



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Danièle NOUY
Chair of the Supervisory Board

Mr Sven Giegold
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 17 December 2014

Re: Your question of 3 November 2014

Honourable Member of the European Parliament, dear Mr Giegold,

As a follow up to my public hearing at the Committee on Economic and Monetary Affairs of the European Parliament on 3 November 2014, you asked for “the development over time (e.g. since 2008) of the share of sovereign exposures (sovereign of the respective home state of each bank) in percent of CET1 of individual banks”.

Following-up on this request, this letter provides an answer based on readily available information¹.

By combining data published by the European Banking Authority (EBA)² with data from an external data provider (SNL Financial³), it is possible to derive **for 58 large European banks from end-2010 to end-2013 the evolution of the ratio of home sovereign exposure to Core Tier 1 (CT1) capital** (which can be considered a reasonable approximation for phased-in CET1). This ratio provides insights in the *solvency risk* associated with a bank’s home sovereign exposure. It is however significantly impacted by the extent to which the bank generates and retains earnings,

¹ To cover the whole period and more than 58 banks would require collecting this information from NCAs, which may not necessarily have it.

² The 2011 and 2014 EU-wide stress-testing exercises with reference dates 31/12/2010 and 31/12/2013 respectively, and the 2013 EU-wide transparency exercise with reference dates 31/12/2012 and 30/06/2013. For this analysis, the sample has been restricted to the 58 banks for which data on sovereign exposures and Core Tier 1 capital are available over the last three years (the total sample size exceeds 58 in the EBA exercises).

³ SNL Financial is a private company based in the United States which collects and standardises financial information provided by a large range of private firms (including banks).

and changes in this ratio also reflect the dynamics of the bank's capital position and not only an active investment strategy of the bank towards home sovereign exposure. For instance, large credit losses would increase the bank's ratio irrespective of the underlying investment strategy.

Against this background, the historical evolution of **the ratio of home sovereign exposures over banks' total assets**, which is not subject to such influences, has also been investigated as a complementary view on the development of home sovereign exposures. Here as well, to the best of my knowledge, comparable data are not available, or not provided in sufficient detail, before 2010 from available sources.

For the two above-mentioned ratios, you will find in the appendix, the distribution of the absolute changes between end-2010 and end-2013, both at bank-level (Figures 1 and 2) and at country-level (Figures 3 and 4). The correlation between both ratios is presented in Figure 5. Finally, the bank-specific ratios for 2010Q4 and 2013Q4 (in level and difference) are provided in Table 1.

Four main conclusions can be drawn from these figures:

- The evolution of both ratios is extremely heterogeneous across banks within Europe, as well as within each country (Figures 1 to 4).
- The countries with the largest increase in their banks' average ratio⁴ to CT1 are Cyprus, Ireland, Italy and the Netherlands. This cross-country comparison should, however, be interpreted with caution as the banks featured in the sample cover the national banking sectors to a different and sometimes insufficient degree.
- For most of the banks, changes in sovereign exposures over CT1 capital and over total assets appear strongly correlated (Figure 5). The additional information of the complementary ratio (i.e. of home sovereign exposures over total assets) is therefore limited. This mainly reflects the leading role of the numerator (i.e. sovereign exposures) in the evolution of both ratios, and the weak relationship between changes in home sovereign exposures and changes in bank's capital or total assets.
- On average, banks with the highest ratios of home sovereign exposure over Core Tier 1 capital experienced the strongest decrease in their ratios over 2011-2013 (Figure 6).

