

S&P Requests Comments On Proposed Revision Of Criteria For Rating Banks

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- The proposed criteria provide greater insight into how we rate banks and enhance the comparability of Standard & Poor's ratings.
- They build on our existing analytical framework and incorporate what we have learned during the recent financial crisis.
- We propose to place greater emphasis on economic risk and industry risk, and on capital retention.
- We propose to update our methodology for incorporating government support into the ratings on banks.

LONDON (Standard & Poor's) Jan. 6, 2011--Standard & Poor's Ratings Services is requesting comments on its proposal published today to revise its criteria for rating banks, which we believe would have a modest impact on their current ratings.

The proposed criteria would represent a significant change. They aim to enhance the transparency and replicability of our financial institution ratings, as well as their comparability with our ratings in other sectors. The proposal we published today, "Request For Comment: Banks: Rating Methodology," applies to issuer credit ratings (ICRs) on retail, commercial, and corporate

and investment banks. (For a copy of the report or to participate in one of our teleconferences, see the details below.)

PROPOSAL

In the aftermath of the global financial crisis starting in 2007, we are revising our criteria for rating banks. Banking crises have been a feature of the financial landscape throughout history, and we believe that banking crises will happen again. We expect the pattern of banking sector boom and bust and government support to repeat itself in some fashion, regardless of governments' recent and emerging policy responses.

New laws put in place following previous crises, such as deposit insurance, have not prevented subsequent downturns. By embedding this knowledge into our ratings, we want to ensure that the lessons of the recent economic downturn are not forgotten as national economies recover and the next period of favorable conditions gives rise to growth and attractive headline banking profits.

The proposed criteria improve transparency about our ratings by articulating in much greater detail how we develop the ICR for a bank. We start with our analysis of a bank's stand-alone credit profile (SACP) and then consider the potential for additional direct support from its parent group or government. By showing how we incorporate the influence of governments into our credit analysis of banks, the proposed criteria are also more comprehensive.

The proposed criteria reflect the greater emphasis placed on economic risk and industry risk under our banking industry country risk assessment (BICRA) methodology, in setting the "anchor" for a financial institution's SACP.

To determine the SACP under the proposed criteria, we consider bank-specific factors: business position, capital and earnings, risk position, and liquidity. We then examine a bank's support, including any potential support from the government and its corporate group, that might lead us to raise the rating above the SACP.

Further changes in our proposed criteria include:

- A repositioning of our earnings analysis to focus on capital retention through retained earnings and the capacity of earnings to cover anticipated losses and protect capital.
- A separation of our analysis of funding and liquidity, and the inclusion of our funding analysis in our assessment of business position.
- Less emphasis in our rating assessments on unproven diversification benefits and greater emphasis on risks resulting from the added complexity of off-balance-sheet derivatives and structured finance.
- The introduction of specific standards about the impact of our risk-adjusted capital (RAC) ratio on the SACP.

In addition, we are reopening the comments period on our proposed BICRA criteria because of their greater importance in the proposed criteria for rating banks. (See "Request for Comment: Methodology For Determining Banking

Industry Country Risk Assessments," published May 13, 2010.) The BICRA scores express our opinions about economic risk and industry risk as a whole number on a scale of 1 to 10, from very low to extremely high. The assessments are a relative ranking of credit strengths and weaknesses among national banking systems.

We have separately published today our initial view of the impact of the proposed BICRA criteria on the scores for 23 countries where approximately 80% of the banks that we rate are domiciled. (See "Preliminary Banking Industry Country Risk Assessments In 23 Countries.")

RATINGS IMPACT

We have tested the proposed criteria on 138 banks we rate and our results indicate that the ratings impact would likely be modest. But it is important to note that the findings are subject to change based on the final criteria we adopt and the subsequent application of those criteria by our rating committees.

The sample comprised 47 banks from Western Europe; 38 from Asia-Pacific; 23 from North America; 17 from Latin America; and 13 from Eastern Europe, the Middle East, and Africa. The sample also included 35 of the world's largest banks by assets.

The results suggest that 85% of the long-term issuer credit ratings (ICRs) on the banks in the sample would remain the same or move one notch up or down. Of the remaining 15% of the ICRs, we found that about half moved up by more than one notch--especially on smaller institutions or niche players--and about half moved down by more than one notch.

However, there was a greater effect on our SACPs, as we expected and set out in "Advance Notice Of Proposed Criteria Change: Banks, Finance Companies, And Institutional Brokers," published March 11, 2010. Indeed, over 40% of the SACPs in the test declined by one notch or more. It should be noted that changes to SACPs would have a more direct effect on our ratings on hybrid instruments than on ICRs. (See "Request for Comment: Bank Hybrid Capital Criteria: Methodology And Assumptions," Dec. 6, 2010.)

For roughly half of the largest banks, the results show that the proposed criteria would result in downgrades--usually of just one notch for the long-term ratings.

Whenever we lower a long-term rating on a bank or its holding company to 'A-' or lower, we lower the short-term rating below 'A-1' (see "Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks," published May 4, 2010). The results show that the proposed criteria would result in downgrades for less than 20% of the banks and bank holding companies in our sample we currently rate 'A-1' or higher.

RESPONSE DEADLINE

We encourage market participants to submit written comments only on the

proposed criteria, including the BICRA request for comment, by March 7, 2011. Please send your comments to CriteriaComments@StandardandPoors.com. Once the comment period is over, we will review the comments and publish the criteria.

RELATED CRITERIA AND RESEARCH

- Request For Comment: Banks: Rating Methodology, Jan. 6, 2011
- Preliminary Banking Industry Country Risk Assessments In 23 Countries, Jan. 6, 2011
- Industry Risk For Investment Banking Is Generally Higher Than For Other Financial Institutions, Jan. 6, 2011
- Request for Comment: Bank Hybrid Capital Criteria: Methodology And Assumptions, Dec. 6, 2010
- Request for Comment: Methodology For Determining Banking Industry Country Risk Assessments, May 13, 2010
- Advance Notice Of Proposed Criteria Change: Banks, Finance Companies, And Institutional Brokers, March 11, 2010
- Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks, May 4, 2010

TELECONFERENCES

Standard & Poor's will be hosting two teleconferences to provide an overview of the proposed criteria to market participants.

For North America, Latin America, and Europe, the teleconference will take place on Jan. 11, 2011, at 10 a.m. (EST). Live dial-in numbers include 1-888-617-1526 (U.S./Canada), 0800-279-9630 (U.K.), and 001-866-839-3438 (Mexico); the Conference ID# is 2129753 and the Passcode is SANDP. For additional call-in numbers and other details, please visit http://event.standardandpoors.com/content/FITcon_Jan112011.

For the Asia-Pacific markets, a teleconference will be hosted on Jan. 12, 2011, and will take place at 1 p.m. Hong Kong time. To register and obtain additional information, visit http://event.standardandpoors.com/content/FI_Criteria_Teleconf.

DETAILS

To access the report we published today, "Banks: Rating Methodology," please visit www.standardandpoors.com/AI4FI.

The report is available to RatingsDirect subscribers on the Global Credit Portal at www.globalcreditportal.com and RatingsDirect subscribers at www.ratingsdirect.com. If you are not a RatingsDirect subscriber, you may purchase a copy of the report by calling (1) 212-438-7280 or sending an e-mail to research_request@standardandpoors.com. Ratings information can also be found on Standard & Poor's public Web site by using the Ratings search box located in the left column at www.standardandpoors.com. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708;

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