



Perspectives by Ruth Lea

Economic Adviser to Arbuthnot Banking Group



The Eurozone debt crisis deepens

Introduction

Since our last Perspective¹, the Eurozone debt crisis has worsened significantly. Specifically there have been three major developments:

- Moody's downgraded the sovereign debt of Portugal and Ireland to junk status. Fitch downgraded Greece to CCC grade.
- There has been delay and political disagreement over the terms of the second bailout package for Greece, not least over the nature of the private sector contribution, which hardly inspires confidence. Eurozone heads of state will convene on 21 July to discuss the bailout further and hopefully come to some agreement.
- There has been contagion to other Eurozone countries, especially to Italy.

In addition, the EBA's 2011 bank stress tests were released on 15 July, to generally sceptical acclaim. And, for the record, it is worth noting that the ECB raised its main refinancing operations rate from 1.25% to 1.5% on 7 July 2011, an act which can only increase the economic difficulties of the peripheral economies. It hardly seems to be the time for the ECB to be raising interest rates.

This Perspective covers these developments. The possible options for the future of the Eurozone will be considered in a later Perspective, when the terms of Greece's second bailout are known.

Downgrades for Portugal and Ireland

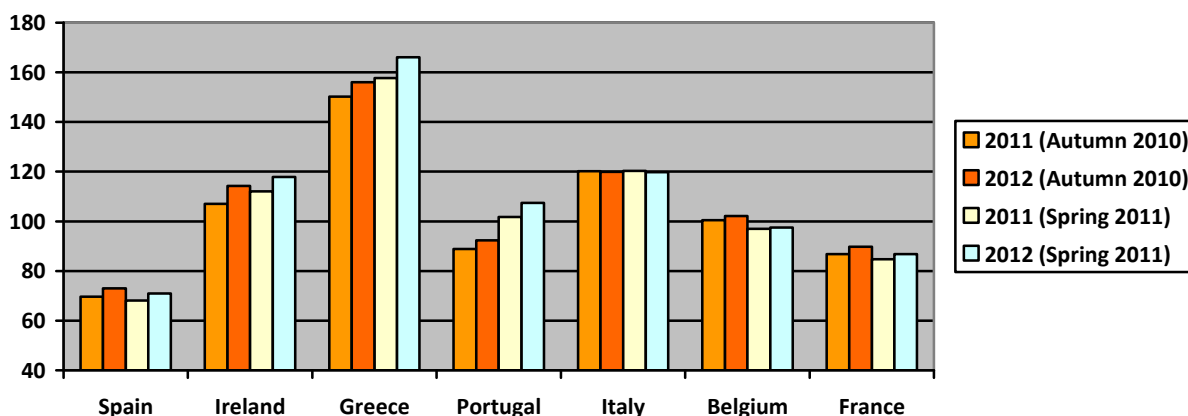
Moody's subjected Portugal's sovereign debt to a 4-notch downgrade from Baa1 to Ba2 on 5 July, commenting that there was a growing risk the country would need a second bail-out, like Greece, before it was ready to borrow money from the financial markets again. (Portugal's PM Passos Coelho has recently said that he wanted Portugal to return to markets in less than 2 years.) Whilst Baa1 is investment grade, Ba2 is not.² Annex table 1 outlines the rating grades of the three major credit rating agencies.

Moody's downgrade of Portugal was followed on 12 July by a downgrade of Irish sovereign debt from Baa3 (just about investment grade) to Ba1 (just about junk bond status). Again the implication was that, even though Ireland's economic prospects may be better than Greece and Portugal, its debt position is equally grim and there will probably be the need for another bailout before the country can return to the markets. (Ireland's MOF Michael Noonan has recently indicated that Ireland will try to return to the bond markets in the second half of 2012). The timing of Portugal's and, especially, Ireland's downgrades was unpropitious coming amid heightened concerns over Italy and continued political indecision over Greece's second bailout. Moody's downgrades provoked an energetic attack on Moody's in particular and the credit ratings agencies in general by the European Commission.³

Granted the agencies failed badly in assessing financial risks during the subprime crisis, but the Commission's response does seem partly to be a matter of shooting the messenger. Chart 1 reminds us that Portugal's debt is rising rapidly as a % of GDP. The Commission's spring forecast suggested that it could be around 107% of GDP in 2012, well up on their autumn forecast for the same year, compared with just 68% in 2007. Given Portugal's dire economic prospects, Moody's assessment of Portugal's debt as non-investment grade seems quite valid. Turning to Ireland, the debt to GDP ratio was already 96% in 2010 and is still rising.

