

**Rating Action: Moody's reviews global bank ratings**

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Global Credit Research - 17 Mar 2015

New York, March 17, 2015 -- Moody's Investors Service has today announced multiple rating actions following yesterday's publication of its new bank rating methodology, which now is the primary methodology for Moody's bank ratings globally.

The rating actions affect 1,021 out of 1,934 rated banking entities, which include operating banks, holding companies, subsidiaries, special purpose issuance conduits, branches and other entities for which Moody's has assigned ratings to at least one debt class. Within this total group of entities, 856 are assigned baseline credit assessments (BCAs), of which 147 are affected. These total numbers refer to the banks that are covered under this press release, as certain bank ratings in a small number of countries (Japan, Bolivia, Brazil, Argentina, and Russia) will be discussed in separate local press releases.

Moody's has placed the following ratings and assessments on review:

- 1) 147 BCAs: 84 for upgrade and 63 for downgrade;
- 2) 421 long-term deposit ratings: 314 for upgrade, 96 for downgrade and 11 direction uncertain; and,
- 3) 451 senior unsecured debt and issuer ratings: 214 for upgrade, 212 for downgrade and 25 direction uncertain.

At the same time, Moody's has affirmed 124 long-term deposit ratings and 147 senior unsecured debt and issuer ratings.

"Our fundamental approach to bank ratings has not changed dramatically, but we have introduced a number of new tools to enhance our analysis, which has resulted in these rating reviews," said Greg Bauer, Moody's Co-head of Global Banking. "These reviews are prompted by our new methodology, which we are confident will enable us to appropriately reflect the rapidly evolving global banking environment as it continues to develop."

Additionally, Moody's has withdrawn for business reasons inputs to ratings in the form of bank financial strength ratings (BFSRs) and ratings for other senior obligations (OSOs). Separate lists of withdrawn BFSRs and OSOs are available at the bottom of this press release. Going forward the BCA will be the only indicator of issuers' standalone intrinsic strength. In a few cases where a BFSR was previously on review, this review has now been assigned to the BCA.

The reviews follow yesterday's publication of Moody's updated bank rating methodology, which incorporates several new elements designed to help accurately predict bank failures and determine how each creditor class is likely to be treated when a bank fails and enters resolution, reflecting insights gained from the crisis and the fundamental shift in the banking industry and its regulation.

Key changes include the addition of a Macro Profile, a new Financial Profile and a Loss Given Failure (LGF) analysis framework, all of which are described below. The first two elements primarily affect the positioning of a bank's BCA, while the last one can lead, through the assessment of instrument volume and subordination levels and of expected treatment by resolution authorities, to changes in long-term issuer, deposit and debt ratings. Please refer to the press release "Moody's publishes its new bank rating methodology," published on 16 March 2015

[http://www.moodys.com/viewresearchdoc.aspx?docid=PR\\_320662](http://www.moodys.com/viewresearchdoc.aspx?docid=PR_320662).

Separate from the implementation of the updated bank rating methodology, Moody's has also lowered its expectations about the likelihood of government support for European banks in light of the introduction of the Bank Recovery and Resolution Directive (BRRD) in the European Union and the move toward similar frameworks with provisions for burden-sharing with senior creditors in Switzerland, Norway and Liechtenstein. In anticipation of this decline in support, on 29 May 2014, Moody's changed the outlook for the long-term ratings on 82 European banks to negative and maintained the outlooks for the 74 banks that already had negative outlooks or whose ratings were on review for downgrade.

Moody's has concluded that the probability of support to even systemically important banks across the region has declined. However, the impact on ratings is moderated -- and in some cases wholly or more than offset -- by a decline in expected loss assumptions under the new LGF framework. Later today, Moody's will publish a more detailed report on the diminished probability of government support in European bank ratings.

The updated bank rating methodology published on 16 March 2015 will be the primary methodology for all Moody's bank ratings, including ratings that have not been placed on review. This updated bank rating methodology is being implemented on a global basis, except in jurisdictions where certain regulatory requirements must be fulfilled prior to implementation.

Please click on this [http://www.moody's.com/viewresearchdoc.aspx?docid=PBC\\_179911](http://www.moody's.com/viewresearchdoc.aspx?docid=PBC_179911) for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

## RATINGS RATIONALE

### NEW ELEMENTS OF THE BANK RATING METHODOLOGY

Moody's updated bank rating methodology introduces several new elements that will affect ratings to varying degrees across countries and regions.

