European Banks

CATALYST ALERT

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Stress reliever

Figure 1: **Tier One capital shortfalls in CEBS stress test**

Country	Bank	Shortfall (€m)
Germany	Hypo Real Estate	1245
Greece	Agricultural Bank of Greece	242.6
Spain	Diada	1032
Spain	Espiga	127
Spain	Banca Civica	406
Spain	Unnim	270
Spain	Cajasur	208
Total		3531

Source: CEBS

- **The CEBS stress tests have, in our opinion, achieved a sufficient level of rigour to be taken seriously.** Not all banks passed, and although the aggregate capital shortfall was small, this largely reflects the amount of capital that has already been put into the European sector (we estimate that this might amount to €220bn including retained earnings, RWA reductions and capital increases). Although the sovereign stress test disappointed many commentators by only stressing trading books, we find that the additional stress placed on the banking book in the "additional sovereign scenario" actually compensates for this; the aggregate amount of loss in the CEBS sovereign scenario for our coverage universe (c€40bn) is actually very similar to the loss that would be delivered in a more realistic assessment of the entire sovereign book.
- **We have re-engineered the CEBS criteria to deliver the stress test we believe investors wanted to see:** We have changed the basis for measurement from headline Tier One to Equity Tier One, and incorporated a more realistic sovereign risk scenario. On this basis, the majority of the quoted European banks still pass the stress test; the exceptions being the Greek banks (which are affected by a large exposure to their own sovereign) and KBC (where the stress test model does not give credit for planned disposals). We find that the sector in aggregate would have surplus capital of €247bn of surplus capital relative to a 5% stress case Equity Tier One standard, half of this being in the UK.
- **Stock Calls:** In our opinion, the important catalyst here is not so much the stress tests themselves as the transparency provided, which is impressive, in our opinion. We would highlight amongst our Outperform-rated stocks BNPP, Unicredit and Santander. Other stocks which we have on Neutral but that may also benefit form a sector bounce would probably include Societe Generale and BBVA.

Headline news

Going into the stress release, we had expected to see the following outcomes (summarised ahead of the announcement in our piece "Stress test: the hour is at hand", 22 July).

- **We expected to see very few banks failing, due to capital reinforcements carried out ahead of the test.** This turned out to be the case; there were only €3.5bn of shortfalls versus the benchmark of 6% headline Tier One capital:

Figure 2: **Tier One shortfalls, €m**

Country	Bank	Shortfall (€m)
Germany	Hypo Real Estate	1245
Greece	Agricultural Bank of Greece	243
Spain	Diada	1032
Spain	Espiga	127
Spain	Banca Civica	406
Spain	Unnim	270
Spain	Cajasur	208
Total		3531

Source: CEBS

- **We expected that the recapitalisations announced would be largely funded from national resources, without needing to tap the EFSF or other supranational money.** This was clearly the case. An accompanying press release from the ECB and European Commission said that "Where the results of the exercise indicate that individual banks require additional capital, these banks should take the necessary steps to reinforce their capital positions through private-sector means and by resorting, if necessary, to facilities set up by Member State governments, in full compliance with EU state-aid rules". Agricultural Bank of Greece already has a capital issue in progress.

- **We expected that although few people would be wholly satisfied with the results published, there would be sufficient transparency to allow us to produce a stress test we regarded as reasonable for the banks we cover.** This appears to be the case. Disappointingly, some banks failed to publish their sovereign exposure - the only ones which did not do so in our sample were Deutsche Bank (which has previously disclosed exposure to Greece, Spain, Italy, Ireland and Portugal, allowing us to make estimates) and Deutsche Postbank, where the aggregate amount of sovereign risk is small. We have therefore been able to "re-engineer" the stress test for banks in our coverage universe, to change the basis from Tier One to Equity Tier One, and to impose a more rigorous sovereign loss scenario.

- **We had expected aggregate recapitalisation requirements of €35bn for the Landesbanks, €12bn for the Cajas de Ahorros and €35bn for banks elsewhere in Europe.** The actual Tier One capital shortfalls were much smaller. The Landesbanks all passed - as we noted in "The hour is at hand" (22 July, 2010), this is not so surprising given that such large amounts of government capital have already been put into the Landesbank system in the form of capital injections and loan guarantees. The Cajas de Ahorros required a total of €1.8bn, below our estimates, but once more we note that €11.9bn had already been injected into the system - we had assumed that this would not be counted as available for the purposes of the stress test, but it was, meaning that on a like for like basis, the stress test result in Spain was more rigorous than we had expected. We would also note that despite the Caja restructuring program which bundled stronger institutions with weaker ones, four of the restructured groups were found to fail on a proforma basis (including Diada, the group including Caixa Catalunya). Outside the Cajas, the shortfall at Hypo Real Estate was expected (and is due to the movement of assets into a government-owned bad bank not having been counted), while the €243m shortfall in Agricultural Bank of Greece compares to an estimate of €587m in our note of 14 July "Stress tests revised".

