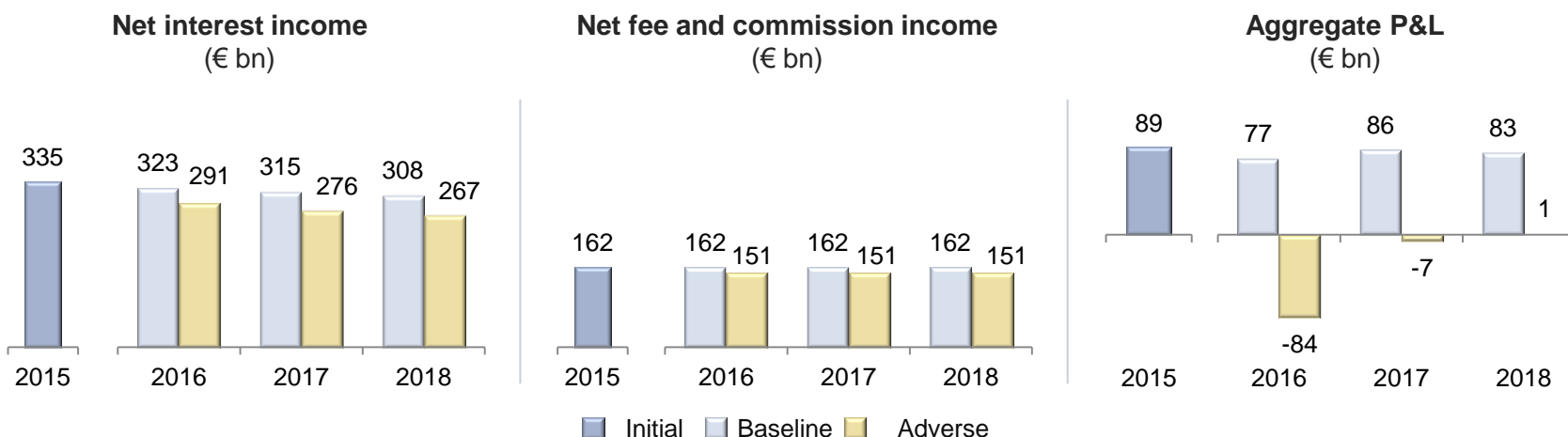
## EU

**Net interest income is impacted significantly due to the credit risk losses arising from the adverse scenario, which are caused by exposures towards counterparties in Italy, UK, Spain and France**



### P&L

#### P&L



- The biggest positive contributors to the aggregate cumulative P&L under the adverse scenario are **net interest income** (€834 bn) and **net fee and commission income** (€453 bn). Aggregate P&L stands at €1 bn in 2018 under the adverse scenario.
- Net interest income under the adverse scenario is affected by negative y/y rates in 2016 and 2017, due to the evolution of **credit risk losses**, which increase by 107% in 2016 compared to 2015.
- Exposures towards counterparties in **Italy** (+10% of contribution), the **UK, Spain and France** are those contributing the most to credit losses, in absolute terms.

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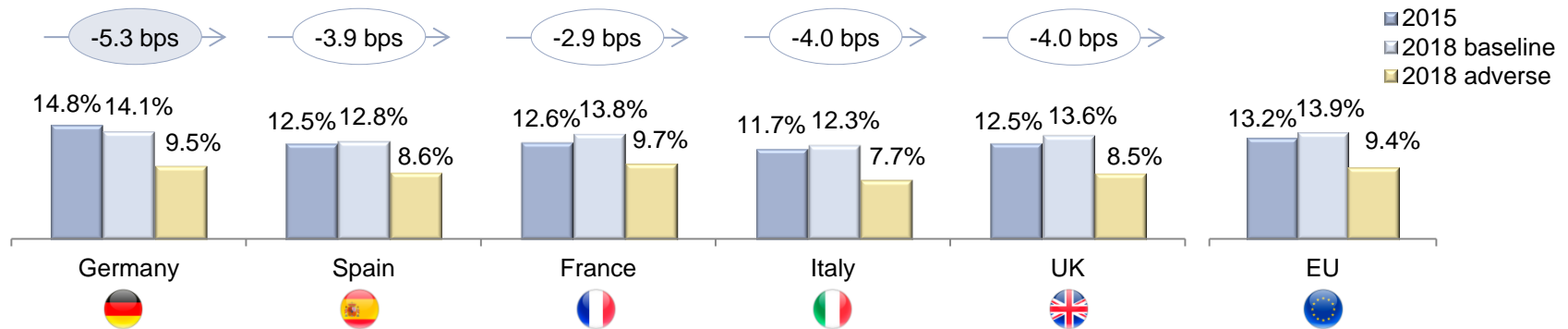
# Detail of the results

