EBF Factsheet
Comprehensive assessment

European Banking Federation

The Voice of Europe's Banks

Launched in 1960, the European Banking Federation (EBF) is the voice of the European banking sector from the European Union and European Free Trade Association countries. The EBF represents the interests of almost 4,500 banks, large and small, wholesale and retail, local and cross-border financial institutions. Together, these banks account for over 80% of the total assets and deposits and some 80% of all bank loans in the EU.

CREATE TRANSPARENCY AND BUILD CONFIDENCE

The comprehensive assessment is the biggest-ever financial health-check of European banks. The risk analysis involves a point-in-time asset quality review of large banks in the Eurozone by the European Central Bank and forward-looking stress tests by national supervisors coordinated by the European Banking Authority.

The exercise aims to increase transparency by enhancing the quality of information available on banks' balance sheets; to identify possible problems well in advance and correct them; and to build confidence in the European banking sector, enabling all stakeholders to assess the soundness and trustworthiness of banks.

The assessment is carried out jointly by the European Central Bank, the European Banking Authority and national bank supervisors ('national competent authorities', also known as NCAs) in the European Union, in full cooperation with banks across Europe. More than 6,000 officials and experts are involved.

ASSET QUALITY REVIEW

The European Central Bank coordinates the asset quality review, which applies to 128 banks in the Eurozone, covering approximately 85 percent of total bank assets. The review started in November 2013. Results will be published on Sunday 26 October 2014, before the European Central Bank assumes responsibility over the supervision of Eurozone banks on 4 November.

The European Central Bank has reviewed portfolios holding risk-weighted assets (RWA) worth €3.72 trillion, equivalent to 58 percent of total RWA. An average of 1,250 credit files per bank have been reviewed.

STRESS TESTS

The forward-looking stress tests are coordinated by the European Banking Authority and conducted by NCAs, covering 124 banks in 22 EU member states, including non-euro countries such as the United Kingdom, Poland and Sweden. This group of banks covers at least 50 percent of each national banking sector.

Before final publication, the results of the stress tests will be adjusted with the findings of the asset quality review, which scrutinises the value of assets and guarantees of every bank at the close of 2013. This integration is known as the 'join-up' and aims to reinforce the quality of the assessment. For the stress tests, the join-up aims to provide a reliable starting point.

The goal of the stress test is to assess the resilience of banks to adverse market developments, applying two scenarios that simulate a sharp economic downturn. A common methodology coupled with common baseline and adverse scenarios will be applied to make sure the analysis of Eurozone banks is consistent with non-Eurozone banks.

The European Banking Authority will be coordinating European bank sector stress tests on an annual basis.

FULL SUPPORT OF THE EBF

The European Banking Federation fully supports the comprehensive assessment and its potential contribution to a more stable financial sector in Europe. Well-capitalised, financially healthy banks are better positioned to serve society.

The assessment is a precondition towards the creation of a truly European banking landscape, with a single supervisor and a single set of rules for all banks. The EBF supports the additional role for the European Central Bank as central European supervisor under the Single Supervisory Mechanism.

In recent years, banks have proactively aligned their activities with the numerous regulatory reforms that have been introduced at the international level as well as the European level. As a result, banks now hold significantly more capital and have greater resilience overall. The comprehensive assessment should dispel any lingering doubts on the robustness of banks.

HYPOTHETICAL SCENARIO

The actual recapitalisation of the banking sector since 2008 needs to be taken into consideration when analysing the outcome of the assessment. Overall capital resilience of European banks has dramatically increased compared to 2007. Since the beginning of the financial crisis, EU banks have improved their capital position by the equivalent of €450 billion, according to December 2013 data provided by the European Banking Authority's Basel III Monitoring Exercise, which applies the criteria set by the Basel Committee on Banking Supervision, the international standard-setting body.

One stress test, based on an official baseline scenario for the economy, requires the banks to show that their ratio of capital to risk-weighted assets can remain above 8 percent. The second test, which simulates a hypothetical economic scenario with a severe recession and a bond market collapse, requires banks to show that this ratio can stay above 5.5 percent for three years.

KEY IMPACTS AND FIGURES

CORE TIER 1

This ratio, referred to as CET1, measures the most loss-absorbing capital of a bank (shares and reserves) in relation to its risk-weighted assets (RWA). This ratio is a key measure and one of the main numbers to watch when reviewing the results of the assessment. A European Banking Authority analysis at the end of 2013 following the stricter Basel III criteria showed a CET1 of 10.1 percent for a wide sample of more than 150 EU banks including the largest internationally-active ones. This Basel III capital ratio has almost doubled since June 2011.

10.1%

LEVERAGE RATIO

Banks use the capital they hold to fund loans. The leverage ratio measures the relationship between capital and exposure. Too much leverage puts banks at risk during a downturn, but too little constrains their capacity to lend to businesses and consumers. The right calibration still needs to be struck between financial stability and economic growth. Since the financial crisis, banks have increased the capital they hold and reduced their exposures, which has led to an improvement in leverage ratios. Banks will be expected to have a leverage ratio of at least three percent. According to the European Banking Authority's Basel III monitoring exercise, based on December 2013 data, the average leverage ratio of European banks was 3.9 percent.

3.9%

CAPITAL RAISED

Capital raised during the one-year comprehensive assessment exercise is a critical number to watch. Since the summer of 2013, some €200 billion was raised, according to the European Banking Authority and the European Central Bank. Of this amount, nearly €60 billion was raised from gross equity issuance. The rest consists of convertible bond issuance, retained earnings, asset sales, one-off items and additional provisioning.

€200 billion

DATA POINTS

Since the start of the Comprehensive Assessment in October 2013, European banks have made available more than 25 million data points on credit files, collateral and provisioning to the asset quality review by the European Central Bank. This data covers some 60 percent of the assets in the critical portfolios held by banks. This knowledge about banks has been reviewed and analysed by more than 6,000 officials and experts that were involved in this unprecedented exercise.

25 million

** This factsheet was produced before the publication of the results of the comprehensive assessment on 26 October 2014.*

For more information

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