Assessment

The details of the outcome were sharply lower than our forecast of a €90bn recapitalisation requirement, but this is mainly due to the phenomenon we identified in our note of 22 July - the large amount of capital which has already been raised over the last 18 months. Given that the European sector has organically generated the equivalent of €220bn since the US stress test was carried out (through retained earnings, capital issues and RWA reductions), it perhaps should have surprised us less that there was not much left to do.

Our original point of view was that the crucial test to be made was not of the banks themselves, but of the European bailout infrastructure; our success criterion in "Who's Testing Who?" (8 July) was for sufficient recapitalisation requirement to be generated to activate some of the supra-national and pan-European funds to be activated. This has not happened, but nonetheless, we believe that significant uncertainty about the bailout infrastructure has been resolved. Jean-Claude Trichet of the ECB, Olli Rehn of the Commission and Klaus Regling, the CEO of the European Financial Stability Fund, have all made public statements to the effect that funds from the EFSF could be advanced to European sovereigns for the purposes of establishing or recapitalising bank bailout funds.

The published data

In the end, the CEBS stress case has given us a considerable amount of transparency on its stress tests. The published disclosures show:

- A base case 2011e Tier One capital and RWA
- An "adverse scenario", giving estimates of the impact of an economic downturn in Europe
- An "additional sovereign shock on the adverse scenario", which adds loss assumptions on sovereign exposures in the trading book, plus additional (non-sovereign) banking book losses to simulate the macroeconomic impact of a sovereign crisis.

We summarise the outputs overleaf (Unfortunately the information provided for CA and Natixis is at the parent company level, not at the level of the listed entity, so we have not been able to include them in our analysis):

Figure 3: CEBS stress test results, summarised

€ in millions, unless otherwise stated

	2011E CEBS base case T1 ratio	2011E CEBS adverse case T1 ratio	CEBS Adverse plus add'l sov shock T1 ratio	Surplus/ (shortfall), lc millions	Surplus/ (shortfall) as % of mkt cap	*Memo: Exposure to peripheral europe, €m*	*Memo: Exposure to CEE, €m*	*Exposure to peripheral Europe as % of 2011E CS ET1 capital*	*Exposure to CEE as % of 2011E CS ET1 capital*
Austria									
ERSTE	10.4%	9.7%	8.0%	2,460	21%	*1,365*	*15,460*	*14%*	*156%*
Benelux									
DEX	13.4%	11.2%	10.9%	7,455	122%	*8,534*	*5,992*	*48%*	*34%*
ING	11.2%	9.1%	8.8%	11,703	44%	*5,578*	*5,755*	*17%*	*18%*
KBC	12.2%	9.8%	9.4%	4,665	39%	*3,227*	*16,747*	*38%*	*196%*
France									
BNPP	11.4%	9.7%	9.6%	24,842	42%	*11,020*	*4,619*	*17%*	*7%*
SOGN	11.9%	10.2%	10.0%	14,390	51%	*5,681*	*11,268*	*17%*	*35%*
Germany									
CBK	10.5%	9.3%	9.1%	9,393	127%	*7,600*	*6,700*	*28%*	*24%*
DBK	13.2%	12.4%	9.7%	11,657	38%	*8,300*	*5,450*	*25%*	*16%*
POST	7.9%	6.7%	6.6%	372	7%	*4,300*	*-*	*94%*	*0%*
Greece									
ALPHA	12.3%	10.9%	8.2%	1,093	39%	*5,070*	*486*	*103%*	*10%*
ATE	10.7%	8.9%	4.4% -	243	-25%	*3,900*	*-*	*869%*	*0%*
BOC	10.9%	9.4%	8.0%	445	19%	*2,250*	*139*	*99%*	*6%*
BOP	10.9%	8.3%	6.0%	-	0%	*8,306*	*647*	*288%*	*22%*
EFG	11.7%	10.2%	8.2%	1,159	39%	*7,433*	*2,046*	*191%*	*53%*
NBG	11.7%	9.6%	7.4%	997	15%	*19,756*	*406*	*237%*	*5%*
TTHP	17.0%	15.0%	10.1%	285	29%	*5,371*	*-*	*340%*	*0%*
Italy									
BP	7.8%	7.4%	7.0%	931	31%	*240*	*-*	*4%*	*0%*
ISP	9.8%	8.8%	8.2%	8,304	27%	*1,565*	*3,918*	*5%*	*13%*
BMPS	7.6%	6.8%	6.2%	245	4%	*247*	*7*	*3%*	*0%*
UBI	7.6%	7.1%	6.8%	686	12%	*25*	*-*	*0%*	*0%*
UCG	10.0%	8.1%	7.8%	8,481	21%	*1,604*	*12,258*	*4%*	*29%*
Portugal									
BCP	9.4%	8.4%	8.4%	1,575	52%	*1,871*	*1,967*	*39%*	*41%*
BES	9.2%	7.4%	6.9%	611	15%	*5,211*	*3*	*89%*	*0%*
Scandinavia									
DANSKE	11.7%	10.8%	10.0%	5,774	49%	*696*	*256*	*6%*	*2%*
NORD	10.3%	10.2%	10.1%	8,774	29%	*286*	*638*	*1%*	*3%*
SEB	11.8%	11.1%	10.3%	3,542	32%	*379*	*944*	*4%*	*10%*
SHB	9.3%	9.1%	8.9%	3,130	24%	*-*	*26*	*0%*	*0%*
SWED	11.0%	10.5%	9.9%	2,916	36%	*-*	*276*	*0%*	*3%*
Spain									
SAB	9.6%	7.7%	7.2%	695	14%	*4,974*	*28*	*101%*	*1%*
PAS	8.7%	6.8%	6.0%	-	0%	*2,808*	*-*	*178%*	*0%*
POP	9.2%	7.5%	7.0%	926	14%	*8,231*	*-*	*95%*	*0%*
BKT	8.4%	7.6%	6.8%	245	9%	*1,735*	*-*	*72%*	*0%*
BBVA	10.6%	9.6%	9.3%	10,267	28%	*44,929*	*372*	*151%*	*1%*
SAN	11.0%	10.2%	10.0%	23,414	29%	*53,675*	*44*	*93%*	*0%*
UK									
BARC	15.0%	13.9%	13.7%	38,305	89%	*6,867*	*1,089*	*12%*	*2%*
HSBC	11.1%	10.4%	10.2%	40,423	30%	*2,754*	*875*	*3%*	*1%*
LLOY	10.4%	9.4%	9.2%	20,614	40%	*28*	*2*	*0%*	*0%*
RBS	13.5%	11.7%	11.2%	28,830	94%	*9,196*	*979*	*13%*	*1%*

