

A Good Capital Story for European Banks (with a Caveat)



Europe's larger banks display, on balance, good levels of capital. A graphic comparison of capital levels, capital composition and excess to supervisory requirements attests to that.

The persisting mantra of many analysts, investors and financial media is still, however, that the European banking sector remains structurally under-capitalised, especially in a global context. Unfavorable comparisons with the large US banks remain a common theme. This however does not seem to be the case in our view.

This brief report shows the capital positions of 57 EU banks (in 15 countries), three Swiss banks, and 11 banks from the other developed markets. There are three main takeaways from our comparison of banks' capital positions (most data as of half-year 2018);

1. In the case of the 57 EU banks shown in our graphs, all, bar none, exceed their 2018 SREP requirements. In the country-specific comparisons, which show the banks' capital mix (see Appendix I), they exceed our estimate for 2019 SREP requirements. In Figure 1 we present a comparison of these banks' capital position in descending order of their excess capital (over the respective SREP level).
2. However, within the EU the specific SREP requirements differ in accordance with the supervisory jurisdictions. Nordic financial services authorities (especially in Sweden) and the UK's Prudential Supervisory Authority require relatively higher SREP levels than the ECB/Single Supervisory Mechanism. Total capital levels need thus to be assessed in this more relative context.
3. A comparison of large banks' capital positions in developed markets worldwide (Figure 2) shows that the large European institutions are not under-capitalised compared to the large US groups. On the contrary, it shows a relative balance across the global large bank universe (Europe, US, Canada, Japan, Australia) going beyond the GSIB category.

That being said a strong prudential capital position may prove in the future to be a potentially softer line of defence against future shocks, some of which being less likely to be captured by suitable metrics. Examples would be (i) the impact of massive or repeated cyberattacks; (ii) blows to reputation stemming from misconduct, or from indifference to environmental and social issues; or (iii) inadequate governance. A solid prudential capital position would not represent an out-of-jail ticket in the eyes of customers and market participants if such negatives emerged.

Scope rates publicly over 25 large European banks (see Appendix II for a full list, which includes also smaller institutions). It also covers (without assigning public ratings) a larger number of other European banks. Most of our ratings on the large European banks are in the A/AA- range. In line with our methodology, these ratings are not propped by any expected State support notches.

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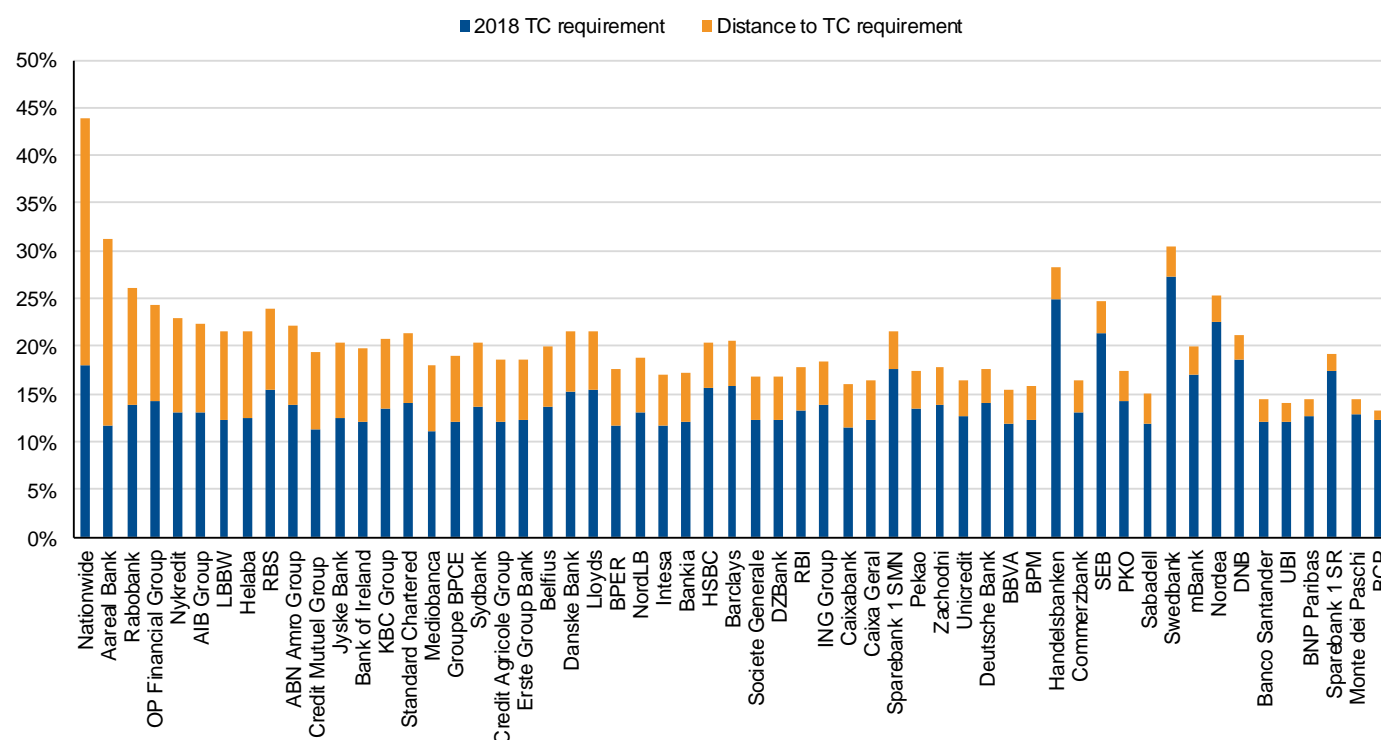
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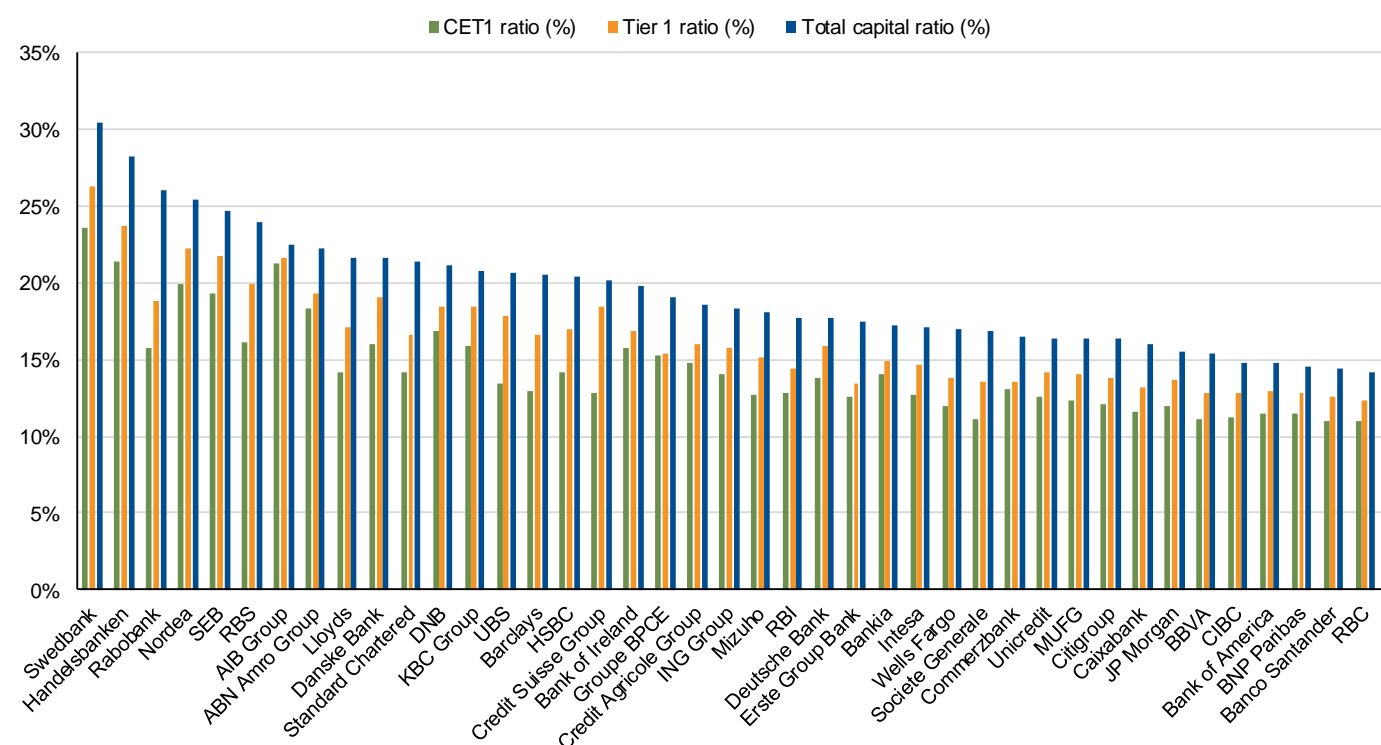
Bloomberg: SCOP

