

EU Financial System Perspectives



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How strong are European banks?

Results of AQR-corrected stress tests (1)

► Overview of EU-wide stress tests to date

Test	Date	Authority	# banks	Assets tested	B/S ref. date	Horizon	Pass criterion
EU stress test 2009	1 Oct 2009	CEBS	22	60%	2008 End	2Y	Tier1 >6%
EU stress test 2010	23 July 2010	CEBS	91	65%	2009 End	2Y	Tier1 >6%
EU stress test 2011	15 July 2011	EBA	90	65%	2010 End	2Y	Tier1 >5%
EU recapitalisation program	26 Oct 2011	EBA	70	65%	2011 Sep	to Jun 2012	Tier1 >9%
Transparency exercise	Dec 2013	EBA	60	65%	Dec 2012 / Jun 2013	na	na
Stress tests/AQRs	Nov 2013- Nov 2014	ECB&EBA	130	85%	2013 End	3Y	CET1 >8%

► AQR results overview

		# Banks	# failes	Capital required (EUR bn)	% banks failing	Capital required per bank (ERU bn)
23 July 2010	CEBS	91	7	3.5	7.7%	0.5
15 July 2011	EBA	90	20	27	22.2%	1.4
	EBA		8	2.5	8.9%	0.3
26 Oct 2014	ECB	130	25	24.6	19.2%	1.0
	ECB		13	9.5	10.0%	0.7
26 Oct 2014	EBA	123	24	24.2	19.5%	1.0
	EBA		14	9.5	11.4%	0.7

Shaded lines show pre-recapitalisation figures; non-shaded lines reflect effects of recapitalisation

Source: EBA, BNP Paribas



How strong are European banks?

Results of AQR-corrected stress tests (2)

			ECB			EBA		
			Capital shortfall	Recapitalisation	Residual shortfall	Capital shortfall	Recapitalisation	Residual shortfall
	(EUR bn)							
1	GR	Eurobank	4.63	2.86	1.76	4.63	2.86	1.76
2	IT	Monte dei Paschi di Siena	4.25	2.14	2.11	4.25	2.14	2.11
3	GR	National Bank of Greece	3.43	2.5	0.93	3.43	2.5	0.93
4	IT	Banca Carige	1.83	1.02	0.81	1.83	1.02	0.81
5	CY	Cooperative Central Bank	1.17	1.5	-	1.17	1.5	-
6	PT	Banco Comercial Portugues	1.14	-0.01	1.15	1.14	-0.01	1.15
7	CY	Bank of Cyprus	0.92	1	-	0.92	1	-
8	AT	Oesterreichischer Volksbanken-Verbund	0.86	-	0.86	0.86	-	0.86
9	IE	Permanent tsb	0.85	-	0.85	0.85	-	0.85
10	IT	Veneto Banca	0.71	0.74	-	0.71	0.74	-
11	IT	Banco Popolare	0.69	1.76	-	0.43	1.76	-
12	IT	Banca Popolare di Milano	0.68	0.52	0.17	0.68	0.52	0.17
13	IT	Banca Popolare di Vicenza	0.68	0.46	0.22	0.68	0.46	0.22
14	GR	Piraeus Bank	0.66	1	-	0.66	1	-
15	IT	Banca Piccolo Credito Valtelinese	0.38	0.42	-	0.38	0.42	-
16	BE	Dexia	0.34	-	0.34	0.34	-	0.34
17	IT	Banca Popolare di Sondrio	0.32	0.34	-	0.32	0.34	-
18	CY	Hellenic Bank	0.28	0.1	0.18	0.28	0.1	0.18
19	DE	Munchener Hypothekenbank	0.23	0.41	-	0.23	0.41	-
20	BE	AXA Bank Europe	0.2	0.2	-	0.2	0.14	0.07
21	FR	C.R.H - Caisse de Refinancement de l'Habitat	0.13	0.25	-	-	0.25	-
22	IT	Banca Popolare dell'Emilia Romagna	0.13	0.76	-	0.13	0.76	-
23	SI	Nova Ljubljanskabanka	0.03	-	0.03	0.03	-	0.03
24	ES	Liberbank	0.03	0.64	-	-	-	-
25	SI	Nova KreditnaBanka Maribor	0.03	-	0.03	0.03	-	0.03
		Total	24.62	18.59	9.47	24.19	17.9	9.52

Source: EBA, ECB, BNP Paribas



How limited are risks?