Yours sincerely,

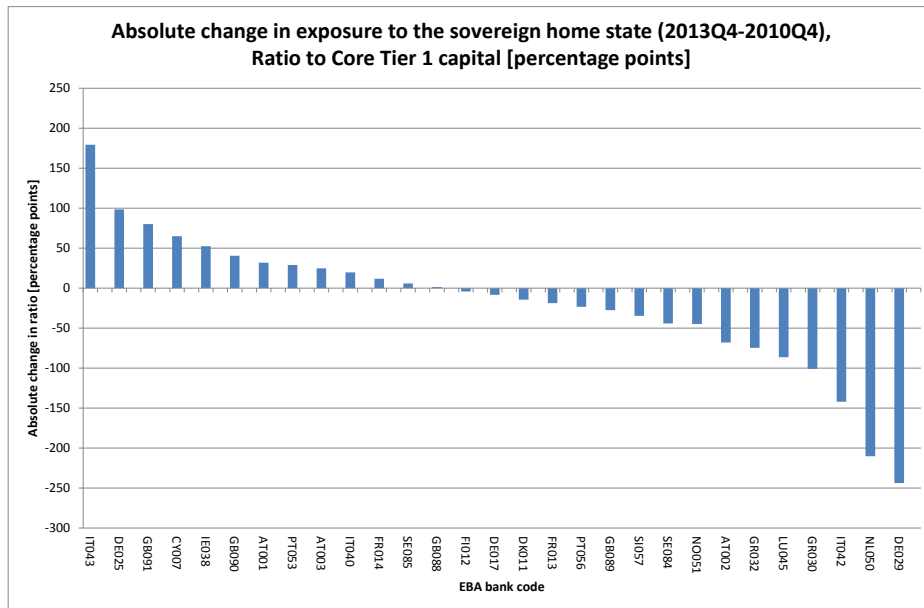
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⁴ We use the weighted average per country, i.e. the ratio of the aggregated exposure of banks of that country to their home sovereign and their aggregated CT1 capital.

Appendix:

Figure 1: Absolute change in the ratio of a bank’s home sovereign exposure over Core Tier 1 capital (at bank-level)

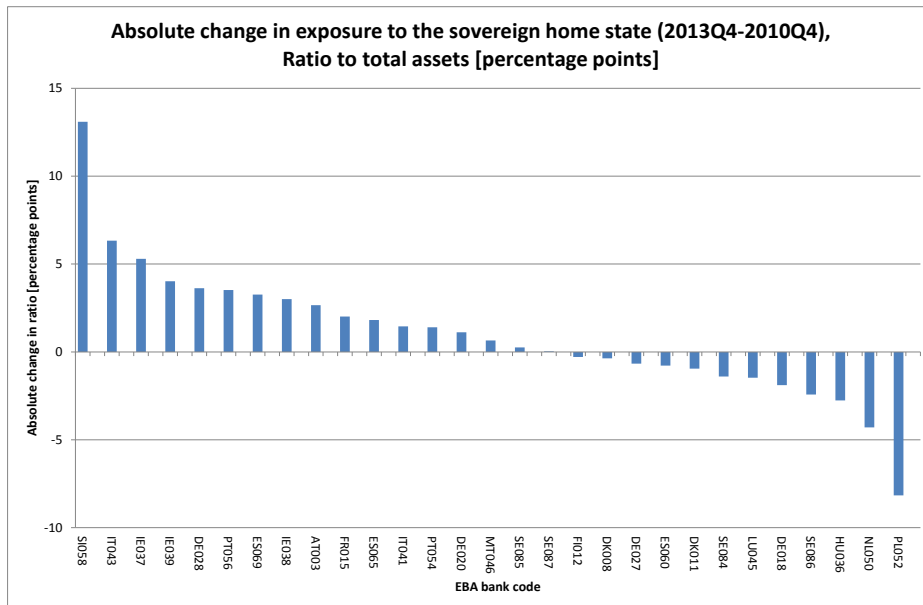
Note: for the purpose of readability, only half of the sample is reported in the chart below. Results for all banks are provided in Table 1.



Sources: EBA, SNL Financial, ECB calculations

Figure 2: Absolute change in the ratio of a bank’s home sovereign exposure over the bank’s total assets (at bank-level)

