26th October, 2011

QUESTIONS & ANSWERS

General

Has the EBA conducted a new round of stress tests?

No. The EBA has not conduct a new round of stress tests. No adverse macro-economic scenarios were applied to the figures provided by the banks.

Against the current developments in the markets and the deterioration of the sovereign debt crisis in Europe, the EBA reviewed banks' actual capital positions and sovereign exposures and request them to set aside additional capital buffers.

Which banks are included in the sample?

The sample includes all the banks that participated in the 2011 EU-wide stress test although the EBA considers it appropriate to exclude a subset of small non cross-border banks from the package. The total sample encompasses 70 banks. See list of the banks annexed.

Capital

What is the definition of Core Tier 1 capital used by the EBA in the capital exercise?

The definition of Core Tier 1 is largely the same used in the 2011 EU-wide stress test which includes existing and future capital instruments subscribed by governments. This definition of capital comprises only the highest quality capital instruments (common equity) and hybrid instruments provided by governments. It includes only the capital instruments recognised in the Basel 3 common equity Tier 1 definition without considering additional deductions that will be gradually introduced under the new framework. As in the 2011 EU-wide stress test, banks must adhere to CRD III for the calculation of the Core Tier 1 ratio – i.e., the changes to the trading book treatment (so called Basel 2.5) are fully incorporated in the requirement.

However, newly issued private contingent instruments will be accepted if in line with strict criteria defined in a common European term-sheet that the EBA is finalising.

Why did you decide to accept newly issued private contingent instruments in the capital buffer?

Since the EU-wide stress test, the sovereign situation has deteriorated significantly thus calling for exceptional buffers to be set aside. Since buffers are intended to absorb potential (contingent) losses, new private contingent convertibles might be considered eligible under very strict and fully harmonised criteria. These instruments should be fully funded and structured consistently which will be defined in a common European term-sheet that the EBA is finalising. Existing convertible capital instruments will not be eligible unless they will be converted into common equity by October-end 2012.

How can the EBA ensure that only strong convertible instruments are included in Core Tier 1 capital?

Private contingent convertibles should be fully funded and meet strict criteria set out in a common European term-sheet that the EBA is finalising.

Didn't banks already have a buffer according to the EBA stress test results? Why is there the need again to raise capital?

The 2011 EU-wide stress test was designed to show what would happen to banks in the face of a macro-economic downturn and the associated impact on credit quality to households and the private sector.

We are now facing an exceptional situation regarding sovereigns which calls for exceptional measures to be taken.

Where can banks find the capital they may need?

Banks have at their disposal several means to meet their capital needs:

- Going to private markets
- Retaining their profits withholding dividends and bonuses
- Substituting existing hybrid instruments with higher quality capital instruments

Government backstops should be made available if the above measures are not sufficient.

<u>Methodology</u>

How will you calculate the capital buffer?

The amount of any capital buffer will be set based on September 2011 sovereign exposure figures and capital positions.

Banks are required to strengthen their capital positions by building up a temporary capital buffer against sovereign debt exposures to reflect current market prices. In addition, banks are required to establish a buffer such that the Core Tier 1 capital ratio reaches 9%. Banks will be expected to build these buffers by the end of June 2012.

Are you forcing banks to stop lending?

No. Some deleveraging is already under way due to the pressure on bank funding, stemming from the sovereign debt crisis. Therefore, a comprehensive policy response is needed to avoid a credit crunch and ensure continued lending to the real economy including SMEs.

Sales of assets and refocusing the business model could be part of the bank strategies to achieve stronger capital positions. However, the process has to develop under close supervisory scrutiny: banks are required to submit to their respective national supervisors, plans detailing the actions they intend to take. In this respect, any deleveraging action will be done in an orderly fashion and under close scrutiny.

What will you do to avoid banks deleveraging in host countries?

National supervisory authorities, under the auspices of the EBA, will ensure that banks' plans to strengthen capital do not lead to excessive deleveraging, including maintaining the credit flow to the real economy. They will take into account current exposure levels of the Group including their subsidiaries in all Member states cognisant of need to avoid undue pressure on credit extension in host countries or on sovereign debt markets.

What do you mean by "temporary capital buffer against sovereign debt exposures"?

The EBA is not proposing changes to the accounting treatment. We are setting temporary buffers at a specific point in time to address market uncertainty over sovereign debt. Therefore, we are using market prices to identify the prudent buffers.

Does the EBA propose to raise the minimum regulatory requirement for capital?