## Capital

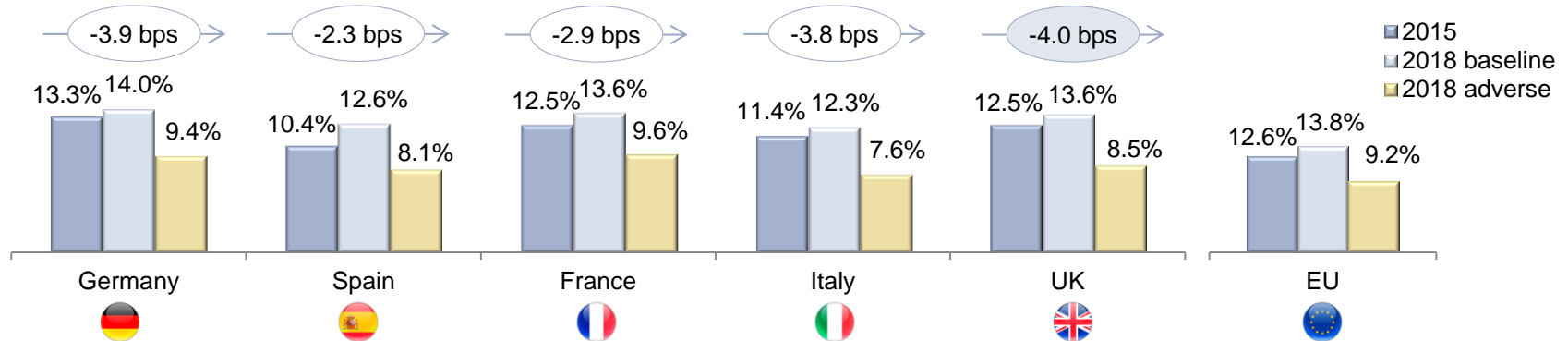
**Germany experiences the greatest decrease of the CET 1 phase-in ratio under the adverse scenario from 2015 to 2018, whereas France the lowest. UK registers the greatest impact in terms of the CET 1 fully loaded ratio, whereas Spain the lowest**

