OVERVIEW OF DBRS'S ASSESSMENT OF SYSTEMIC SUPPORT FOR BANKS

DBRS has recently undertaken a global assessment of its support assessments and the impact that this could have on its ratings of banks. This follows the publication in March 2015 of DBRS's updated Criteria which addresses internal and systemic support for banks and banking organizations. As a result of this global assessment, DBRS took, on May 20th, a number of rating actions on financial institutions in Europe and Canada to reflect changes in the likelihood of timely government support for financial institutions. In Europe the senior debt and deposit ratings of 38 banking groups have been placed under review with negative implications, while in Canada the trend was changed to Negative, from Stable, on the ratings of seven banking groups. In Australia and Japan there were no rating actions taken while in the USA DBRS does not have any systemic support incorporated in the ratings of US financial institutions.

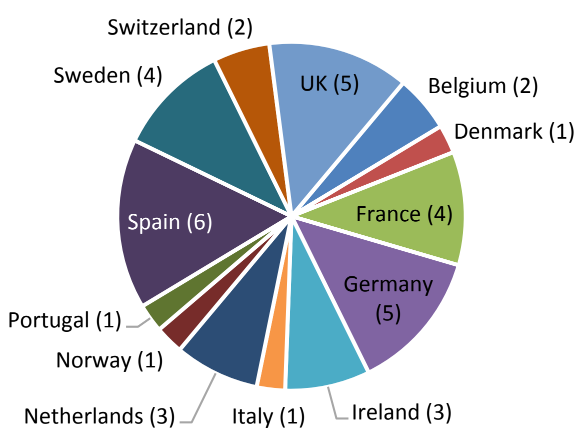
Links to the related press releases are attached at the end of this press release.

Rating Actions and Rationale

Europe: 38 banking groups placed Under Review with Negative Implications

DBRS has placed Under Review with Negative Implications the senior debt and deposit ratings of 38 banking groups in Europe that currently benefit from some uplift for systemic support. The short-term debt ratings of 16 banking groups were also placed Under Review with Negative Implications. These rating actions reflected DBRS's view that recent developments in European regulation and legislation mean that there is less certainty about the likelihood of timely systemic support for these systemically important banks (SIBs). Currently, the final ratings of such banks benefit from an uplift of one or more notches above their intrinsic assessment (IA).

Number of European Banks placed URN by Country (38)



In addition to the 38 banking groups placed Under Review, the reviews of a further 3 banking groups that were already Under Review with Negative or Developing implications, now also incorporate a review of the support assumptions[1]. The 41 banking groups that could see their ratings downgraded include 39 banking groups that currently have 1 notch of uplift in their senior debt and deposit rating and 2 banking groups with 2 notches or more of uplift.

Background

The Bank Recovery & Resolution Directive (BRRD) was enacted on 15 May 2014 and has been effective in European Union (EU) countries since January 2015, with the bail-in option to be available from January 2016. To date, Germany, the UK and Austria have enacted BRRD into national legislation. Other countries are expected to complete the process within the next few months. Under BRRD, the requirement that at least 8% of total liabilities absorb losses before any funding can be provided by resolution funds, means that the risk of senior bondholders absorbing losses at the point of failure is, in DBRS's opinion, greater than before.

In addition, progress is being achieved in other areas that would facilitate the resolution of systemically important banks. Individual banks are working with regulators on improving their resolvability. Some of the rules that will support this process – including the implementation of MREL (minimum requirement for own funds and eligible liabilities) and TLAC (total loss absorbing capital) – are still to be finalised, but in the meantime many banks have increased their loss absorbing capital and liabilities, including in some cases building up loss absorbing capacity at the holding company level to aid resolution. At the same time, banks are also working on improving their risk profiles and risk management, as well as refocusing their franchises and streamlining their operations.

