

# In the detail ...

**Table 1** shows a summary of selected results from the EBA's 2016 stress test on a country level (for countries with more than one bank in the sample). The reductions in capital ratios as a result of the stress test are larger and more widely dispersed than in 2014.

**Table 1: Country comparison of EBA stress test results**

	Capital depletion in adverse scenario (basis point change in CET1 capital ratio)		CET1 capital ratios		
	Stress Test 2016	Stress Test 2014	End 2015	End 2014	End 2013
<b>All banks</b>	<b>(391)</b>	<b>(252)</b>	<b>13,4%</b>	<b>12,9%</b>	<b>11,3%</b>
<b>By country</b>					
Austria	(424)	(242)	11,4%	10,3%	10,3%
Belgium	(419)	(530)	15,5%	14,5%	13,1%
Denmark	(210)	(201)	16,1%	15,3%	14,9%
France	(316)	(221)	13,1%	12,1%	10,6%
Germany	(540)	(407)	13,8%	13,4%	13,2%
Ireland	(704)	(511)	14,6%	15,6%	13,2%
Italy	(347)	(339)	12,1%	11,9%	9,6%
Netherlands	(568)	(332)	14,5%	13,8%	12,1%
Spain	(384)	(151)	12,4%	11,9%	10,3%
Sweden	(230)	(172)	20,0%	18,4%	16,4%
United Kingdom	(362)	(243)	12,5%	11,0%	9,7%

Source: EBA Stress Test 2016

Four main drivers can be identified that have influenced the results of the 2016 stress test and the differences from the 2014 stress test.

It appears that the higher and more widely dispersed impact of the adverse scenario in the 2016 stress test compared with the 2014 exercise is due mostly to more conservative methodologies and the overlay of CRR transitional provisions, rather than by harsher macro-economic assumptions or by banks beginning the exercise in a weaker position.

## Macroeconomic scenarios have changed, though severity is comparable

The macro-economic scenario assumptions are not the primary driver of the differences between the 2014 and 2016 stress test results. Overall, the severity of the scenarios is comparable (see table 2). For example, the assumed GDP reduction for the EU is 7.1% for this year's exercise, while in 2014 it was 7.0%. Certain asset classes, notably equity markets and commercial property, are stressed more harshly in 2016, but this is offset by a relaxation of other stresses: for example a shallower reduction in demand for EU-exports from advanced economies of 6.5% in 2016, compared with 11.7% in 2014.

**Table 2: Comparison of macro-economic scenario assumptions 2014 and 2016**

	Stress Test 2016	Stress Test 2014
Increase in yields	<ul style="list-style-type: none"> <li>+71/80/68 bps in 2016-2018 in EU</li> <li>Between <b>44 bps</b> (Germany) and <b>234 bps</b> (Greece)</li> </ul>	<ul style="list-style-type: none"> <li><b>+150/110/110</b> bps in 2014-2016 in EU</li> <li>Between <b>137bps</b> (Germany) and <b>380 bps</b> (Greece)</li> </ul>
Currency fluctuations (EEA)	<ul style="list-style-type: none"> <li>Appreciation of euro against local CEE currencies (between 8 and 24%)</li> <li>Substantial appreciation of Swiss franc against euro, by 23% from Year 2 (not included in 2014).</li> </ul>	<ul style="list-style-type: none"> <li>Appreciation of euro against local CEE currencies (between <b>15</b> and <b>25%</b>)</li> </ul>
Loss of demand (EU-exports)	<ul style="list-style-type: none"> <li>Reduction in demand by advanced economies from EU of 6.5% over a three year period</li> </ul>	<ul style="list-style-type: none"> <li>Reduction in demand by advanced economies from EU of <b>11.7%</b> over a three year period</li> </ul>
Stock market crash	<ul style="list-style-type: none"> <li>Value down by <b>25.4%</b> on average for EU</li> </ul>	<ul style="list-style-type: none"> <li>Value down by <b>18.6%</b> on average for EU</li> </ul>
Property crash	<ul style="list-style-type: none"> <li>Residential property down <b>21.2%</b> over three years</li> <li>Prime commercial property down <b>22.6%</b></li> </ul>	<ul style="list-style-type: none"> <li>Residential property down <b>21.2%</b> over three years</li> <li>Prime commercial property down <b>14.7%</b></li> </ul>
Rise in unemployment	<ul style="list-style-type: none"> <li>Increase in EU unemployment rates vs. base case of <b>2.8%</b> over three years</li> </ul>	<ul style="list-style-type: none"> <li>Increase in EU unemployment rates vs. base case of <b>2.9%</b> over three years</li> </ul>

Source: EBA

## Methodological assumptions are more conservative

The 2016 stress test includes a number of more conservative elements than 2014, which contributes to the observed pattern of larger capital impacts. The stress test methodology has been tightened across a range of risk types:

- **Operational risk** – more conservative methodology prescribed by the EBA than in 2014
- **Conduct risk** – introduced to the EBA stress test for the first time
- **Market risk** – more conservative floor (standardised approach) applied
- **Interest margins** – narrowed significantly in the stress scenario through conservative minimum increases in funding costs and an assumed margin compression.

As in 2014, only limited management action was allowed in the downside scenario, hence the balance sheet had to remain constant even if the changed macro-situation would require a different funding mix or lending policy (static balance sheet approach).