Figure 1: European banks' total capital ratios (ranked by distance to 2018 SREP requirement)



Source: Company data, SNL, Scope Ratings

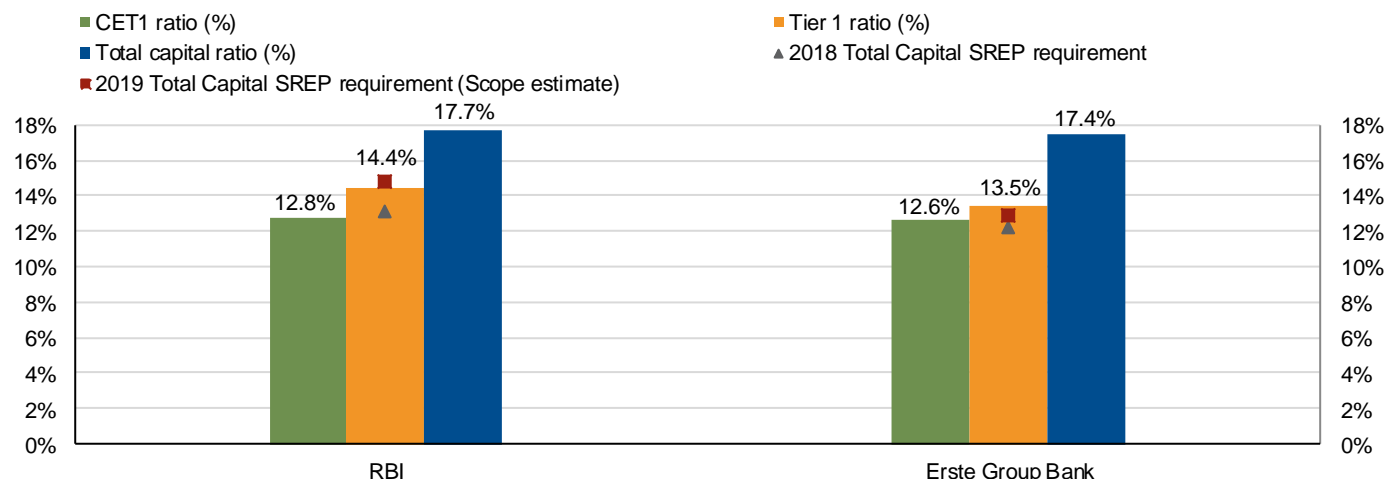
Figure 2: Main international banks' capital ratios comparison



