

EUROPEAN BANKS IN CRISIS: RISK MODELING AND IMPLICATIONS

Reilly S. White, University of New Mexico, Albuquerque, New Mexico, USA

[dx.doi.org/10.18374/JIFS-14-1.9](https://doi.org/10.18374/JIFS-14-1.9)

ABSTRACT

Employing a cluster analysis of 43 different European nations and 77 European banks, we find that significant differences exist between the country-level and firm-level financial risk characteristics. We find four basic financial systems exist in our sample countries based on the concentration and development of the banking industry. While the difference between high and low financial risk countries is consistent with media reports and literature, we find strong evidence for the existence of Pan-National European banks that exhibit little common risk characteristics with their host countries. We also demonstrate the “high risk” banks are more affected by firm-specific risk characteristics than country-level variables. Our results bolster the need for systemic Europe-wide banking regulation.

Keywords: *International Finance; Banking; Risk Analysis; European Banks*