Incidentally the chart confirms that Greece's debt position is quite unsustainable and, even though Italian and Belgian debt to GDP ratios are not deteriorating, they are uncomfortably high.

Chart 1 Gross debt, General Government, % of GDP, autumn 2010 & spring 2011 forecasts, for 2011 & 2012



Source: European Commission, *European Economic Forecast*, spring 2011.

Fitch's downgrade of Greek debt to CCC the following day was really an act of "catching-up" by the agency – Moody's and Standard and Poor's had already assessed Greece's debt as "highly speculative". The rating agencies grades for selected Eurozone countries are shown in table 1.

Table 1 Sovereign debt, credit ratings agencies grades, selected countries

	Moody's	S&P's	Fitch's
Belgium	Aa1	AA+	AA+
France	Aaa	AAA	AAA
Greece	Caa1 (junk)	CCC (junk)	CCC (13/7/11, junk), from B+
Ireland	Ba1 (12/7/11, junk), from Baa3	BBB+	BBB+
Italy	Aa2	A+	AA-
Portugal	Ba2 (5/7/11, junk), 4- notch downgrade from Baa1	BBB-	BBB-
Spain	Aa2	AA	AA+

Sources: include Moody's analytics, "Probability of sovereign debt default up sharply for Greece, less so for Portugal, Ireland", 11 July 2011, websites of Standard & Poor's and Fitch's. July downgrades in brackets.

Delays on Greece's 2nd bailout package

The Greek Parliament voted for the €28bn austerity package on 29 June 2011 as expected, amid riots, and the latest tranche (€12bn) of the first bailout package (€110bn) was duly sanctioned. The latest loan should see Greece through to September.⁴

But whilst it had been widely expected that the second package would be agreed by 11 July, delays have occurred owing to political disagreements over the nature of the private sector contribution and what does or what does not constitute "default". The "debt crisis" can fairly be described as having morphed into a "political crisis". There will now be a meeting of Eurozone heads of state on 21 July to agree the terms of the second bailout.⁵ Of course it is impossible to know at this stage what exactly will be agreed, but there have been some interesting developments recently, which will probably be reflected in the final agreement:

- The Eurozone finance ministers (at their meeting of 11 July) lowered their opposition to a possible Greek default in order to accommodate German and Dutch demands that private creditors should shoulder part of the burden of any rescue package for any country – against the fierce opposition of the ECB. They appeared to accept that Greece was insolvent and had more or less accepted a "selective default" so long as it was short-lived (no longer than a few days) and did not trigger a pay-out of credit-default swaps.⁶ If Greece is to default, then the challenge will be to minimise contagion.
- Germany has softened its position on two issues. The first is the possibility of using funds from the European Financial Stability Facility (EFSF) for the purpose of repurchasing the sovereign bonds of distressed member states (a bond buyback). For example, the EFSF could provide Greece with a loan so that Greece could buy its bonds at current market prices (currently about 50% of the face value) thus lowering its debt. (Though note that the EU at the March Summit ruled out another use of EFSF funds – that of intervening in secondary bond markets to purchase the debt of struggling countries.) The second issue concerned lowering interest rates and extending loan maturities for Greece and other countries receiving financial assistance.

- In addition, it should be noted that Germany's finance minister is, apparently, still urging his colleagues to re-examine his bond swap plan, in which Greek bonds would be swapped for fresh ones with a longer maturity to ease Greece's debt burden.

We can only wait and see what will be decided on 21 July. But the meeting will be held knowing the IMF's latest assessment of the Greek economy and finances. It made remarkably gloomy reading. The IMF concluded that "...if the authorities are able to implement their very ambitious fiscal and privatisation programmes, public debt would peak at 172% of GDP in 2012 and decline to 130% by end-2020". Given the scepticism surrounding both the fiscal and privatisation programmes it is reasonable to assume that Greece's current situation is untenable.⁷ The IMF also provided their assessment of the potential spillover effects of a "Greek debt operation" (default), see the box in the annex.