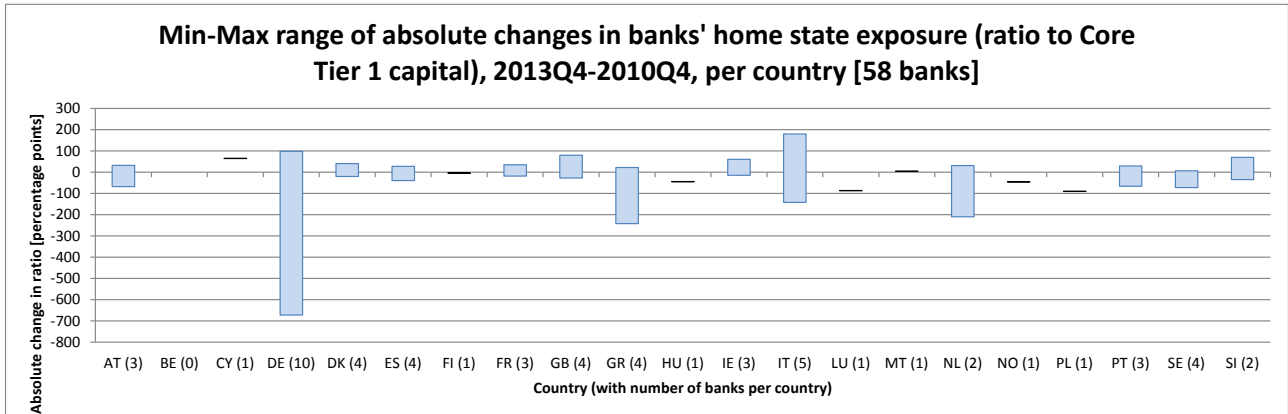
Note: for the purpose of readability, only half of the sample is reported in the chart below. Results for all banks are provided in Table 1.



Sources: EBA, SNL Financial, ECB calculations

Figure 3: Change in the ratio of banks' home sovereign exposure over the banks' Core Tier 1 capital (at country-level)

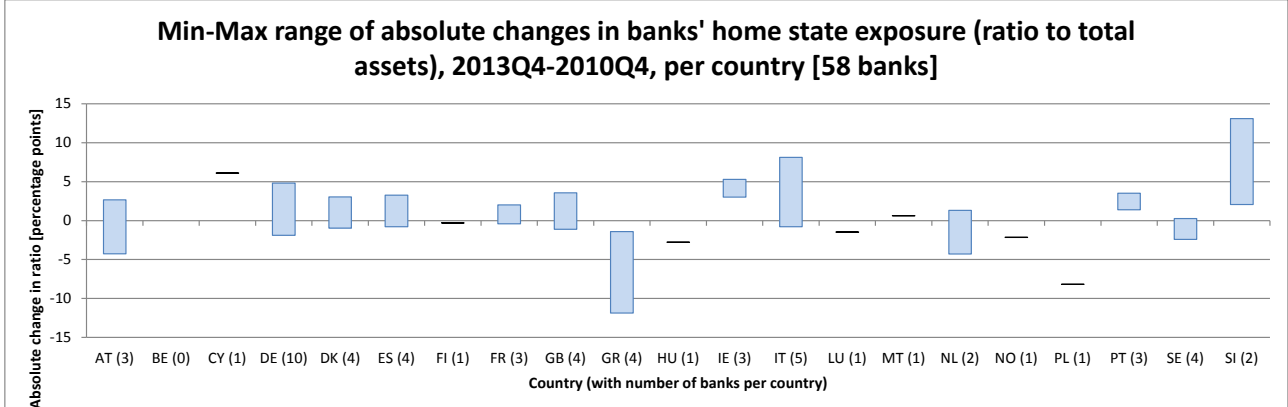
Note: The light blue boxes represent the min-max range of absolute changes in banks' ratios per country between 2013Q4 and 2010Q4.



Sources: EBA, SNL Financial, ECB calculations

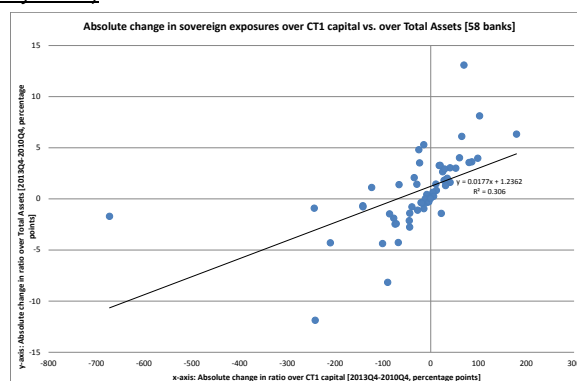
Figure 4: Change in the ratio of banks' home sovereign exposures over the banks' total assets (at country-level)

Note: The light blue boxes represent the min-max range of absolute changes in banks' ratios per country between 2013Q4 and 2010Q4.