Source: CEBS, Credit Suisse estimates

How rigorous is the adverse scenario?

In order to assess the validity and rigour of the stress test, it is necessary to see how severe the assumed stress test losses really are. The CEBS gives us the following data items under its "adverse scenario":

- Cumulative pre-provision profits for 2010e plus 2011e
- Cumulative estimated impairment losses on financial assets in the banking book for 2010e plus 2011e
- Cumulative estimated losses on the trading book for 2010e and 2011e

These are calculated under standardised assumptions (most importantly, a constant balance sheet), and so cannot strictly be regarded as forecasts; however, comparison to our earnings forecasts is in our opinion the best way to assess how much of a delta the stress test is assuming. In the tables below, we:

- Compare the pre-provision profit forecasts to our 2010e plus 2011e estimates.
- Compare the estimated impairment losses to our bad debt charge forecasts (this is not a perfect comparison, as it is not clear to us that this line follows the accounting treatment for bad debts, but it is the best we can get).
- Compare the estimated trading losses to our cumulative total revenue estimates

Taking our earnings forecasts as a base case allows us to see how severe the stress case is for our coverage universe; the stress test also publishes cumulative 2yr loss rates on corporate and retail exposures, but it is not clear how comparable these are to the granular disclosures given in accounts. We also show the implied variance to our net profit and EPS forecasts which would occur if the CEBS stress cases were to be realised.