#### -- BCA: NEW BCA SCORECARD FOCUSED ON MACRO PROFILE AND CORE FINANCIAL RATIOS

Moody's new Financial Profile takes as its starting point five solvency- and liquidity-related financial ratios that are predictive of bank failure: asset risk, capital, profitability, funding structure and liquid resources. The Financial Profile also incorporates a broader range of supplementary ratios, Moody's forward-looking expectations and other relevant qualitative considerations. Joining these as a new input in determining the BCA is the Macro Profile, which explicitly captures banking system-wide pressures that have been shown to be predictive of a bank's propensity to fail.

#### Impact on Baseline Credit Assessments

Globally, Moody's expects the enhanced approach to have a generally modest positive impact on banks' BCAs, with changes concentrated among European banks. These likely changes will generally be the result of the application of the new scorecard framework, which provides additional tools to assess banks' credit fundamentals. (See below for regional breakdowns.)

#### -- LONG-TERM RATINGS: LOSS GIVEN FAILURE, RESOLUTION AND GOVERNMENT SUPPORT

The LGF analysis assesses the potential impact of a bank's failure on its various debt classes and deposits in the absence of any government support. Under its new methodology, Moody's applies an Advanced LGF to banks subject to operational resolution regimes, wherein authorities can impose losses on creditors selectively outside of liquidation, and for which specific legislation provides a reasonable degree of clarity on how the bank's failure could affect depositors and other creditors. The Basic LGF analysis applies to those banks that are not subject to operational resolution regimes.

#### Impact on Long-Term Ratings

1) In the US, Moody's expects generally positive effects on bank deposit ratings and mixed, though net negative, effects on senior unsecured debt ratings, reflecting explicit deposit preference in resolution, which benefits depositors at the expense of senior unsecured debt.

2) In the EU, Switzerland, Norway and Liechtenstein, Moody's expects a positive effect on long-term deposit ratings, albeit more modest compared to the US, and a generally neutral effect on senior unsecured debt ratings. For banks whose long-term ratings are being affirmed or placed on review for upgrade, in general, the separate actions taken related to the diminished probability of government support are wholly or more than offset by the benefit of instrument volume and subordination protecting creditors from losses in resolution under the Advanced LGF approach.

3) In all other regions covered through this press release, Moody's will apply its Basic LGF approach, in the absence of regulatory-driven operational resolution regimes. However, Moody's expects a small negative effect on senior unsecured and deposit ratings in some systems, reflecting the change in its view that the capacity for government support is limited to the government's bond rating, and that going forward there will be little scope for other policy tools to provide durable support beyond this constraint.

The sections below summarize the key likely rating changes by region following the conclusion of Moody's review for banks covered through this press release. The affected ratings refer to banking entities, rather than consolidated banking groups. Following the conclusion of its reviews, Moody's expects to make the following rating changes:

#### -- NORTH AMERICA

- The ratings of Canadian banks are unaffected.

- In the US, 290 out of 417 rated banking entities are affected.

- o Moody's has assigned BCAs to 91 US banking entities, of which 81 BCAs remain unchanged; for the remaining 10 banking entities, the BCAs of half of these are on review for upgrade and half are on review for downgrade.

- o The long-term deposit ratings for 100 banking entities are on review for upgrade and one is on review direction uncertain. None are on review for downgrade, owing to the substantial volume of deposits in US banks' liability structures, which should result in high recovery rates.

- o The senior unsecured debt and issuer ratings for 54 banking entities (including operating and holding companies) are on review for upgrade, and 69 are on review for downgrade. The issuer rating for one banking entity is on review direction uncertain and the senior unsecured debt and issuer ratings for 19 banking entities are affirmed.

- o In general, for US banking entities subject to resolution under Title II of the Dodd-Frank Act, their bank-level senior unsecured debt and issuer ratings are on review for upgrade given the substantial loss absorbing capital subordinated to them as well as the reduced loss assumption of an expected going concern resolution under the single point of entry resolution framework. At the holding company level, the senior unsecured debt ratings of several of these firms may benefit from the substantial thickness of this debt tranche as well as the amount of debt subordinated to it.

- o For most US banking entities subject to Title I resolution, their deposit ratings are on review for upgrade and their bank-level senior unsecured debt and issuer ratings are on review for downgrade. The deposit ratings are most influenced by their substantial size. The senior unsecured debt and issuer rating actions result from the limited amount of senior unsecured debt outstanding, the lack of a substantial debt tranche subordinated to it, and the higher loss assumption under a Title I receivership-based resolution approach. Therefore, bank-level senior unsecured debt ratings could be reduced to the same level as the holding company senior unsecured debt ratings, which are largely unaffected by this review.

#### -- EUROPEAN UNION AND OTHER WESTERN EUROPE

- The ratings on 609 out of 800 banking entities are affected.