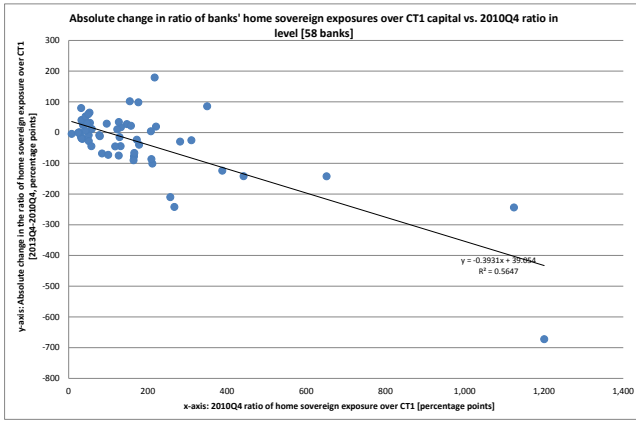
Sources: EBA, SNL Financial, ECB calculations

Figure 5: Change in the ratio of home sovereign exposures over CT1 capital vs. change in the ratio of home sovereign exposure over total assets (bank by bank)



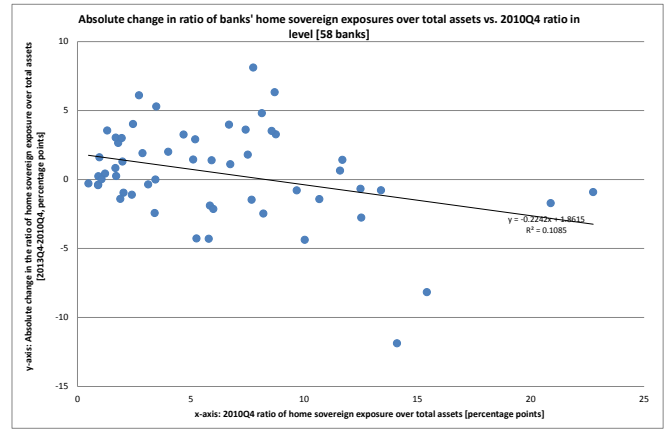
Sources: EBA, SNL Financial, ECB calculations

Figure 6: Change in the ratio of home sovereign exposures over CT1 [2013Q4-2010Q4] vs 2010Q4 ratio in level



Sources: EBA, SNL Financial, ECB calculations

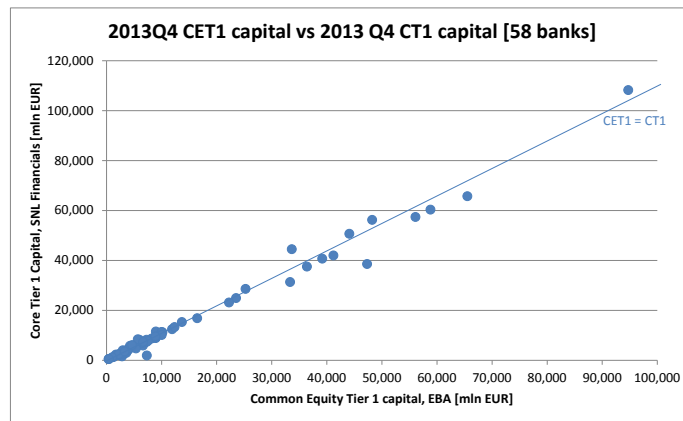
Figure 7: Change in the ratio of home sovereign exposures over total assets [2013Q4-2010Q4] vs 2010Q4 ratio in level



Sources: EBA, SNL Financial, ECB calculations

Figure 8: 2013Q4 Core Tier 1 capital vs. 2013Q4 Common Equity Tier 1 capital

Note: 2013Q4 CET1 figures computed as of first day of application: 01/01/2014, and in accordance with CRD4/CRR transitional arrangements. The straight blue line corresponds to the 45-degree line, where Core Tier 1 equals Common Equity Tier 1.