Exposures to Greece of private-sector banks

➤ Consolidated foreign claims and other potential exposures - ultimate risk basis

		Total of 24 Countries	European banks	Belgium	France	Germany	Italy	Spain	Switzerland	United Kingdom	Japan	US
Greece	Foreign claims	54	35	0	2	14	1	0		13	0	18
	Public sector	3	2	0	0	0	0	0		1	0	1
	Banks	31	15	0	0	6	0	0		9	0	16
	Non-bank private sector	20	18	0	2	8	0	0		4	0	1
	Unallocated by sector	0	0	0				0				
	Other potential exposures	34	13	0	2	3	1	0	2	5	0	18
	Derivatives contracts	8	6		1	2	0	0	0	2	0	1
Guarantees extended	20	4		0	0	0	0	1	2	0	13	
Credit commitments	7	3		0	1	0	0	0	0	0	0	4
Ireland	Foreign claims	398	292	18	42	42	9	6	21	131	35	61
	Public sector	17	14	1	4	3	0	0	0	4	2	2
	Banks	60	46	0	20	9	1	1	5	6	2	12
	Non-bank private sector	320	232	17	18	30	8	5	16	121	31	48
	Unallocated by sector	1	1	0	0		0	0	0			
	Other potential exposures	139	85	1	17	18	7	2	9	27	4	48
	Derivatives contracts	32	25		4	7	1	1	3	5	0	6
Guarantees extended	67	28		10	3	1	0	4	11	3	36	
Credit commitments	40	33		4	8	4	1	2	11	1	6	
Portugal	Foreign claims	143	136	0	15	23	3	73		15	1	6
	Public sector	27	26	0	2	8	2	12		1	0	1
	Banks	19	17	0	5	4	1	5		2	0	2
	Non-bank private sector	97	93	0	9	11	1	56		11	1	3
	Unallocated by sector	0	0		0			0				
	Other potential exposures	124	46	0	4	5	2	18	0	15	1	76
	Derivatives contracts	8	7		2	0	0	3	0	1	0	0
Guarantees extended	99	24		2	4	0	3	0	13	0	75	
Credit commitments	17	15		1	0	1	11	0	1	1	1	
Spain	Foreign claims	553	468	10	135	123	20	24	71	23	60	
	Public sector	100	77	2	22	33	5	3	2	11	11	
	Banks	174	149	4	45	44	7	7	24	3	22	
	Non-bank private sector	280	242	4	68	46	8	14	45	9	27	
	Unallocated by sector	0	0		0			0				
	Other potential exposures	440	186	1	30	37	12	14	75	4	248	
	Derivatives contracts	54	49		8	9	1	5	18	0	4	
Guarantees extended	325	93		7	24	2	8	48	0	231		
Credit commitments	61	44		15	4	10	1	9	4	12		
Italy	Foreign claims	807	704	11	370	133		48	35	47	38	62
	Public sector	262	212	9	87	50		28	13	5	27	21
	Banks	118	102	1	53	23		5	9	5	2	14
	Non-bank private sector	426	390	1	230	60		15	13	36	8	26
	Unallocated by sector	0	0		0			0	0			
	Other potential exposures	773	301	4	73	49		18	31	115	8	463
	Derivatives contracts	107	74		14	18		4	11	20	0	32
Guarantees extended	572	160		20	27		7	16	86	2	408	
Credit commitments	94	67		39	4		7	5	9	5	23	

