EUROPEAN COMMISSION

STATEMENT

Brussels, 26 October 2014

Safer banks serving the economy: the European Commission welcomes the publication of the results of the EU-wide stress test by the European Banking Authority and the comprehensive assessment by the European Central Bank

Since the onset of the financial crisis, major improvements in the EU regulatory framework, the level and quality of banks' capital and supervision have considerably strengthened the resilience of European banks. Today's results of the EU-wide stress test and the comprehensive assessment, which represent the most intense scrutiny that banks have ever undergone in Europe, confirm overall this positive trend. It is also an important step towards an operational Single Supervisory Mechanism, which is a key component of the Banking Union.

Yet there is no room for complacency.

These robust exercises, unprecedented in scale and among the most stringent worldwide, provide a high level of transparency on EU banks' balance sheet and data exposure as of end-2013 and allow the identification and redress of any remaining vulnerabilities. They are an integral part of policymakers' efforts to build a solid and stable EU banking sector as they pave the way to appropriate corrective action, which will have to take into account the additional high quality capital raised by banks since January 2014.

Where the exercises have identified net capital shortfalls, the relevant competent authorities, including the ECB as the Single Supervisor in the Banking Union as of 4 November, will be in charge of determining and taking any supervisory action needed. Rigorous and timely follow-up actions to the results of the exercises will be absolutely crucial.

The Commission will insist on the successful completion of this process in order to fully restore confidence in European banks so that they can again provide affordable lending to the real economy, to households and SMEs in particular.

In this process, the Commission will make sure that such follow-up actions are in line with EU law. Our priority will be to ensure that any capital shortfalls are met from private sources. If, however, state support is needed, the Commission will apply EU State Aid rules, in particular the Commission's Banking Communication of August 2013, which ensure a level playing field in the single market and that any public support is limited to the minimum necessary.

Today's results and follow-up of the EU-wide stress test and the comprehensive assessment provide reassurance to investors about the quality of EU banks' balance sheets. This will be followed up through continuous vigilance and rigorous action by all the competent supervisory authorities, with the full support of the European Commission. The ECB as the Single Supervisor in the Banking Union will play a crucial role in that process.

Background:

One of the main weaknesses of the EU banking sector revealed by the crisis was significant under-capitalisation of banks. Strengthening the resilience of the EU banking sector and better protection of taxpayers' money has been one of the main priorities of the Commission over the last five years.

Considerable progress has been achieved. A new regulatory framework has been put in place in the EU, notably:

i. the new prudential rules for banks set out in the Capital Requirements Regulation and Directive, implementing a comprehensive set of reform measures developed by the Basel Committee on Banking Supervision, requiring banks to hold sufficient amounts of high quality capital and liquidity (Basel III framework), into EU law;

ii. the new resolution framework set out in the Bank Recovery and Resolution Directive, which will apply from next year and will empower the resolution authorities with important tools to intervene early enough and facilitate the resolution process with the key objective to protect taxpayers; and

iii. the creation of the Single Supervisory Mechanism and the Single Resolution Mechanism, which will considerably improve the quality of the supervision and resolution processes in the Banking Union Member States.

These regulatory changes, together with other factors such as supervisory actions and market pressure, triggered major improvements in the resilience of the European banking sector over the last few years, notably in terms of building up additional and better capital. In the period from 2008 to 2013, capital in excess of EUR 200 billion has been raised by banks participating in the comprehensive assessment. Since January 2014, a further EUR 57 billion has been raised, which is not counted in the results, but which will be considered as mitigation of the shortfalls found. Since December 2011 until December 2013, the Core Tier 1 ratio of EU banks increased by over 200 bps.[1]

In order to identify and address any remaining vulnerabilities in the EU banking sector, the European Banking Authority has coordinated an EU-wide stress test. It covers 123 of the most significant banking groups in the whole EU. In the Banking Union Member States, the supervisory scrutiny has been particularly intense, and also includes the Asset Quality Review, aimed at providing a robust and consistent starting point for the stress test. The ECB has assessed 130 banks established in the euro area. The purpose of this comprehensive assessment is to make sure that the ECB as the new Single Supervisor has a full picture of the banks it will directly supervise as of 4 November.

In case capital shortfalls are identified, the Council clarified on 15 November 2013 the pecking order of the backstops. First, banks should raise capital on the markets or raise capital from other private sources. Only if this should not be sufficient, could public money be engaged at national level in line with EU state aid rules. If national backstops are not sufficient, instruments at the European level may be used, including the European Stability Mechanism for the euro area.

The European Commission adapted its temporary state aid rules for assessing public support to financial institutions during the crisis in a Communication ("Communication from the Commission on the application of State aid rules to support measures in favour of banks in the context of the financial crisis" – the so-called 2013 'Banking Communication'). The main changes, applicable since 1 August 2013, include requiring banks to work out a sound plan for their restructuring or orderly winding down before they can receive recapitalisation or asset protection measures. They also include strengthened

[1] Bps: basis point definition - Basis point represents 1/100th of a percentage point and translates to 0.01%.

burden-sharing: in case of capital shortfalls, bank shareholders and junior creditors are now required to contribute as a first resort, before banks can ask for public funding.

For more information

EU-wide stress test coordinated by the European Bank Authority:
http://www.eba.europa.eu/risk-analysis-and-data/eu-wide-stress-testing/2014

Comprehensive assessment carried out by the European Central Bank:
http://www.ecb.europa.eu/ssm/assessment/html/index.en.html

European Commission DG Internal Market and Services' website:
http://ec.europa.eu/internal_market/finances/

European Commission DG Competition's website:
http://ec.europa.eu/competition/state_aid/legislation/temporary.html

Banking Union MEMO/14/294

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