### Capital

#### CET 1 phase-in



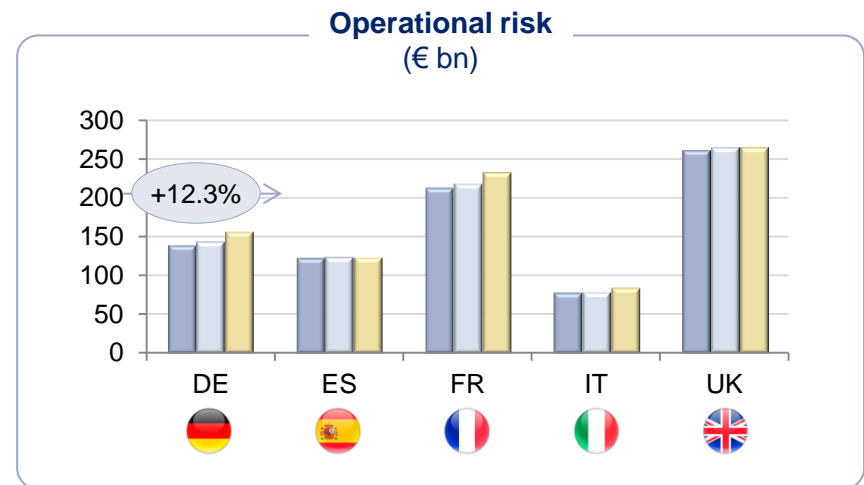
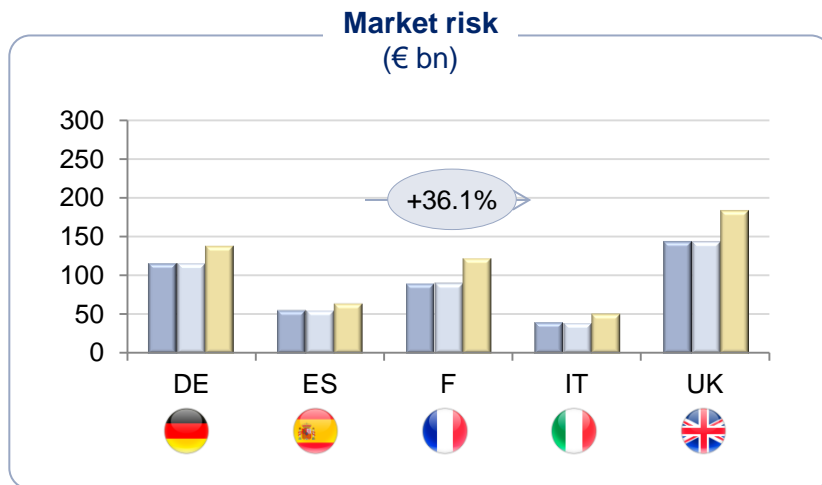
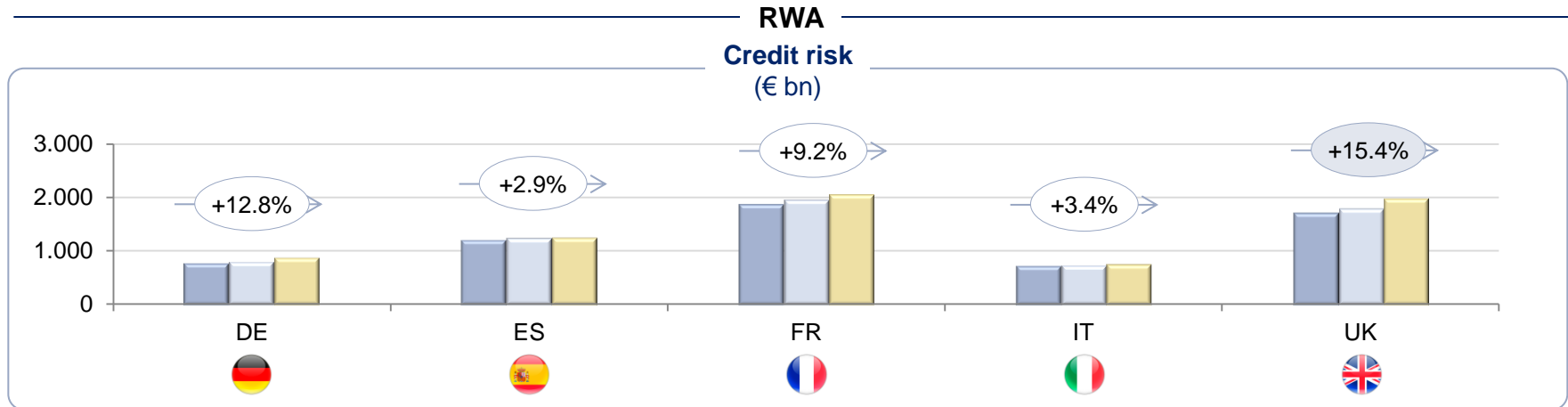
#### CET 1 fully loaded



# Detail of the results

## RWAs

**UK records the greatest increase in credit risk RWAs between 2015 and 2018 under the adverse scenario, while Spain experiences the lowest impact for this type of risk**