- A BCA is assigned to 278 banking entities. Moody's expects to make changes to the BCAs of some European banking entities, with 53 BCAs on review for upgrade and 30 on review for downgrade as a result of the additional tools provided in the new scorecard framework. The BCAs on review for upgrade are concentrated in the Nordics, the United Kingdom, Germany, France, Spain and Luxembourg. The BCAs on review for downgrade are primarily for banking entities in Austria, Greece and Italy.

- The bulk of long-term deposit ratings (for 187 banking entities) and senior unsecured debt and issuer ratings (for 154 banking entities) are on review for upgrade, because the combination of instrument volume and subordination results in an expected loss under the LGF analysis sufficiently low to more than offset the diminished expectations of government support. The latter will be further discussed in a more detailed report that will be published later today.

- A much smaller number of long-term deposit ratings (for 48 banking entities) are on review for downgrade, because fewer banking entities are affected by the decline in government support compared to the benefit their deposit ratings receive under the LGF framework. Nevertheless, senior unsecured debt and issuer ratings for 95 banking entities are on review for downgrade, reflecting more limited degrees of instrument volume and subordination compared to deposits in the banks' liability structures.

- Additionally, 96 banking entities' long-term deposit ratings and 116 banking entities' senior unsecured debt and issuer ratings have been affirmed, typically because the result of a change in government support assumption is offset through the LGF framework. Some deposit ratings (for 10 banking entities) and senior unsecured debt and issuer ratings (for 24 banking entities) are on review direction uncertain.

## -- COMMONWEALTH OF INDEPENDENT STATES (CIS) AND WESTERN ASIA

- Only 14 out of 149 CIS banking entities are affected by the review. Moody's has assigned BCAs to 138 banking entities, of which five BCAs are on review for upgrade and nine are on review for downgrade.

- Eleven deposit ratings (including both local and foreign currency ratings) are on review for upgrade, and eleven are on review for downgrade, generally in the same direction as the change Moody's expects to make to the banks' BCAs.

- Similarly, the senior unsecured debt rating of one banking entity is on review for upgrade and for one banking entity on review for downgrade, again as a result of the review on the BCA.

## -- ASIA PACIFIC (EXCLUDING JAPAN)

- Among the total of 290 rated banking entities in the region, excluding those of Japanese banks, which are covered through a local press release, ratings on 65 banking entities are affected. Within this total group of banking entities, 158 are assigned BCAs, of which 20 BCAs are affected: 15 are on review for upgrade and five are on review for downgrade. The reviews for upgrade are concentrated among banks in Taiwan (4), the Philippines (3), Malaysia (3) and Indonesia (2), and are driven by the positioning of a bank's credit strength in a global context under the new scorecard framework.

- Long-term deposit, issuer and senior unsecured debt ratings are generally unaffected, given that banks in the region are not subject to operational resolution regimes and government support expectations therefore remain largely unchanged. However, among Asia Pacific banking entities covered through this press release, 17 long-term deposit and 29 senior unsecured debt and issuer ratings (including both local and foreign currency ratings) are on review for downgrade. This is largely driven by the change in Moody's view that the capacity for government support is limited to a government's bond rating, rather than the previous expectation that banks in India, Thailand and Malaysia could benefit from additional support through other policy tools.

- Ten banking entities' long-term deposit and five banking entities' senior unsecured debt and issuer ratings are on review for upgrade, generally reflecting the expectations of an increase in those banking entities' BCAs. Long-term deposit ratings of 28 banking entities and senior unsecured debt and issuer ratings of 12 banking entities are affirmed.

## -- LATIN AMERICA

- The ratings on 32 out of 103 banking entities covered through this press release are affected. Moody's has assigned a BCA to 75 banking entities, of which six BCAs are on review for upgrade and 12 are on review for downgrade. Of these, three Brazilian banking entities' BCAs, which currently are higher than the government bond rating, are on review for downgrade, with the expectation of aligning them with the government's rating. Other BCAs are generally on review for upgrade or downgrade as the new scorecard framework provides additional tools to position a bank's credit strength in a global context.

- Long-term deposit, issuer and senior unsecured debt ratings are generally unaffected. Nevertheless, six banking entities' long-term deposit ratings are on review for upgrade, generally owing to the expectation that these banks' BCAs will be raised.

- Additionally, 11 banking entities' long-term deposit and 18 banking entities' senior unsecured debt or issuer ratings are on review for downgrade, largely owing to the review for downgrade on these banking entities' BCAs and/or the change in Moody's view that the capacity for government support is limited to a government bond rating, rather than the previous expectation that banks in Chile, Colombia and Guatemala could benefit from additional support through other policy tools.