Figure 4: CEBS adverse scenario compared to CS forecasts

€ in millions, unless otherwise stated

	CEBS 2010+2011 PPP	CS 2010+2011 PPP	Delta, % of CS PPP	Delta post tax, % of CS adj net profit 2011E (implied variance to CS EPS)	CEBS 2010+2011 impairments	CS 2010+2011 provisions	Delta, % of CS provisions	Delta post tax, % of CS adjusted profit (implied variance to CS EPS)	CEBS 2010+2011 trading losses	% of CS 2010+2011 revenues	% of CS 2010+2011 CS adjusted profit (implied variance to CS EPS)
Austria											
ERSTE	7,010	6,939	-1%	5%	5,185	3,669	-41%	-108%	116	1%	-7%
Total	**7,010**	**6,939**	**-1%**	**5%**	**5,185**	**3,669**	**-41%**	**-108%**	**116**	**1%**	**-7%**
Benelux											
DEX	2,424	3,700	34%	-95%	3,512	1,384	-154%	-158%	43	0%	-3%
ING	13,074	13,811	5%	-10%	9,029	4,371	-107%	-65%	411	1%	-4%
KBC	3,279	7,876	58%	-219%	4,946	2,607	-90%	-111%	1,454	8%	-50%
Total	**18,777**	**25,388**	**26%**	**-62%**	**17,487**	**8,362**	**-109%**	**-86%**	**1,908**	**3%**	**-14%**
France											
BNPP	32,001	35,856	11%	-31%	19,392	11,507	-69%	-63%	3,232	4%	-19%
SOGN	16,774	19,423	14%	-43%	10,255	8,072	-27%	-36%	2,260	4%	-29%
Total	**48,775**	**55,278**	**12%**	**-35%**	**29,647**	**19,579**	**-51%**	**-54%**	**5,492**	**4%**	**-23%**
Germany											
CBK	7,009	9,263	24%	-966%	7,128	6,415	-11%	-306%	1,201	5%	-213%
DBK	21,775	18,590	-17%	41%	10,713	3,246	-230%	-96%	3,410	6%	-34%
POST	1,023	2,450	58%	-140%	1,737	950	-83%	-77%	35	0%	-3%
Total	**29,807**	**30,303**	**2%**	**-5%**	**19,578**	**10,611**	**-85%**	**-99%**	**4,646**	**5%**	**-40%**
Greece											
ALPHA	2,021	2,279	11%	-70%	2,297	1,539	-49%	-205%	2	0%	-1%
ATE	856	603	-42%	-3860%	771	645	-20%	1926%	16	1%	12%
BOC	1,278	1,384	8%	-19%	1,794	612	-193%	-211%	-	0%	0%
BOP	1,282	1,380	7%	-70%	1,600	1,207	-33%	-278%	32	1%	-55%
EFG	2,760	3,345	17%	-178%	2,626	2,530	-4%	-29%	71	1%	-25%
NBG	4,264	4,833	12%	-44%	5,102	2,445	-109%	-205%	- 176	-2%	12%
TTHP	175	220	20%	-53%	434	90	-380%	-407%	1	0%	-2%
Total	**12,636**	**14,044**	**10%**	**-51%**	**14,624**	**9,069**	**-61%**	**-200%**	**- 54**	**0%**	**2%**
Italy											
BP	2,230	3,036	27%	-142%	2,505	1,335	-88%	-207%	183	2%	-29%
ISP	17,782	16,548	-7%	26%	10,865	6,101	-78%	-100%	586	2%	-10%
BMPS	4,350	4,769	9%	-50%	4,351	2,405	-81%	-234%	65	1%	-7%
UBI	2,411	2,906	17%	-78%	2,739	1,315	-108%	-223%	8	0%	-1%
UCG	20,374	24,381	16%	-63%	21,858	11,908	-84%	-156%	441	1%	-7%
Total	**47,147**	**51,640**	**9%**	**-34%**	**42,318**	**23,064**	**-83%**	**-146%**	**1,283**	**1%**	**-9%**
Portugal											
BCP	2,827	2,117	-34%	115%	2,113	1,111	-90%	-163%	41	1%	-5%
BES	2,811	2,209	-27%	92%	2,415	912	-165%	-229%	453	10%	-50%
Total	**5,638**	**4,326**	**-30%**	**103%**	**4,528**	**2,023**	**-124%**	**-197%**	**494**	**5%**	**-30%**
Scandinavia											
DANSKE	6,317	6,379	1%	-3%	5,711	3,224	-77%	-111%	534	4%	-24%
NORD	4,513	7,917	43%	-101%	4,945	1,865	-165%	-92%	634	4%	-14%
SEB	2,668	2,896	8%	-20%	2,635	824	-220%	-162%	25	0%	-2%
SHB	4,043	3,454	-17%	37%	1,338	404	-232%	-58%	- 11	0%	1%
SWED	2,720	2,747	1%	-3%	1,930	977	-97%	-90%	22	0%	-2%
Total	**20,261**	**23,393**	**13%**	**-33%**	**16,559**	**7,294**	**-127%**	**-99%**	**1,204**	**2%**	**-35%**
Spain											
SAB	2,085	2,382	12%	-51%	4,029	1,646	-145%	-409%	-	0%	0%
PAS	614	875	30%	-226%	1,690	676	-150%	-877%	46	3%	-51%
POP	4,498	4,717	5%	-19%	7,508	2,457	-206%	-447%	4	0%	0%
BKT	1,018	1,093	7%	-24%	1,091	451	-142%	-207%	163	7%	-40%
BBVA	21,768	25,833	16%	-55%	12,093	8,988	-35%	-42%	1,223	3%	-12%
SAN	45,737	47,277	3%	-10%	27,851	17,925	-55%	-65%	907	1%	-4%
Total	**75,720**	**82,177**	**8%**	**-26%**	**54,262**	**32,144**	**-69%**	**-89%**	**2,343**	**2%**	**-7%**
UK											
BARC	37,315	31,332	-19%	80%	21,576	13,823	-56%	-104%	2,203	3%	-22%
HSBC	47,663	56,836	16%	-52%	43,001	25,362	-70%	-99%	1,077	1%	-4%
LLOY	28,926	31,015	7%	-42%	27,116	25,514	-6%	-32%	230	0%	-8%
RBS	28,660	29,637	3%	-17%	32,371	21,401	-51%	-193%	4,193	6%	-80%
Total	**142,563**	**148,821**	**4%**	**-17%**	**124,064**	**86,100**	**-44%**	**-106%**	**7,703**	**2%**	**-18%**
Sector	**408,334**	**442,309**	**8%**	**-27%**	**328,252**	**201,914**	**-63%**	**-99%**	**25,135**	**3%**	**-17%**

Source: CEBS, Credit Suisse estimates

It appears that the forecasts implicit in the adverse scenario are reasonably rigorous. In general, the assumed 2010e/2011e preprovision profit in the “base case” is lower than in our forecasts, and in all cases, the impairment losses in the “adverse scenario” are higher (in nearly all cases by a material amount) than our base case estimates. In aggregate, the CEBS base case pre-provision profit is 8% lower than our model forecasts, and the CEBS adverse case impairments would, if incorporated into our models, wipe out 99% of our cumulative net profit forecasts for the two year period, with trading losses in the adverse scenario accounting for a further 17% of net profit and pushing the sector into loss. We are content with this as a sufficiently rigorous aggregate adverse economic scenario.

How rigorous is the additional sovereign risk charge?