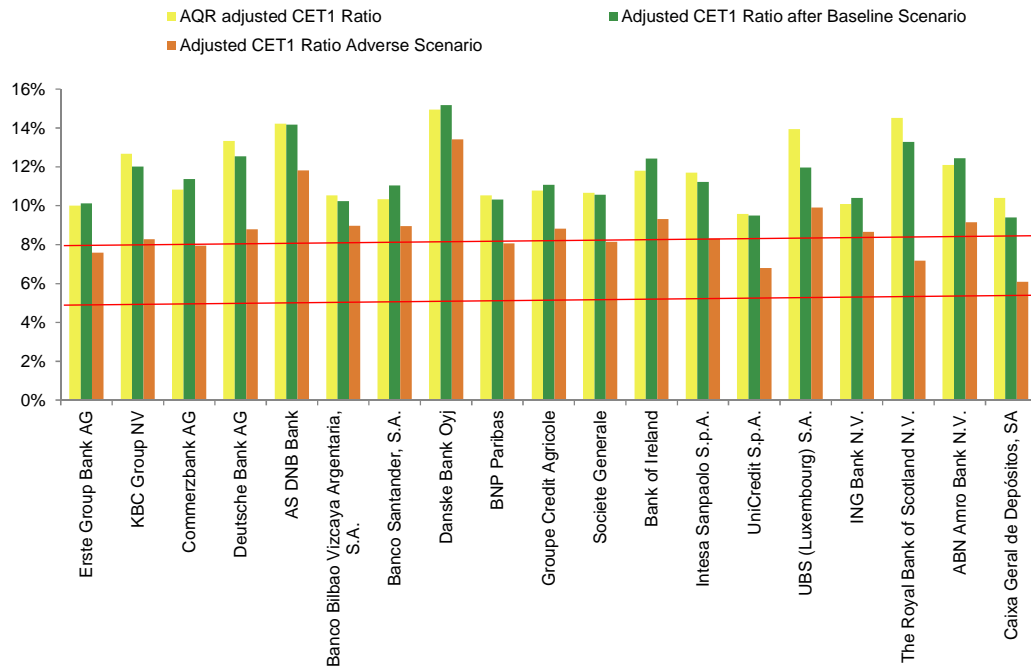
Source: BIS, ECB, BNP Paribas
Note: unit is USD bn, as of Jun 2014



Yet the future is not worry-free

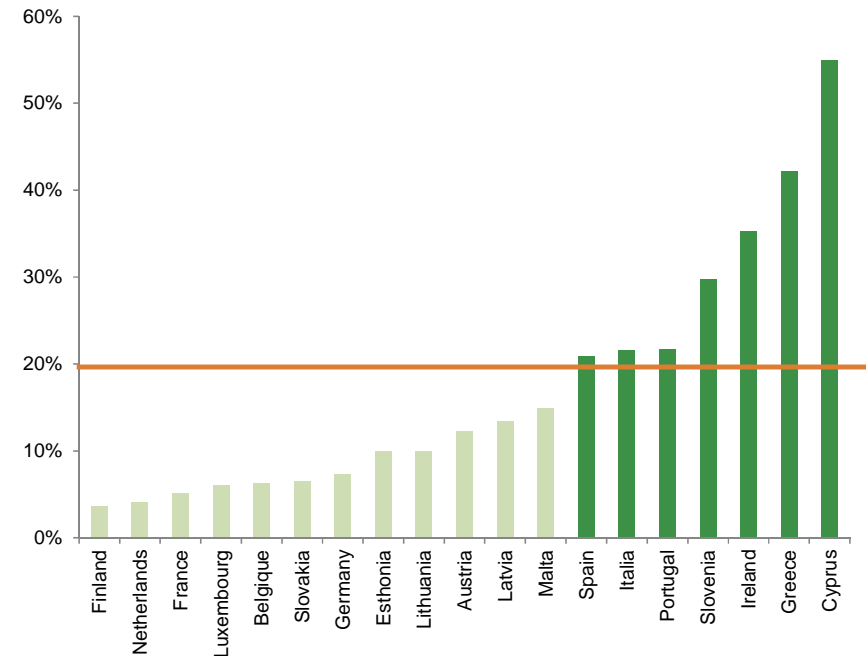
Tests revealed substantial hikes in bad debt ratios under stressed conditions