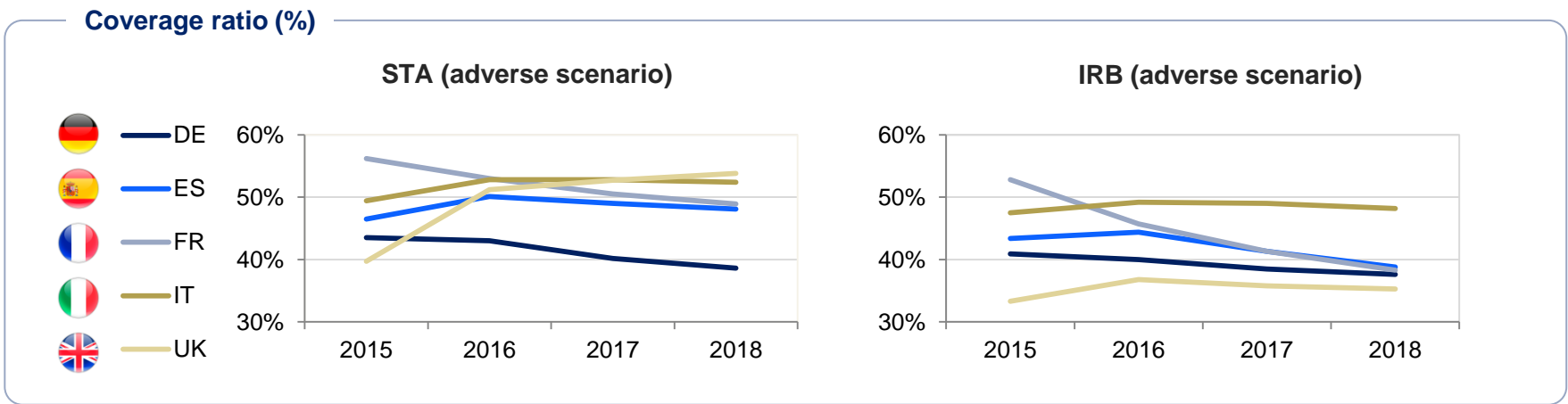
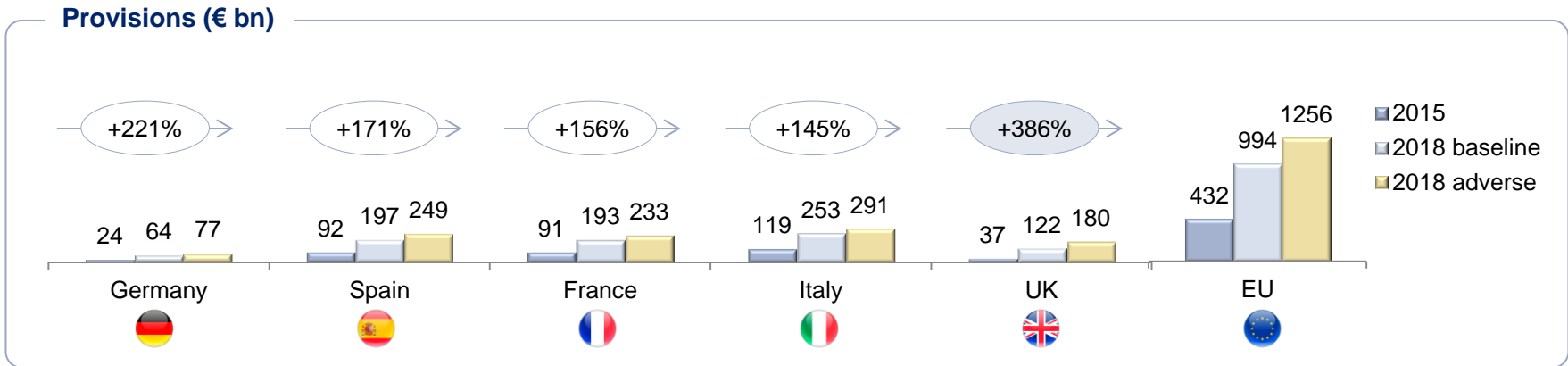
■ 2015   ■ 2018 baseline   ■ 2018 adverse

# Detail of the results

## Provisions and coverage ratio

The amount of provisions increases between 2015 and 2018 (adverse scenario) for all countries analysed. The coverage ratio rises in the case of Spain, Italy and UK within the STA, and regarding the IRB portfolio it increases only in Italy and UK

