

European bank stress tests: A CDS overview



Source: Markit Desktop

The publication of the stress test results for European banks has been one of the most keenly awaited events of the year. The perceived fragility in the banking sector has made a significant contribution to the recent bout of volatility in the financial markets. Investors have become increasingly concerned that bank balance sheets are vulnerable to shocks – a reasonable assumption given the tumultuous experiences of the past three years. In response, the Committee of European Banking Supervisors – a body within the European Union - has conducted stress tests on 91 banks. The results will be published at 17:00 CET.

Whether the tests produce the cathartic effect that we saw last year in the US remains to be seen – for an exercise in transparency the process has been remarkably opaque. But bank spreads have been tightening in recent weeks amid tentative optimism that the tests will ease concerns about balance sheet weakness, at least for the near time being.

This report doesn't indulge in conjecture on what banks are likely to fail the tests. It outlines the performance, country by country, of the selected banks in the CDS market, the most reliable barometer of credit risk. The tables have been sorted in ascending order of spread, i.e. the least risky at the top. A total of 61 banks are in the report, somewhat less than the 91 institutions being tested (not including caja subsidiaries). This is because many of the smaller banks don't trade, or rarely trade, in the CDS market. Many of the banks that are included are quite illiquid, as measured by Markit CDS Liquidity. Each name has a score ranging between 1 and 5, with 1 being the most liquid.

Looking at the tables, it is no surprise to see that the majority of the riskiest banks are in the eurozone's periphery – Greece, Ireland, Portugal and Spain. These banks have direct exposure to sovereign risk through their holdings of government bonds. They are also exposed to slowing domestic economies brought about by fiscal austerity. The chart above shows the close correlation between financial and sovereign risk. The disconnect between the market view of risk and the rating agencies can be seen by comparing Markit's implied ratings with the average rating (an average of S&P, Moody's and Fitch). For example, Ireland's banks are rated around single A but are trading in junk territory. We will see over the coming weeks whether the stress tests results have the desired effect of bringing spreads back to "normality".

For full list of banks tested see CEBS website <http://www.c-eps.org/Home.aspx>

Austria

Markit Ticker	Name	Spread	Change Y-T-D	Average rating	Implied rating	Liquidity Score
ERGBA	Erste Group Bk AG	164	37	A	A	3
RZB	Raiffeisen Zentralbank Oesterreich AG	184	34	A	A	3

Belgium

Markit Ticker	Name	Spread	Change Y-T-D	Average rating	Implied rating	Liquidity Score
KRCP-BankNV	KBC Bk	131	0	A	AA	3
DEXGRP-CredLoc	Dexia Cr Loc	317	126	AA	BB	3

Cyprus

Marfin Popular Bank and Bank of Cyprus rarely trade in the CDS market

Denmark

Markit Ticker	Name	Spread	Change Y-T-D	Average rating	Implied rating	Liquidity Score
DANBNK	Danske Bk AS	77	2	AA	AA	2

Finland

Op-Pohjola Group rarely trades in the CDS market

France

Markit Ticker	Name	Spread	Change Y-T-D	Average rating	Implied rating	Liquidity Score
BNP	BNP Paribas	110	50	AA	AA	1
SOCGEN	Societe Generale	122	47	AA	AA	1
ACAFF	Cr Agricole SA	134	57	AA	AA	1
CCBP-NATIXI	NATIXIS	168	38	AA	A	3

Germany

Markit Ticker	Name	Spread	Change Y-T-D	Average rating	Implied rating	Liquidity Score
CMZB	Commerzbank AG	109	49	A	AA	1
DB	Deutsche Bk AG	117	39	A	AA	1
DPB	Deutsche Postbank AG	118	8	A	AA	5
NDB	Norddeutsche Landbk Girozentrale	123	2	A	AA	5
DZBK	DZ Bk AG	126	27	A	AA	3
BYLAN	Bay Landbk Giroz	128	24	A	AA	3
WESTLB	WestLB AG	128	13	A	AA	2
LBW	Landbk Baden Wuertbg	140	26	A	AA	3
HSH	HSH Nordbank AG	143	-36	A	A	4
HESLAN	Landbk Hessen thuringen Giroz	144	18	A	AA	4
LBBGAG	Landbk Berlin AG	152	29	A	AA	4

Greece

Markit Ticker	Name	Spread	Change Y-T-D	Average rating	Implied rating	Liquidity Score
NATGRE	Natl Bk Greece SA	845	577	BBB	CCC	4
EFGHEY-EurbkErg	EFG Eurobank Ergasias SA	864	568	BB	CCC	4
ALPHBK	ALPHA Bk AE	873	584	BB	CCC	4
PIRB	Piraeus Bk SA	893	579	BB	CCC	4