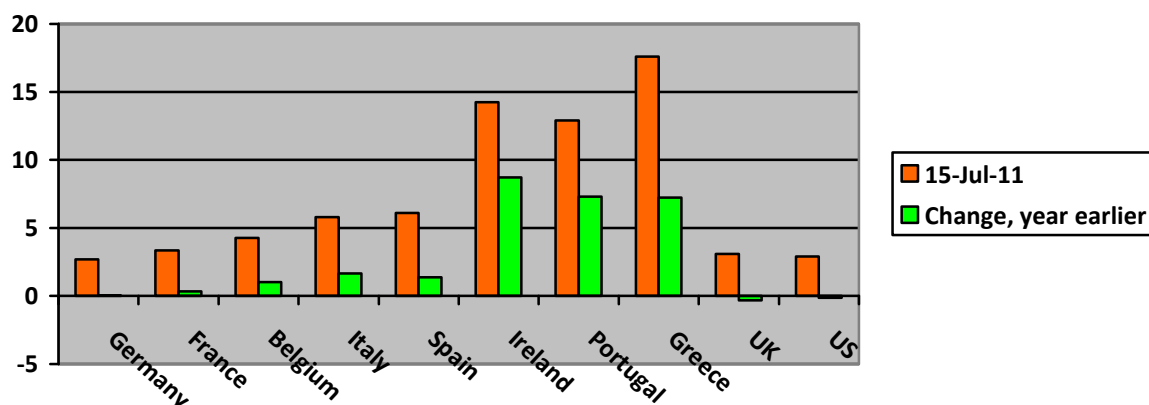
Contagion to Italy

One of the hopes of the current Eurozone debt crisis was that contagion to other members of the Eurozone, especially to Spain and Italy but also to Belgium and France, could be avoided. This hope has been dashed by the tide of recent events, especially the worrying developments in Italy. Whilst it could be argued that the Eurozone could manage a bailout for Spain, it is inconceivable that Italy could be bailed out. Chart 1 (above) shows that Italy's debt to GDP ratio is expected to be 120% this year, despite a relatively modest public sector deficit. Italy has the third largest bond market in the world after the US and Japan. Its outstanding government debt amounts to around €1.8tn.⁸

Italy's debt mountain combined with persistently weak economic growth and a dysfunctional political system (where PM Berlusconi has been at loggerheads with finance minister Tremonti over the austerity plans) was an accident waiting to happen. Bond prices began falling a fortnight ago, with 10-year bond yields ending at 5.8% on 15 July compared with around 5% at the end of June and around 4% a year earlier.⁹ This was despite the fact that Italy's Parliament voted for Tremonti's latest €48bn austerity package, aimed at eliminating Italy's budget deficit by 2014, late last week.

Chart 2 shows that Spain and even Belgium have also been affected by contagion. Spanish yields were over 6% at the end of last week and Belgian yields were 4.3%. It can be argued that both Italian and Spanish yields are both getting perilously close to the levels where their outstanding government debt becomes unaffordable. These have been estimated at just over 7% and 8% for Italy and Spain respectively.¹⁰

Chart 2 Benchmark government bonds (10-year), yield (%)



Source: FT, "Bonds – benchmark government", 16 July 2011.

The EBA's bank stress tests

The European Banking Authority (EBA) released the results of the 2011 EU-wide stress tests on 15 July 2011.¹¹ The stress tests assessed the resilience of banks against an "adverse but plausible scenario". The scenario assessed banks against a deterioration from the baseline forecast in the main macroeconomic variables such as GDP, unemployment and house prices. The scenario also included sovereign stress, with haircuts applied to sovereign and bank exposures in the trading book and increased provisions for these exposures in the banking book. The EBA also considered changes in interest rates and sovereign spreads.

The resilience of the banks was specifically assessed against a benchmark defined with reference to capital of the highest quality, i.e. Core Tier 1 (CT1), primarily equity and retained earnings. And the key indicator determining "resilience" was the Core Tier 1 Ratio (CT1R), defined as CT1 as a % of risk weighted assets (RWA). The exercise had a 2-year time horizon, from December 2010 to December 2012, though the results took into account pre-emptive capital raising actions implemented by end-April 2011.