## -- MIDDLE EAST AND AFRICA

- Only 11 out of 133 banking entities are affected by the review. Moody's has assigned a BCA to 106 banking entities, of which two BCAs are on review for downgrade under the new scorecard framework.

- The deposit ratings of nine banking entities are on review for downgrade, one of which is driven by the review of the BCA. The other eight banking entities' long-term deposit ratings of the banks in Pakistan, Morocco and Jordan are on review for downgrade as a result of the change in Moody's view that the capacity of the government to provide support is limited to the government's own creditworthiness, as implied by its bond rating, rather than the

previous expectation that banks could benefit from additional support through other policy tools.

#### -- SUBORDINATED DEBT, BANK HYBRIDS AND CONTINGENT CAPITAL SECURITIES

Changes in a bank's BCA will, in most instances, affect the ratings of its junior securities. This reflects the general assumption that these instrument ratings do not benefit from government support. Therefore, for banks whose BCAs have been placed on review, Moody's has also extended the review to the ratings on subordinated debt, bank hybrids and contingent capital securities. Additionally, some holding company junior instrument ratings have been placed on review for upgrade owing to a smaller notching differential versus the BCA under Moody's LGF analysis, depending on the amount of issuance of the same instrument class and the amount of more subordinated instruments.

#### SCOPE OF THE REVIEW

Whenever credit rating methodologies are revised, the updated methodology is applied to all relevant credit ratings. Accordingly, Moody's places on review the ratings of those banks that are likely to be affected. Moody's expects to conclude the majority of its reviews in the coming few months. During the review period, Moody's will assess the impact of the new methodology on rated instruments and will focus on the following in particular:

- 1) BCA analysis, which will incorporate 2014 full-year data, if available, and entail further assessment of fundamental credit trends in the context of the new scorecard;
- 2) Advanced LGF analysis, which will incorporate 2014 full-year data, if available, and entail further analysis of banks and their securities for which subordination levels and volume thresholds are likely to lead to a change in LGF notching; and/or,
- 3) Government support analysis, which will entail further analysis on Moody's revised view on potential government support in Europe.

#### LIST OF AFFECTED CREDIT RATINGS

Below is the link to access the list of Affected Credit Ratings which includes the full list of affected ratings covered by this press release. This list also provides guidance on the likely outcomes for the deposit and senior unsecured debt ratings on review.

The affirmations of long-term ratings are due to a change in the standalone assessment or support assumption being offset through other components of the new rating framework, such as LGF. This particularly affects European bank long-term deposit and senior unsecured debt ratings, where a reduction in government support is offset by uplift through the advanced LGF.

Moody's has withdrawn its BFSRs as well as ratings on OSOs.

Moody's has withdrawn these ratings for its own business reasons. Please refer to the Moody's Investors Service's Policy for Withdrawal of Credit Ratings, available on its website, [www.moodys.com](http://www.moodys.com).

The List of Affected Credit Ratings, which includes a list of all affected credit ratings, and the lists of withdrawn BFSRs and OSOs rating are an integral part of this press release and identify each affected issuer covered by this press release:

- Overall List of Affected Credit Ratings: [http://www.moodys.com/viewresearchdoc.aspx?docid=PBC\\_179911](http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_179911)
- List of withdrawn BFSRs: [http://www.moodys.com/viewresearchdoc.aspx?docid=PBC\\_179884](http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_179884)
- List of withdrawn ratings for OSOs: [http://www.moodys.com/viewresearchdoc.aspx?docid=PBC\\_179823](http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_179823)

Owing to local regulatory requirements, certain bank ratings in a small number of countries (Japan, Bolivia, Brazil, Argentina, and Russia) will be discussed in local press releases; those rating actions are not covered by this press release. Please refer to the additional press releases on [www.moodys.com](http://www.moodys.com).

#### RELATED RESEARCH REFERENCES

For further details please refer to the following:

- New Methodology Microsite: <https://www.moodys.com/microsites/brm/index.html>

- Press release: Moody's publishes its new bank rating methodology

[http://www.moodys.com/viewresearchdoc.aspx?docid=PR\\_320662](http://www.moodys.com/viewresearchdoc.aspx?docid=PR_320662)

- Bank rating methodology: Rating Methodology: Banks - March 2015

([http://www.moodys.com/viewresearchdoc.aspx?docid=PBC\\_179038](http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_179038)); and

- Frequently asked questions: Bank Rating Methodology: Responses to Frequently Asked Questions

([https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1002868](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1002868)).

Please see the credit opinions of specific issuers on [www.moodys.com](http://www.moodys.com) for the more detailed implications of the issuer rating actions.

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## REGULATORY DISCLOSURES

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- Person approving the credit rating
- Releasing office
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