



BANK OF ENGLAND

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News release

Bank of England statement on European Banking Authority (EBA) stress test publication

The results of the EBA stress test published today confirm the results of earlier Bank of England stress tests that the four participating UK banks would be resilient to a severe economic and market stress.

The severity of the downturn in the UK economy assumed in the EBA stress scenario was, for the first time, similar to that assumed since 2014 in the Bank of England's own annual stress test of major UK banks.

The scenarios for most other European economies were not as severe as for the UK (see notes).

The EBA stress test covers a wide sample of 48 banks across 15 countries. Unlike the Bank of England stress tests it uses a constrained methodology that does not take account of actions banks would take in a real stress, such as cutting employee remuneration.

Despite these constraints, UK banks show they could absorb the effect of the EBA stress scenario in their capital buffers.

The results of the 2018 Bank of England stress test will be published on Wednesday 05 December.

IFRS9 accounting standards

A new accounting standard – IFRS9 - has been introduced for banks in 2018. As it is phased in, this 'expected loss' accounting standard will mean banks make provisions for losses on their loans earlier in a stress.

Transitional capital arrangements are in place to allow the effect of this new standard to be phased in over time. The Bank of England has stated its intention to assess banks' performance on the transitional basis.

The EBA has also published stress test results on the basis that the new accounting standard is fully phased in. The Bank will similarly publish the results of its stress tests on the basis of both the transitional and full new accounting standard.

As the Bank has stated previously and is shown by the EBA test results, the new accounting standard will result in bigger drawdowns of capital in stress tests as more provisions are made earlier.

The Bank announced in March 2018 that it would, subject to some constraints, take steps to avoid an unwarranted *de facto* increase in bank capital requirements, which could result from the interaction between IFRS 9 and the stress-testing framework.

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Notes:

1. Four UK banks - Barclays, HSBC Holdings, Lloyds Banking Group and The Royal Bank of Scotland Group - participated in the test.

2. Macroeconomic stresses applied in the largest EU countries in the EBA stress test:

	Euro area	France	Germany	Italy	Spain	UK	<i>Memo: UK stress in 2017 Bank of England stress test</i>
Adverse cumulative growth in GDP (%)	-2.4	-1.5	-3.3	-2.7	-0.8	-3.3	-2.3
Maximum deviation from baseline unemployment rate (pp)	3.0	1.5	3.2	2.2	4.0	4.5	4.5
Adverse cumulative growth in residential real estate prices (%)	-16.5	-16.9	-17.3	-12.0	-14.3	-29.3	-33.0*
Adverse cumulative growth in commercial real estate prices (%)	-17.7	-20.0	-19.1	-14.1	-16.1	-29.5	-40.0*

*Real estate growth figures for the Bank of England stress test are peak-to-trough for comparison

3. CET1 ratio low-points in the 2018 EBA stress test on a transitional IFRS9 basis vs the 2017 Bank of England stress test:

	2018 EBA stress test	2017 Bank of England stress test	<i>Memo: Minimum requirements in 2017 Bank of England stress test</i>
Barclays	7.3%	7.4%	6.8%
HSBC	9.4%	8.9%	6.5%
Lloyds Banking Group	8.5%	7.9%	7.5%
The Royal Bank of Scotland Group	9.9%	7.0%	6.7%
UK weighted average	8.9%	8.2%	

4. For further details on transitional arrangements see 'Letter from Sam Woods on transitional arrangements for capital impact of IFRS 9 expected credit loss accounting'

<https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/letter/2017/letter-from-sam-woods-on-transitional-arrangements-for-capital-impact-of-ifs9.pdf>

5. For further details on IFRS9 and its interaction with the Bank's annual stress test see Box 4 of the November 2017 Financial Stability Report

<https://www.bankofengland.co.uk/-/media/boe/files/financial-stability-report/2017/november-2017.pdf>

6. For further details of the Bank's stress test see 'Key Elements of the 2018 stress test'

<https://www.bankofengland.co.uk/-/media/boe/files/stress-testing/2018/stress-testing-the-uk-banking-system-key-elements-of-the-2018-stress-test.pdf>

7. For further details of the publication timetable for the Bank's stress test results see:

<https://www.bankofengland.co.uk/news/2018/october/boe-stress-testing-results-to-be-published-on-5-december-2018>