A similar exercise can be carried out to benchmark the additional sovereign risk charge. The CEBS stress case consists of two elements; one which covers losses on government bonds held on the trading book and another which covers additional impairment losses in the banking book (presumably to reflect a scenario under which borrowing costs risk for domestic entities as sovereign spreads increase). In our opinion, this may not cover the actual sovereign risks faced by the European sector; trading book losses are likely to be small compared to potential sovereign exposures in held-to-maturity or available-for-sale portfolios, and flexing the impairment charge on the overall loan book (and including hypothetical losses on top-tier sovereigns) seems to us a poor way of compensating for this omission.

As in our previous stress test notes, we believe that a relevant stress case would be a “forced sale” of the entire sovereign bond exposures to higher-risk sovereigns, at current market prices less a discount. Therefore, we add back the sovereign losses from the CEBS stress test, and substitute the following table of stress losses, (previously we had used YTD benchmark bond performance - due to data availability issues with the expanded universe, we have moved to a somewhat more conservative methodology of assuming a 50% stress loss on Greece, and scaling other loss assumptions relative to the respective CDS spread compared to that of Greece).

Figure 5: **Sovereign stress assumptions**

Country	Percentage stress loss
Bulgaria	19.6%
Czech Republic	6.0%
Estonia	6.2%
Greece	50.0%
Hungary	20.8%
Iceland	20.1%
Ireland	15.9%
Latvia	21.7%
Lithuania	15.7%
Poland	8.7%
Portugal	18.0%
Romania	22.8%
Slovakia	5.4%
Slovenia	5.1%
Spain	13.5%

Source: Credit Suisse estimates

Recalibrating in this way allows us to compare our sovereign haircuts with the impact of the CEBS “additional sovereign shock”: We would note that in order to do this, it is necessary to do a little analysis in order to get a consistent figure for the CEBS impact. The published figures for “impairment losses on the banking book after the sovereign shock” and “additional losses on sovereign exposures in the trading book after the sovereign shock” are pre-tax and cannot be added to the base case Tier One capital. In order to get a consistent impact number, it is necessary to take the declared Tier One ratio in the “sovereign” case, divide by the RWA number from the “adverse” case, and subtract from the Tier One capital figure from the “adverse” case. This gives a comparable figure to our post tax sovereign stress case.

Figure 6: CEBS sovereign case vs CS sovereign case

€ in millions, unless otherwise stated

	CEBS sovereign impact	CS sovereign impact	Delta, % of CEBS sovereign impact	CS RWAs 2011E	Delta, % of CS 2011E RWAs
Austria					
ERSTE	2,129	1,584	-26%	149,190	-0.4%
Total	**2,129**	**1,584**	**-26%**	**149,190**	**-0.4%**
Benelux					
DEX	404	2,416	498%	136,953	1.5%
ING	1,054	1,598	52%	345,158	0.2%
KBC	535	1,695	217%	132,588	0.9%
Total	**1,992**	**5,709**	**187%**	**614,699**	**0.6%**
France					
BNPP	688	2,801	307%	737,152	0.3%
SOGN	544	2,455	351%	385,154	0.5%
Total	**1,232**	**5,256**	**327%**	**1,122,306**	**0.4%**
Germany					
CBK	732	2,004	174%	280,100	0.5%
DBK	8,426	1,823	-78%	348,763	-1.9%
POST	85	779	813%	71,136	1.0%
Total	**9,244**	**4,606**	**-50%**	**700,000**	**-0.7%**
Greece					
ALPHA	1,318	1,852	41%	53,103	1.0%
ATE	674	1,365	103%	15,671	4.4%
BOC	302	716	137%	27,763	1.5%
BOP	863	3,008	249%	38,438	5.6%
EFG	1,085	2,829	161%	51,284	3.4%
NBG	1,541	6,977	353%	69,781	7.8%
TTHP	339	1,880	454%	7,682	20.1%
Total	**6,123**	**18,626**	**204%**	**263,723**	**4.7%**
Italy					
BP	390	45	-88%	94,258	-0.4%
ISP	2,375	587	-75%	382,899	-0.5%
BMPS	770	36	-95%	130,815	-0.6%
UBI	274	9	-97%	92,177	-0.3%
UCG	1,583	1,334	-16%	505,993	0.0%
Total	**5,391**	**2,012**	**-63%**	**1,206,141**	**-0.3%**
Portugal					
BCP	3	526	19624%	65,125	0.8%
BES	332	758	128%	74,370	0.6%
Total	**335**	**1,285**	**284%**	**139,495**	**0.7%**
Scandinavia					
DANSKE	1,147	100	-91%	114,188	-0.9%
NORD	671	155	-77%	198,341	-0.3%
SEB	682	170	-75%	77,468	-0.7%
SHB	198	3	-98%	66,073	-0.3%
SWED	475	21	-96%	63,916	-0.7%
Total	**3,172**	**449**	**-86%**	**519,987**	**-0.5%**
Spain					
SAB	309	476	54%	60,081	0.3%
PAS	148	269	82%	18,982	0.6%
POP	464	800	72%	94,250	0.4%
BKT	251	164	-35%	33,013	-0.3%
BBVA	1,059	4,387	314%	314,825	1.1%
SAN	938	5,315	466%	590,060	0.7%
Total	**3,170**	**11,410**	**260%**	**1,111,212**	**0.7%**
UK					
BARC	831	874	5%	574,833	0.0%
HSBC	2,018	736	-64%	1,011,339	-0.1%
LLOY	1,136	4	-100%	575,118	-0.2%
RBS	2,567	1,697	-34%	585,113	-0.1%
Total	**6,551**	**3,311**	**-49%**	**2,746,403**	**-0.1%**
Sector	**39,339**	**54,248**	**38%**	**8,573,156**	**0.2%**