Efforts to improve the resolvability of individual banks also include progress on limiting the risk of contagion. This includes the strengthening of individual banks to make them more resilient in the face of the deterioration and resolution of a single bank. At the same time, progress is also being made on making the financial markets less susceptible to disruption from the resolution of a SIB. For example, the increase in the flow of transactions through clearing houses, and the treatment of derivatives for a bank in distress.

In addition, the ability of regulators and supervisors to take action has improved and they have not only the legislative power, but also stronger capabilities to resolve individual banks and manage any fallout from contagion. Most notable is the role of the European Central Bank in the supervision of major banks in countries in the Eurozone.

Included in the rating actions described above are one Norwegian bank and two Swiss banks that currently benefit from uplift for systemic support. In the case of Norway, DBRS expects legislation will be introduced that resembles the BRRD, and while BRRD does not apply in Switzerland, DBRS views the Swiss resolution regime as moving in the same direction as the path taken by European Union countries, implying that the likelihood and predictability of support has declined. The Swiss regulator has detailed its preferred resolution strategy as being single-point of entry, and legislation has been passed to provide the legal basis for resolution proceedings. While the resolution strategy allows for flexibility, it clearly expresses the strong political will to avoid any state support to banks.

Application of DBRS Support Criteria

For banking groups that are considered systemically important, DBRS generally assigns a support assessment (SA) of SA2 indicating the likelihood of timely systemic support. This approach to systemic support is set out in DBRS Criteria: Support Assessments for Banks and Banking Organizations (March 2015).

There are 46 banking groups currently designated as likely to receive systemic support in Europe, and DBRS incorporates 1 notch of uplift in the senior debt and deposit ratings of 39 banking groups, and 2 notches or more of uplift in the ratings of 2 banking groups. The remaining 5 banking groups (BBVA, Caixabank, Santander, Caixa Geral de Depósitos, and Intesa Sanpaolo)

[1] In Italy, Banca Monte dei Paschi di Siena, and in Portugal, Banco Comercial Português and Novo Banco.

do not have any uplift in their ratings because the IA is at the same level or higher than the sovereign rating. During the review period DBRS will consider whether to change the support designation of the 46 banking groups from SA2 to SA3, which is the category for banks in countries where DBRS has no expectation of systemic support or is not confident enough that timely systemic support would be forthcoming in times of need to add a notch for systemic support. Such a conclusion would lead to the removal of any uplift and a downgrade of the senior ratings for any affected banks.

Other Factors to be considered in the Review

DBRS will also consider other relevant factors in the review period, which is expected to be completed in September. These include: (i) the relative ranking of deposits compared to senior unsecured debt; (ii) any benefit provided to senior debt ratings by higher levels of subordinated debt and equity; (iii) the treatment of government-owned banks; and (iv) any positive trends in a bank's fundamental creditworthiness.

(i) Review of Deposit Ratings

Alongside the senior debt ratings, DBRS has placed Under Review banks' deposit ratings – a rating that is applied to non-covered deposits (covered deposits are deposits up to EUR 100,000 and are excluded from the bail-in tool). DBRS also recognises that under BRRD non-covered deposits are available for loss absorption, but that natural person and SME non-covered deposits have a higher priority than ordinary unsecured creditors. During the review period, DBRS will consider whether this stipulation provides sufficient clarity to differentiate between deposit and senior debt ratings.

(ii) Level of Loss absorbing Capital

Under BRRD, loss absorbing subordinated debt and capital provide protection for senior bondholders. During the review period, DBRS will consider how to differentiate between banks with different levels of loss absorbing resources. However, given the evolution that is still taking place in banks' balance sheets and the regulatory environment, DBRS may decide to postpone a decision on such differentiation until there is greater clarity on the required levels of loss absorbing capital.

(iii) Government-owned banks

During the review period, DBRS will also consider the incorporation of some form of support for fully-owned government banks, where the banks have a policy function and are expected to remain fully-owned for the foreseeable future. DBRS will review the flexibility for the government as owner to take the necessary actions to maintain the capital and other fundamentals of such banks.

