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RESULTS OF THE COMPREHENSIVE ASSESSMENT BY THE ECB AND RESULTS OF THE 2014 EU-WIDE STRESS TEST BY THE EBA

Article 33(4) of the Regulation on the Single Supervisory Mechanism (SSM Regulation[1]) requires the ECB to carry out a Comprehensive Assessment prior to the SSM assuming its supervisory responsibilities and duties for the significant Eurozone banks on 4 November 2014. The Comprehensive Assessment comprises two main quantitative pillars, namely the Asset Quality Review and the Stress Test.

The Asset Quality Review aimed to review the quality of banks' assets, including the adequacy of asset and collateral valuation and related provisions as of 31 December 2013. The Stress Test examined the banks' ability to withstand two hypothetical scenarios in 2014-2016. The two scenarios – the "baseline" scenario and the "adverse" scenario – are those published by the EBA on 29 April 2014.

The results of the Comprehensive Assessment published on 26 October 2014 show that the six Luxembourg institutions, that were directly subject to the Comprehensive Assessment, pass the reference thresholds set by the ECB for the Comprehensive Assessment, i.e. 8% CET1 ratio[2] for the Asset Quality Review and 5.5% CET1 ratio for the Stress Test (under the adverse scenario). Further to the Asset Quality Review and the Stress Test, the CET1% solvency ratios of the six Luxembourg institutions remain above 8%, a level that is comfortably above the 5.5% CET1% threshold for the Stress Test set by the ECB. As a consequence, no capital shortfall has been identified for the six Luxembourg institutions[3]. The results from the standalone Asset Quality Review confirm that the six Luxembourg institutions' assets are appropriately valued and additional prudential provisions are limited. The Stress Test results show that the six institutions are sufficiently resilient to withstand the two hypothetical Stress Test scenarios.

The complete Comprehensive Assessment results, including background information, can be obtained from the ECB website at http://www.ecb.europa.eu/ssm/assessment/html/index.en.html. Results for Banque et Caisse d'Epargne de l'Etat, Luxembourg and Precision Capital S.A. – the two Luxembourg institutions directly in scope of the EBA ST – are also available at the EBA website http://www.eba.europa.eu/-/eba-publishes-2014-eu-wide-stress-test-results.

Luxembourg institutions included in the Comprehensive Assessment

The following six Luxembourg institutions participated directly in the Comprehensive Assessment:

Banque et Caisse d'Epargne de l'Etat, Luxembourg
Clearstream Banking S.A.
Precision Capital S.A. (Holding of Banque Internationale à Luxembourg and KBL European Private Bankers S.A.)
RBC Investor Services Bank S.A.
State Street Bank Luxembourg S.A.
UBS (Luxembourg) S.A.

[1] Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions.

[2] The 8% threshold corresponds to a Common Equity Tier 1 ratio of 4.5%, a 2.5% capital conservation buffer and an add-on of 1% to take into account the systemic relevance of the banks considered significant under the SSM Regulation.

[3] Although full results are not available for either bank independently, the CSSF observes, on the basis of estimations, that the two Luxembourg banks that are consolidated within Precision Capital S.A., i.e. Banque Internationale à Luxembourg and KBL European Private Bankers S.A., also pass the 8% CET1% Asset Quality Review and 5.5% CET1% Stress test hurdle rates on a standalone basis.

Since the Comprehensive Assessment is carried out at the highest level of consolidation in participating Member States, the Luxembourg branches and subsidiaries of European banks included in the Comprehensive Assessment are indirectly covered, through the inclusion of the Luxembourg based activities in the consolidated figures of their parent companies.

Besides Banque et Caisse d'Epargne de l'Etat, Luxembourg and Precision Capital S.A., there are a number of subsidiaries and branches from EU banks that serve the domestic retail market. These institutions are (in alphabetical order) Banque BCP S.A. (Luxembourg subsidiary of the French banking group BPCE), Banque de Luxembourg S.A., BGL BNP Paribas, Caixa Geral de Depósitos SA, Lisboa (Portugal) (Luxembourg branch) and ING Luxembourg. As a result of the Comprehensive Assessment, no capital shortfall has been identified at the level of the parent companies of these branches and subsidiaries.

Resources allocated to the Comprehensive Assessment in Luxembourg

The Comprehensive Assessment required significant resources at the national level. At the CSSF, 20 staff members were permanently involved in the Comprehensive Assessment over the course of the last year. An additional dozen staff members worked for 4 to 6 months on quality assurance with respect to the Asset Quality Review or the Stress Test results. Given that the Asset Quality Review was conducted as a targeted and risk-based exercise focusing on the portfolios with the highest chance of material misstatements, only three Luxembourg institutions[4] underwent a Credit File Review. Following sampling, some 1,400 debtors were analysed during the Credit File Review and 800 collateral items valued. Furthermore, 24 collective provisioning challenger models were built and 90 level three non-derivative assets re-valued. The Asset Quality Review also involved third-party audit firms, chosen through a public procurement procedure. At the level of these third parties, more than 100 additional auditors contributed to the execution of the Asset Quality Review.

Luxembourg, 26 October 2014

[4] Banque et Caisse d’Epargne de l’Etat, Luxembourg, Precision Capital S.A. and State Street Bank Luxembourg S.A.