Provisions and coverage ratio



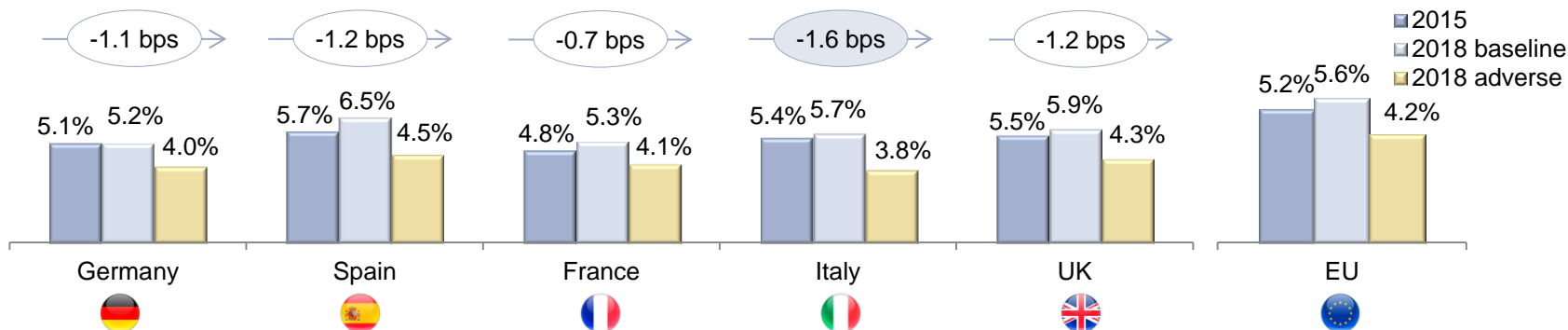
# Detail of the results

## Leverage ratio

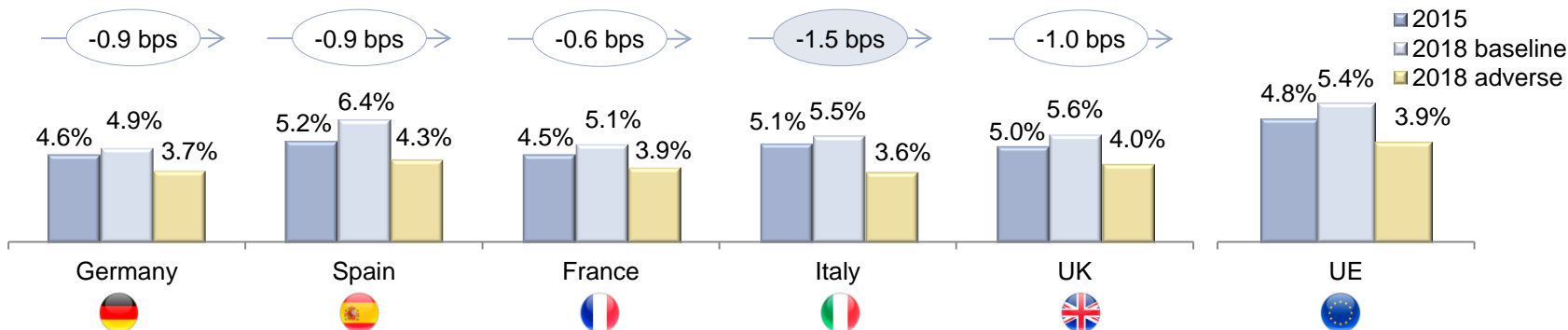
**Italy registers the greatest decrease regarding the leverage ratio from 2015 to 2018 under the adverse scenario<sup>1</sup>, although it should be noted that the average across these countries exceeds the requirement of 3%**

### Leverage ratio

#### Leverage ratio (phase-in)



#### Leverage ratio (fully loaded)



1. This is partly driven by the performance of Monte dei Paschi di Siena, which registers a variation of -0.65% under the adverse scenario.

# Detail of the results

## P&L

France and Italy account for the greatest losses in 2018 under the adverse scenario in 2018, which is driven by a decrease in income and an increase in provisions and other expenses

### P&L

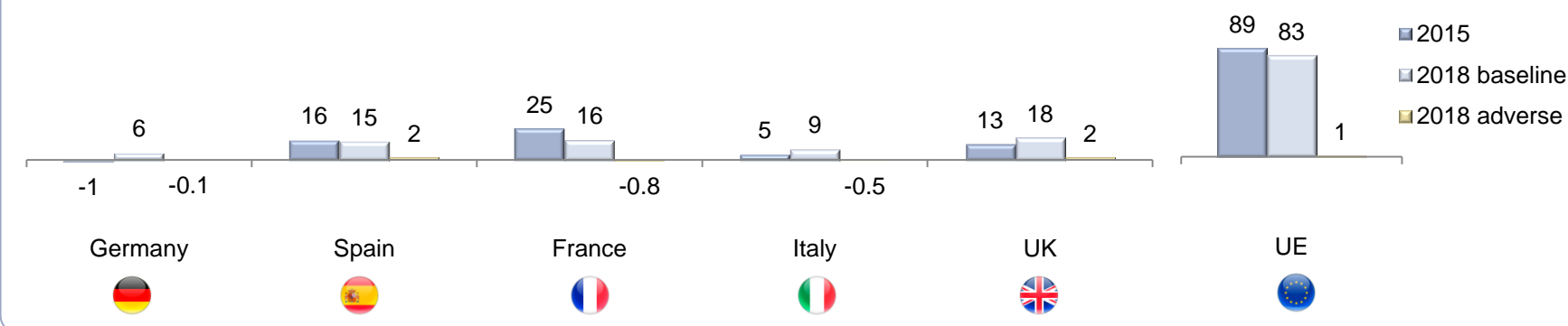
#### Net interest income (€ bn)