(iv) Banks with Positive Fundamental Trends

At the time of the announcement of this review, 7 banking groups (UBS, KBC, Belfius, Abanca, Swedbank, Svenska Handelsbanken, and Permanent tsb) had positive trends on their ratings due to signs of improvement in their fundamental credit profiles. The ratings of these banks have also been placed Under Review with Negative Implications in this rating action. However, when concluding the review, DBRS will consider whether the fundamental trends are strong enough to lead to an increase in the Intrinsic Assessment (IA) that could offset the potential removal of systemic support. It is also possible that there could be positive developments at other banks during this period, and this will also be taken into account when concluding the reviews.

Canada: Trend Changed to Negative on Seven Canadian Banking Groups

DBRS has also changed the trend to Negative on the senior and subordinated debt ratings of six Canadian Banks and their subsidiaries plus Desjardins Group and its issuing entities. Additionally, negative trends were placed on those related short term ratings that might be impacted under DBRS methodology by a long term rating change.

The rating action reflects DBRS's view that anticipated changes in Canadian legislation and regulation mean that the potential for timely systemic support for these systemically important institutions is declining and is likely to eventually result in a change in DBRS's support assessment from SA2 to SA3 for these institutions. Currently the final ratings of such deposit taking institutions benefit from an uplift of one notch above their intrinsic assessment (IA) due to the SA2 support assessment. At the same time, DBRS notes that additional protection for non-bail-in-able debt and deposits may eventually be provided by bail-in-able senior debt under the anticipated bail-in debt regime. DBRS will assess the impact of the 'Taxpayer Protection and Bank Recapitalization Regime' rules as more details are made available by the authorities.

DBRS currently has an SA2 support assessment for Desjardins Group based on DBRS's view of likely support from the Government of Canada for this institution which is systemically important for Quebec. As DBRS's view of Canadian Government support for the large banks shifts, so too will the potential for support for other deposit taking institutions. While DBRS continues to view support for Desjardins Group as likely from the Province of Quebec, a decline in support from Canada for the large banks and Desjardins may result in a change in the rating. Consequently, Desjardins Group rating trends have also been changed to negative.

In other provinces the credit unions, their systems and centrals remain very important for those individual provinces. In many rural areas, credit unions are the only providers of banking services. In addition, various provinces have 100% deposit guarantee programs. These systems, however, are not included in current legislative proposals. Accordingly, DBRS has not changed its view of the likelihood that provinces will support their credit union systems and centrals. Moreover, DBRS's existing SA2 support assessment for the various credit union centrals are based on provincial government support and, therefore there are no trend changes for the Centrals.

Australia and Japan: No Change to Banks' Support Assessments

Following the global assessment of systemic support incorporated in DBRS's bank ratings no changes have been made to the support assessments of banks in Australia and Japan and consequently, there is no change to any of the current ratings.

In Australia the Financial System Inquiry (FSI), published in December 2014, recommended the implementation of a framework for minimum loss absorbing and recapitalisation capacity, in line with emerging international practice. DBRS, however, notes that Australian authorities, including the Reserve Bank of Australia (RBA), have, to date, remained cautious in their approach to bail-in. As a result, DBRS considers that the current legislative framework in Australia is still supportive of authorities providing timely support in the event of a crisis. In light of the FSI's recommendation though, DBRS will continue to monitor any further developments in either the willingness and /or ability of Australian authorities to support financial institutions under stress.

In Japan DBRS considers the legislative framework (the current Deposit Insurance Act of June 2013 allows the authorities to provide support to financial institutions in certain circumstances. Specifically, the Deposit Insurance Corporation of Japan (DICJ) can take pre-emptive action and provide capital injections, if considered necessary, as a measure against financial crisis, as well as for the orderly resolution of financial institutions. Past experience in Japan has shown that such capital injections can be later repaid by the institution itself or the rest of the industry. DBRS notes, however, that this approach may not be compatible with the introduction of Total Loss Absorbing Capital (TLAC), as proposed by the Financial Stability Board (FSB). As such, DBRS will continue to monitor any changes in the willingness and/ or ability of the Japanese authorities to be in a position to support financial institutions under stress.