No. In order to address markets' concerns over sovereign debt, the EBA, together with the National supervisory authorities, ask banks to set up exceptional and temporary buffers. This does not change the regulatory requirements and the implementation of Basel III that is going to take place in the coming years.

How did you calculate these estimated figures?

Sovereign exposures in the Held-to-Maturity portfolio as well as in the Loans and Receivables portfolio have been valued at market value using haircuts which differ per maturity and per country. The haircuts have been calibrated making use of existing market prices as of September 2011 and current bond yields by maturity as a reference for loans and non traded assets. Banks' assessment has been used for computing the shortfall, with a floor set according to the EBA's own calculation based on bonds yields, sovereign by sovereign and maturity by maturity, for a basket of government bonds. The maturity buckets are the same employed in the EU-wide stress test (3 months, 1 year, 2, 3, 5, 10 and 15 years).

Timeline

Why is the EBA only disclosing a preliminary and indicative figure in terms of shortfall?

The figures disclosed today are based on banks' capital positions and sovereign exposures as at the end of June as these were the only figures available when the review was conducted. More uopdated information, as of end September, has been used only with reference to the sovereign bond prices.

To ensure data is up-to-date and to allow for a proper process of checking consistency by the banks, the national supervisory authorities and the EBA, the final figures will be calculated using September data.

The EBA expects to disclose the final figures in mid-November, based on banks' figures as at 30 September 2011.

The final shortfalls based on end-September 2011 data may therefore differ from the preliminary estimates published today.

When do you expect to disclose the final figures?

The necessary adjustments and checks will be made when the September figures are available, most probably in the course of November.

Will you publish the final figures on a bank-by-bank basis?

The EBA has no legal right to publish individual bank-by-bank data. However, the EBA will provide banks with a common template and invite them to publish their respective figures when the final data is available. The EBA will then re-publish banks' individual figures and on a country-by-country basis.

What are the next steps? What is the timeline for the recapitalisation process?

As the amounts presented today are estimates, corrections will be made when the September figures are available, most probably in the course of November.

Banks will be required to submit to their respective national authorities their plans detailing the actions they intend to take to reach the set target before end 2011.

Finally, banks are required to establish the required capital buffers by the end of June 2012.

How the plans submitted by the banks will be reviewed?

Banks would be required to submit capital plans to their national supervisors before end 2011 setting out the proposed mix of actions, including new capital raising, asset disposals and other measures, to meet both the required 9% target buffer and the sovereign buffer, thereby bringing the shortfall to zero by June 2012. Prior to agreeing these capital plans, National supervisory authorities will consult with relevant colleges of supervisors and consideration will be given at the European (EBA) level as to the impact of the proposed magnitude and nature of any proposed deleveraging and cognisant of the need to maintain lending into the real economy including SMEs. The EBA will provide guidelines, templates and process maps to facilitate national authorities' engagement with banks in a clear and consistent manner.

Liquidity

Why do Banks need term funding guarantees?

Banks need term funding to keep lending to the real economy.

For 2011, the medium and long term funding needs have been mostly addressed. For short term lending, the current reliance on ECB financing has been a significant source of stability for bank funding.

However, the term funding market is currently closed due to increasing concerns over the sovereign situation and banks may find it difficult to address their funding needs in 2012. Confidence in the market needs to be restored. This can only be done through a three-pronged approach: addressing the sovereign situation, through banks recapitalization and term funding guarantees.

In 2008, term funding guarantee scheme were successful at the national level. However, to address the current situation, we now need a more coordinated European approach.

What is a term funding guarantee?

It is a guarantee issued by governments on banks' funding. To join the scheme, each bank will have to pay a fee commensurate to the amount guaranteed and to the risk profile of the beneficiaries. The scheme will support banks in accessing term funding at reasonable conditions. Therefore, banks will have the possibility to continue their lending activities.

Is a term funding guarantee scheme another way of injecting taxpayers' money into the banks?

No. The state is only giving its guarantee on the banks funding against a fee.

Most of the national funding guarantee schemes that were implemented in 2008 in some countries across Europe ended up being profitable for the guaranteeing bodies (governments) in addition to contributing visibly to the stabilization of the funding markets.