Sources: EBA, SNL Financial, ECB calculations

Table 1: Ratio of banks' home sovereign exposure over CT1 and total assets from 2010Q4 to 2013Q4

Bank	Country	EBA bank code	Exposure to the sovereign home state, 2010Q4 (percentages)		Exposure to the sovereign home state, 2013Q4 (percentages)		Change in exposure to the sovereign home state, 2013Q4-2010Q4 (percentage points)	
			Ratio to Core Tier 1 capital	Ratio to total assets	Ratio to Core Tier 1 capital	Ratio to total assets	Ratio to Core Tier 1 capital	Ratio to total assets
ERSTE BANK GROUP (EBG)	AT	AT001	53.5	2.9	85.4	4.8	31.9	1.9
RAIFFEISEN BANK INTERNATIONAL (RBI)	AT	AT002	84.2	5.2	16.3	1.0	-67.9	-4.3
OESTERREICHISCHE VOLKSBANK AG	AT	AT003	36.1	1.8	60.9	4.5	24.7	2.7
BANK OF CYPRUS PUBLIC CO LTD	CY	CY007	52.5	2.7	117.4	8.8	64.9	6.1
DEUTSCHE BANK AG	DE	DE017	77.3	1.2	68.9	1.6	-8.3	0.4
COMMERZBANK AG	DE	DE018	164.9	5.8	87.4	4.0	-77.5	-1.9
LANDESBANK BADEN-WURTEMBERG	DE	DE019	309.6	8.1	284.7	12.9	-24.9	4.8
DZ BANK AG DT. ZENTRAL-GENOSSENSCHAFTSBANK	DE	DE020	387.6	6.7	263.8	7.9	-123.8	1.1
BAYERISCHE LANDESBANK	DE	DE021	281.2	11.7	252.0	13.1	-29.1	1.4
NORDDEUTSCHE LANDESBANK -GZ-	DE	DE022	1,200.4	20.9	528.1	19.2	-672.3	-1.7
HSH NORDBANK AG, HAMBURG	DE	DE025	176.0	6.7	274.4	10.7	98.5	4.0
LANDESBANK BERLIN AG	DE	DE027	651.1	12.5	509.0	11.8	-142.1	-0.7
DEKABANK DEUTSCHE GIROZENTRALE, FRANKFURT	DE	DE028	349.5	7.4	435.3	11.0	85.8	3.6
WGZ BANK AG WESTDT. GENO. ZENTRALBK, DDF	DE	DE029	1,124.1	22.7	880.3	21.8	-243.8	-0.9
DANSKE BANK	DK	DK008	34.6	0.9	14.1	0.5	-20.4	-0.4
JYSKE BANK	DK	DK009	32.1	1.7	72.7	4.7	40.5	3.0
SYDBANK	DK	DK010	50.4	3.1	42.0	2.8	-8.3	-0.4
NYKREDIT	DK	DK011	31.3	2.0	16.8	1.1	-14.4	-1.0
BANCO SANTANDER S.A.	ES	ES059	78.6	3.4	66.9	3.4	-11.7	0.0
BANCO BILBAO VIZCAYA ARGENTARIA S.A. (BBVA)	ES	ES060	177.6	9.7	138.1	8.9	-39.5	-0.8
BANCO DE SABADELL, S.A.	ES	ES065	147.0	7.5	174.8	9.3	27.8	1.8
BANKINTER, S.A.	ES	ES069	131.9	4.7	149.6	7.9	17.7	3.3
OP-POHJOLA GROUP	FI	FI012	7.5	0.5	3.4	0.2	-4.2	-0.3
BNP PARIBAS	FR	FR013	32.6	0.9	13.8	0.5	-18.8	-0.4
CREDIT AGRICOLE	FR	FR014	58.4	1.7	70.2	2.5	11.8	0.8
BPCE	FR	FR015	126.6	4.0	161.1	6.0	34.5	2.0
