

Most European banks prove resilient in bank stress tests

The European bank stress tests didn't reveal big capital gaps. Overall, we think the results confirm that the banking system is strongly capitalised and we see the results as supportive for bank risk



No "official" pass or fail in the stress tests, but some banks come out with very limited capital gaps

The European Banking Authority published the results of the European bank stress tests on Friday evening. The majority of banks weathered the adverse conditions well with only three banks falling short of the risk-weighted assets-based minimum capital requirements in the adverse scenario. Another four banks would fall short of the minimum leverage ratio-based requirements.

No big capital gaps were revealed, however. We would argue that German and French banks scored perhaps slightly weaker in the tests.

As the EBA puts it, the exercise is not meant to be a pass or fail exercise but it acts as a supervisory

tool and as an input for Pillar 2 assessments of banks. The EBA does not publish the names of individual banks that do not meet requirements.

We identify those banks falling short of the minimum requirements to be based in France, Germany, Greece and Italy. Most gaps in the requirements are, however, very limited. The only larger gap would be diminished by the application of the IFRS 17 standard.

Some banks would struggle to fill their buffer requirements despite staying above their minimum requirements

The tests, however, act as a good reminder that if the going gets tough, banks may face limitations on their distributions such as in paying their AT1 coupons. In the adverse scenario, several banks wouldn't be able to fill their buffer requirements despite staying above their minimum capital requirements.

The EBA tests examined the resilience of 70 larger European banks in a baseline and adverse scenario in 2023-2025. The European Central Bank examined additional banks, with the total coming in at 98. The content published by the EBA can be found [here](#) and the ECB [here](#).

We examined the individual bank performance more closely in our research note published on 31 July called *European Banks: Stress tests prove stressful for some banks* available for our Investment Research subscribers.

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