	Baseline			Adverse		
	2015	2018	Var.	2015	2018	Var.
DE	28	27	-3.6%	28	24	-14.3%
ES	62	55	-11.3%	62	47	-24.2%
FR	66	60	-9.1%	66	52	-21.2%
IT	27	27	-0.9%	27	22	-18.5%
UK	78	73	-6.4%	78	67	-14.1%

#### Net fee and commission income (€ bn)

	Baseline			Adverse		
	2015	2018	Var.	2015	2018	Var.
DE	19	19	0%	19	17	-10.5%
ES	20	20	0%	20	20	-1.7%
FR	47	47	0%	47	44	-6.4%
IT	20	20	0%	20	19	-0.5%
UK	33	33	0%	33	32	-3.0%

#### Aggregate P&L (€ bn)



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# Next steps

**Following the release of the stress test results, Pillar 2 capital guidance will be set to banks to maintain capital that can support the process of repair and lending into the real economy**

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## Next steps

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- The 2016 EU-wide stress test is designed to **inform** the SREP<sup>1</sup> carried out by competent authorities (CAs) in 2016.
- CAs are expected to take the following steps with regard to the **use of the results for the SREP of 2016**:
  - CAs will discuss the quantitative impact of the stress test with the institutions and understand the extent to which **credible management actions** may offset some of the impact of the adverse scenario. As the EU-wide stress test is conducted on the assumption of a static balance sheet, the assessment may also take into account some natural dynamics in the balance sheet, based on existing strategic and capital planning.
  - CAs will assess the net impact of the stress test on the institution's **forward looking capital plans** and its capacity to meet applicable own funds requirements.
  - A wide range of potential actions may result, including reviewing the Total SREP Capital Requirement where the stress test reveals an imminent risk to the solvency of the institution; or using the qualitative outcomes to inform the SREP assessments in areas such as risk management; or identifying hidden concentrations.
  - More generally, CAs could consider the following:
    - Requesting **changes to the institutions' capital plan** (e.g. potential restrictions on dividends) or **strategy**.
    - Setting **capital guidance, above the combined buffer requirement**.

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# Annex 1

## List of participating banks

<b>AT</b>	Erste Group Bank AG Raiffeisen-Landesbanken-Holding GmbH	<b>FR</b>	BNP Paribas Crédit Agricole Group Société Générale BPCE Confédération Nationale du Crédit Mutuel La Banque Postale
<b>BE</b>	KBC Group NV Belfius Banque SA	<b>HU</b>	OTP Bank Nyrt.
<b>DE</b>	Deutsche Bank AG Commerzbank AG Landesbank Baden-Württemberg Bayerische Landesbank Norddeutsche Landesbank Girozentrale Landesbank Hessen-Thüringen Girozentrale NRW.BANK Volkswagen Financial Services AG DekaBank Deutsche Girozentrale	<b>IE</b>	The Governor and Company of the Bank of Ireland Allied Irish Banks plc
<b>DK</b>	Danske Bank Nykredit Realkredit Jyske Bank	<b>IT</b>	Unicredit SpA Intesa Sanpaolo SpA Banca Monte dei Paschi di Siena SpA Banco Popolare - Società Cooperativa Unione di Banche Italiane Società Cooperativa per Azioni
<b>ES</b>	Banco Santander S.A. Banco Bilbao Vizcaya Argentaria S.A. Criteria Caixa Holding BFA Tenedora de Acciones S.A. Banco Popular Español S.A. Banco de Sabadell S.A.	<b>NL</b>	ING Groep N.V. Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (RABO) ABN AMRO Group N.V. N.V. Bank Nederlandse Gemeenten
<b>FI</b>	OP-Pohjola osk	<b>NO</b>	DNB Bank Group
		<b>PL</b>	Powszechna Kasa Oszczednosci Bank Polski SA Nordea Bank - group Svenska Handelsbanken - group
		<b>SE</b>	Skandinaviska Enskilda Banken - group Swedbank - group
		<b>UK</b>	HSBC Holdings Plc Barclays Plc The Royal Bank of Scotland Group Public Limited Company Lloyds Banking Group Plc



