

Annex 4

Assessment of the absence of bank solvency problems that would pose systemic threats to the stability of the euro area banking system

(Article 2(2) of the ESM Guideline on Precautionary Financial Assistance)



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ECB-CONFIDENTIAL

24 April 2020

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ECB assessment in the context of the ESM Pandemic Crisis Support

Dear Messrs Dombrovskis and Gentiloni,

At its meeting of 9 April 2020, the Eurogroup has proposed to establish a Pandemic Crisis Support, based on the existing ECCL precautionary credit line and adjusted in light of the specific challenge posed by COVID-19. It would be available to all euro area Member States during these times of crisis, with standardised terms agreed in advance by the ESM Governing Bodies, reflecting the current challenges, on the basis of up-front assessments by the European institutions.

In this context and in line with the ESM Guideline on Precautionary Financial Assistance, the eligibility assessment for gaining access to this facility has to be conducted by the European Commission, in liaison with the ECB. In this regard, please find attached the ECB's assessment on the absence of bank solvency problems that would pose systemic threats to the stability of the euro area banking system pursuant to Article 2(2)(f) of the ESM Guideline on Precautionary Financial Assistance, also taking into account Article 2(4) of the same Guideline. Please forward the ECB assessment to the Chairperson of the Board of Governors of the ESM.

Yours sincerely,

Andrea Enria

Yves Mersch

Cc.: Mr Klaus Regling, Managing Director of the European Stability Mechanism

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Eligibility for ESM Pandemic Crisis Support based on the Enhanced Conditions Credit Line (ECCL) – ECB assessment

Following the decision of the Eurogroup of 9 April 2020 to establish a Pandemic Crisis Support, based on the existing ESM Enhanced Conditions Credit Line (ECCL), the ECB has been requested to provide information on the absence of bank solvency problems that would pose systemic threats to the stability of the euro area banking system in line with Article 2(2)(f) of the ESM Guideline on Precautionary Financial Assistance.

In response to the requested assessment for the purpose of ESM Pandemic Crisis Support and based on the latest available regulatory reporting data (currently: 31 December 2019), all significant institutions (SIs) in the euro area can be considered solvent from the point of view of compliance with the minimum capital requirements (as per Article 92 of Regulation (EU) No 575/2013 of the European Parliament and of the Council). This means concretely that, based on Q4 2019 reporting data, all euro area SIs comply with the minimum requirements of having a Common Equity Tier 1 capital ratio of 4.5 %, a Tier 1 capital ratio of 6 % and a total capital ratio of 8 %. In addition, as complementary information, based on the Q4 2019 reporting data and the latest available Pillar 2 Requirements, all euro area SIs fulfil their Pillar 2 Requirements.^{1 2 3 4}

Please note that this assessment does not include any forward-looking component.

A detailed country-by-country breakdown of available capital as well as Pillar 1 and Pillar 2 requirements can be found in the following table⁵:

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- ¹ Pillar 2 Requirements of SIs as of 30 January 2020 can be found on the ECB website: https://www.bankingsupervision.europa.eu/banking/srep/srep_2019/html/p2r.en.html. In cases where Pillar 2 Requirements have not been publicly disclosed (UBS Europe SE, J.P. Morgan AG, Morgan Stanley Europe Holding SE, Goldman Sachs Bank Europe SE, Akcinė bendrovė Šiaulių bankas, AS "PNB Banka", Banca Carige S.p.A. - Cassa di Risparmio di Genova e Imperia and Norddeutsche Landesbank – Girozentrale), the latest available Pillar 2 Requirement were included in the calculations. For Brexit-incoming firms, this included Pillar 2 Requirements set by the NCAs.
 - ² For more information regarding individual bank's capital and leverage positions prior to the COVID-19 crisis, please see the Q2 2019 EBA transparency exercise.
 - ³ For the purpose of the analysis, the minimum Common Equity Tier 1, Tier 1 and total capital requirements were set as 4.5%, 6% and 8% respectively, irrespective of the capital composition of an individual institution. Please note that results may deviate for individual banks based on the specific composition of capital supply if alternative approaches are used.
 - ⁴ Pillar 2 Requirements have been adjusted to reflect the 12 March ECB announcement according to which a Pillar 2 Requirement is to be made up in the form of 56.25% of CET1 capital, 75% of Tier 1 capital and 100% total capital. Further information can be found on the ECB website: <https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200312~45417d8643.en.html>.
 - ⁵ Ratios are computed using a composite bank approach, meaning that numerators and denominators are summed up before calculating the ratios.

