



Announcement: Moody's Reviews Ratings for Banks and Securities Firms with Global Capital Markets Operations

Global Credit Research - 15 Feb 2012

New York, February 15, 2012 -- Moody's Investors Service has announced a review of 17 banks and securities firms with global capital markets operations. Underpinning this review is Moody's view that these firms face challenges that are not fully captured in their current ratings. Capital markets firms are confronting evolving challenges, such as more fragile funding conditions, wider credit spreads, increased regulatory burdens and more difficult operating conditions. These difficulties, together with inherent vulnerabilities such as confidence-sensitivity, interconnectedness, and opacity of risk, have diminished the longer term profitability and growth prospects of these firms.

Nine of the 17 banks and securities firms included in Moody's review are headquartered in Europe and are also affected by other adverse drivers identified in a separate announcement on European banks, titled "Moody's Reviews Ratings for European Banks" http://www.moodys.com/research/Moodys-Reviews-Ratings-for-European-Banks--PR_237914, published earlier today. All relevant drivers for each firm will be considered together.

Specifically, Moody's has taken the following actions with regard to the long-term ratings and standalone credit assessments of the 17 global banks and securities firms:

- For 6 firms, placed long-term ratings on review for downgrade
- For 4 firms, extended reviews for downgrade that had been announced prior to today
- For 7 firms, extended reviews for downgrade initiated with today's earlier announcement on European banks

Moody's has also taken a range of actions on the short-term ratings of these 17 firms, as detailed below.

The rationale behind the review is discussed below and in a report titled "Challenges for Firms with Global Capital Markets Operations: Moody's Rating Reviews and Rationale," published today. Today's announcement also follows the publication on 19 January 2012 of a report titled "Why Global Bank Ratings Are Likely to Decline in 2012."

An overview of affected firms follows. For a full list of affected ratings for European-based global banks and securities firms included in this review, please see the press release titled "Moody's Reviews Ratings for European Banks" http://www.moodys.com/research/Moodys-Reviews-Ratings-for-European-Banks--PR_237914, published today which contains a link to a ratings list. For a full list of affected ratings for non-European issuers included in this review, please see http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_139804.

WHICH FIRMS ARE AFFECTED

Note: Long-term rating reviews generally apply to the holding and major operating entities of these firms, except for HSBC, where the review applies only to the holding company, although its European operating company is affected by today's announcement on European banks.

LONG-TERM RATINGS AND STANDALONE CREDIT ASSESSMENTS-- PLACED UNDER REVIEW

Bank of America

Citigroup

Goldman Sachs

JPMorgan Chase

Morgan Stanley

Royal Bank of Canada

LONG-TERM RATINGS AND STANDALONE CREDIT ASSESSMENTS -- REVIEW INITIATED WITH TODAY'S EARLIER ANNOUNCEMENT ON EUROPEAN BANKS

Barclays

BNP Paribas

Credit Agricole

Deutsche Bank

HSBC (see note above)

Royal Bank of Scotland

Societe Generale

LONG-TERM RATINGS AND STANDALONE CREDIT ASSESSMENTS -- EXTENSION OF REVIEWS ANNOUNCED PRIOR TO TODAY

Credit Suisse

Macquarie

Nomura

UBS

SHORT-TERM RATINGS

Note: The list below details where short-term rating reviews apply to holding company level ratings (and, where applicable, holding company guaranteed short-term ratings), to operating company level ratings, and to all short-term ratings, and where short-term ratings have been affirmed.

SHORT-TERM RATINGS -- PLACED ON REVIEW

Bank of America (operating company level only)

Citigroup (operating company level only)

Goldman Sachs (holding company level only)

Morgan Stanley (all short-term ratings)

SHORT-TERM RATINGS -- REVIEW INITIATED WITH TODAY'S EARLIER ANNOUNCEMENT ON EUROPEAN BANKS

Barclays plc (holding company level only)

Royal Bank of Scotland (operating company level only)

UBS (all short-term ratings)

SHORT-TERM RATINGS -- PLACED ON REVIEW PRIOR TO TODAY, REVIEW EXTENDED

Nomura (all short-term ratings)

Macquarie (all short-term ratings)

SHORT-TERM RATINGS AFFIRMED

Bank of America (holding company level only)

Citigroup (holding company level only)

Goldman Sachs (operating company level only)

JPMorgan Chase (all short-term ratings)

Royal Bank of Canada (all short-term ratings)

SHORT-TERM RATINGS AFFIRMED WITH TODAY'S EARLIER ANNOUNCEMENT ON EUROPEAN BANKS

Barclays Bank (operating company level only)

BNP Paribas (all short-term ratings)

Credit Agricole (all short-term ratings)

Credit Suisse Group (all short-term ratings)

Deutsche Bank (all short-term ratings)

HSBC (all short-term ratings)

Royal Bank of Scotland (holding company level only)

Societe Generale (all short-term ratings)

RATINGS RATIONALE

During its review Moody's will consider the structural vulnerabilities in the business models of global investment banks, which include the confidence-sensitivity of customers and funding counterparties, risk-management and governance challenges, as well as a high degree of interconnectedness and opacity. In addition, rapidly changing risk positions expose these firms to unexpected losses that can overwhelm the resources of even the largest, most diversified groups. Such challenges caused several issuers to fail, or to avoid failure only upon the receipt of external support, during the 2008 financial crisis.

Additional challenges have now emerged for banks with significant capital markets activities; these include more fragile funding conditions, higher credit spreads, increased regulatory burdens and very challenging macroeconomic and market environments. Some of these risks have been partly mitigated by changes to business models, and higher regulatory capital and liquidity requirements, but they have not been eliminated. Furthermore, these adverse trends have placed acute pressure on these firms' profitability and increased the scope of restructuring required in their core businesses to generate the level of return on equities expected by shareholders.