Results comparison for major banks



Minimum capital thresholds (CET1) are 5.5% under the adverse scenario and 8% under the baseline scenario

Projected systemic bad debt ratios by country



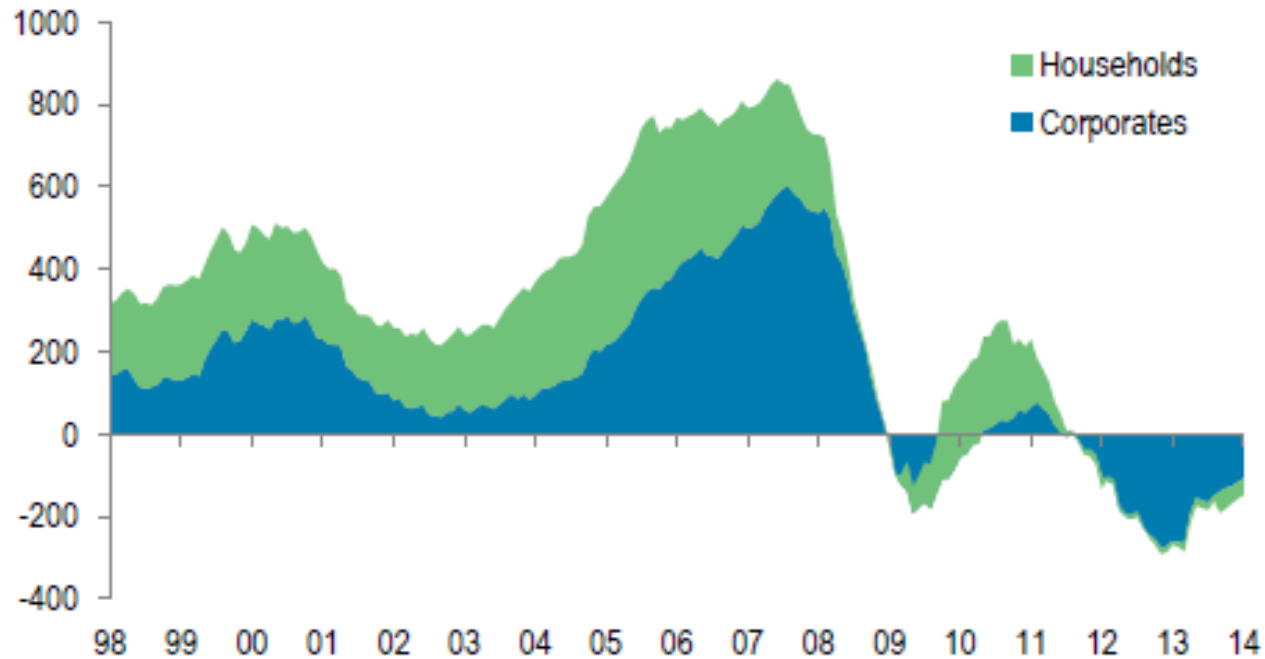
Source: EBA, ECB, BNP Paribas



Financial system not adding to European economic growth

No net growth in lending

Net lending by Eurozone banks (YoY)