Member State	Available capital			Pillar 1 and 2 requirement					
	CET1 capital	Tier 1 capital	Total capital	CET1 capital		Tier 1 capital		Total capital	
				P1	P2R	P1	P2R	P1	P2R
AT	13.83%	15.05%	18.00%	4.50%	1.13%	6.00%	1.50%	8.00%	2.00%
BE	18.84%	19.87%	21.79%	4.50%	1.16%	6.00%	1.55%	8.00%	2.07%
CY	16.36%	18.08%	19.01%	4.50%	1.75%	6.00%	2.33%	8.00%	3.10%
DE	15.00%	16.28%	18.72%	4.50%	1.18%	6.00%	1.57%	8.00%	2.10%
EE	28.07%	28.07%	28.07%	4.50%	1.15%	6.00%	1.54%	8.00%	2.05%
ES	12.21%	13.57%	15.57%	4.50%	0.90%	6.00%	1.20%	8.00%	1.60%
FI	17.58%	19.27%	21.46%	4.50%	1.06%	6.00%	1.42%	8.00%	1.89%
FR	14.94%	15.91%	18.47%	4.50%	0.89%	6.00%	1.19%	8.00%	1.59%
GR	16.36%	16.36%	17.41%	4.50%	1.72%	6.00%	2.30%	8.00%	3.07%
IE	18.82%	19.61%	21.74%	4.50%	1.51%	6.00%	2.01%	8.00%	2.68%
IT	13.95%	14.97%	17.37%	4.50%	1.06%	6.00%	1.41%	8.00%	1.88%
LT*	C	C	C	4.50%	C	6.00%	C	8.00%	C
LU	19.33%	19.64%	19.95%	4.50%	0.97%	6.00%	1.29%	8.00%	1.73%
LV*	C	C	C	4.50%	C	6.00%	C	8.00%	C
MT	17.73%	17.73%	20.73%	4.50%	1.65%	6.00%	2.20%	8.00%	2.93%
NL	16.47%	18.74%	23.03%	4.50%	1.02%	6.00%	1.36%	8.00%	1.81%
PT	13.51%	14.46%	16.28%	4.50%	1.37%	6.00%	1.83%	8.00%	2.44%
SI	18.74%	18.74%	19.43%	4.50%	1.64%	6.00%	2.18%	8.00%	2.91%
SK	14.72%	15.76%	17.45%	4.50%	0.84%	6.00%	1.13%	8.00%	1.50%

Source: COREP reporting data as of Q4 2019, Pillar 2R data as of 30 January 2020 unless stated otherwise (see footnote above).

* To ensure the confidentiality of the data displayed, Member State-level data are only displayed when: 1. There are at least three institutions in the Member State; and 2. No institution represents more than 85% of both the numerator and the denominator of the ratio, irrespective of the number of institutions per data value. In this specific case, the sample only contains two SIs. However, as previously stated, all SIs fulfil their Pillar 1 and Pillar 2 requirements, including those located in Lithuania and Latvia. Please note that PNB Banka has been excluded from the country-by-country breakdown.

Note: The table shows weighted-average indicators for significant institutions within the euro area at the highest level of consolidation.

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24 April 2020

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Commission assessments in the context of the ESM Pandemic Crisis Support

Dear Messrs Dombrovskis and Gentiloni,

At its meeting of 9 April 2020, the Eurogroup has proposed to establish a Pandemic Crisis Support, based on the existing ECCL precautionary credit line and adjusted in light of the specific challenge posed by COVID-19. It would be available to all euro area Member States during these times of crisis, with standardised terms agreed in advance by the ESM Governing Bodies, reflecting the current challenges, on the basis of up-front assessments by the European institutions.

In this context and in line with the ESM Treaty and the ESM Guideline on Precautionary Financial Assistance, the eligibility assessment for gaining access to this facility has to be conducted by the European Commission, in liaison with the ECB. In this regard, we have taken note of the Commission's assessments of (i) risks to financial stability, (ii) debt sustainability, including the assessment of COVID-19/health related government costs, and (iii) external sustainability. As regards (i) the financial

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stability assessment, ECB staff broadly concurs with the Commission assessment of the “existence of a risk to the financial stability of the euro area as a whole or of its Member States”. As regards (ii) the public debt sustainability assessment and (iii) the analysis of external sustainability, ECB staff is of the view that the Commission’s assessment is consistent with the macroeconomic assumptions used by the Commission.

Yours sincerely,



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