If the EBA's tests showed that a bank would achieve a CT1R of 5% or more in December 2012, it was deemed to have passed, though if the CT1R was close to 5%, albeit above, the bank should still consider strengthening its capital position. If the CT1R was below 5% then the bank had failed to meet the capital threshold and needed to take prompt remedial action to strengthen its capital position. 91 banks were tested; the full list of banks is shown in table 2 of the annex.

The main results were:

- 8 banks fell below the capital threshold of 5% (CT1R) with an overall CT1 shortfall of €2.5bn of capital (a modest sum). 5 Spanish banks failed, along with one Austrian bank and 2 Greek. Germany's Helaba pulled out before the results were announced, effectively making in the 9th to fail. The EBA said these banks promptly needed to remedy their specified capital shortfalls.
- 16 banks displayed a CT1R of 5-6%. 7 were Spanish, 2 were German, 2 were Greek, 2 were Portuguese and there was one each from Cyprus, Italy and Slovenia. The EBA said that these banks, if they had sizeable exposures to sovereigns under stress, should take specific steps to strengthen their capital position.

Table 2 Results of EBA's stress results, 2011, CT1R (Core Tier 1 Ratio), end-2012, by member state

	Failure (CT1R less than 5%), withdrawal	Marginal (CT1R), 5-6%
Austria	1	0
Cyprus	0	1
Germany	1 (withdrawal)	2
Greece	2	2
Italy	0	1
Portugal	0	2
Slovenia	0	1
Spain	5 (4 cajas, 1 mainstream bank)	7
Total	8 + 1 withdrawal	16

Source: EBA, "2011 EU-wide stress testing exercise", 15 July 2011.

The EBA results have already been widely criticised as being too weak and they risk the fate suffered by the 2010 stress tests undertaken by the EBA's predecessor the Committee of European Banking Supervisors (CEBS).¹² The CEBS gave the Irish banks (the Bank of Ireland and the Allied Irish Banks, AIB) a reasonably clean bill of health. A few months later they were nationalised.

The tests have been specifically criticised for using overly optimistic criteria and failing to capture the severity of the current sovereign debt crisis sweeping across the Eurozone. The EBA required banks to take a 15% loss on holdings of Greek debt, for example, even though such debt is currently trading at about a half face value. Though, to be fair to the EBA, market conditions have worsened since the tests were undertaken and the EBA cannot be held responsible for this. Interestingly the EBA has already sought to defend its position by claiming that it had wished to be tougher, but had been hampered by the difficulties in getting the national regulators and banks to provide accurate data.¹³

The EBA's estimate of the €2.5bn CT1 shortfall for the failed banks has been criticised as a gross underestimate. Credit Suisse has calculated that 14 banks should have failed the stress tests with a total capital shortfall of €45bn.¹⁴ But at least the EBA has provided some useful information on the state of the banks, which will no doubt prove useful as/when the Eurozone crisis runs its course.

References

1. Ruth Lea, "A second Greek bailout: nearly there", Arbuthnot Banking Group, 20 June 2011.
2. *EU Observer*, "ECB gives helping hand to Portugal", 7 July 2011, reported that the ECB had decided to suspend until further notice the minimum rating threshold for Portuguese bonds as collateral for loans, meaning that the ECB would continue to buy Portuguese bonds regardless of the rating given to them by private agencies. This decision also applies to Greece and Ireland.
3. *FT*, "Brussels launches attack on Moody's", 7 July 2011, reported that the Commission was threatening regulatory action against the 3 ratings agencies.
4. Ruth Lea, "A second Greek bailout: nearly there", Arbuthnot Banking Group, 20 June 2011.
5. The overall financial stability of the Eurozone in the wake of Italian contagion and possible agreement on a more comprehensive solution to the sovereign debt crisis will also be on the agenda.
6. *FT*, "Bars to Greek default lowered", 13 July 2011.
7. IMF, "Greece: 4th review under the Stand-By Arrangement and request for modification and waiver of applicability of performance criteria", 13 July 2011.
8. *FT*, "Fears over Italy ramp up crisis in currency club", 9 July 2011 reported that nearly €900bn of government debt was due to mature over the next 5 years and the higher yields will add to strains on its economy.
9. *International Business Times*, "Italian bond auction no success story", 14 July 2011, reported that Italian 5-year bond yields rose to 4.9% from 3.9% at an auction in June.
10. Bank of America Merrill Lynch Global Research.
11. EBA, Results of the 2011 EU-wide stress test, 15 July 2011, www.eba.europa.eu
12. CEBS, "Aggregate outcome of the 2010 EU wide stress test exercise coordinated by CEBS in cooperation with the ECB", www.c-ebs.org, 23 July 2010.
13. *Sunday Telegraph*, "EBA wanted tougher tests", 17 July 2011.
14. *Sunday Telegraph*, "EBA wanted tougher tests", 17 July 2011.