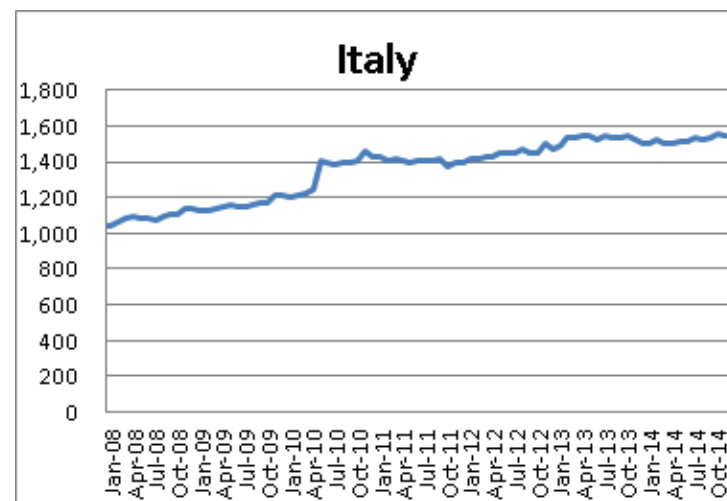
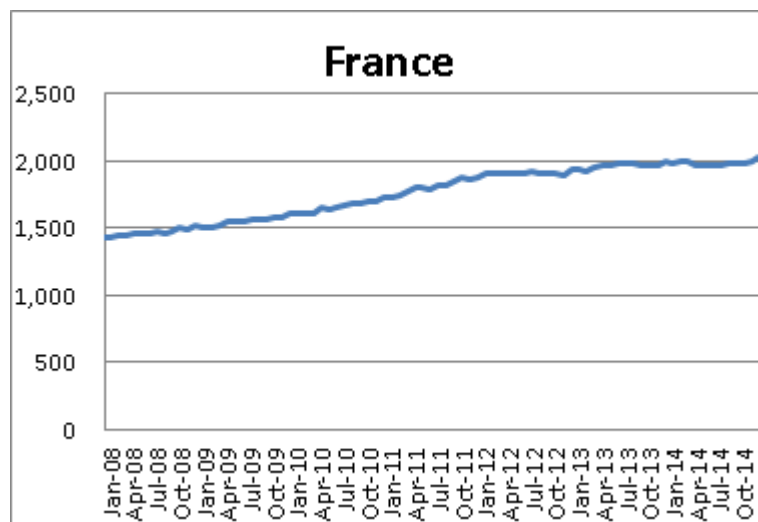
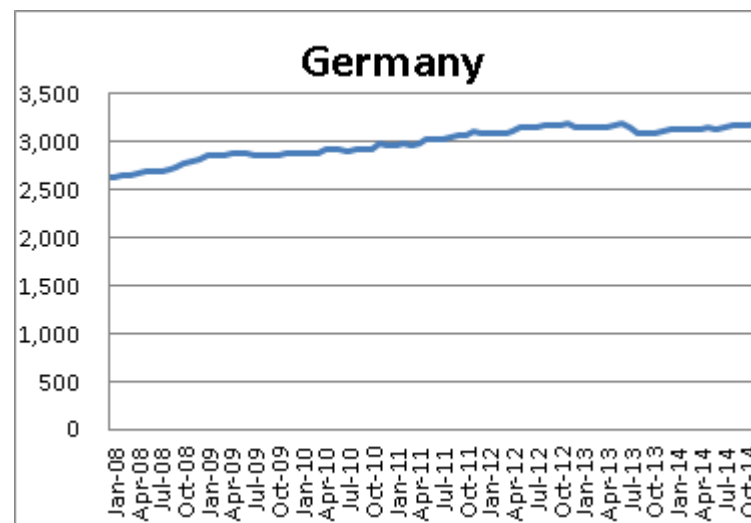
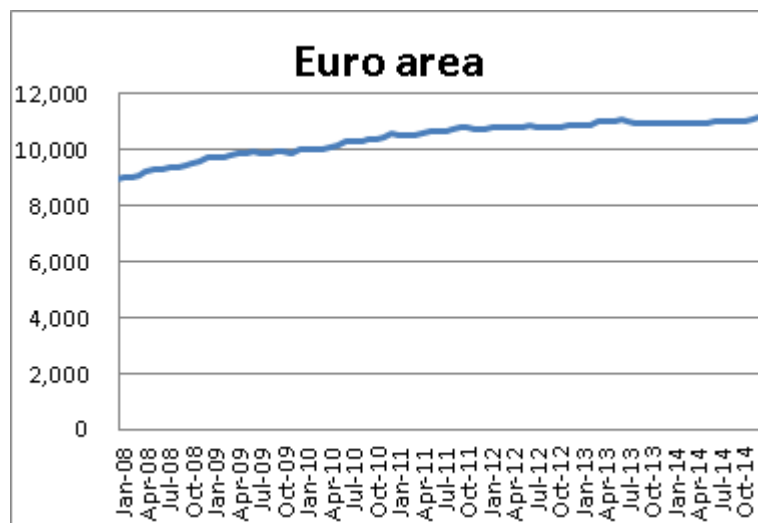