The combination of changed operating conditions and increased regulatory requirements and restrictions has diminished these firms' longer-term profitability and growth prospects. While we had initially expected their standalone credit profiles to recover once the acute phase of the crisis had passed, we now view these challenges as structural features of global investment banks. Our credit analysis is reflecting these challenges through greater emphasis on certain key rating factors in our methodologies, as discussed in more detail in the report "Challenges for Firms with Global Capital Markets Operations: Moody's Rating Reviews and Rationale," published today.

EXPECTED OUTCOME OF REVIEWS

- STANDALONE CREDIT ASSESSMENTS

Today, the average standalone credit assessment (that is, an entity's credit worth absent external support assumptions) for the 17 affected firms is approximately A2 at the operating company level. This average will likely move into the Baa-range.

- LONG-TERM RATINGS

In most cases, where a firm's standalone credit assessment is lowered, its long-term debt ratings will be lowered by the same number of notches. Debt ratings may decline slightly less for some issuers, because the impact of

weakening standalone creditworthiness on default risk for bondholders can be dampened by the likelihood of support from a strong source, such as a national government. The list below shows Moody's current estimate of the number of notches by which each of the 17 global investment banks' long-term ratings may be lowered.

While Moody's recognizes the clear intent of governments around the world to reduce support for creditors, the policy framework in many countries remains supportive for now, not least because of the painful economic repercussions of large, disorderly bank failures and the difficulty of resolving complex, interconnected institutions such as global investment banks.

-SHORT-TERM RATINGS

The short-term ratings of some large capital markets firms may decline as a result of a decline in their long-term ratings. For all entities where Moody's sees a risk of this occurring in the context of the review announced today, the issuers' short-term ratings have been placed on review for downgrade, or existing reviews have been extended. Moody's has affirmed the short-term ratings of all the other firms.

Moody's generally derives an issuer's short-term ratings from its long-term ratings, as explained in more detail in the rating methodology "Short-Term Prime Ratings," 22 June 2010 (LINK: http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_125609). Prime-1 (P-1) ratings are typically assigned to issuers with long-term ratings of A2 and higher. Only in exceptional cases, where Moody's sees an unusually low risk that an issuer's credit profile will weaken further (so-called transition risk), will a P-1 short-term rating be considered for an A3-rated issuer. However, vulnerability to unexpected losses, and thus to credit deterioration, is a structural feature of firms with significant capital markets operations.

OTHER FACTORS CONSIDERED IN REVIEWS

The rating reviews will also consider each firm's exposure to other adverse trends, such as the difficult operating conditions in Europe, disrupted financial markets, sovereign stress and the weakening global growth outlook.

POTENTIAL LONG-TERM RATING IMPACT FOLLOWING REVIEWS:

The following guidance is indicative only. The final rating impact will be determined during the review.

UP TO 1 NOTCH:

Bank of America

Nomura

Royal Bank of Scotland

Societe Generale

UP TO 2 NOTCHES:

Barclays

BNP Paribas

Citigroup

Credit Agricole

Deutsche Bank

Goldman Sachs

HSBC Holdings

JPMorgan Chase

Macquarie

Royal Bank of Canada

UP TO 3 NOTCHES:

Credit Suisse

Morgan Stanley

UBS

IMPACT ON SUBSIDIARIES WILL BE ASSESSED SEPARATELY

The review announced today will focus on the parent companies and major operating companies of the 17 affected global banks and securities firms. Moody's will separately address subsidiaries of these firms that may be affected by a weakening of the parent's credit profile.

PRINCIPAL METHODOLOGIES

The principal methodologies used in ratings of Goldman Sachs and Morgan Stanley were Global Securities Industry Methodology published in December 2006, Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology, published in March 2007, and Moody's Guidelines for Rating Bank Hybrid Securities and Subordinated Debt, published in November 2009.

The principal methodology used in ratings of Nomura was Global Securities Industry Methodology published in December 2006.

The principal methodologies used in ratings of Macquarie were Global Securities Industry Methodology published in December 2006, Bank Financial Strength Ratings: Global Methodology, published in February 2007, Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology, published in March 2007, and Moody's Guidelines for Rating Bank Hybrid Securities and Subordinated Debt, published in November 2009.

The principal methodologies used in ratings of Citigroup, JPMorgan, Bank of America and Royal Bank of Canada were Bank Financial Strength Ratings: Global Methodology, published in February 2007, Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology, published in March 2007, and Moody's Guidelines for Rating Bank Hybrid Securities and Subordinated Debt, published in November 2009.

Please see the Credit Policy page on www.moody's.com for a copy of these methodologies.

REGULATORY DISCLOSURES

The ratings of rated entity Nomura Securities Co., Ltd. were initiated by Moody's and were not requested by this rated entity.

Nomura Securities Co., Ltd. or its agent(s) participated in the rating process. This rated entity or its agent(s) provided Moody's access to the books, records and other relevant internal documents of the rated entity.

The rating has been disclosed to Nomura and its subsidiaries or its designated agent(s) and issued with no amendment resulting from that disclosure.

Information sources used to prepare the rating for Nomura and its subsidiaries are the following : parties involved in the ratings, public information, and confidential and proprietary Moody's Investors Service information.

Moody's considers the quality of information available on Nomura and its subsidiaries satisfactory for the purposes of extending this review.

Moody's adopts all necessary measures so that the information it uses in assigning a rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

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The relevant Releasing Office for each rating is identified under the Debt/Tranche List section on the Ratings tab of each issuer/entity page on moodys.com

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