Annex

Table 1 Long-term obligation ratings, of the 3 major credit rating agencies

Investment grade		
Highest grade/best quality		
Moody's	These obligations are judged to be of the highest quality, with minimal credit risk	Aaa
S&P	The issuer's capacity to meet its financial commitment on the obligation is extremely strong	AAA
Fitch	Highest credit quality, denotes the lowest expectation of credit risk. Exceptionally strong capacity for payment of financial commitments.	AAA
High grade/high quality		
Moody's	These obligations are judged to be of high quality, with very low credit risk	Aa1, Aa2, Aa3
S&P	The issuer's capacity to meet its financial commitment on the obligation is very strong, differing from the highest rated obligors only in small degree.	AA+, AA, AA-
Fitch	Very high credit quality, denotes the expectations of low credit risk. Very strong capacity for payment of financial commitments.	AA+, AA, AA-
Upper medium grade		
Moody's	Obligations are subject to low credit risk	A1, A2, A3
S&P	An issuer has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.	A+, A, A-
Fitch	High credit quality, denotes expectations of low credit risk. Strong capacity for payment of financial commitments,	A+, A, A-
Medium grade		
Moody's	These obligations are subject to moderate credit risk. They are considered medium grade & as such may possess certain speculative characteristics	Baa1, Baa2, Baa3
S&P	Exhibits adequate protection parameters. Adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the issuer to meet its financial commitments.	BBB+, BBB, BBB-
Fitch	Good credit quality, denotes that there are currently expectations of low credit risk. The capacity for payment of financial commitments is considered adequate but adverse changes in circumstances & economic circumstances are more likely to impair this capacity.	BBB+, BBB, BBB-
Below investment, non-investment, grade ("high yield", "junk")		
Speculative grade, "junk", "high yield"		
Moody's	These obligations are judged to have speculative elements & are subject to substantial credit risk	Ba1, Ba2, Ba3
Moody's	These obligations are judged to be speculative & are subject to high credit risk	B1, B2, B3
S&P	Less vulnerable to non-payment than other speculative issues, however, the issuer faces major on-going uncertainties or exposure to adverse business, financial or economic conditions which could lead to inadequate capacity to meet its financial commitment	BB+, BB, BB-
S&P	These bonds are more vulnerable than "BB" rated bonds, but the obligator currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will impair that capacity.	B+, B, B-
Fitch	Speculative. There is a possibility of credit risk developing, particularly as a result of adverse economic or market changes	BB+, BB, BB-
Fitch	Highly speculative. Significant credit risk is present	B+, B, B-
Highly speculative grade		
Moody's	These obligations are judged to be of poor standing & are subject to very high credit risk	Caa1, Caa2, Caa3
Moody's	These obligations are judged to be highly speculative & are likely to be in, or very near, default, with some prospect of recovery of principal or interest	Ca
S&P	The obligation is vulnerable to non-payment, and is dependent upon favourable business, financial, and economic conditions to meet its financial commitments.	CCC+, CCC, CCC-
S&P	The obligations are highly vulnerable to non-payment	CC
S&P	The obligations are currently highly vulnerable to non-payment	C
Fitch	Default is a real possibility. Capacity for meeting financial commitments is dependent on sustained, favourable business or economic conditions.	CCC

Fitch	Default of some kind appears probable	CC
Fitch	Default is imminent	C
Default		
Moody's	These bonds are typically in payment default, with little prospect of recovery of principal or interest	C
S&P	The issuer has selectively defaulted on a specific issue	SD
S&P	General default	D
Fitch	These obligations are in payment default	D

Source: MorganStanleySmithBarney, "An educational look at bond credit ratings"

Bonds are generally classified into two groups: "investment grade" bonds and "speculative grade" or "junk" bonds, as shown in the table above. Investment grade bonds are generally legal for purchase by banks, pension funds etc; junk bonds are not.

