



EUROPEAN CENTRAL BANK

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PRESS RELEASE

28 February 2017

ECB Banking Supervision conducts sensitivity analysis focused on effects of interest rate changes

- Focus is on effect of interest rate changes using standard set by Basel Committee on Banking Supervision in 2016
- Results will inform the supervisory review and evaluation process (SREP)
- No change in the aggregate capital demand is expected as an outcome of the exercise

The European Central Bank (ECB) today launched a sensitivity analysis of the banking books of directly supervised banks with a focus on interest rate changes as part of its annual Supervisory Review and Evaluation Process (SREP). This stress test exercise is designed to provide the ECB with sufficient information to understand the interest rate sensitivity of a bank's assets and liabilities in the banking book and of net interest income to hypothetical interest rate changes. The banks' overall capital demand – requirements and guidance – is not expected to change, all else being equal.

ECB Banking Supervision will apply six hypothetical interest rate shocks as set by the Basel Committee on Banking Supervision in "Standards – Interest rate risk in the banking book", published in April 2016. These shock scenarios capture various changes in the level and shape of the interest rate curve, providing supervisors with information on how the economic value of equity and net interest income projections would change under each shock. These shocks are not supposed to be realistic projections for the development of the interest rate in the euro area.

The results of the exercise will be discussed in the context of the SREP. Supervisory capital demand, mainly Pillar 2 guidance, in the 2017 SREP decision will not be determined by the quantitative results of the exercise, but informed by the relative vulnerability of the banks to the different interest rate shocks applied in the exercise.

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