ROYAL BANK OF SCOTLAND GROUP plc	GB	GB088	26.9	0.9	28.3	1.2	1.3	0.2
HSBC HOLDINGS plc	GB	GB089	50.6	2.4	23.2	1.3	-27.5	-1.1
BARCLAYS plc	GB	GB090	33.5	1.0	74.0	2.6	40.5	1.6
LLOYDS BANKING GROUP plc	GB	GB091	31.4	1.3	111.4	4.9	80.1	3.6
EFG EUROBANK ERGASIAS S.A.	GR	GR030	211.3	10.0	110.3	5.7	-100.9	-4.4
NATIONAL BANK OF GREECE	GR	GR031	157.3	10.7	179.3	9.3	22.1	-1.4
ALPHA BANK	GR	GR032	126.3	8.2	51.7	5.7	-74.7	-2.5
PIRAEUS BANK GROUP	GR	GR033	266.9	14.1	25.0	2.2	-241.8	-11.9
OTP BANK NYRT.	HU	HU036	131.2	12.5	87.0	9.8	-44.2	-2.8
ALLIED IRISH BANKS PLC	IE	IE037	128.4	3.5	113.7	8.8	-14.7	5.3
BANK OF IRELAND	IE	IE038	42.6	2.0	95.0	5.0	52.4	3.0
IRISH LIFE AND PERMANENT	IE	IE039	49.5	2.4	109.5	6.5	60.0	4.0
INTESA SANPAOLO S.p.A	IT	IT040	220.3	8.7	239.9	12.0	19.6	3.3
UNICREDIT S.p.A	IT	IT041	122.6	5.1	133.4	6.6	10.8	1.5
BANCA MONTE DEI PASCHI DI SIENA S.p.A	IT	IT042	441.6	13.4	299.5	12.6	-142.0	-0.8
BANCO POPOLARE - S.C.	IT	IT043	216.8	8.7	396.3	15.0	179.4	6.3
UNIONE DI BANCHE ITALIANE SCPA (UBI BANCA)	IT	IT044	154.4	7.8	256.4	15.9	102.0	8.1
BANQUE ET CAISSE D'EPARGNE DE L'ETAT	LU	LU045	208.8	7.7	122.5	6.2	-86.3	-1.5
BANK OF VALLETTA (BOV)	MT	MT046	207.5	11.6	211.7	12.2	4.3	0.6
RABOBANK NEDERLAND	NL	NL048	46.6	2.0	77.5	3.3	30.9	1.3
SNS BANK NV	NL	NL050	256.4	5.8	46.2	1.5	-210.2	-4.3
DNB NOR BANK ASA	NO	NO051	117.5	6.0	72.5	3.9	-45.0	-2.1
POWSZECHNA KASA OSZCZEDNOSCI BANK POLSKI S.A. (PKO)	PL	PL052	163.8	15.4	73.6	7.2	-90.2	-8.2
CAIXA GERAL DE DEPOSITOS, SA	PT	PT053	96.0	5.2	125.1	8.1	29.1	2.9
BANCO COMERCIAL PORTUGUES, SA (BCP OR MILLENNIUM)	PT	PT054	165.6	5.9	99.3	7.3	-66.3	1.4
BANCO BPI, SA	PT	PT056	171.8	8.6	148.5	12.1	-23.4	3.5
NORDEA BANK AB (PUBL)	SE	SE084	57.4	1.9	13.3	0.5	-44.1	-1.4
SKANDINAVISKA ENSKILDA BANKEN AB (PUBL) (SEB)	SE	SE085	42.5	1.7	48.4	2.0	5.9	0.3
SVENSKA HANDELSBANKEN AB (PUBL)	SE	SE086	99.6	3.4	27.2	1.0	-72.4	-2.4
SWEDBANK AB (PUBL)	SE	SE087	24.1	1.1	23.5	1.1	-0.6	0.0
NOVA LJUBLJANSKA BANKA D.D. (NLB d.d.)	SI	SI057	113.9	5.5	79.2	7.6	-34.7	2.1
NOVA KREDITNA BANKA MARIBOR D.D. (NKBM d.d.)	SI	SI058	122.9	7.7	192.2	20.8	69.4	13.1

Sources: EBA, SNL Financial and ECB calculations.