## Annex 2

### Results as input for SREP

The EBA has defined how the results of the stress test will inform the SREP. In particular, it should be noted that supervisors may impose additional capital guidance to address capital shortfalls leading to potential breaches of applicable own funds requirements revealed by the stress tests

#### Results as input for SREP

##### Quantitative results

- CAs should use these results to assess whether the quantity and composition of available own funds would allow under the assumed scenarios an institution to meet:
  - **The total SREP capital requirements (TSCR).**
  - **The impact on the Overall Capital Requirements (OCR).**
- The incorporation of the quantitative results into SREP assessments involve the following:
  - CAs will **discuss the quantitative impact** of the stress test with the institution and understand the extent to which credible management actions may offset some of the impact of the adverse scenario.
  - CAs will assess the **net impact of the stress test** on the institution's forward looking capital plans and its capacity to meet applicable own funds requirements, in particular TSCR.
  - If the analysis of the quantitative results demonstrates that there may be potential breaches of the TSCR over the stress test time horizon (however there is no imminent risk), CAs may consider whether **any measures are necessary** for the institution.
  - CAs may also consider requesting **changes to the institutions' capital plan** (e.g. restrictions on dividends).
  - CAs may **impose additional measures** such as setting additional supervisory monitoring metrics in the form of **capital guidance**, above the combined buffer requirement. In cases where capital guidance is set, it will not be included in calculations of the MDA.

##### Supervision of capital guidance

- The CA will **supervise capital guidance** and the way it is integrated into the risk management and capital planning processes of institutions. If the qualitative or quantitative outcomes do not meet the requirements of SREP, CAs should review the conclusions, or update the SREP and review the TSCR.



# Annex 3

## Individual results (1/2)

Bank	C	CET 1 fully loaded			Leverage ratio fully loaded			Variation of provisions	
		2015	2018 b	2018 a	2015	2018 b	2018 a	2015 - 2018 b	2015 - 2018 a
Erste Group Bank AG	AT	12.25%	13.55%	8.02%	5.83%	6.53%	4.21%	19%	121%
Raiffeisen-Landesbanken-Holding GmbH	AT	10.20%	12.33%	6.12%	4.47%	5.82%	3.03%	39%	8%
Belfius Banque SA	BE	14.65%	17.60%	11.41%	4.90%	6.03%	4.30%	15%	112%
KBC Group NV	BE	14.88%	16.18%	11.27%	6.30%	7.35%	5.66%	12%	126%
Bayerische Landesbank	DE	11.99%	12.41%	8.34%	3.59%	3.78%	2.80%	10%	43%
Commerzbank AG	DE	12.13%	13.13%	7.42%	4.54%	4.96%	3.04%	7%	48%
DekaBank Deutsche Girozentrale	DE	13.50%	14.17%	9.53%	4.36%	4.81%	3.59%	37%	3%
Deutsche Bank AG	DE	11.11%	12.08%	7.80%	3.49%	3.86%	2.96%	104%	101%
Landesbank Baden-Württemberg	DE	15.98%	15.58%	9.40%	4.93%	4.86%	3.32%	310%	470%
Landesbank Hessen-Thüringen Girozentrale	DE	13.11%	14.42%	10.10%	3.93%	4.39%	3.40%	54%	15%
Norddeutsche Landesbank Girozentrale	DE	12.09%	13.16%	8.62%	4.00%	4.38%	2.99%	59%	41%
NRW.BANK	DE	42.54%	39.44%	35.40%	11.73%	11.43%	11.37%	53%	3%
Volkswagen Financial Services AG	DE	11.67%	12.90%	9.55%	11.13%	12.89%	9.72%	54%	3%
Danske Bank	DK	15.48%	17.66%	14.02%	4.29%	4.88%	4.05%	872%	3694%
Jyske Bank	DK	16.00%	19.84%	13.99%	5.12%	6.40%	4.90%	51%	258%
Nykredit Realkredit	DK	19.19%	22.03%	13.86%	4.36%	4.97%	4.12%	659%	1866%
BBVA S.A.	ES	10.27%	12.03%	8.19%	6.07%	7.02%	5.07%	35%	30%
Banco de Sabadell S.A.	ES	11.72%	12.81%	8.04%	4.85%	5.57%	3.40%	65%	14%
Banco Popular Español S.A.	ES	10.20%	13.45%	6.62%	5.68%	7.24%	3.99%	70%	20%
Banco Santander S.A.	ES	10.19%	13.17%	8.20%	4.73%	6.08%	3.97%	29%	1%
BFA Tenedora de Acciones S.A.U.	ES	13.74%	14.42%	9.58%	5.53%	6.01%	3.87%	22%	121%
Criteria Caixa, S.A.U.	ES	9.65%	10.97%	7.81%	5.32%	6.27%	4.58%	70%	2%
OP Osuuskunta	FI	19.16%	20.92%	14.61%	6.96%	7.63%	5.83%	13%	216%
BNP Paribas	FR	10.87%	12.09%	8.51%	4.03%	4.57%	3.47%	21%	34%
Groupe BPCE	FR	12.78%	14.36%	9.47%	4.47%	5.21%	3.59%	12%	67%
Groupe Crédit Agricole	FR	13.68%	14.81%	10.49%	5.28%	5.99%	4.72%	25%	44%
Groupe Crédit Mutuel	FR	15.55%	16.62%	13.38%	6.24%	6.75%	5.62%	13%	85%
La Banque Postale	FR	14.51%	14.95%	9.82%	3.75%	3.93%	3.19%	1%	95%
Société Générale S.A.	FR	10.91%	11.61%	7.50%	3.77%	4.01%	2.91%	11%	37%

