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PRESS RELEASE

The EBA's Board of Supervisors makes its first aggregate assessment of banks' capital plans

The EBA's Board of Supervisors today made a preliminary assessment of banks' capital plans submitted in response to the EBA's Recommendation on recapitalisation. Their review highlights that, in aggregate, the shortfalls are expected to be met primarily through direct capital measures. The measures are not viewed as having a negative impact on lending into the real economy. The Board of Supervisors also agreed that, in the context of the ongoing recapitalisation exercise, the EBA would undertake its next EU-wide stress test in 2013.

The Board of Supervisors undertook a preliminary overview of the proposed measures highlighting the following:

- The total actions give a capital surplus of approximately 26%, creating some leeway in case some actions do not materialise.
- The actions predominantly focus on direct capital measures which account for 96% of the capital shortfall and for 77% of the total amount of actions proposed. The majority of these are capital raising, retained earnings and conversion of hybrids to common equity. Measures impacting risk-weighted assets (RWAs) account for the remaining 23% of total amount of actions.
- After taking account of the measures arising from EU State Aid decisions on banks restructuring or other country programmes, the impact of actions reducing lending into the real economy would be less than 1% of the total amount.

An aggregate description of the capital plans is provided in the annex.

Next steps

The Board of Supervisors has not yet assessed the viability of the plans. In-depth analysis of these will be undertaken by National Authorities in close cooperation with the EBA and other relevant authorities in Colleges of supervisors. The Supervisory Colleges of the banks concerned will, throughout February and beyond, ensure adequate consultation between home and host authorities on the plans and the impact in their jurisdictions.

The analysis will assess the credibility of measures such as forecasts of retained earnings, the effectiveness of the process for the approval of new advanced models and the reliability of assumptions underlying the planned disposal of assets and their geographical impact.

During this process, capital plans may be challenged and in some cases revised. If earning forecasts or other assumptions look optimistic, back-up plans will be requested. Capital relief for new models will be subject to scrutiny by consolidating supervisors and Colleges.

Banks should expect to receive clear guidance on their plans from National Authorities in early March after which the EBA's Board of Supervisors will continue to monitor the viability of the plans ahead of the June deadline. All National Authorities signalled their commitment to comply with the Recommendation using their supervisory powers.

The EBA will liaise with the European Systemic Risk Board (ESRB) to ensure that due consideration is given to macro-prudential issues and to the aggregate impact on the real economy.

The EBA, with the support of the ESRB, will continue to monitor the need for the sovereign buffer.

Background

The EBA's Recommendation adopted by the Board of Supervisors on 8 December 2011 is part of a broader European package, agreed by the European Council on 26 October and confirmed during the ECOFIN Council on 30 November, to address the current situation in the EU by restoring stability and confidence in the markets.

The Recommendation calls on National Authorities to require banks included in the sample to strengthen their capital positions by building up an exceptional and temporary capital buffer against sovereign debt exposures to reflect market prices as at the end of September. In addition, banks are required to establish an exceptional and temporary buffer such that the Core Tier 1 capital ratio reaches a level of 9% by the end of June 2012.

As required by the EBA's Recommendation, relevant banks submitted their capital plans by 20 January 2012 to their respective national supervisors. The plans were discussed by the EBA's Board of Supervisors on 8 and 9 February 2012.

Note to the Editors

Three banks (Öesterreichische Volksbank AG, Dexia, WestLB AG) from the original list of banks with shortfalls have been identified as undergoing a significant restructuring process, which the EBA has agreed is an appropriate response to the December Recapitalisation Recommendation. Therefore, they will not be assessed against the capital levels of 9% after accounting for an appropriate sovereign buffer. In addition, the shortfall related to Greek banks was identified as a component of pre-agreed arrangements under the EU/IMF assistance programme and is treated separately. Therefore the focus of the recapitalisation plans under review by the Board of Supervisors is the EUR78bn shortfall identified for the other banks in the sample.