BaFin

Joint press release

DEUTSCHE BUNDESBANK
EUROSYSTEM

12 German participating banks pass EU-wide bank stress test

- **German banks participating in the 2011 EU-wide bank stress test and reporting according to the EBA format achieved the required core tier 1 capital ratio of at least 5.0%.**
- **Their average core tier 1 capital ratio under the stressed scenario amounted to 7.5 % for the period ending 31 December 2012, and was thus well above the defined minimum ratio of 5.0%.**
- **German banks participating in the European bank stress test once again demonstrated their resilience even though the stress scenario was more severe than in 2010. This was made possible by capital measures and a better starting position.**
- **Under stress, the volume of risk-weighted assets (RWA) increased, particularly in the securitisation portfolio. In addition, a higher impairment of credit claims and a lower trading result had a significant impact on earnings.**
- **The strains from increased risk premiums on positions subject to country risk, by contrast, are comparatively small.**

The German banks participating in this year's bank stress test conducted by the European Banking Authority (EBA) which have reported their results through the EBA have passed the tests. The data of the Landesbank Hessen-Thüringen (Helaba) will not be published via the EBA.

Bundesbank Vice-President Sabine Lautenschläger commented: "The results of the bank stress test show that the German banks in the sample are sufficiently capitalised in the adverse scenario, and their capitalisation is also robust under these pessimistic assumptions."

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As at 31 December 2010, the German banks in the sample had an average capital ratio of 11.3%. In the adverse scenario, the unweighted average core tier 1 capital ratio of the participating German banks falls to 7.5% by end-2012. This decline of 3.8 percentage points from the 31 December 2010 reference value is attributable to an increase in RWA and simultaneous capital-reducing effects, such as from higher credit risk parameters or higher funding costs. All 12 German banks achieved the minimum core tier 1 capital ratio of 5.0% in the adverse scenario required to pass the bank stress test (see Annex for bank-by-bank results). This EBA requirement is well above the current minimum supervisory ratio applicable in Europe.

"The positive stress test outcome underscores the successful efforts undertaken by many banks in the past few months to strengthen their capital base", noted Raimund Röseler, head of banking supervision at BaFin. Such measures included converting undisclosed reserves or adjusting silent participations to the criteria for core tier 1 capital.

The analysis of the profit and loss components shows the different types of impact of the stress test. Impairments and write-downs cause the highest losses or capital reductions. A breakdown of RWA by risk position shows that the average increase in RWA during the stress period was influenced in large part by the much stricter stress assumptions for securitisations in the banking book. The German Federal Financial Supervisory Authority (BaFin) and the Deutsche Bundesbank, in cooperation with the EBA, have reviewed the banks' capital ratio estimates and, on this basis, confirm the accuracy of the stress test results presented above and in the Annex.

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The bank stress test procedure

The EBA conducted the bank stress test in the European Union member states and Norway in the first half of 2011 in cooperation with national supervisory authorities, the European Central Bank (ECB) and the European Systemic Risk Board (ESRB). The sample contained 91 banks from 21 countries, representing at least 50% of the total assets of each respective national banking sector or 65% of the assets of the entire European banking system. Thirteen German institutions, representing a large proportion of the German banking system, took part. Deutsche Postbank, which took part as an independent entity last year, was included in the consolidated stress test of the Deutsche Bank group this time.

The aim of publishing relatively detailed results of the stress test was to create transparency about the resilience of the tested institutions to an economic downturn, a fall in asset values and an increase in country risk in a market environment that is still fraught with uncertainty. It must be borne in mind that the bank stress test is based on hypothetical ("what-if") scenarios. It should also be remembered that the capital ratios measured in the stress test are not relevant to compliance with the solvency rules currently in force.

Scenarios

The 2011 bank stress test is based on two scenarios. Whereas the baseline scenario describes expected economic developments, the stress scenario assumes a significant deterioration in macroeconomic conditions.

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The stress scenarios of the 2011 bank stress test are, on the whole, more severe than in 2010. The deviation of GDP growth from the baseline in Germany is -3.1 percentage points in 2011 and -1.4 percentage points in 2012. Over the two-year horizon, GDP growth in Germany is thus 4.5 percentage points below the baseline assumption (2010: -3.3 percentage points). The stress scenario also assumes a rise in the unemployment rate. In 2011-2012, unemployment is assumed to rise by 0.7 percentage point relative to the baseline in Germany and by an average of 1.9 percentage points across the EU as a whole.

The 2011 EU-wide stress test is characterised not only by this deterioration of macroeconomic indicators but also by an assumed fall in asset values and a persistent sovereign debt crisis in the European Union peripheral countries. The stress scenario assumes a fall in share prices of 13.4 percentage points for Germany and 14.3 percentage points on average across the EU. For commercial real estate, the stress scenario assumes an overall decline of around 20%. Moreover, the stress scenario envisages a rise in euro-area interest rates by an average of 75 basis points, with the yield curve flattening at the same time. The US dollar is assumed to depreciate against the euro by 16.7% by end-2012.

Unlike in 2010, the 2011 bank stress test, when modelling country risks, distinguishes not only between debtor nationalities but also between the residual maturities of financial instruments. In June, the stress assumptions, originally developed in March of this year, were adapted to current events wherever the actual fall in prices or rise in yields was greater than initially assumed.

