

## AT A GLANCE

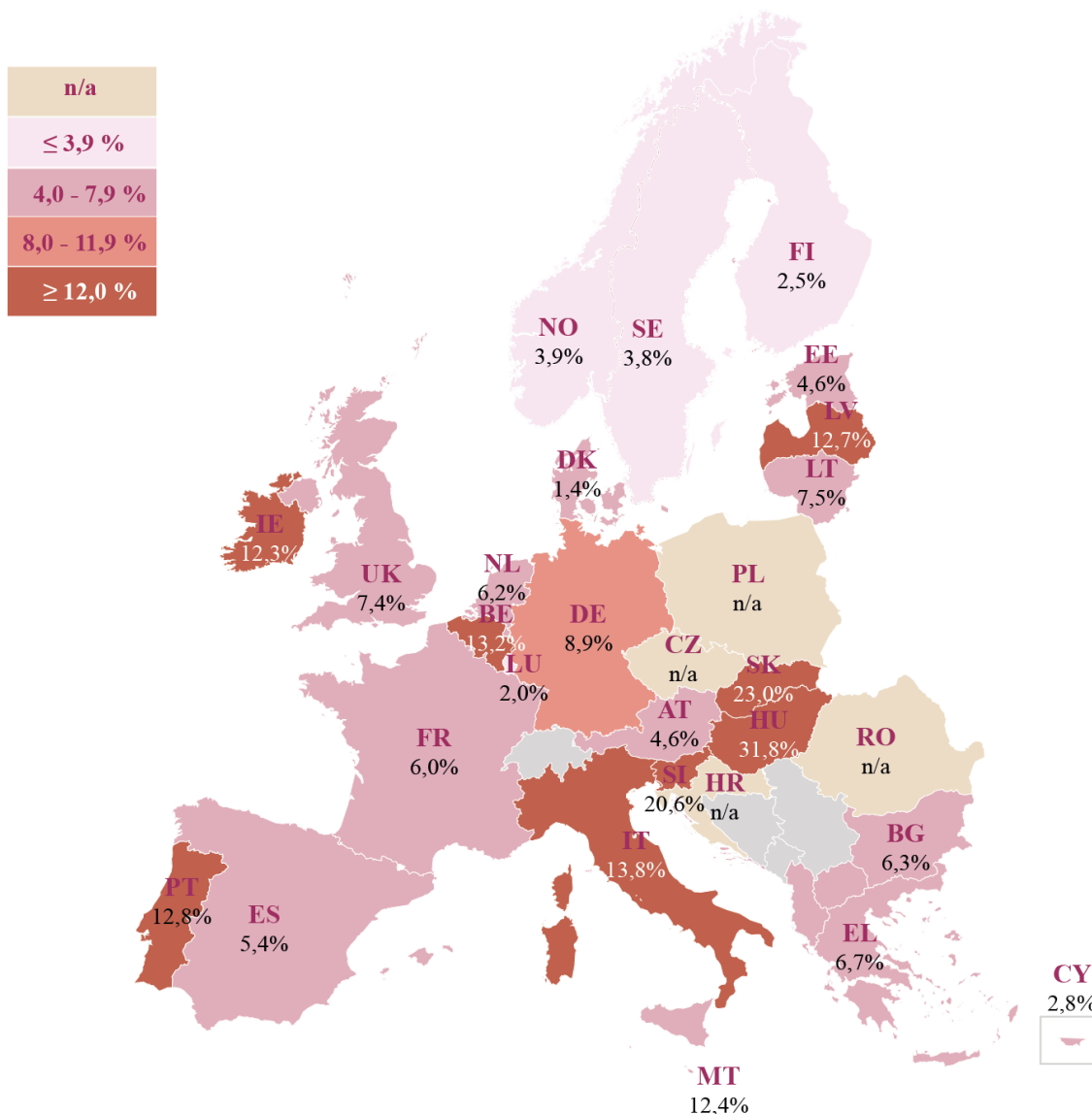
### Banks' exposures to Home sovereign bonds

*This background document summarises information that was published by the European Banking Authority and that sheds some light on the status quo of the 'sovereign-bank' nexus, in view of the fact that the link between sovereign and bank credit risk has been identified as a risk to financial stability.*

#### Context

The financial crisis drew attention to the problem of the **'sovereign-bank' nexus**: costly rescue operations for banks caused significant increases of public debt in some Member States, while some banks became increasingly vulnerable to sovereign rating downgrades via their investment in sovereign bonds. From a systemic stability point of view, the financial standing of banks and the countries in which they operate should hence become less interdependent.

