



BANK OF ENGLAND

News release

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Bank of England announces results of UK stress test

The Bank of England today announced the results of the first concurrent stress testing exercise of the UK banking system. Alongside the stress test publication, the Bank of England also published its Financial Stability Report, which sets out the Financial Policy Committee's (FPC) assessment of the outlook for the stability and resilience of the financial sector, and the Systemic Risk Survey, which quantifies and tracks market participants' perceptions of systemic risks.

Following on from the EU-wide stress test, the 2014 UK stress test of the eight major UK banks and building societies was designed specifically to assess their resilience to a very severe housing market shock and to a sharp rise or snap back in interest rates. This was not a forecast or expectation by the Bank of England regarding the likelihood of a set of events materialising, but a coherent, severe 'tail risk' scenario.

The eight banks and building societies tested as part of this exercise were Barclays Bank, Co-operative Bank, HSBC Bank, Lloyds Banking Group, Nationwide Building Society, Royal Bank of Scotland, Santander UK and Standard Chartered.

There was substantial variation across the banks and building societies in terms of the impact of the stress scenario. From an individual-institution perspective, the Prudential Regulation Authority (PRA) Board judged that this stress test did not reveal capital inadequacies for five out of the eight participating banks, given their balance sheets at end-2013 (Barclays, HSBC, Nationwide, Santander UK and Standard Chartered). The PRA Board did not require these banks to submit revised capital plans.

Following the stress testing exercise, the PRA Board judged that, as at end-2013, three of the eight participating banks (Co-operative Bank, Lloyds Banking Group and Royal Bank of Scotland) needed to strengthen their capital position further. But, given continuing improvements to banks' resilience over the course of 2014 and concrete plans to build capital further going forward, only one of these banks (Co-operative Bank) was required to submit a revised capital plan.

The FPC considered the information provided by the stress-test results from the perspective of the resilience of the UK banking system as a whole. The FPC noted that only one bank fell below the 4.5% threshold at the trough of the stress scenario, that the capitalisation of the system had improved further over the course of 2014 and that the PRA Board had agreed plans with banks to build capital further. Overall, the FPC judged that the resilience of the system had improved significantly since the capital shortfall exercise in 2013. Moreover, the stress-test results and banks' capital plans, taken together, indicated that the banking system would have the capacity to maintain its core functions in a stress scenario. Therefore, the FPC judged that no system-wide, macroprudential actions were needed in response to the stress test.

Projected CET1 capital ratios in the stress scenario

	Actual (end 2013)	Minimum Stressed ratio (before the impact of 'strategic' management actions)	Minimum Stressed ratio (after the impact of 'strategic' management actions)	Actual (latest, Q2 or Q3 2014)
Barclays	9.1%	7.0%	7.5%	10.0%
Co-operative Bank Plc	7.2%	-2.6%	-2.6%	11.5%
HSBC Bank Plc	10.8%	8.7%	8.7%	11.2%
Lloyds Banking Group	10.1%	5.0%	5.3%	12.0%
Nationwide Building Society	14.3%	6.1%	6.7%	17.6%
Royal Bank of Scotland	8.6%	4.6%	5.2%	10.8%
Santander UK	11.6%	7.6%	7.9%	11.8%
Standard Chartered Plc	10.5%	7.1%	8.1%	10.5%

a) The minimum CET1 ratios shown in the table do not necessarily occur in the same year of the stress scenario for all banks. (b) Actuals are in Q2 2014 for the Co-operative Bank plc, Santander UK plc and Standard Chartered Bank Group; Q3 2014 for Barclays Group, HSBC Holdings PLC, Lloyds Banking Group, Royal Bank of Scotland Group; and September 2014 for Nationwide Building Society. (c) As a result of Nationwide's different reporting date, the Bank used an estimated 4 April 2014 balance sheet as the start point of the stress-testing analysis. This results in the difference between the CET1 ratio quoted in this table and that reported in Nationwide's annual accounts.

Mark Carney, Governor of the Bank of England, said:

"The stress test completes our capital framework by informing judgments about the appropriate size of capital buffers for individual firms and for the system as a whole. It is a major component of both our macro- and micro-prudential regimes. As a joint exercise between the PRA and FPC, it demonstrates the major synergies possible across the Bank of England. This was a demanding test. The results show that the core of the banking system is significantly more resilient, that it has the strength to continue to serve the real economy even in a severe stress, and that the growing confidence in the system is merited."

The Bank of England will review lessons learned from this exercise and will set out next year its plans for developing the stress testing framework further. Details of the scenario for the 2015 stress testing exercise will be announced next year.

Notes to Editors

 [Stress testing the UK banking system: 2014 results](#)

[Financial Stability Report December 2014](#)

[Systemic Risk Survey December 2014](#)

[News Release - Bank of England publishes details of UK stress test for major UK banks and building societies – April 2014](#)

 [Stress testing the UK banking system: key elements of the 2014 stress test – April 2014](#)

 [Stress testing the UK banking system: guidance for participating firms – April 2014](#)

 [A framework for stress testing the UK banking system - A Discussion Paper – October 2013](#)

FPC statement March 2013 – "Looking to 2014 and beyond, the Bank and PRA should develop proposals for regular stress testing of the UK banking system. The purpose of those tests would be to assess the system's capital adequacy. The framework should be able to accommodate any judgements by the Committee on emerging threats to financial stability".

