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Banks buoyant as capital needs clarified

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By FT Reporters

European banks may need to raise as little as €20bn in fresh capital under a plan to shore up the region's teetering financial system, as they hoard profits and sell off assets rather than tap investors for funds to meet an estimated €106bn shortfall across the region.

Investors sent bank shares soaring in response to the plan hammered out in the early hours of Thursday morning, which gave Europe's banks until the end of June next year to meet a new 9 per cent ratio of "highest quality" capital.

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Adjusting for retained earnings, capital top-ups in countries that already have specific bailout packages in place – including Greece and Portugal – and the ability of Spanish banks to convert debt into equity, analysts said European banks would only need to raise between €20bn-€30bn in "new" capital to meet these requirements.

"This is not a bank recapitalisation exercise for European banks," said analysts at Credit Suisse. "We do not expect to see many rights issues with banks expected to meet requirements through other means, such as eliminating dividends, deleveraging, lower compensation and disposals."

As part of the deal, European banks, along with other private holders of Greek sovereign debt, will have to swallow a 50 per cent haircut on the face value of their bonds – more than double an earlier agreement – as part of the deal.

Fears remain over funding

Even amid investors' euphoria surrrounding the plan to shore up European banks, senior bankers warned privately that it may not be sufficient to revive term funding markets, which have been closed since the summer, **write Alex Barker and Megan Murphy**.

The European Banking Authority, which is overseeing the plan, provided little detail on what specific steps will be taken to reopen banks' access to term funding at reasonable conditions, to avoid what it

Banks including Royal Bank of Scotland Group and Deutsche Bank have already written down their holdings of Greek debt to market value, while French banks said the 50 per cent discount would be included in their third-quarter results, finally bringing them into line with some of their German and British rivals

"Both sides moved towards one another and reached a satisfying compromise in the interest of Europe," Josef Ackermann, chief executive of Deutsche Bank, said.

Europe's leading banks rushed to reassure investors that they would meet the 9 per cent core tier one capital ratio target without resorting to rights issues or public funds, with several pointing to already announced asset disposal programmes.

termed "a spiral of forced deleveraging and the ensuing credit crunches".

Together with the European Commission, the EBA has long promoted the idea of a guarantee scheme for bank bonds as a means to revive funding markets. But they have struggled to win the backing of member states for a Europe-wide scheme, designed to avoid the problem of weaker countries having to underwrite weak banks.

Officials believe there was some progress at the summit, with language that permits options on the scheme to be explored and for work to begin on coordinating across Europe a term sheet for such a guarantee scheme, so that fees and access criteria are broadly the same.

One option being examined is to involve the European Investment Bank in offering the guarantees, a model that would relieve pressure on sovereigns. However, extending its mandate is strongly opposed at the moment by the UK, the Netherlands and some Eastern European countries who are reluctant to let their taxpayers indirectly underwrite Spanish or Italian bank borrowing.

"We don't like it and we don't want it to happen," said one diplomat. An alternative is for the EIB to be involved in setting up the vehicle and running the scheme, rather than offering funding.

BNP Paribas said it was bringing forward a deadline for it to meet the 9 per cent target from January 2013 to June 2012 and was already setting aside two-thirds of its profits to boost capital, while the rest would come from a de-leveraging plan outlined in September. Société Générale echoed BNP by saying it would accelerate existing plans to hit the new target by 2012, by using profits and further reducing its liquidity needs.

Even as markets cheered news of the deal, analysts cautioned that crucial details remained unclear – including what assets banks can count as capital, how the weakest banks will raise funds, and what additional steps will be taken to support banks' access to funding to stave off a financing crunch.

While there is a June 30 deadline for banks to reach the higher capital threshold, decisions on whether institutions need to tap state resources will be taken much sooner.

Banks have been told to submit a plan to regulators detailing exactly how and when they plan to meet the target, either through restructuring, converting debt to equity, issuing new shares, or cutting back on dividends and bonuses.

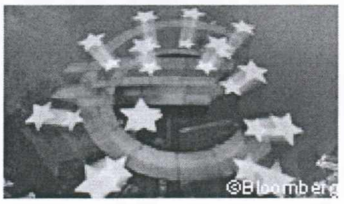
If regulators – at both a national and European level – are unconvinced that a bank will be able to make the higher capital level under its own steam, they are likely to take action as soon as the difficulties become clear, say European regulators.

Spanish banks, faced with a €26.2bn recapitalisation bill – the second biggest national total after Greece – said on Thursday they were confident of reaching the EU-mandated targets on time without calling on state aid.

Banks such as Santander and BBVA said they would reach or even exceed the 9 per cent target through organic capital growth from profits and scrip dividends, through asset sales, and by managing their balance sheets and the way they weighted the riskiness of their assets.

The European Banking Authority's decision to accept within its definition of capital bonds that convert by the end of October 2012 – an extension of the general June 2012 deadline – seemed designed to accommodate the maturing of a large convertible issue from Santander, the eurozone's biggest bank by market capitalisation.

EBA details EU measures to restore confidence in banking sector



Measures to strengthen banks' capital positions

Santander said on Thursday that its required extra capital of €14.97bn would be reduced to €6.47bn by the exercise of €8.5bn of convertibles.

The Bank of Italy said the €14.7bn additional capital the EBA said its banking system required was only "indicative" and that the actual requirement would be given in November.

In Portugal lenders said they would consider tapping a €12bn state fund to comply with the EU plan.

Reporting by Megan Murphy in London, Alex Barker in Brussels, Victor Mallet in Madrid and James Boxell in Paris

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