



Fitch Revises Outlooks on 18 EU Commercial Banks to Negative on Weakening Support

Fitch Ratings, London, 26 March 2014: Fitch Ratings has revised the Outlook on 18 European Union (EU) commercial banks' Long-term Issuer Default ratings (IDR) to Negative from Stable. The Outlooks on a further 18 European commercial banks' IDRs remain Negative. The Outlook revisions are in conjunction with a global review of sovereign support for banks. A list of the institutions affected appears at the end of this release.

Fitch has published separate rating action comments in respect of Deutsche Bank, Societe Generale, Banco Popular Espanol, Grupo Cooperativo Cajas Rurales Unidas, Lloyds Banking Group and SNS Bank and certain of their affiliates.

The remainder of this rating action comment refers to the other banks and certain of their subsidiaries. A complete list of rating actions on these banks can be obtained by clicking the link above. Fitch has also affirmed these banks' Long- and Short-term IDRs, senior debt ratings (where assigned), Support Rating Floors (SRF, where assigned) and Support Ratings (SR). One bank, COREALCREDIT BANK AG, has its Long-term IDR remaining on Rating Watch Positive, pending completion of its expected acquisition by Aareal Bank AG.

All of these banks' Long-term IDRs are driven by assumptions of sovereign support, as reflected in their (or their parent banks') SRFs. While Fitch has affirmed these banks' SRs and SRFs where assigned, most of these SRs and SRFs are likely to be downgraded and revised downwards respectively within the next one to two years. This would reflect further progress being made in implementing the legislative and practical aspects of enabling effective bank resolution frameworks, thereby reducing implicit sovereign support for the banks.

Where Outlooks are Negative, this is because such downward revisions of SRFs are likely to cause downgrades of Long-term IDRs to the level of banks' (or parent banks') Viability Ratings (VR) at the time, unless mitigating factors arise in the meantime. Mitigating factors could include upgrades of VRs to the level of current SRFs, significant increases in buffers of junior debt or corporate actions. A full list of rating actions is provided in the attached spread-sheet.

KEY RATING DRIVERS

Systemic importance is ultimately a key driver behind the SRs and SRFs in most instances, although the rationale (eg, national, regional) varies by bank. LT IDRs and long-term senior debt ratings (including market-linked notes, where rated) are driven by banks' SRFs or those of their parents. Most ST IDRs and short-term senior debt ratings are also driven by banks' SRFs or those of their parents. A small number of ST IDRs and short-term senior debt ratings are also driven by banks' intrinsic financial condition, as reflected in their Viability Ratings. Key Drivers are summarised in the attached spread-sheet.

RATING SENSITIVITIES

The Long-term IDRs, Long-term senior debt ratings (including market-linked notes, where rated), SRs and SRFs are either directly or indirectly sensitive to a weakening in Fitch's assumptions around either the ability or propensity of relevant sovereigns to provide timely support.

Of these, the greatest sensitivity is to a weakening of support propensity in respect of further progress being made in addressing both the legislative and the practical impediments to effective bank resolution. In the EU, where the extent of existing legislative powers and the practical complexity of applying resolution tools vary by country, this will mainly occur through national implementation of the provisions of the Bank Recovery and Resolution Directive (BRRD), which has been tabled for a vote by the European Parliament next month.

Most of BRRD's provisions have to be in place by end-2014, where not already available. Only the bail-in tool (currently in place in the UK and Cyprus, for example) has a later, 1 January 2016 deadline. Resolution and supervisory powers will be enhanced in order to address practical impediments to resolution. While extraordinary support for banks will still be possible after implementation of the provisions of BRRD, the hurdles to provide support will be higher.

In Banking Union countries, the Single Supervisory Mechanism will reduce national influence over supervision and licensing decisions in favour of the European Central Bank (ECB). Reaching political consensus on the Single Resolution Mechanism (SRM) was more troublesome than was the case with BRRD. While still involving multiple parties in resolution decisions, the SRM will result in a dilution of national influence over resolution decisions for large banks.

Where SRFs are assigned, Fitch's base case is that sufficient progress is likely to have been made for banks' Support Ratings to be downgraded to '5' and SRFs to be revised downwards to 'No floor' within the next one to two years, as indicated in the attached spread-sheet. At this stage, this is likely to be late 2014 or in 1H15, but this could change and could vary by country. The timing will be influenced by Fitch's continuing analysis of progress made on bank resolution and could also be influenced by idiosyncratic events, for example should there be risks to the availability of sovereign support for a bank that is likely to meet the conditions for resolution during 2014, whether as part of an asset quality review or another event.

Fitch's definition of a '5' SR is as follows: 'A bank for which there is a possibility of external support, but it cannot be relied upon'. Higher SRs indicate that full extraordinary support for senior creditors, in Fitch's opinion' is 'probable' to varying extents.

The banks' Short-term IDRs and short-term debt ratings are sensitive to downward revisions of SRFs unless i) they are also driven by their Viability Ratings (see attached spread-sheet) or ii) their Viability Ratings are at a level at that time that could justify maintenance of the current Short-term IDR and the bank's liquidity profile and access are sufficiently strong.

[The topic of bank resolution is explored in more detail in a Special Report entitled 'Sovereign Support for Banks: Rating Path Expectations', which will shortly be published on www.fitchratings.com](#)

Fitch will hold a teleconference to discuss sovereign support for banks and give an update on rating paths on Friday, March 28 at 15:00 GMT.

Callers must register in advance using the link below and are requested to dial in early:

<http://event.onlineseminarsolutions.com/r.htm?e=773507&s=1&k=E99B5BCE23C11883F75DA40C4B1FED21>

Today's IDR Outlook changes to Negative from Stable affect the following institutions:

Aareal Bank AG
Allied Irish Banks Plc
Banco Popular Espanol
Bank of Ireland
Banque Internationale a Luxembourg
Belfius Banque SA/NV
Commerzbank AG
Deutsche Bank AG
Erste Group Bank AG
First Investment Bank AD
Grupo Cooperativo Cajas Rurales Unidas
Lloyds Banking Group
Raiffeisen Bank International AG
The Royal Bank of Scotland Group Plc
SNS Bank NV
Societe Generale
Unicredit Bank AG
Unicredit Bank Austria AG

The following institutions' IDRs remain on Negative Outlook:

ABN AMRO Bank N.V.
Banca Carige
Banca Monte dei Paschi di Siena Spa
Banca Popolare di Milano
Banco BPI
Banco Comercial Portugues, S.A.
Banco Financiero y de Ahorros, S.A.
Banco Mare Nostrum, S.A.

Banco Popolare
Banco Internacional do Funchal, S.A.
Bankia, S.A.
Caixa Economica Montepio Geral
ING Bank NV
ING Group
Liberbank, S.A.
NCG Banco, S.A.
Nova Kreditna Banka Maribor
Nova Ljubljanska Banka d.d.

Contact:

Contact details for the Primary and Secondary Analyst for each institution and for the Committee Chairperson are included in the attached spreadsheet detailing those rating actions not outlined in separate rating action commentaries.