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The EBA publishes Recommendation and final results of bank recapitalisation plan as part of co-ordinated measures to restore confidence in the banking sector

The European Banking Authority (EBA) today published a formal Recommendation, and the final figures, related to banks' recapitalisation needs. These measures form part of a broader European package, agreed by the European Council on 26 October and confirmed during the ECOFIN Council on 30 November, to address the current situation in the EU by restoring stability and confidence in the markets.

The formal Recommendation adopted by the EBA's Board of Supervisors states that national supervisory authorities should require the banks included in the sample to strengthen their capital positions by building up an exceptional and temporary capital buffer against sovereign debt exposures to reflect market prices as at the end of September. In addition, banks will be required to establish an exceptional and temporary buffer such that the Core Tier 1 capital ratio reaches a level of 9% by the end of June 2012. The amount of any capital shortfall identified is based on September 2011 figures and the amount of the sovereign capital buffer will not be revised. Sales of sovereign bonds will not alleviate the buffer requirement to be achieved by June 2012.

These buffers are explicitly not designed to cover losses in sovereigns but to provide a reassurance to markets about the banks' ability to withstand a range of shocks and still maintain adequate capital. The sovereign capital buffer is a one-off measure and, once the deployment of the new EFSF's capacity becomes effective in addressing the sovereign debt crisis by lifting sovereign bond valuations from today's distressed prices, the EBA will reassess the ongoing need for and size of capital buffers against banks' sovereign exposures.

National supervisory authorities may, following consultation with the EBA, agree to the partial achievement of the target by the sales of selected assets that do not lead to a reduced flow of lending to the EU's real economy but simply to a transfer of contracts or business units to a third party. These latter actions are not considered as deleveraging for the financial system as a whole, as assets are transferred to third parties rather than reduced. Reductions in risk weighted assets due to the validation and roll-out of internal models to additional portfolios should not be allowed as a means of addressing a capital shortfall unless these changes are already planned and under consideration by the competent authority. Banks should first use private sources of funding to strengthen their capital position to meet the required target, including retained earnings, reduced bonus payments, new issuances of common equity and suitably strong contingent capital, and other liability management measures.

Following completion of the capital exercise conducted in close cooperation with the competent national authority, the European Banking Authority has determined that the aggregated shortfall amounts to 114.7bn Euros. A breakdown by country and on a bank-by-bank basis is also published today (1).

Next steps

Pursuant to the Recommendation, the national authorities will require banks to submit, by 20th January, their plans detailing the actions they intend to take to reach the set targets. These plans will have to be agreed with National authorities and reviewed, shared and consulted on with the EBA and with other relevant competent authorities within colleges of supervisors as appropriate. National authorities will seek to ensure that throughout the colleges' discussions of capital plans the need to maintain exposure levels of banking groups in all Member States is taken into account, recalling that if and where necessary the EBA will use its mediation role to that effect.

The EBA previously already identified a lack of access to term funding as a serious hindrance to banks continued lending activities and agreed the measures announced today as part of broader efforts to restore confidence in the EU banking system with the aim of maintaining lending into the real economy. National authorities and the EBA will seek to ensure that the actions taken to comply with the set requirements do not lead to significant constraints on the credit flow to the EU real economy.

The capital needs will be met with capital of the highest quality. For the purpose of this exercise, new issuances of very strong private convertible capital can be accepted if in line with the criteria defined by the EBA in the *ad-hoc* term-sheet. The term sheet designed by the EBA focuses only on the terms and conditions related to the prudential aspects of the instrument. It does not touch the other aspects of the contracts. Existing convertible capital instruments will not be eligible unless they are converted into Core Tier 1 capital by end of October 2012.

Note: The Polish Presidency of the ECOFIN Council and the EBA issued today a joint statement reflecting the core elements underpinning the EU-wide recapitalisation exercise.

Aggregated shortfall required by country

Overall Shortfall after including sovereign capital buffer	
AT [2]	3,923
BE [3]	6,313
CY	3,531
DE	13,107
DK	-
ES	26,170
FI	-
FR	7,324
GB	-
GR [1]	30,000
HU	-
IE	-
IT	15,366
LU	-
MT	-
NL	159
NO [4]	1,520
PL	-
PT	6,950
SE	-
SI	320
Total	**114,685**

Amounts are in million Euros

Note to the editors

(1) The capital package for Greece has been defined on the basis of the minimum backstop measures provided under the EU/IMF programme so as not to conflict with pre-agreed arrangements under that programme. The assistance programme already defines a set of targets for the banks in question, including quantitative objectives for the Core Tier 1 ratio, which are being monitored on a regular basis. For Greece the minimum backstop measures exceed the EBA exercise and no new benchmarks have been set for Greek banks. Data for Greek banks are therefore not disclosed.

(2) A substantial part of this amount is attributable to Österreichische Volksbank AG and should be considered as pro-forma. This group is currently under deep restructuring and evaluation of its business model after which Österreichische Volksbank AG shall end up in a regional active bank.

(3) Dexia group is included but the shortfall amount should be considered as pro-forma. After the cut-off date of 30 September, this Group has indeed been deeply restructured and a state guarantee will be provided on the funding issued by Dexia SA and its subsidiary Dexia Credit Local subject to the approval of the European Commission. The restructured group, which will not further develop significant cross-border activity and will gradually shrink in size, will not remain in the EBA sample. The sale of Dexia Bank Belgium has led to a fresh cash injection of 4bn Euros whilst the disposal processes of other important entities (Dexia Bank International à Luxemburg, RBC Dexia Investor Services, Dexia Asset Management, Dexia Municipal Agency and DenizBank) will aim to further strengthen its capital position.

(4) As an EFTA state of the EEA, any requirement and supervisory action pertaining to capital needs in Norwegian banks is within the competence of Norwegian authorities