Source: Bloomberg, EBA, ECB, BNP Paribas
Note: unit is EUR bn



Europe-wide bias in deposits

Deposits in major countries

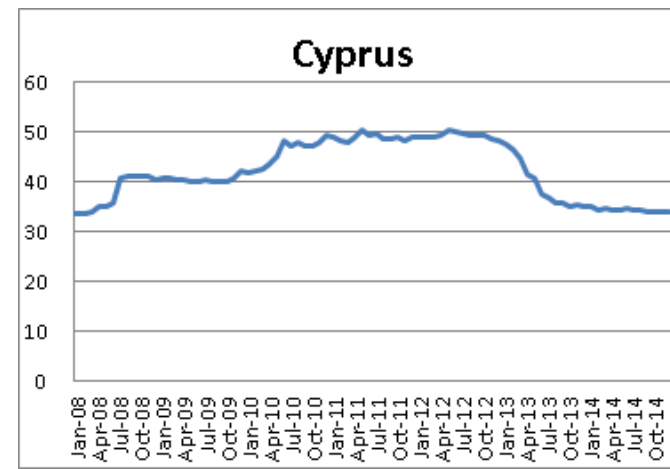
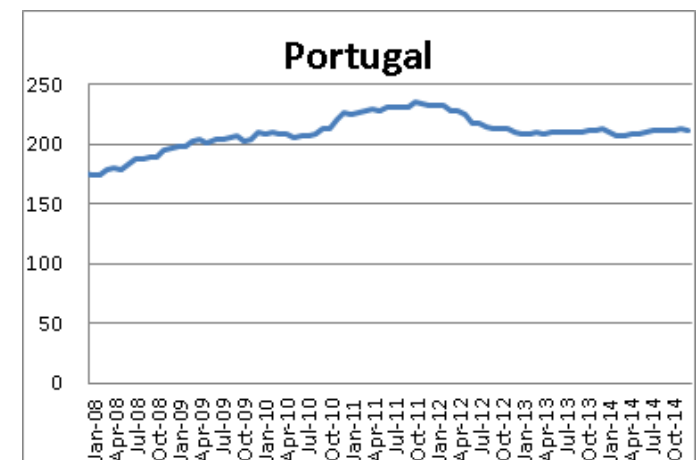
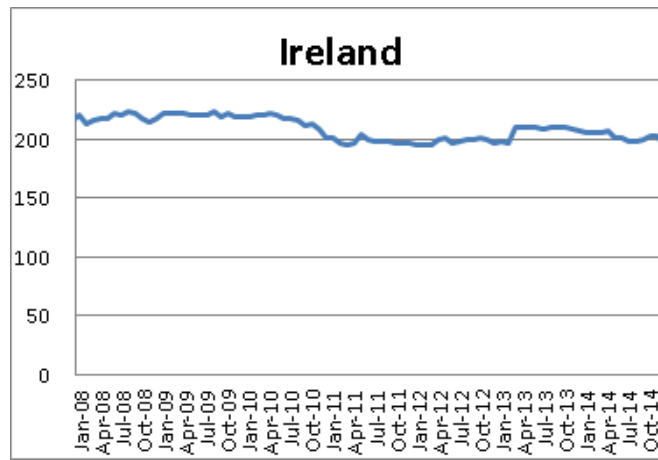
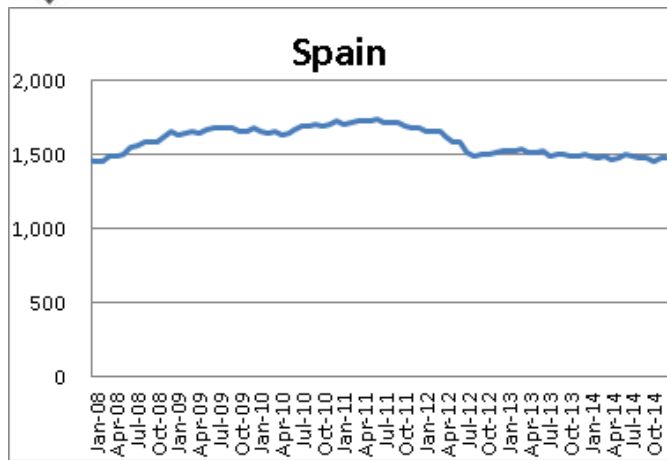