Source: CEBS, Credit Suisse estimates

The surprising thing is that in aggregate, the more rigorous approach which we have used delivers an aggregate loss which is not entirely out of line with the CEBS loss case. Our aggregate loss of €54bn is 38% larger than the CEBS case as a total figure, but only 20bp of sector RWAs. There is considerable variance, positive and negative, from bank to bank (because our sovereign methodology only looks at direct government exposure, it tends to give better results than the CEBS methodology in cases where the CEBS case has a large effect from second-order banking book effects). However, these differences do not in most cases amount to a large enough variance to have a qualitative effect. In our opinion, the CEBS sovereign case, although widely criticised, is not really too bad.

Recalibrating and re-engineering

We have commented on several occasions that the CEBS scenarios are not the same as our own favoured criteria for a stress test. However, the information provided is sufficient to re-engineer the stress tests to provide something which we believe is more in line with investor concerns. Two main changes need to be made:

- First, we take the lists of stress test losses and apply them to our own estimates of 2011e Equity Tier One capital, rather than internal estimates of headline Tier One. This puts the stress test on a core capital basis and removes discrepancies between the implicit regulatory assumptions for pre-provision profit and our own model forecasts.
- Second, we substitute our own preferred sovereign stress test for the CEBS one.
- Finally, we benchmark the quoted European sector against a 5% Equity Tier One ratio standard in order to calculate shortfalls or surpluses.

This gives the following set of results, broadly consistent with our previous proforma stress test exercises.