**Status Quo:** Banks' exposure to Home sovereign bonds (% of total risk exposures, as at 30/6/2016)



Source: EGOV calculations based on [EBA data](#)

In general, sovereign bonds are considered the **highest quality bonds** in the market exactly because they are backed by national governments, and regulators therefore give them a **preferential treatment**. For banks, sovereign bonds are not only attractive because of their regulatory treatment but also because they are liquid and can easily be bought and sold on functioning markets.

### Status Quo

On 2 December 2016, the European Banking Authority (EBA) published the [results](#) of its 2016 **EU-wide transparency exercise** that inter alia looked into the banks' holdings of domestic and non-domestic sovereign debt, analysing a sample of 131 banks from 24 countries<sup>1</sup> of the European Union and the European Economic Area.

In table below, we summarise the data surveyed by EBA on the banks' **exposures to their Home Sovereign**, in other words the banks' exposures to the country in which they are headquartered. The EBA 2016 transparency exercise relied on the banks' supervisory reporting data (FINREP reporting) that is slightly less granular than the data used in previous years but that allows for a clearer separation between the total lending and the investment in sovereign bonds. The EBA category "Exposure to Sovereign" includes both bonds and loans to the government (at central and sub-central level), the sub-category "debt securities" shows how much thereof was invested in sovereign bonds. The figures reported in table 1 show the exposure to the Home country only, not that to other countries.

### Average exposures to the Home Sovereign (in relation to total risk exposures) as at 30/06/2016, on country level

Country	AT	BE	BG	CY	DE	DK	ES	FI
EBA sample size	8	6	1	4	19	4	14	2
Exposure to Home Sovereign	8,8%	26,2%	6,3%	3,1%	22,8%	4,3%	8,5%	4,0%
thereof Home sovereign bonds	4,6%	13,2%	6,3%	2,8%	8,9%	1,4%	5,4%	2,5%
CET1 ratio	12,3%	11,9%	11,9%	15,0%	13,2%	16,6%	10,8%	20,2%
Home sovereign bonds/CET1 ratio*	37%	111%	53%	18%	68%	9%	50%	12%
Country	FR	GR	HU	IE	IT	LU	LV	MT
EBA sample size	12	4	1	4	15	5	1	3
Exposure to Home Sovereign	17,4%	10,7%	32,6%	12,7%	16,2%	2,2%	12,7%	19,0%
thereof Home sovereign bonds	6,0%	6,7%	31,8%	12,3%	13,8%	2,0%	12,7%	12,4%
CET1 ratio	13,3%	16,7%	13,2%	12,7%	11,5%	20,3%	9,6%	15,4%
Home sovereign bonds/CET1 ratio	45%	40%	242%	97%	120%	10%	131%	80%
Country	NL	NO	PT	SE	SI	UK		
EBA sample size	6	2	6	6	2	4		
Exposure to Home Sovereign	12,6%	4,6%	15,6%	10,1%	26,7%	8,1%		
thereof Home sovereign bonds	6,2%	3,9%	12,8%	3,8%	20,6%	7,4%		
CET1 ratio	14,1%	14,4%	9,7%	19,6%	19,1%	12,3%		
Home sovereign bonds/CET1 ratio*	44%	27%	132%	19%	108%	60%		

Source: EGOV calculations based on [EBA data](#). \* Ratio calculated as percentage of Home sovereign bonds held over Common Equity Tier 1 ratio (fully loaded; CET1), according to EBA data.

<sup>1</sup> A Polish and a Romanian bank were in the EBA sample, but the amount of Home debt securities held by them were not disclosed.

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