

Box 7

RECENT BALANCE SHEET STRENGTHENING BY EURO AREA BANKS

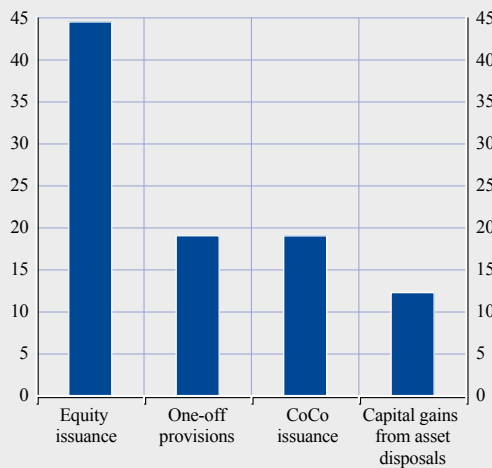
Since the third quarter of 2013, when discussions about the ECB’s comprehensive assessment intensified, significant banking groups in the euro area have bolstered their balance sheets by over €95 billion through equity issuance, one-off provisions, contingent convertible (CoCo) bond issuance and capital gains from asset disposals.¹ This has been in addition to other forms of capital generation, including for example retained earnings and changes in deferred tax asset treatments, and de-risking (shifts from riskier to safer assets).

Issuance of equity has contributed the most to the strengthening of balance sheets, with completed and announced deals since July 2013 amounting to some €45 billion (see the chart below). One-off provisions, for example related to reclassification of assets and on extraordinary items, are estimated to have accounted for an additional €19 billion. Increased issuance of CoCos, to the tune of €19 billion, and capital gains from asset disposals of around €12 billion, have contributed to increasing banks’ shock-absorption capacities as well.

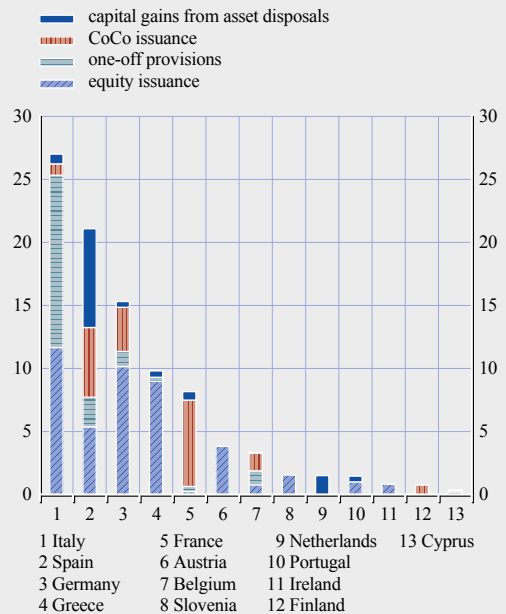
Balance sheet strengthening by euro area significant banking groups

(since July 2013; EUR billions)

a) By instrument



b) By country



Sources: SNL Financial, Dealogic, banks’ financial reports, market research and ECB calculations.
 Notes: One-off provisions include provisions related to reclassifications and extraordinary items identified by banks as being related to the asset quality review.

¹ The information in this box is based on publicly available, and in some cases partial, information and the numbers presented should therefore be seen as indicative estimates only.

Actions by banks have, however, differed across euro area countries (see the chart above). These differences can largely be attributed to the differences in banks' operating environment, with the largest capital increases and other measures reported in Italy and Spain.

Some of the actions by banks were not triggered by the forthcoming comprehensive assessment, but are rather a result of – in some cases already planned – measures to de-risk balance sheets, improve capital levels amid previously identified insufficiencies and repay state-aid support. In addition, continued deterioration in banks' operating environment in some cases also necessitated action to further improve balance sheets. Nonetheless, some of the measures can be seen as preparatory action ahead of the comprehensive assessment and, regardless of the trigger for the action, banks' progress in strengthening balance sheets has been significant. The pre-emptive measures are welcome as they reduce the risk of congestion in bank capital markets after the publication of the comprehensive assessment results, should additional shortfalls be identified.