

PRESSE RELEASE

Results of the sixth I-CV Banking Study:

«Ratings have stabilised on the lower I-CV rating levels – thumbs still down for banks in the PIIGS economies, thumbs up for Brazilian banks»

Zurich, 8th of June 2011 – The sixth Banking Study from Independent Credit View (I-CV), a Swiss-based research boutique specialising in credit research, revealed today based on fundamental analysis and stress testing of 63 banks, that a large number of banks still have significant capital deficiencies. The ongoing deleveraging in the banking sector has so far not led to structural adjustments in the financial system, but rather resulted in ever increasing debt on the state level, respectively central banks. The central banks are gradually mutating into the “bad banks” of the financial system.

Research findings presented by I-CV, an independent research boutique specialising in credit research, reveal that bank's credit quality has stabilised on lower I-CV rating levels a view in opposition to the negative outlook held by the incumbent rating agencies. Whilst the rating trend has since 2007 (first I-CV Banking Study) been on a negative trajectory, the average I-CV credit rating has even improved by half a notch if compared to last year's results. “Due to the gradual implementation of Basel III requirements we believe that this trend will remain intact”, states Christian Fischer, Partner at I-CV. The signs of stabilisation in the credit quality of the banking universe covered are based on four supporting factors: Capital increases, reduction of risk weighted assets, positive earnings momentum and the still steep yield curve.

Stress test: Winners from Brazil – Losers from Italy and Ireland

Fischer stresses a differentiated view of the findings: “The stress test we carried out shows that a large number of banks would, based on the underlying assumptions of the stress scenario, still require significant capital injections.” From the multistage stress test I-CV identified an estimated capital shortfall or respectively a capital surplus as a percentage of the market capitalisation. With a substantial capital surplus the Brazilian banks Banco do Brasil and Bradesco are on top of the leader board ahead of UBS. At the bottom like in last year's analysis are the Irish Banks, but also Italian Banks (e.g., Intesa and Unicredit) as well as the German-based Commerzbank. Under the criteria applied in the stress test these banks have a capital requirement that by far exceeds their current market capitalisation.

"In case of new external shocks the winners display a much higher stress resistance and have the financial flexibility for acquisitions, growth, dividend payouts and share repurchases. The losers on the other hand face the latent risk of (partial) nationalisation and/or a debt restructuring. In addition, the large capital requirements could lead to dilution for existing shareholders and there might emerge difficulties with the implementation of regulatory requirements”, explains Fischer.

The rating dynamic offers important insights to investors

I-CV considers the ratings from the official agencies in most regions as still too high and believes that the downward pressure will continue for some time. I-CV maintains a pessimistic view in particular with regard to those banks with their primary market in the PIIGS economies. Based on the components evaluated by I-CV there is also considerable

downgrade potential for Australian banks. At a clear advantage are banks where the home market maintains a sound creditworthiness and exhibits low political risks. Hence the study attests a large upgrade potential to banks based in Brazil.

Investors need to be circumspect in their investment decisions, as discrepancies between winners and losers in the banking sector remain large. The rating dynamic provides an important reference point. Another key finding of the research study is that the ongoing deleveraging in the banking industry has so far not led to structural adjustments in the financial system, but resulted merely in a shift and subsequently overstretched balance sheets of states and central banks. "Despite the levelling out of the average I-CV rating the risks in the financial system remain, sovereign defaults or the bursting of speculative bubbles could in this fragile environment be enough to trigger another financial crisis. All the more reason for investors to identify exposed banks early and to focus on the stronger banks in the industry," elaborates Fischer.

Research approach: A 4-phase model with over 30 parameters and stress testing

To assess and monitor the current status of the global banking industry I-CV deployed a 4-phase model. Phase 1 comprises of a fundamental analysis taking into account over 30 parameters and financial indicators per bank. Thereafter the bank balance sheets underwent stress testing and the implications of forthcoming changes in the regulatory framework were examined. In the third phase the findings from the fundamental analysis and the stress test are consolidated into the I-CV stand-alone rating. In the final phase the results are translated into selective Relative Value propositions.

Independent Credit View AG (I-CV) was founded in 2003 in Zurich and has since been acting successfully as the only independent research boutique in Switzerland serving institutional bond investors. As a consultancy I-CV analyses, evaluates and monitors the credit quality of national and international issuers. The company maintains a team of seasoned credit specialists and a robust analytical framework, which results in an I-CV rating and a relative value recommendation. The I-CV rating is well recognised in the marketplace as an alternative and unbiased source providing investors with an accurate and leading indicator of forthcoming rating changes. I-CV acts solely in the interest of its clients – the investor – and generates tangible added value through comprehensive research on a broad range of subjects. I-CV has been able to build an excellent reputation in the marketplace for its substantiated opinions and early identifications of market movements (cf. I-CV Sovereign Research, September 2010). The proximity to its clients, the experience and expertise of its research team as well as its independence – I-CV is paid exclusively by investors and not by issuers – are among the company's most important success factors.

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