Figure 7: CS adjusted stress test

€ in millions, unless otherwise stated

	2011E CS base case ET1 ratio	2011E CS base case ET1 capital	CEBS adverse scenario loss	CS sovereign haircut	2011E CS stressed case ET1 capital	2011E CS stressed case ET1 ratio	Total impact as % of CS RWAs	Surplus/ (shortfall), lc millions	Surplus/ (shortfall), % of CS RWAs
Austria									
ERSTE	6.6%	9,889	- 830	- 1,584	7,474	5.0%	1.6%	15	0.0%
Total	**6.6%**	**9,889**	**-830**	**-1,584**	**7,474**	**5.0%**	**1.6%**	**15**	**0.0%**
Benelux									
DEX	12.9%	17,602	- 987	- 2,416	14,199	10.4%	2.5%	7,352	5.4%
ING	9.5%	32,697	- 2,530	- 1,598	28,568	8.3%	1.2%	11,311	3.3%
KBC	6.4%	8,524	- 1,645	- 1,695	5,184	3.9%	2.5%	- 1,445	-1.1%
Total	**9.6%**	**58,823**	**- 5,162**	**- 5,709**	**47,952**	**7.8%**	**1.8%**	**17,217**	**2.8%**
France									
BNPP	8.8%	64,541	- 4,837	- 2,801	56,903	7.7%	1.0%	20,045	2.7%
SOGN	8.5%	32,618	- 2,895	- 2,455	27,268	7.1%	1.4%	8,011	2.1%
Total	**8.7%**	**97,159**	**- 7,732**	**- 5,256**	**84,171**	**7.5%**	**1.2%**	**28,056**	**2.5%**
Germany									
CBK	9.8%	27,432	- 1,978	- 2,004	23,450	8.4%	1.4%	9,445	3.4%
DBK	9.5%	33,111	- 2,540	- 1,823	28,747	8.2%	1.3%	11,309	3.2%
POST	6.4%	4,558	- 997	- 779	2,782	3.9%	2.5%	- 775	-1.1%
Total	**9.3%**	**65,100**	**- 5,515**	**- 4,606**	**54,979**	**7.9%**	**1.4%**	**19,979**	**2.9%**
Greece									
ALPHA	9.2%	4,902	- 996	- 1,852	2,054	3.9%	5.4%	- 601	-1.1%
ATE	2.9%	449	- 382	- 1,365	- 1,298	-8.3%	11.1%	- 2,082	-13.3%
BOC	8.2%	2,263	- 389	- 716	1,159	4.2%	4.0%	- 230	-0.8%
BOP	7.5%	2,882	- 1,088	- 3,008	- 1,214	-3.2%	10.7%	- 3,136	-8.2%
EFG	7.6%	3,883	- 633	- 2,829	422	0.8%	6.7%	- 2,142	-4.2%
NBG	12.0%	8,344	- 1,457	- 6,977	- 90	-0.1%	12.1%	- 3,579	-5.1%
TTHP	20.6%	1,580	- 235	- 1,880	- 534	-7.0%	27.5%	- 918	-12.0%
Total	**9.2%**	**24,304**	**- 5,180**	**- 18,626**	**498**	**0.2%**	**9.0%**	**- 12,688**	**-4.8%**
Italy									
BP	6.1%	5,748	- 312	- 45	5,390	5.7%	0.4%	678	0.7%
ISP	7.6%	29,270	- 608	- 587	28,075	7.3%	0.3%	8,930	2.3%
BMPS	6.0%	7,905	- 758	- 36	7,111	5.4%	0.6%	570	0.4%
UBI	7.9%	7,260	- 398	- 9	6,854	7.4%	0.4%	2,245	2.4%
UCG	8.3%	42,169	- 7,584	- 1,334	33,251	6.6%	1.8%	7,952	1.6%
Total	**7.7%**	**92,353**	**- 9,660**	**- 2,012**	**80,682**	**6.7%**	**1.0%**	**20,374**	**1.7%**
Portugal									
BCP	7.4%	4,836	- 681	- 526	3,629	5.6%	1.9%	373	0.6%
BES	7.9%	5,872	- 1,241	- 758	3,873	5.2%	2.7%	154	0.2%
Total	**7.7%**	**10,709**	**- 1,922**	**- 1,285**	**7,502**	**5.4%**	**2.3%**	**527**	**0.4%**
Scandinavia									
DANSKE	10.4%	11,908	- 822	- 100	10,986	9.6%	0.8%	5,277	4.6%
NORD	10.2%	20,229	- 342	- 155	19,732	9.9%	0.3%	9,815	4.9%
SEB	12.6%	9,779	- 592	- 170	9,017	11.6%	1.0%	5,143	6.6%
SHB	13.0%	8,598	- 211	- 3	8,384	12.7%	0.3%	5,080	7.7%
SWED	13.5%	8,603	- 348	- 21	8,235	12.9%	0.6%	5,039	7.9%
Total	**11.4%**	**59,118**	**- 2,315**	**- 449**	**56,354**	**10.8%**	**0.5%**	**30,354**	**5.8%**
Spain									
SAB	8.2%	4,923	- 1,072	- 476	3,376	5.6%	2.6%	372	0.6%
PAS	8.3%	1,574	- 361	- 269	943	5.0%	3.3%	- 6	0.0%
POP	9.2%	8,648	- 1,592	- 800	6,257	6.6%	2.5%	1,544	1.6%
BKT	7.3%	2,417	- 238	- 164	2,015	6.1%	1.2%	364	1.1%
BBVA	9.5%	29,784	- 2,034	- 4,387	23,363	7.4%	2.0%	7,622	2.4%
SAN	9.7%	57,518	- 4,396	- 5,315	47,807	8.1%	1.6%	18,304	3.1%
Total	**9.4%**	**104,864**	**- 9,693**	**- 11,410**	**83,760**	**7.5%**	**1.9%**	**28,200**	**2.5%**
UK									
BARC	9.8%	56,614	- 5,815	- 874	49,925	8.7%	1.2%	21,184	3.7%
HSBC	9.5%	96,384	- 6,771	- 736	88,877	8.8%	0.7%	38,310	3.8%
LLOY	10.7%	61,584	- 6,485	- 4	55,096	9.6%	1.1%	26,340	4.6%
RBS	12.2%	71,185	- 10,432	- 1,697	59,056	10.1%	2.1%	29,801	5.1%
Total	**10.4%**	**285,768**	**- 29,503**	**- 3,311**	**252,954**	**9.2%**	**1.2%**	**115,634**	**4.2%**
Sector	**9.4%**	**808,086**	**- 77,512**	**- 54,248**	**676,326**	**7.9%**	**1.5%**	**247,668**	**2.9%**

Source: CEBS, Credit Suisse estimates. UK banks include CoCos where appropriate

Conclusions

The stress test published was not perfect, but the disclosure provided was sufficient to allow us to re-engineer the test that we wanted to see. On this basis, our coverage universe still passes, even on the basis of a 5% Equity Tier One ratio standard.