Summary of Rating Actions by Banking Group

Banking groups where the long-term debt and deposits rating has been placed Under Review with Negative Implications	Country	Short-term rating also placed URN at either the bank or the holding company (x)	Banking groups where the trend is currently Positive (x)
Belfius Bank SA/NV	Belgium		x
KBC Group N.V.	Belgium		x
Danske Bank A/S	Denmark		
Crédit Logement, SA	France		
Groupe Crédit Agricole	France		
Société Générale, S.A.	France		
BNP Paribas (Canada)	France	x	
Deutsche Bank AG	Germany	x	
Deutsche Pfandbriefbank AG	Germany		
DZ BANK AG Deutsche Zentral-Genossenschaftsbank	Germany		
Landesbank Berlin AG	Germany		
Sparkassen-Finanzgruppe	Germany	x	
Allied Irish Banks, p.l.c.	Ireland	x	
Governor and Company of the Bank of Ireland, The	Ireland		
permanent tsb p.l.c	Ireland		x
Banco Popolare Societa Cooperativa	Italy	x	
ABN AMRO Group N.V.	Netherlands	x	
ING Bank N.V.	Netherlands		
Rabobank Nederland	Netherlands		
DNB Bank ASA	Norway	x	
Caixa Económica Montepio Geral	Portugal	x	
Abanca Corporación Bancaria S.A.	Spain	x	x
Banco Cooperativo Español S.A.	Spain	x	
Banco de Sabadell, S.A.	Spain		
Banco Popular Español S.A.	Spain		
Bankinter S.A.	Spain		
Liberbank, S.A.	Spain	x	
Nordea Bank AB	Sweden	x	
Skandinaviska Enskilda Banken AB	Sweden		
Svenska Handelsbanken AB (publ)	Sweden		x
Swedbank AB (publ)	Sweden	x	x
Credit Suisse AG	Switzerland		
UBS AG	Switzerland	x	x
Barclays Bank PLC	UK		

HSBC Holdings plc	UK
Lloyds Bank plc	UK
Nationwide Building Society	UK
Royal Bank of Scotland Group plc, The	UK

Banking groups that were already Under Review with Negative or Developing Implications, where the review now also incorporates a review of the support assumptions.

Banca Monte dei Paschi di Siena SpA	Italy
Banco Comercial Português, S.A.	Portugal
Novo Banco, S.A.	Portugal

Banking groups that do not have any uplift in their ratings because the IA is at the same level or higher than the sovereign rating.

Intesa Sanpaolo SpA	Italy
Caixa Geral de Depósitos, S.A.	Portugal
Banco Bilbao Vizcaya Argentaria, S.A.	Spain
Banco Santander SA	Spain
CaixaBank, S.A.	Spain

Banking groups where the trend on the long-term debt and deposits rating has been changed to Negative.	**Short-term trend changed to Negative at either the bank or the holding company (x)**
Bank of Montreal	x
Bank of Nova Scotia	x
Canadian Imperial Bank of Commerce	x
Desjardins Group	x
National Bank of Canada	
Royal Bank of Canada	x
Toronto-Dominion Bank	x

Links to Related Press Releases:

DBRS Places 38 European Banking Groups Under Review Negative due to Systemic Support
DBRS Changes Trend on Seven Canadian Banking Groups to Negative from Stable due to Evolving View on Support
DBRS Changes Trend to Negative on U.S. subsidiaries of Canadian Banking Groups on Sovereign Support
DBRS Comments on Support Assessments of Australian Banks
DBRS Comments on Support Assessments of Japanese Banks
DBRS Places HSBC Finance Corporation, A (low) Senior Debt Ratings Under Review Negative
DBRS Places HSBC USA Inc.'s AA (low) Senior Debt Rating Under Review with Negative Implications

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