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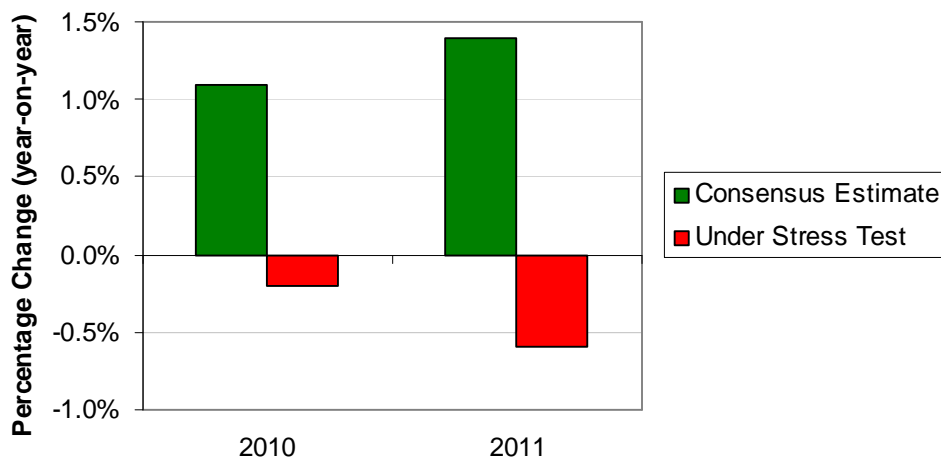
EU Bank Stress Tests – Irish Banks Pass

The results of the EU Bank Stress Tests by the Committee of European Banking Supervisors and the ECB were published on Friday. The tests included a sample of ninety one European banks, representing 65% of the European market in terms of total assets.

The exercise tested the impact on the banks' capital levels if there was a "double dip" recession in the Euroarea. In this adverse scenario the Euroarea would see a decrease of GDP by -0.2% in 2010 and -0.6% in 2011 (see chart below). In addition the adverse scenario envisages losses on government bonds of peripheral European nations.

The results of the banks tests show that neither Bank of Ireland nor AIB requires additional capital above and beyond the amounts that they have raised (BoI), or are planning to raise (AIB). Seven banks in total, failed the tests. Property lending specialist Hypo Real Estate was the only German bank to fail the stress tests. Five Spanish savings banks (Caja's) also failed the tests, while Greece's ATE Bank also failed. The other 84 were deemed to have sufficient capital to withstand a "double-dip" recession and a sovereign debt crisis.

Euroarea GDP



Source: Consensus Economics and The Committee of European Bank Supervisors

Our View

Overall, the conclusion that only seven of the participating banks failed is positive. Detractors have argued that the tests did not address the full effects of a sovereign default and secondly 6 of the 14 German banks tested failed to provide a detailed breakdown of their sovereign debt holdings. Nonetheless, the market reaction has been positive and the EuroStoxx Banking Index has risen by around 7% so far this week.

Changes to proposed capital and liquidity standards announced by the Basel Committee on Banking Supervision also improved sentiment in the sector.

The shares in the two Irish banks also performed well as shares in Bank of Ireland have risen by around 12% and AIB is up around 5% since Friday.

Diane Fegan
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Focus

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