Source: ECB, BNP Paribas
Note: unit is EUR bn



Europe-wide bias in deposits

Deposits in major countries



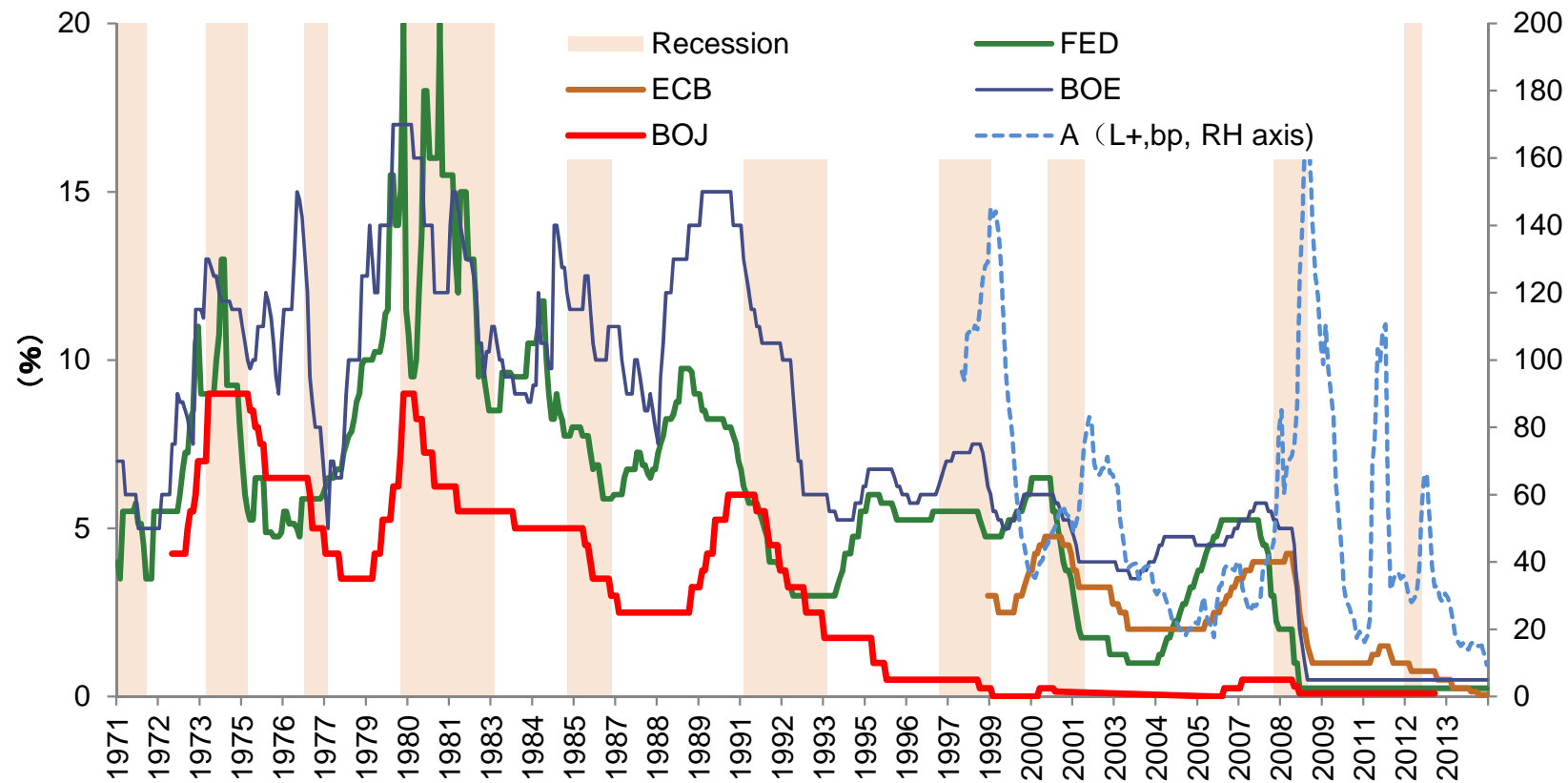
Source: ECB, BNP Paribas
Note: unit is EUR bn