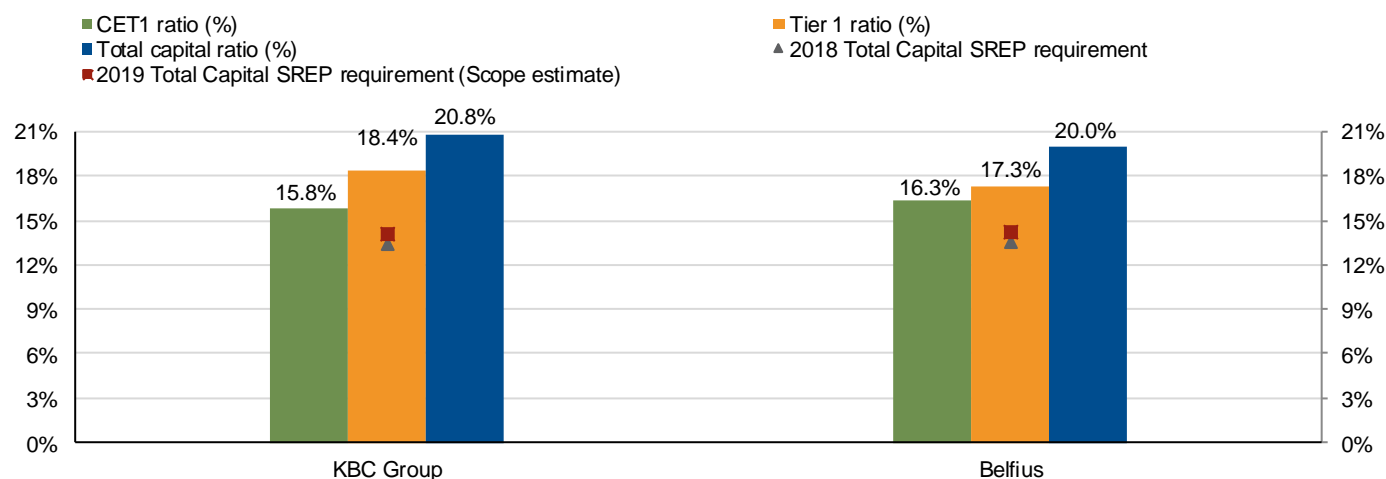
Source: SNL, Scope Ratings

I. Appendix: Large banks' capital levels and mixes (20 countries)

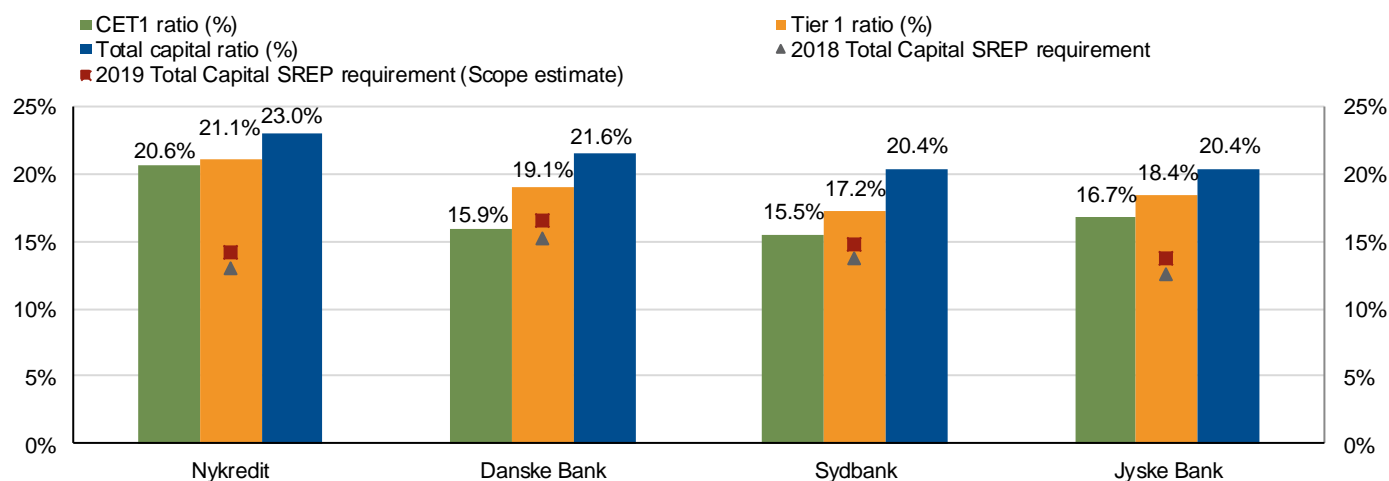
1) Austria



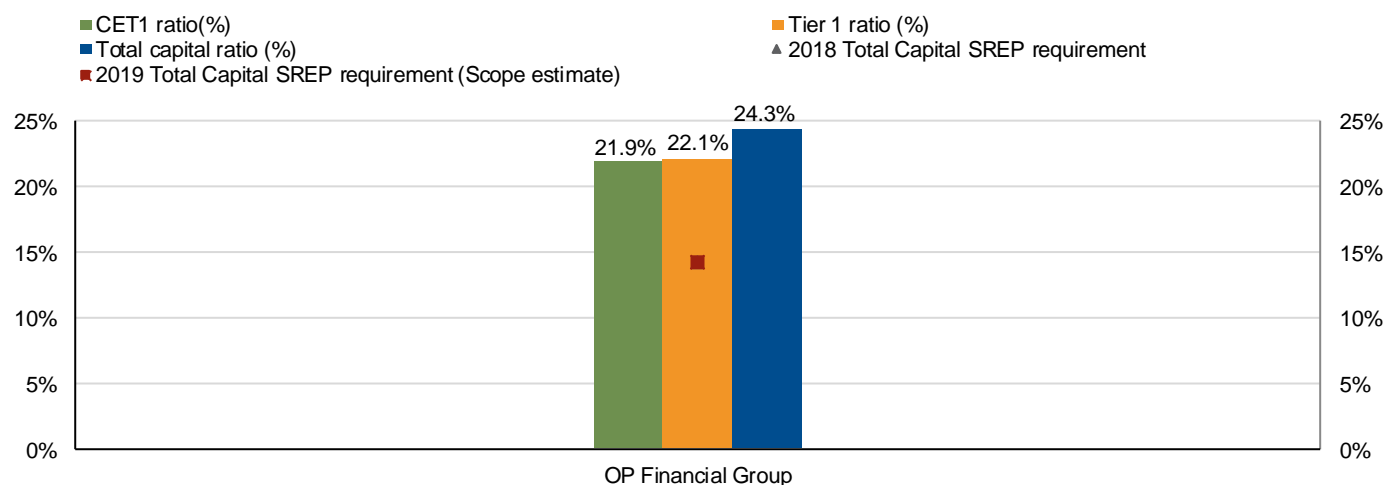
2) Belgium



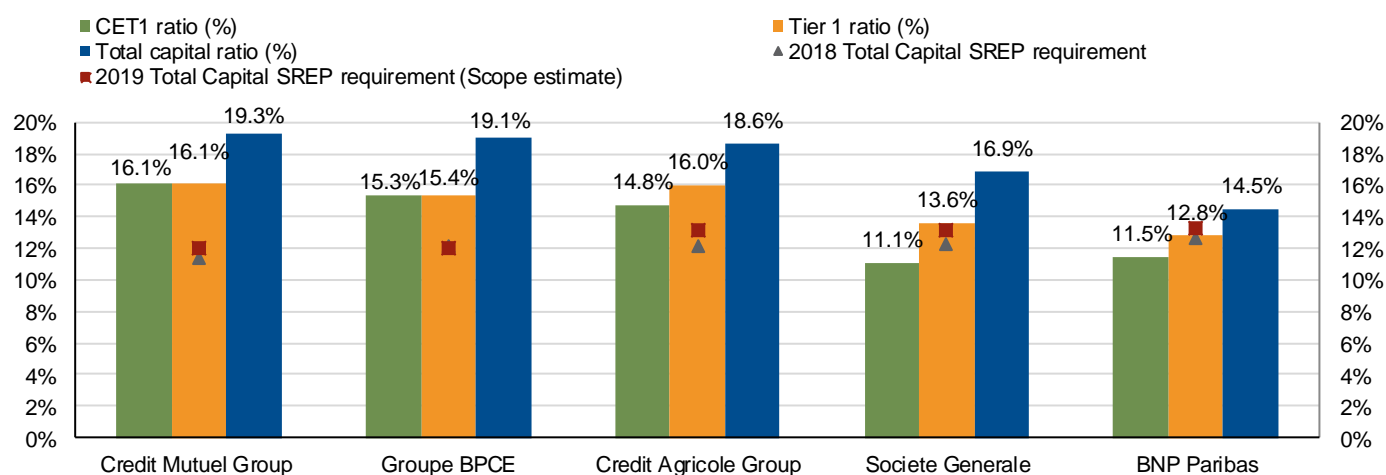
3) Denmark



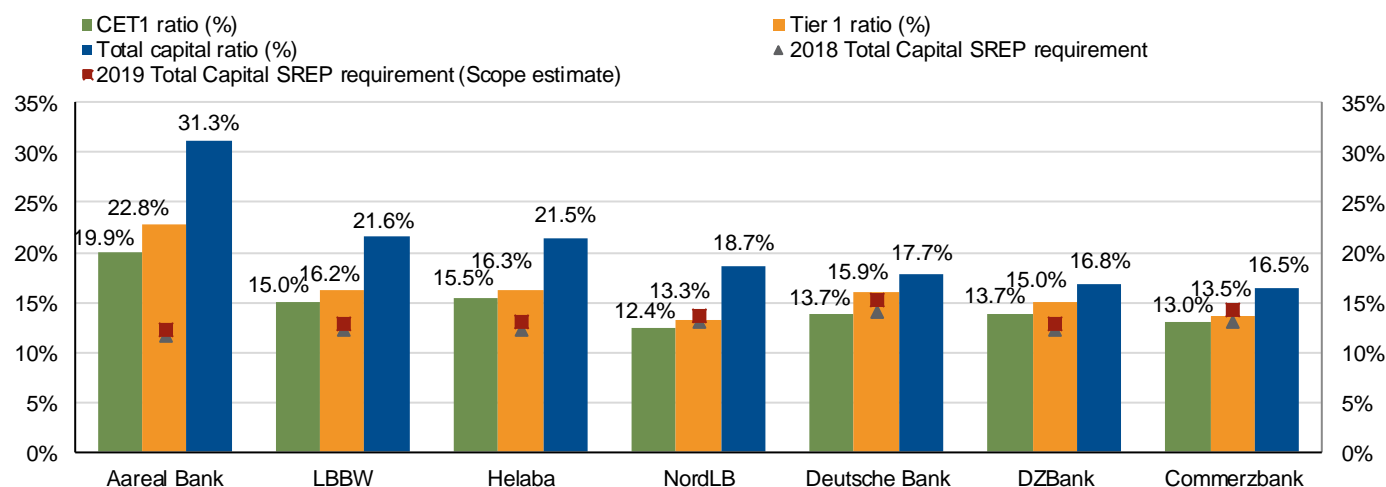
4) Finland



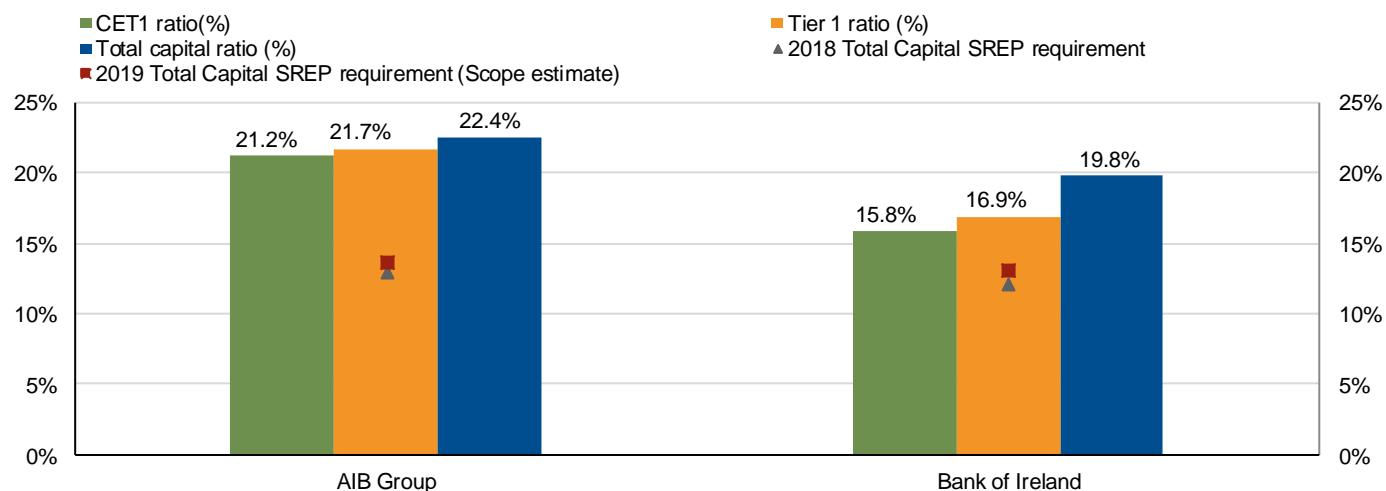
5) France



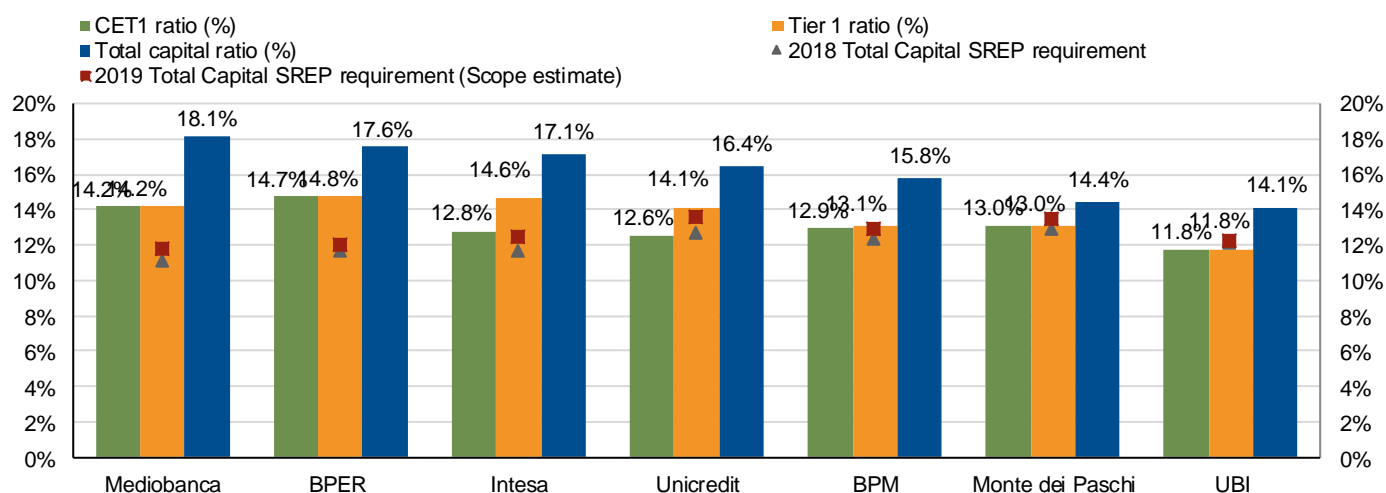
6) Germany



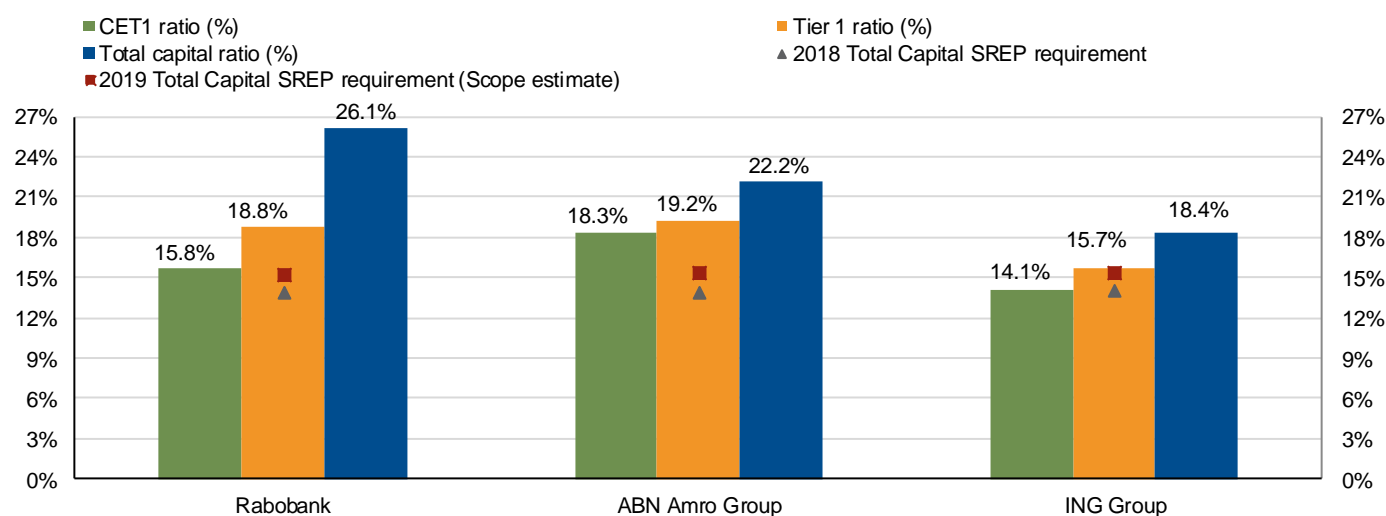
7) Ireland



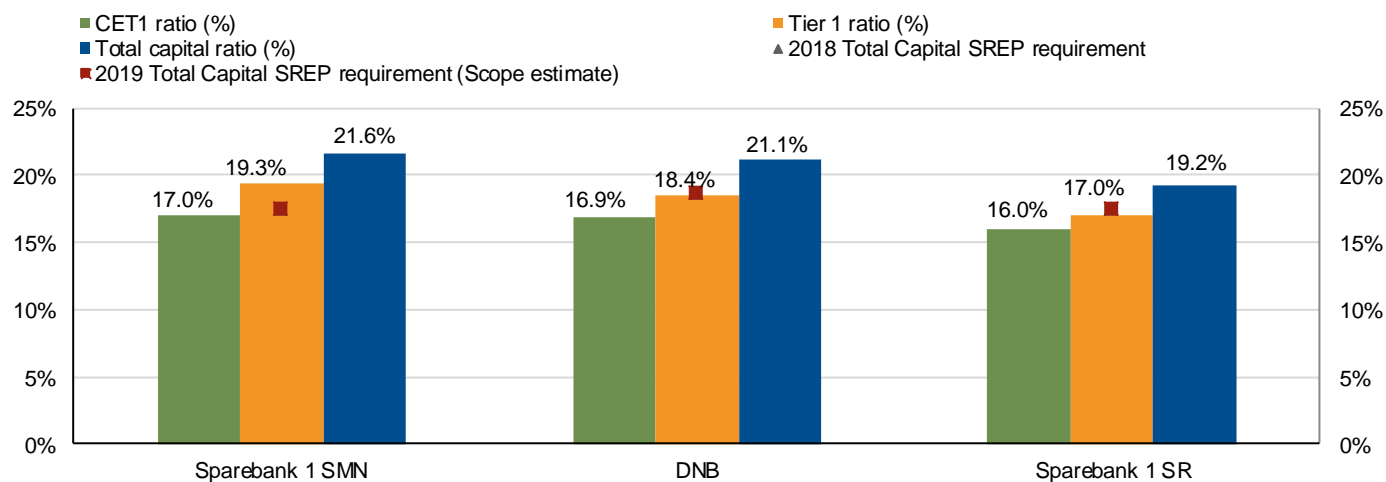
8) Italy