Box: Greece, spillover and contagion risks, IMF analysis

The direct spillovers of a Greek debt operation can remain manageable. Direct spillovers arise through 2 channels:

- The countries most exposed to direct spillovers from Greece are those hosting Greek bank subsidiaries.
- Foreign holders of Greek government bonds (GGBs).

However, risks could escalate dramatically under a poorly implemented debt operation without adequate safeguards, or under a disorderly default scenario. These instances could threaten stability in the euro area, with substantial spillovers to the global financial system. The spillover channels in this instance would be largely indirect:

- Markets could assess a change in the "rules of the game", in particular that Europe was willing to tolerate defaults. Risks would be re-priced accordingly, with market pressures propagating to countries in the euro area with high debt-to-GDP ratios and growth/competitiveness problems.
- Markets could also doubt the adequacy of the European safety net to deal with the emergence of generalised sovereign funding disruptions & sizeable credit losses in the banking system. This could trigger deposit runs, and liquidity problems in the European banking system, which remains relatively highly leverages (both in absolute terms and compared to the US and the UK) and dependent on wholesale market funding.
- Given the financial interconnectedness of the affected countries with the rest of the world, these shocks could quickly spread across the globe and generate heightened capital flow volatility.

Source: IMF, "Greece: 4th review under the Stand-By Arrangement and request for modification and waiver of applicability of performance criteria", 13 July 2011.

Table 2 EBA stress test results, 2011

Country	Name of the institution	Stressed tier 1 capital ratio, end-2012
Austria (3)	ERSTE BANK GROUP AG	
	RAIFFEISEN BANK INTERNATIONAL (RZI)	
	OESTERREICHEISCHE VOLKSBANK AG	Failed, 4.5%
Belgium (2)	KBC BANK NV	
	DEXIA	
Cyprus (2)	MARFIN POPULAR BANK PUBLIC CO LTD	Marginal, 5.3%

	BANK OF CYPRUS PUBLIC CO LTD	
Denmark (4)	DANSKE BANK	
	JYSKE BANK	
	SYDBANK	
	NYKREDIT	
Finland (1)	OP-POHJOLA GROUP	
France (4)	BNP PARIBAS	
	CREDIT AGRICOLE GROUP	
	BPCE GROUP	
	SOCIETE GENERALE (SG)	
Germany (12, exc. Helaba)	DEUTSCHE BANK AG	
	COMMERZBANK AG	
	HYPO REAL ESTATE HOLDING AG (HRE)	
	LANDESBANK BADEN-WÜRTTEMBERG (LBBW)	
	BAYERISCHE LANDESBANK (Balaba)	
	DZ BANK AG DT. ZENTRAL-GENOSSENSCHAFTSBANK	
	NORDDEUTSCHE LANDESBANK -GZ- (NordLB)	Marginal, 5.6%
	WESTLB AG	
	HSH NORDBANK AG	Marginal, 5.5%
	LANDESBANK HESSEN-THÜRINGEN GZ (Helaba)	Withdrawn
	LANDESBANK BERLIN AG (LB Berlin)	
	DEKABANK DEUTSCHE GIROZENTRALE	
	WGZ BANK AG WESTDT. GENO. ZENTRALBK	
Greece (6)	NATIONAL BANK OF GREECE (NBG)	
	EFG EUROBANK ERGASIAS SA – state-controlled	Failed, 4.9%
	ALPHA BANK	
	PIRAEUS BANK GROUP	Marginal, 5.3%
	AGRICULTURAL BANK OF GREECE S.A. (ATE bank) – state-controlled	Failed, -0.8%
	TT HELLENIC POSTBANK S.A.	Marginal, 5.5%
Hungary (1)	OTP BANK NYRT.	
Ireland (3)	BANK OF IRELAND	
	ALLIED IRISH BANKS PLC (AIB)	
	IRISH LIFE & PERMANENT	
Italy (5)	UNICREDIT SPA	
	INTESA SANPAOLO SPA	
	MONTE DEI PASCHI DI SIENA SPA	
	BANCO POPOLARE SC	Marginal, 5.7%
	UNIONE DI BANCHE ITALIANE SCPA (UBI BANCA)	
Luxembourg (1)	BANQUE ET CAISSE D'EPARGNE DE L'ETAT (BCEE)	
Malta (1)	BANK OF VALLETTA (BOV)	
Netherlands (4)	ING Bank	
	RABOBANK GROUP	
	ABN/FORTIS BANK NEDERLAND (HOLDING) NV	
	SNS BANK	
Norway (1)	DNB NOR BANK ASA	
Poland (1)	POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI S.A. (PKO BANK POLSKI)	
Portugal (4)	CAIXA GERAL DE DEPÓSITOS (CGD)	
	BANCO COMERCIAL PORTUGUÊS BANCO COMERCIAL PORTUGUÊS S.A. (BCP OR MILLENNIUM BCP)	Marginal, 5.4%
	ESPÍRITO SANTO FINANCIAL GROUP S.A. (ESFG)	Marginal, 5.1%
	BANCO BPI SA	
Slovenia (2)	NOVA LJUBLJANSKA BANKA (NLB DD)	Marginal, 5.3%
	NOVA KREDITNA BANKA MARIBOR (NKBM DD)	
Spain (25)	BANCO SANTANDER SA	
	BANCO BILBAO VIZCAYA ARGENTARIA SA	