ANNEX : List of banks included in the sample

Sample			
1	AT001	Erste Group Bank AG (EGB)	AT
2	AT002	Raiffeisen Zentralbank Österreich AG (RZB)	AT
3	AT003	Österreichische Volksbanken AG (ÖVAG)	AT
4	BE004	DEXIA	BE
5	BE005	KBC BANK	BE
6	CY006	MARFIN POPULAR BANK PUBLIC CO LTD	CY
7	CY007	BANK OF CYPRUS PUBLIC CO LTD	CY
8	DE017	DEUTSCHE BANK AG	DE
9	DE018	COMMERZBANK AG	DE
10	DE019	Landesbank Baden-Württemberg	DE
11	DE020	DZ BANK AG Dt. Zentral-Genossenschaftsbank	DE
12	DE021	Bayerische Landesbank	DE
13	DE022	Norddeutsche Landesbank -GZ	DE
14	DE023	Hypo Real Estate Holding AG, München	DE
15	DE024	WestLB AG, Düsseldorf	DE
16	DE025	HSH Nordbank AG, Hamburg	DE
17	DE026	Landesbank Hessen-Thüringen GZ, Frankfurt	DE
18	DE027	Landesbank Berlin AG	DE
19	DE028	DekaBank Deutsche Girozentrale, Frankfurt	DE
20	DE029	WGZ BANK AG Westdt. Geno. Zentralbk, Ddf	DE
21	DK008	DANSKE BANK	DK
22	DK009	Jyske Bank	DK
23	DK010	Sydbank	DK
24	DK011	Nykredit	DK
25	ES059	BANCO SANTANDER S.A.	ES
26	ES060	BANCO BILBAO VIZCAYA ARGENTARIA S.A. (BBVA)	ES
27	ES061	BANKIA	ES
28	ES062	CAJA DE AHORROS Y PENSIONES DE BARCELONA	ES
29	ES064	BANCO POPULAR ESPAÑOL, S.A.	ES
30	FI012	OP-Pohjola Group	FI
31	FR013	BNP PARIBAS	FR
32	FR014	CREDIT AGRICOLE	FR
33	FR015	BPCE	FR
34	FR016	SOCIETE GENERALE	FR
35	GB088	ROYAL BANK OF SCOTLAND GROUP plc	GB
36	GB089	HSBC HOLDINGS plc	GB
37	GB090	BARCLAYS plc	GB
38	GB091	LLOYDS BANKING GROUP plc	GB
39	GR030	EFG EUROBANK ERGASIAS S.A.	GR
40	GR031	NATIONAL BANK OF GREECE	GR
41	GR032	ALPHA BANK	GR
42	GR033	PIRAEUS BANK GROUP	GR
43	GR034	AGRICULTURAL BANK OF GREECE S.A. (ATEbank)	GR
44	GR035	TT HELLENIC POSTBANK S.A.	GR
45	HU036	OTP BANK NYRT.	HU
46	IE037	ALLIED IRISH BANKS PLC	IE
47	IE038	BANK OF IRELAND	IE
48	IE039	IRISH LIFE AND PERMANENT	IE
49	IT040	INTESA SANPAOLO S.p.A	IT
50	IT041	UNICREDIT S.p.A	IT
51	IT042	BANCA MONTE DEI PASCHI DI SIENA S.p.A	IT
52	IT043	BANCO POPOLARE - S.C.	IT
53	IT044	UNIONE DI BANCHE ITALIANE SCPA (UBI BANCA)	IT
54	LU045	BANQUE ET CAISSE D'EPARGNE DE L'ETAT	LU
55	MT046	BANK OF VALLETTA (BOV)	MT
56	NL047	ING BANK NV	NL
57	NL048	RABOBANK NEDERLAND	NL
58	NL049	ABN AMRO BANK NV	NL
59	NL050	SNS BANK NV	NL
60	NO051	DnB NOR Bank ASA	NO
61	PT053	CAIXA GERAL DE DEPÓSITOS, SA	PT
62	PT054	BANCO COMERCIAL PORTUGUÊS, SA (BCP OR MILLENNIUM BCP)	PT
63	PT055	ESPÍRITO SANTO FINANCIAL GROUP, SA (ESFG)	PT
64	PT056	Banco BPI, SA	PT
65	SE084	Nordea Bank AB (publ)	SE
66	SE085	Skandinaviska Enskilda Banken AB (publ) (SEB)	SE
67	SE086	Svenska Handelsbanken AB (publ)	SE
68	SE087	Swedbank AB (publ)	SE
69	SI057	NOVA LJUBLJANSKA BANKA D.D. (NLB d.d.)	SI
70	SI058	NOVA KREDITNA BANKA MARIBOR D.D. (NKBM d.d.)	SI