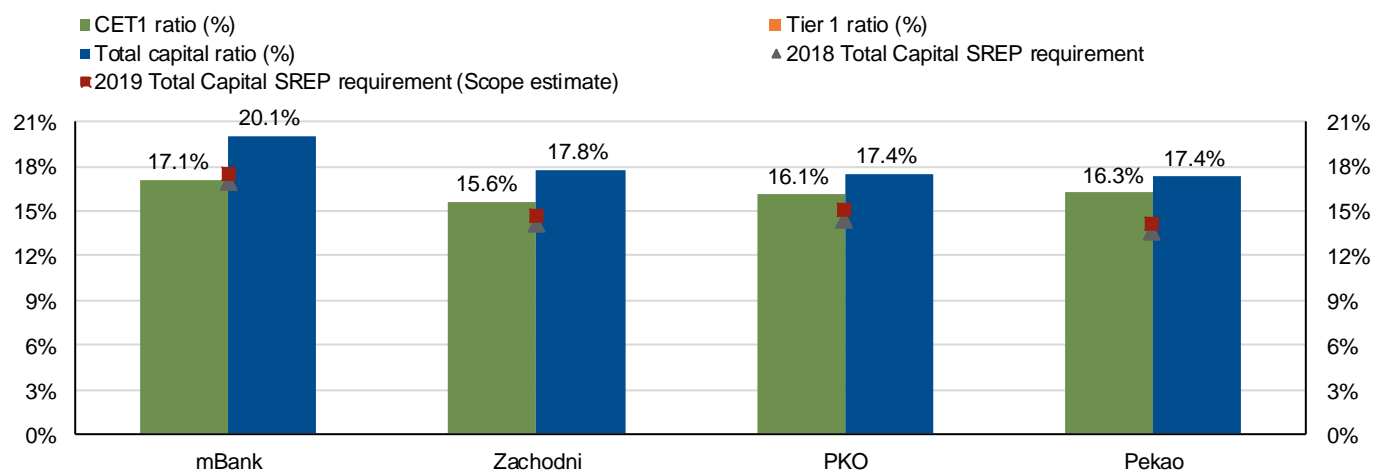
9) Netherlands



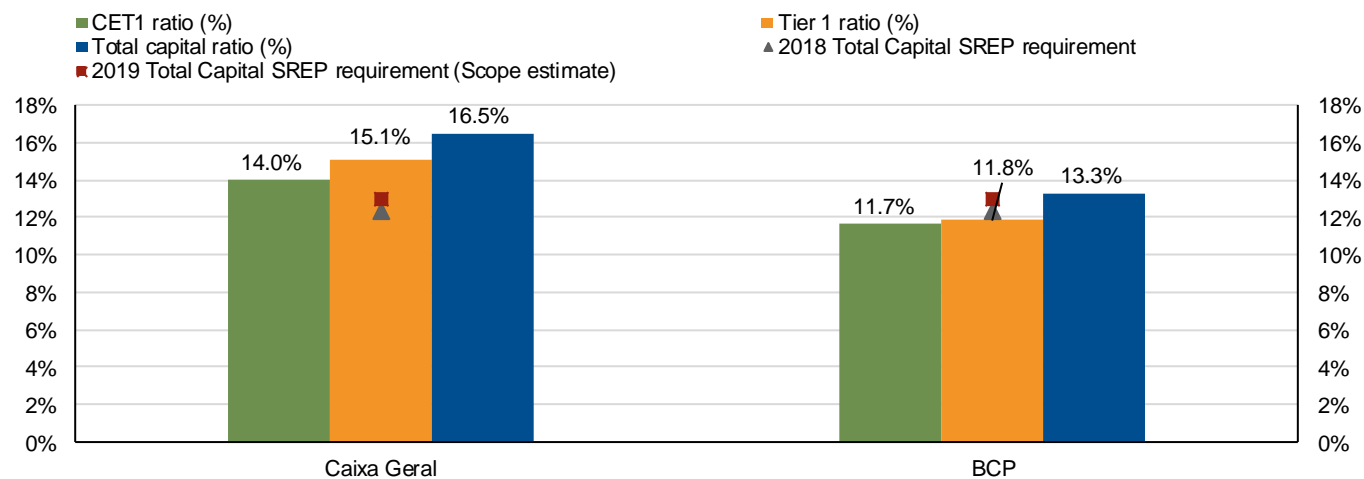
10) Norway



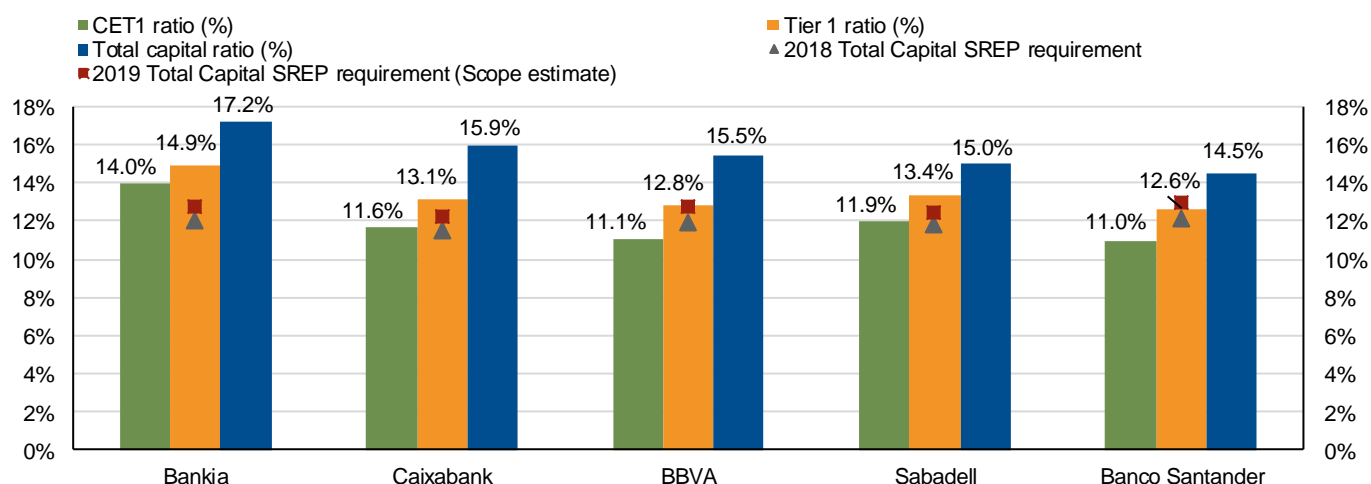
11) Poland



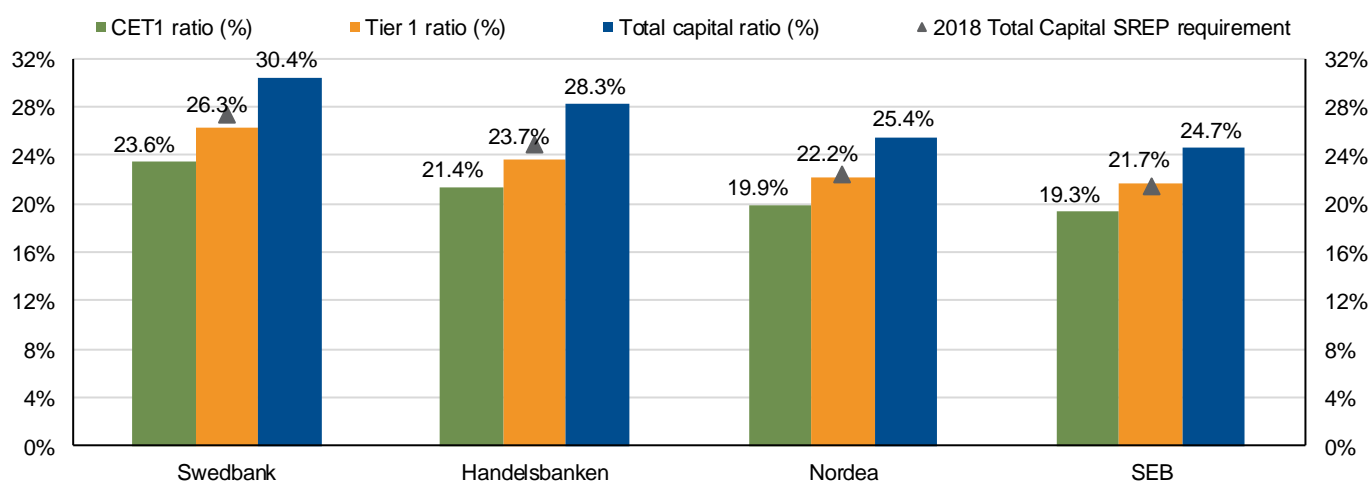
12) Portugal



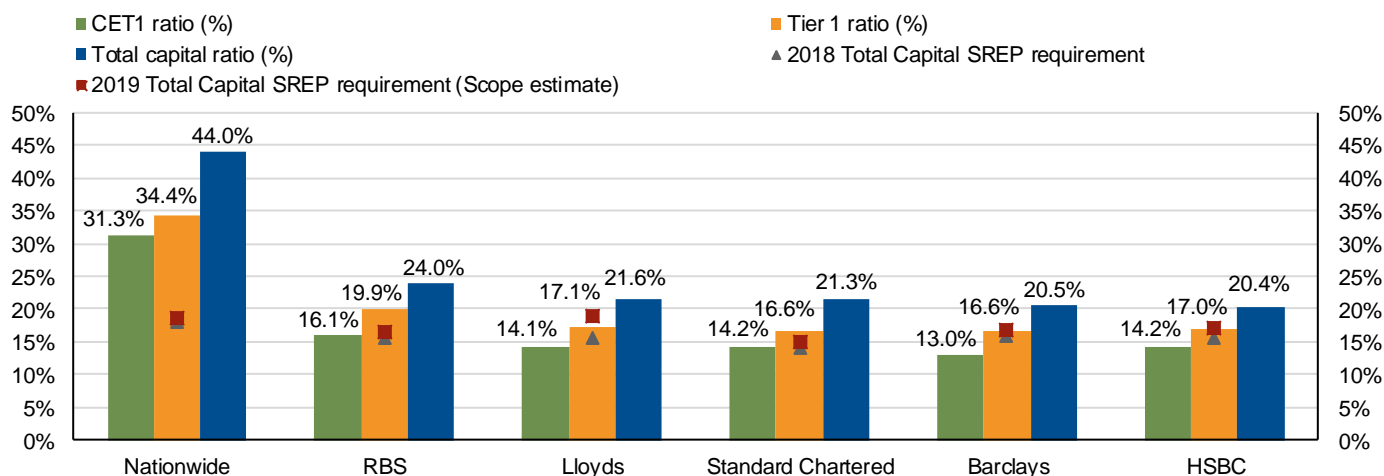
13) Spain



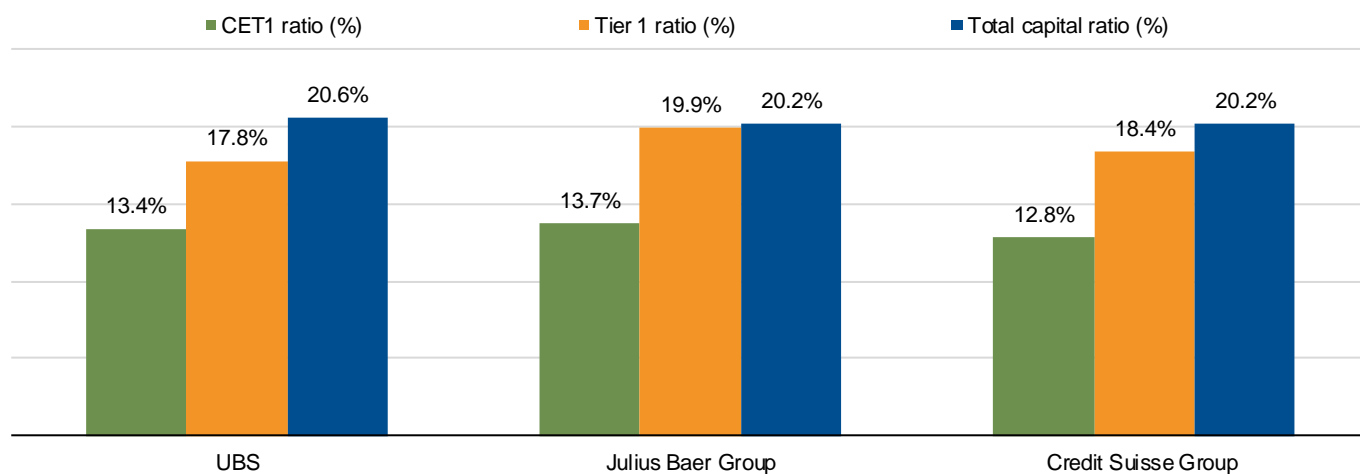
14) Sweden



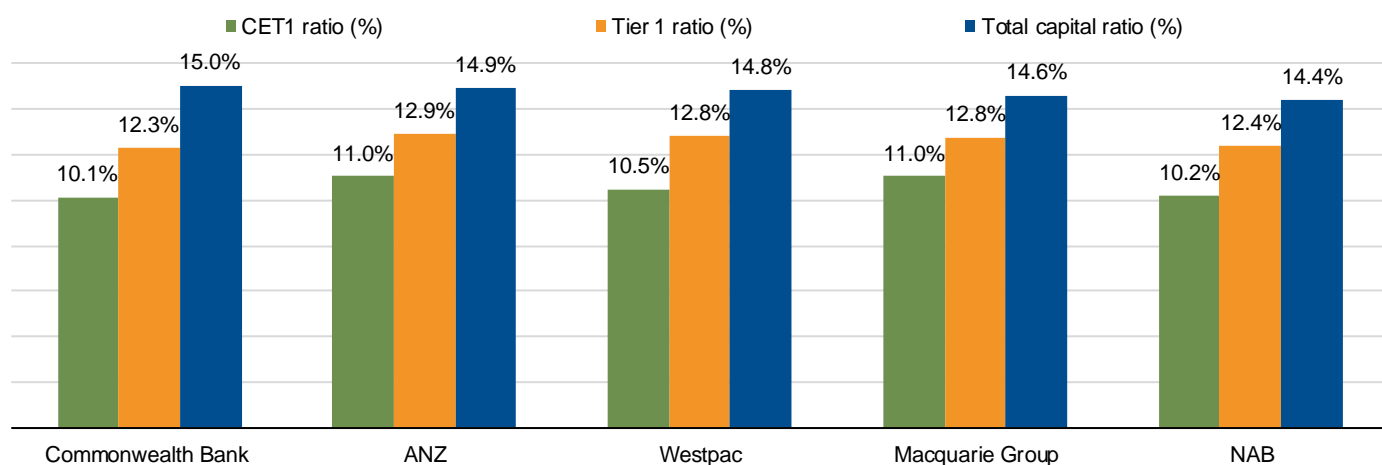
15) UK



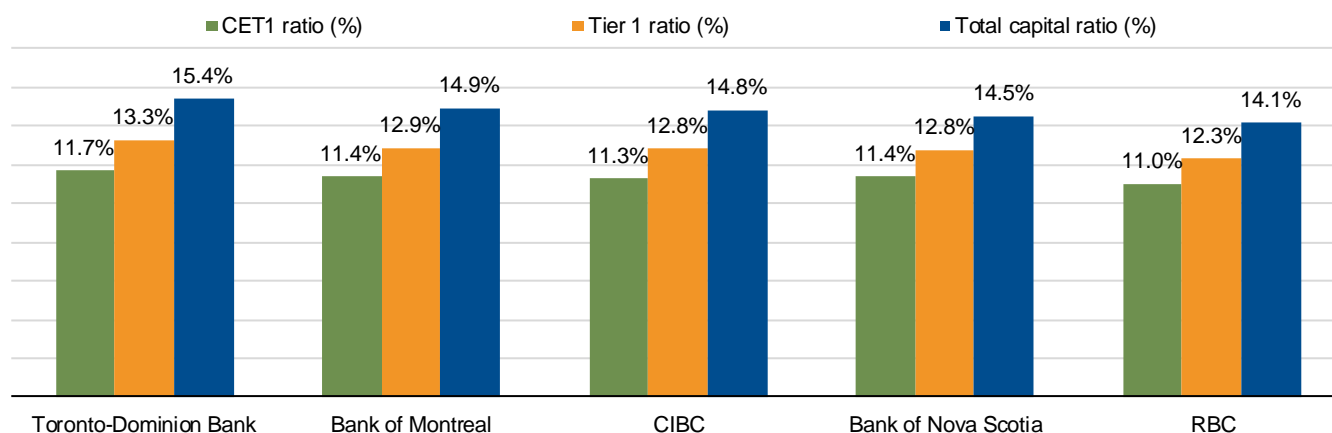
16) Switzerland



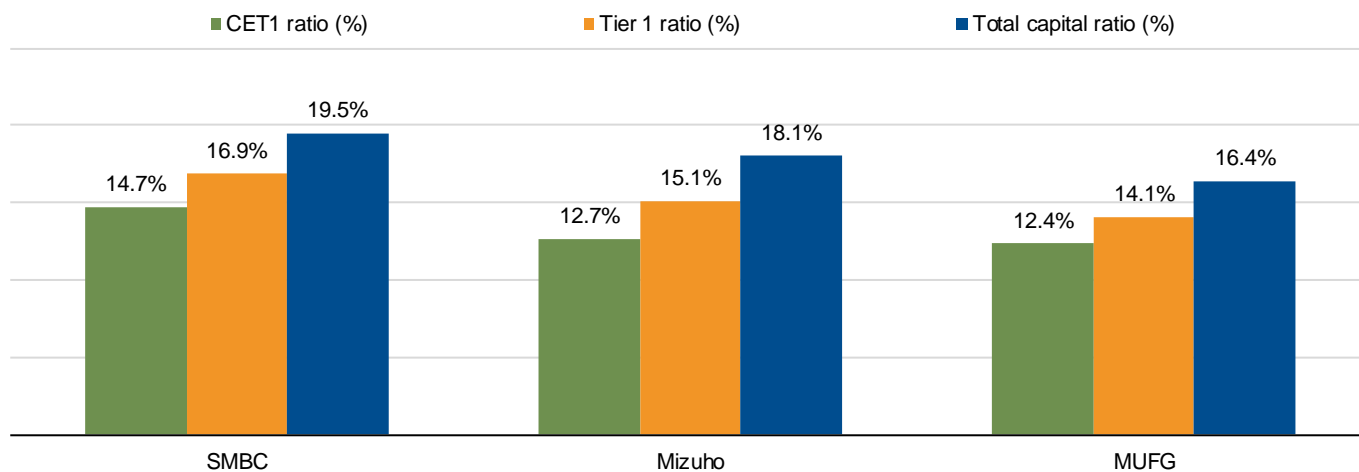
17) Australia



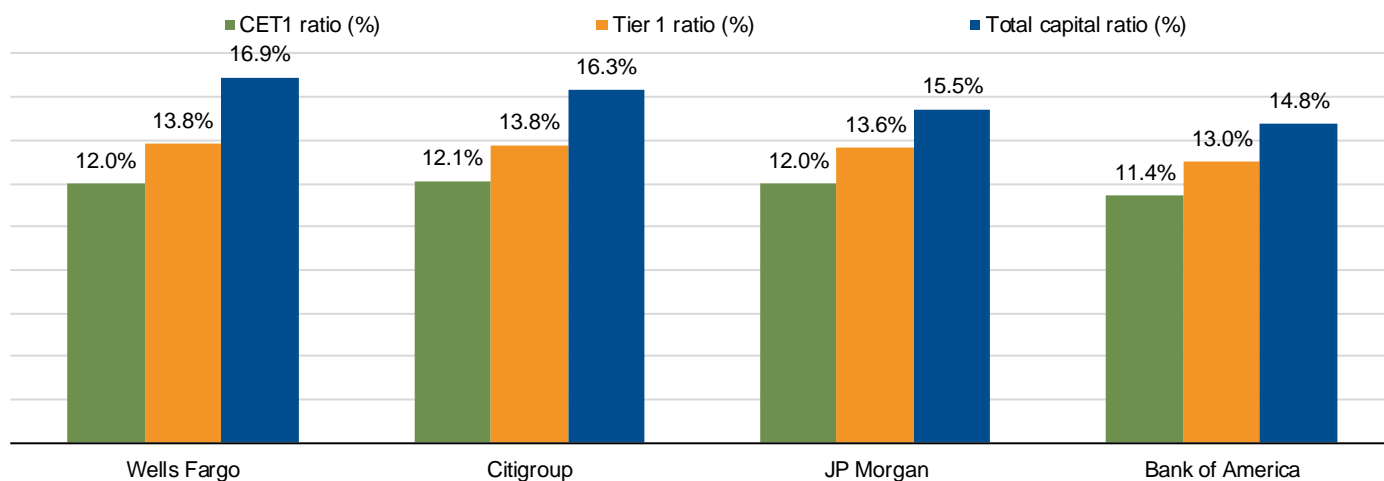
18) Canada



19) Japan



20) US



Source: SNL, Scope Ratings