## Some business models hit harder than others

Some business models are likely to have been hit harder in terms of the impact of the adverse scenario by some of the macro-economic and methodological changes.

Table 3 compares the capital depletion with the change of net interest income in the adverse scenario. It appears that banks with a high reduction of net interest income also faced a high capital ratio reduction in the adverse scenario, in particular in Germany, Ireland and the Netherlands where interest income tends to be a high proportion of bank revenue. In countries where other components of the income statement play a larger role, for example in France and Italy with traditionally relatively high fees and commission, the depletion of the capital ratio is generally smaller.

**Table 3: Rank comparison of capital depletion and change in net interest income in adverse scenario**

	Capital depletion (CET1) in adverse scenario		Change in Net Interest Income in adverse scenario	
	Basis points		Percentage	
<b>All banks</b>	<b>(391)</b>		<b>(23,0%)</b>	
<b>By country</b>		<b>Rank</b>		<b>Rank</b>
Austria	(424)	4	(23,0%)	6
Belgium	(419)	5	(16,1%)	9
Denmark	(210)	11	(9,8%)	11
France	(316)	9	(20,7%)	7
Germany	(540)	3	(23,2%)	5
Ireland	(704)	1	(32,5%)	1
Italy	(347)	8	(20,2%)	8
Netherlands	(568)	2	(30,5%)	2
Spain	(384)	6	(25,1%)	3
Sweden	(230)	10	(24,5%)	4
United Kingdom	(362)	7	(12,9%)	10

Source: EBA Stress Test 2016

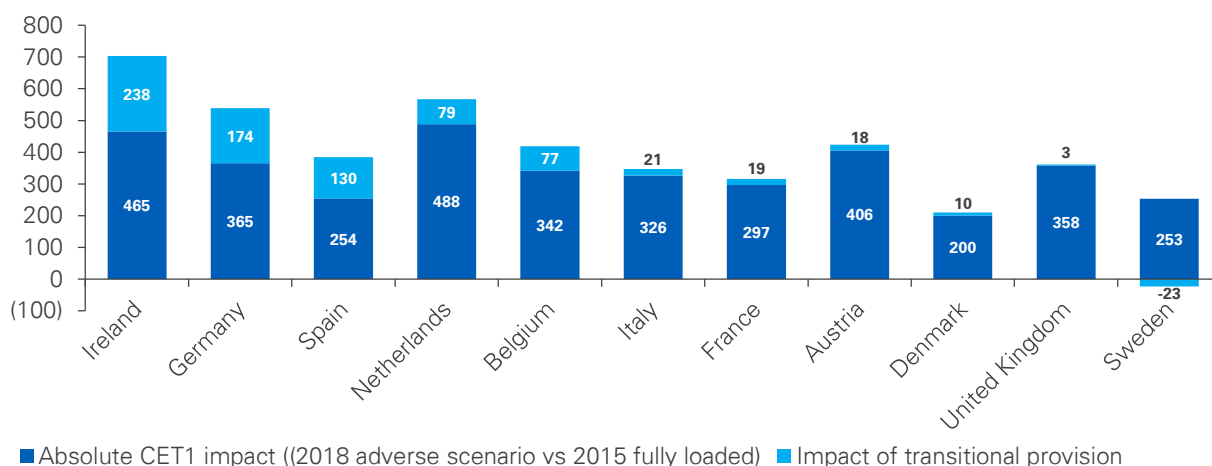
### Basel 3/CRR transitional provisions differ across countries

The Basel 3/CRR transitional provisions may provide an additional explanation for the observed country pattern of the stress test results.

The CRR allows some scope for national legislators to adopt capital rules and to transition towards a 'fully loaded' capital definition on a phased-in basis. In response, some national regulators have allowed transition periods of maximum length, while others have imposed much shorter transition periods. As the horizon of the 2016 stress test covers this transition period, the phase-in requirements have an additional and significant impact on the results, quite separately from the assumed macro-economic stress.

Chart 1 shows that banks in countries allowing longer transition periods face an additional adverse impact from the phasing-out of transition provisions, when compared with the 'early adopters' such as Sweden and the UK.

**Chart 1: Breakdown of impact between stress scenario and transitional provisions**



Source: EBA Stress Test 2016.

## Bank-specific results

Table 4 shows the banks within the sample for the EBA's 2016 stress test with post-stress test CET1 capital ratios of below 8 percent, and/or adverse stress scenario impacts of more than 600 basis points.

**Table 4: Individual bank positions**

Bank	End-2015 CET1 capital ratio (percent)	Post-stress 2018 CET1 capital ratio (percent)	Adverse change (basis points)
Banca Monte die Paschi di Siena	12.0	-2.2	1423
Raiffeisen-Landesbanken-Holding	10.5	6.1	432
Banco Popular Espanol	13.1	7.0	610
Unicredit	10.6	7.1	347
Barclays	11.4	7.3	412
Allied Irish Banks	15.9	7.4	847
Commerzbank	13.8	7.4	636
Bank of Ireland	13.3	7.7	560
Deutsche Bank	13.2	7.8	540
Royal Bank of Scotland	15.5	8.1	746
NRW.Bank	42.8	39.4	742
NV Bank Nederlandse Gemeenten	24.7	28.5	706
Landesbank Baden-Wurtemberg	16.6	9.6	694
Bayerische Landesbank	15.2	8.3	690

Source: EBA Stress Test 2016

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