Hungary

Markit Ticker	Name	Spread	Change Y-T-D	Average rating	Implied rating	Liquidity Score
OTP	OTP Bk Plc	390	125	BBB	BB	4

Ireland

Markit Ticker	Name	Spread	Change Y-T-D	Average rating	Implied rating	Liquidity Score
BKIR	Gov & Co Bk IrInd	358	111	A	BB	2
AIB	Allied Irish Bks PLC	491	220	A	B	3

Italy

Markit Ticker	Name	Spread	Change Y-T-D	Average rating	Implied rating	Liquidity Score
SANPAO	Intesa Sanpaolo SpA	118	59	AA	AA	1
UDBI	UNIONE DI BANCHE ITALIANE S C PER AZIONI	140	65	A	AA	3
USPA	UniCredit SpA	146	53	A	AA	1
MONTE	Bca Monte dei Paschi di Siena S p A	159	85	A	A	1
BPSC	Bco Pop S C	200	105	A	BBB	1

Luxembourg

Banque et Caisse D'Epargne de L'etat and Banque Raiffeisen rarely trade in the CDS market

Malta

Bank of Valetta rarely trades in the CDS market

Netherlands

Markit Ticker	Name	Spread	Change Y-T-D	Average rating	Implied rating	Liquidity Score
RABOBK	Rabobank Nederland	88	18	AAA	AA	1
INTNED-BankNV	ING Bk N V	114	51	AA	AA	3
FORTIS-BkND	Fortis Bk Ned NV	123	60	A	AA	4
SNSBNK	SNS Bk NV	228	68	A	BB	3

Poland

PKO Bank Polski rarely trades in the CDS market

Portugal

Markit Ticker	Name	Spread	Change Y-T-D	Average rating	Implied rating	Liquidity Score
BCPN	Bco Comercial Portugues SA	377	296	BBB	BB	1
CXGD	Caixa Geral de Depositos S A	383	311	A	B	3
BNCBPI	Bco BPI SA	397	313	A	B	3
ESF	Espirito Santo Finl Gp SA	696	396	BBB	CCC	4

Slovenia

Nova Ljubljanska Banka rarely trades in the CDS market

Spain

Markit Ticker	Name	Spread	Change Y-T-D	Average rating	Implied rating	Liquidity Score
SANTNDR	Bco SANTANDER SA	164	84	AA	A	1
BBVSM	Bco Bilbao Vizcaya Argentaria S A	195	113	AA	BBB	1
CAIXAB	La C de Aho y Pensiones de Barcelona	257	163	AA	BB	3
BKTSM	Bankinter S A	293	144	A	BB	5
BANSAB	Bco de Sabadell S A	294	149	A	BB	3
CAZAR	CAJA AHORROS Y MONTE PIEDAD ZARAGOZA ARAGON Y RIOJA	296	0	A	BB	5
BPESP	Bco Pop Espanol	302	161	AA	BB	3
CAJAMM	C de Aho Y Monte de Piedad de Madrid	372	191	A	BB	3
PASTOR	Bco PASTOR SA	408	191	A	B	3
CAIXAC	Caixa de Catalunya	409	205	A	B	4
CAVALE	C de Aho Vlnca CastlIn Alicnte Bcaja	426	51	A	B	3
CAGALI	CAJA AHORROS GALICIA	436	244	A	B	5
CAJAME	Caja de Ahorros del Mediterraneo	630	245	BBB	CCC	4

N.B. Many of the cajas are part of larger institutions and the tests are done at group, not entity level. See CEBS website for further information.

Sweden

Markit Ticker	Name	Spread	Change Y-T-D	Average rating	Implied rating	Liquidity Score
SVSKHB	Svenska Handelsbanken AB	67	10	AA	AA	3
NORDEA	Nordea Bk AB	77	22	AA	AA	3
SEB	Skandinaviska Enskilda Banken AB	91	-25	A	AA	3
SWEDBK	Swedbank AB	97	-24	A	AA	3

UK

Markit Ticker	Name	Spread	Change Y-T-D	Average rating	Implied rating	Liquidity Score
HSBC-HSBCBank	HSBC Bk plc	81	24	AA	AA	1
BACR-Bank	Barclays Bk plc	134	50	AA	AA	1
RBOS-RBOSplc	Royal Bk Scotland plc	204	64	A	BBB	1
LLOYDS-Bank	Lloyds TSB Bk plc	211	83	A	BBB	1

For more information on Markit's CDS services, including liquidity scores, see <http://www.markit.com/en/products/data/cds-pricing/cds-pricing.page?>

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