II. Appendix: Scope's public ratings table

Bank ratings as of 21 September 2018								
Bank	Issuer Rating	Outlook	Senior unsecured		Short-Term Rating	Short-Term Rating Outlook	Capital securities	
			MREL/TLAC eligible	Other			AT1	Tier 2
Banco Santander SA	AA-	Stable	A+	AA-	S-1+	Stable	BBB-	A- (Santander Issuances SA)
Bankia SA	BBB+	Stable	BBB	BBB+	S-2	Stable		
Banque Federative du Credit Mutuel SA	A+	Stable	A	A+	S-1+	Stable		BBB+
Barclays PLC	A+	Stable	A	A+ (Barclays Bank PLC)	S-1+ (Barclays Bank PLC)	Stable	BB+	BBB+
BBVA SA	A+	Stable	A	A+	S-1+	Stable	BB+	
BNP Paribas SA	AA-	Stable	A+	AA-	S-1+	Stable	BBB	A-
BPCE SA	AA-	Stable	A+	AA-	S-1+	Stable		A-
Cassa Depositi e Prestiti Spa	A-	Negative		A-	S-1	Negative		
Commerzbank AG	A	Stable	A-	A	S-1	Stable		BBB
Credit Agricole SA	AA-	Stable	A+	AA-	S-1+	Stable	BBB-	A-
Credit Foncier de France SA ^[1]	AA-	Stable						
Credit Suisse AG	A+	Stable	A (CS Group)	A+	S-1+	Stable	BBB-, BB+ (CS Group)	BBB+, BBB (CS Group)
Danske Bank A/S	A+	Review for upgrade		A/review for upgrade	S-1+	Stable	BBB-/review for upgrade	
Deutsche Bank AG	BBB+	Negative	BBB	BBB+	S-2	Stable	B	BB+
DNB Bank ASA	AA-	Stable		A+	S-1+	Stable	BBB-	A-