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The impacts of the stress scenario lead to losses on market risk positions or require increased risk provisioning in credit business. These reduce the annual result and thus also own funds. Moreover, the deteriorating macroeconomic setting increases the volume of risk-weighted assets which have to be backed by capital. Both effects impact adversely on the core tier 1 ratio.

In order to ensure uniform application of the stress assumptions, the EBA, with the involvement of the ESRB, national supervisors and central banks, subjected the stress test questionnaires submitted by the institutions to a comprehensive peer review, which required the institutions in the 2011 stress test to meet multiple consistency criteria.

Under the assumption of a static balance sheet, the portfolios for the stress test are frozen at 31 December 2010. Institutions were, as a rule, not permitted to mitigate the burden on their capital base by selling off risky assets during the stress test period. This rule, however, does not apply to legally binding restructuring measures, such as European Commission conditionality resulting from a state aid procedure.

Some profit and loss positions – such as the trading result – are capped at the average result over the past five years. This restricts institutions' scope for making overly optimistic assumptions. Historical retention or distribution ratios are also used as the benchmark for the use of profit (allocation to capital or dividend payout). The explicit inclusion of an increase in the cost of wholesale funding under stress is likewise an additional new element not included in last year's stress test.

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Compared with the US stress test under the Federal Reserve's Comprehensive Capital Analysis and Review (CCAP) of March 2011, the standards institutions have to meet in the 2011 EU-wide stress tests are more stringent. The CCAP leaves it up to individual institutions to define their baseline and stress scenarios. The accompanying Supervisory Stress Scenario is meant only to assess the assumptions made by the institutions. Moreover, only six out of the 19 banks in the CCAP sample stressed their trading books, whereas all banks had to do so in the EU bank stress test. The stipulated increase in the risk premiums on European sovereign bonds was likewise not part of the CCAP.

Annex 1: Table of capital ratios per bank

Links to the results for individual institutions (templates)

www.bundesbank.de/bankenaufsicht/bankenaufsicht_eba_stresstest.en.php
www.bafin.de/eba-stresstest-2011-en

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Annex 1: Table of capital ratios per bank [1-3]

Name of the bank	Risk-weighted assets (€mill)		Core Tier 1 Capital ratio			Impact of additional taken or planned mitigating measures
	End 2010	Adverse scenario 2012	End 2010	Adverse scenario 2012 (including capital raised until 30 April 2011[4])	Adverse scenario 2012 (including additional mitigating measures[5])	
Bayerische Landesbank	123.850	134.536	9,3%	**7,1%**	8,3%	1,2
Commerzbank AG	267.500	310.726	10,0%	**6,4%**	6,4%	0,0
DekaBank	25.770	35.967	13,0%	**9,2%**	9,2%	0,0
Deutsche Bank AG	346.608	499.897	8,8%	**6,5%**	6,5%	0,0
DZ Bank AG	88.689	124.052	8,2%	**6,9%**	6,9%	0,0
HRE Holding AG	19.487	23.711	28,4%	**10,0%**	10,0%	0,0
HSH Nordbank AG	41.388	71.504	10,7%	**5,5%**	9,1%	3,6
Landesbank Berlin AG	35.257	48.790	14,6%	**10,4%**	10,4%	0,0
Landesbank Baden-Württemberg	120.697	124.086	8,2%	**7,1%**	7,5%	0,4
Norddeutsche Landesbank	86.850	107.861	4,6%	**5,6%**	5,6%	0,0
WestLB AG	48.615	67.970	8,7%	**6,1%**	6,1%	0,0
WGZ Bank AG	17.691	22.705	10,8%	**8,7%**	8,7%	0,0
Sum	1.222.402	1.571.805				
Arithmetic average			11,3%	**7,5%**	7,9%	
Aggregation[6]			9,4%	**6,8%**	7,0%	

(1) The stress test was carried out using the EBA common methodology, which includes a static balance sheet assumption and incorporates regulatory transitional floors, where binding (see http://www.eba.europa.eu/EU-wide-stress-testing/2011.aspx for the details on the EBA methodology).

(2) All capital elements and ratios are presented in accordance with the EBA definition of core tier 1 capital set up for the purposes of the EU-wide stress test, and therefore may differ from the definitions used by national supervisory authorities and/or reported by institutions in public disclosures.

(3) Neither baseline scenario nor the adverse scenario and results of the stress test should in any way be construed as a bank's forecast or directly compared to bank's other published information.

(4) Including capital raisings, government support and mandatory restructuring plans publicly announced and fully committed in the period from 31 December 2010 to 30 April 2011.

(5) The supervisory recognised capital ratio calculated on the basis of additional mitigating measures (including the use of provisions and/or other reserves, future planned issuances of common equity instruments, and other disinvestments and restructuring measures not yet approved by the European Commission). The ratio is based primarily on the EBA definition but may include other mitigating measures not recognised by the EBA methodology as having impacts on core tier 1 capital but which are considered by national supervisors as appropriate mitigating measures for the stressed conditions.

(6) Core tier 1 capital aggregated over all participating banks divided by the risk-weighted assets aggregated over all participating banks