	BFA-BANKIA	Marginal, 5.4%
	BANCO POPULAR ESPAÑOL, SA (BPE)	Marginal, 5.3%
	BANCO DE SABADELL, SA	Marginal, 5.7%
	BANKINTER, SA	Marginal, 5.3%
	BANCO PASTOR, SA	Failed, 3.3%
	BANCA MARCH, SA	
	CAJA DE AHORROS Y PENSIONES DE BARCELONA	
	CAJA DE AHORROS DE VITORIA Y ALAVA	
	CAJA DE AHORROS Y MP DE ONTINYENT	Marginal, 5.6%
	COLONYA - CAIXA D'ESTALVIS DE POLLENSA.	
	CAJA DE AHORROS DEL MEDITERRÁNEO (CAM)	Failed, 3.0%
	CAIXA DÉSTALVIS DE CATALUNYA, TARRAGONA I MANRESA (CATALUNYACAIXA)	Failed, 4.8%
	CAIXA DE AHORROS DE GALICIA, VIGO, OURENSE E PONTEVEDRA	Marginal, 5.3%
	CAIXA DÉSTALVIS UNIO DE CAIXES DE MANLLEU, SABADELL I TERRASSA (UNNIM)	Failed, 4.5%
	CAJA DE AHORROS Y MP DE GIPUZKOA Y SAN SEBASTIAN	
	CAJA ESPAÑA DE INVERSIONES, SALAMANCA Y SORIA, CAJA DE AHORROS Y MONTE DE PIEDAD	
	CAJA DE AHORROS Y MP DE ZARAGOZA, ARAGON Y RIOJA	
	EFFIBANK	
	GRUPO BMN	
	GRUPO BBK	
	GRUPO BANCA CIVICA	Marginal, 5.6%
	GRUPO CAJA3	Failed, 4.0%
	MONTE DE PIEDAD Y CAJA DE AHORROS DE RONDA, CADIZ, ALMERIA, MALAGA, ANTEQUERA Y JAEN	
Sweden (4)	NORDEA BANK AB	
	SKANDINAVISKA ENSKILDA BANKEN AB (SEB)	
	SVENSKA HANDELSBANKEN AB	
	SWEDBANK AB	
UK (4)	ROYAL BANK OF SCOTLAND (RBS)	
	HSBC HOLDINGS PLC	
	BARCLAYS	
	LLOYDS BANKING GROUP PLC	
Total (91, inc. Helaba)		8 failures, 1 withdrawal
		16 marginals

Source: EBA, "2011 EU-wide stress testing exercise", 15 July 2011.

Ruth Lea, Economic Adviser, Director,
Arbuthnot Banking Group,
ruthlea@arbuthnot.co.uk,
Tel: 07800 608 674