Monetary policy becoming steadily less effective

Monetary tightening \Rightarrow recession \Rightarrow spread widening

➤ Relationship between recessions, credit spreads and central bank policy rates



Source: MOF, Bloomberg, BNP Paribas



Market self-adjustment is underway

Domestic bond issuance/redemption outlook for Europe

> Forecast EU bond issuance in 2015 (net and gross, EUR bn equivalents)

	2014 (as of 21 Nov)												2015			Average gross issuance from last 10 years			
	Issuance				Redemptions				Net Supply				Issuance Forecast	Redemptions	Net Supply				
	€	£	\$	Oth.	Total	€	£	\$	Oth.	Total	€	£					\$	Oth.	Total
Banks Sen	144	5	72	18	239	227	7	60	15	309	-82	-3	12	3	-70	260-270	314	-49	334
Banks Sub	42	6	1	32	80	35	2	11	1	50	6	4	-11	30	30	80-90	65	20	60
Insurance	15	4	1	2	23	9	1	4	1	15	5	4	-3	1	8	29-34	13	19	19
Covered Bond	97	7	1	9	114	192	2	9	14	217	-95	5	-8	-5	-103	110-130	208	-88	211
IG Non-Financials Sen	171	19	59	13	261	138	11	48	12	210	33	8	10	1	51	253	179	74	215
HY Non-Financials	55	11	28	3	98					47					51	75	35	40	41
Leveraged Loans	58	15	0	1	74					24					50	80	27	53	72

> Net Fund Flow to European high Yield



Source: Dealogic, Fitch, BNP Paribas



Progress on banking union

Timetable

	14Q1	14Q2	14Q3	14Q4	15H1	15H2	Later
Single Rulebook	Early 2014: CRD IV implementation						
SSM	1Q: Balance Sheet Assessment 2Q: EU-wide stress tests				Sep: ECB initiates direct supervision		Nov: Start date
SRM	Apr 2014: SRM established May 2014: RRD established Jun. 2014: SRM adoption by European Parliament and EU Council within parliamentary term				Early 2015: RRD and SRM in force		Early 2016: RRD and SRM start 2016: Application of bail-in provisions
DGS	Apr 2014: Directive confirms drive for further harmonisation of deposit insurance systems				European Parliament approved on April 15, including plans to establish single institution for resolution of failed banks in Europe plus bank-funded resolution fund (SRF) targeting EUR55bn over 8 years (earlier funding allowed). Degree of mutualisation of national funds rises from 40% in Year 1 to 70% from Year 3.		



Points at issue

- Consistency of bank supervision and resolution across SRM and non-SRM states
- Feasibility of cross-border resolution of failed banks under current framework if financial crisis were to occur in near future
- How deposit insurance would work for fiscally strapped countries
- Feasibility of accumulating DGS funding

Source: BCBS, BNP Paribas