Companies Mentioned *(Price as of 23 Jul 10)*
Agricultural Bank of Greece (AGBr.AT, Eu1.06, UNDERPERFORM [V], TP Eu1.00, MARKET WEIGHT)
Alpha Bank (ACBr.AT, Eu5.22, UNDERPERFORM [V], TP Eu4.20, MARKET WEIGHT)
Banca Popolare di Milano (PMII.MI, Eu3.89, OUTPERFORM [V], TP Eu5.30, MARKET WEIGHT)
Banco Comercial Portugues (BCP.LS, Eu.65, UNDERPERFORM, TP Eu.66, MARKET WEIGHT)
Banco Espirito Santo (BES.LS, Eu3.56, NEUTRAL, TP Eu4.25, MARKET WEIGHT)
Banco Pastor (PAS.MC, Eu3.89, UNDERPERFORM, TP Eu3.20, MARKET WEIGHT)
Banco Popolare (BAPO.MI, Eu4.65, OUTPERFORM [V], TP Eu6.25, MARKET WEIGHT)
Banco Popular (POP.MC, Eu4.79, UNDERPERFORM [V], TP Eu5.00, MARKET WEIGHT)
Banco Sabadell (SABE.MC, Eu4.19, UNDERPERFORM, TP Eu3.30, MARKET WEIGHT)
Banesto (BTO.MC, Eu7.50, UNDERPERFORM, TP Eu7.15, MARKET WEIGHT)
Bank of Cyprus (BOCr.AT, Eu3.94, OUTPERFORM [V], TP Eu5.60, MARKET WEIGHT)
Bankinter (BKT.MC, Eu5.61, UNDERPERFORM, TP Eu4.60, MARKET WEIGHT)
Barclays (BARC.L, 303.65 p, OUTPERFORM [V], TP 350.00 p, MARKET WEIGHT)
BBVA (BBVA.MC, Eu9.75, NEUTRAL [V], TP Eu12.15, MARKET WEIGHT)
BNP Paribas (BNPP.PA, Eu49.85, OUTPERFORM [V], TP Eu64.00, MARKET WEIGHT)
Commerzbank (CBKG.F, Eu6.28, OUTPERFORM [V], TP Eu7.40, MARKET WEIGHT)
Credit Agricole SA (CAGR.PA, Eu9.46, NEUTRAL [V], TP Eu11.50, MARKET WEIGHT)
Danske Bank AS (DANSKE.CO, DKr124.80, OUTPERFORM [V], TP DKr165.00, MARKET WEIGHT)
Deutsche Bank (DBKGn.F, Eu49.48, OUTPERFORM [V], TP Eu62.50, MARKET WEIGHT)
Deutsche Postbank AG (DPBGn.DE, Eu23.33, NEUTRAL [V], TP Eu22.50, MARKET WEIGHT)
Dexia (DEXI.BR, Eu3.31, UNDERPERFORM [V], TP Eu3.50, MARKET WEIGHT)
DnB NOR (DNBNOR.OL, NKr75.55, NEUTRAL [V], TP NKr75.00, MARKET WEIGHT)
EFG Eurobank Ergasias (EFGr.AT, Eu5.49, NEUTRAL [V], TP Eu5.90, MARKET WEIGHT)
Emporiki Bank (CBGr.AT, Eu2.57, UNDERPERFORM [V], TP Eu2.70, MARKET WEIGHT)
Erste Bank (ERST.VI, Eu30.48, UNDERPERFORM [V], TP Eu22.30, MARKET WEIGHT)
HSBC Holdings (HSBA.L, 655.00 p, OUTPERFORM, TP 810.00 p, MARKET WEIGHT)
ING Group (ING.AS, Eu6.97, OUTPERFORM [V], TP Eu10.70, MARKET WEIGHT)
Intesa Sanpaolo (ISP.MI, Eu2.43, NEUTRAL [V], TP Eu2.85, MARKET WEIGHT)
KBC (KBC.BR, Eu33.27, NEUTRAL [V], TP Eu36.00, MARKET WEIGHT)
Lloyds Banking Group (LLOY.L, 63.58 p, OUTPERFORM [V], TP 68.00 p, MARKET WEIGHT)
Monte dei Paschi di Siena (BMPS.MI, Eu.98, UNDERPERFORM [V], TP Eu1.10, MARKET WEIGHT)
National Bank of Greece (NBGr.AT, Eu11.10, NEUTRAL [V], TP Eu10.90, MARKET WEIGHT)
Natixis (CNAT.PA, Eu3.82, OUTPERFORM [V], TP Eu5.10, MARKET WEIGHT)
Nordea (NDA.ST, SKr70.65, NEUTRAL [V], TP SKr70.00, MARKET WEIGHT)
Piraeus Bank (BOPr.AT, Eu4.53, UNDERPERFORM [V], TP Eu4.20, MARKET WEIGHT)
Royal Bank of Scotland (RBS.L, 44.70 p, OUTPERFORM [V], TP 54.00 p, MARKET WEIGHT)
Santander (SAN.MC, Eu9.98, OUTPERFORM [V], TP Eu12.25, MARKET WEIGHT)
SEB (SEBa.ST, SKr48.16, UNDERPERFORM [V], TP SKr42.00, MARKET WEIGHT)
SHB (SHBa.ST, SKr202.60, UNDERPERFORM [V], TP SKr185.00, MARKET WEIGHT)
Societe Generale (SOGN.PA, Eu37.97, NEUTRAL [V], TP Eu45.00, MARKET WEIGHT)
Standard Chartered (STAN.L, 1842.00 p, OUTPERFORM [V], TP 2000.00 p, MARKET WEIGHT)
Swedbank (SWEDa.ST, SKr79.70, UNDERPERFORM [V], TP SKr70.00, MARKET WEIGHT)
TT Hellenic Postbank (GPSr.AT, Eu3.43, UNDERPERFORM [V], TP Eu2.80, MARKET WEIGHT)
UBI Banca (UBI.MI, Eu8.09, UNDERPERFORM, TP Eu8.80, MARKET WEIGHT)
UBS (UBSN.VX, SFr15.51, OUTPERFORM [V], TP SFr20.00, MARKET WEIGHT)
Unicredit (CRDI.MI, Eu2.05, OUTPERFORM [V], TP Eu2.80, MARKET WEIGHT)

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