HSBC Holdings PLC	AA	Stable	AA-	AA (HSBC Bank PLC)	S-1+	Stable	BBB	A
IBL Banca	BBB	Stable						
ING Bank NV	AA-	Stable	A+	AA-	S-1+	Stable	BBB (ING Group)	A- (ING Group)
Intesa Sanpaolo SPA	A	Stable	A-	A	S-1	Stable	BB+	
KBC Group NV	A+	Stable	A	A+	S-1+	Stable	BBB-	BBB+
KfW ^[2]	AAA	Stable		AAA	S-1+	Stable		
Landkredit Bank AS	A-	Stable		BBB+				
Lloyds Banking Group PLC	A+	Stable	A	A+ (Lloyds Bank PLC)	S-1+ (Lloyds Bank PLC)	Stable	BB+	
Nordea Bank AB	AA-	Stable	A+	AA-	S-1+	Stable	BBB-	A-
Rabobank Group	AA-	Stable		A+	S-1+	Stable	BBB-	A-
Realkredit Danmark A/S	A+	Review for upgrade			S-1+	Stable		
RBS Group PLC	A	Stable	A-	A- (NatWest Markets PLC)	S-1 (NatWest Markets PLC)	Stable	BB	
Societe Generale SA	A+	Stable	A	A+	S-1+	Stable	BBB-	BBB+
Svenska Handelsbanken AB	AA-	Stable	A+	AA-	S-1+	Stable	BBB-	
Swedbank AB	A+	Stable	A	A+	S-1+	Stable	BB+	
UBS AG	AA-	Stable	A+ (UBS Group)	AA-	S-1+	Stable	BBB (UBS Group)	A-
Unicredit SPA	A	Stable	A-	A	S-1	Stable		BBB

[1] Rating based on guarantee and solidarity mechanism within BPCE Group

[2] KfW benefits from a guarantee by the Federal Republic of Germany.

Source: Scope Ratings



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