# Annex 3

## Individual results (1/2)

Bank	C	CET 1 fully loaded			Leverage ratio			Variation of provisions	
		2015	2018 b	2018 a	2015	2018 b	2018 a	2015 - 2018 b	2015 - 2018 a
OTP Bank Nyrt.	HU	12.94%	14.56%	9.22%	7.95%	8.94%	5.81%	74%	52%
Allied Irish Banks plc	IE	13.11%	13.90%	4.31%	7.80%	8.38%	3.01%	140%	240%
The Governor and Company of the Bank of Ireland	IE	11.28%	15.03%	6.15%	5.74%	7.47%	3.74%	4%	288%
Banca Monte dei Paschi di Siena	IT	12.07%	12.24%	-2.44%	4.93%	5.01%	-0.89%	60%	10%
Banco Popolare - Società Cooperativa	IT	12.39%	14.61%	9.00%	4.74%	5.87%	3.53%	68%	26%
Intesa Sanpaolo S.p.A.	IT	12.47%	12.80%	10.21%	6.37%	6.55%	5.65%	51%	15%
UniCredit S.p.A.	IT	10.38%	11.47%	7.10%	4.37%	4.82%	3.14%	53%	16%
Unione Di Banche Italiane Società Per Azioni	IT	11.62%	13.01%	8.85%	5.81%	6.51%	4.44%	29%	1%
ABN AMRO Group N.V.	NL	15.44%	16.20%	9.53%	3.80%	4.06%	2.94%	7%	251%
Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.	NL	11.97%	13.33%	8.10%	3.93%	4.43%	3.04%	24%	104%
ING Groep N.V.	NL	12.70%	12.50%	8.98%	3.93%	4.19%	3.29%	21%	105%
N.V. Bank Nederlandse Gemeenten	NL	26.17%	28.05%	17.62%	2.70%	2.98%	2.08%	44%	13%
DNB Bank Group	NO	14.31%	16.56%	14.30%	6.30%	7.25%	6.30%	31%	267%
Powszechna Kasa Oszczędności Bank Polski SA	PL	13.42%	14.73%	11.44%	9.25%	10.18%	7.90%	5%	170%
Nordea Bank - group	SE	16.45%	18.60%	14.09%	4.48%	5.02%	4.32%	60%	276%
Skandinaviska Enskilda Banken - group	SE	18.85%	21.55%	16.60%	4.74%	5.61%	5.22%	22%	93%
Svenska Handelsbanken - group	SE	21.25%	23.09%	18.55%	4.32%	4.67%	4.31%	40%	228%
Barclays Plc	UK	11.35%	12.48%	7.30%	4.49%	5.06%	3.48%	18%	117%
HSBC Holdings	UK	11.87%	12.41%	8.76%	5.02%	5.48%	4.33%	26%	107%
Lloyds Banking Group Plc	UK	13.05%	16.44%	10.14%	4.84%	6.19%	4.42%	231%	592%
The Royal Bank of Scotland Group Public Limited Company	UK	15.53%	15.89%	8.08%	5.65%	6.01%	3.64%	230%	380%