Moody's
INVESTORS SERVICE

Rating Action: Moody's changes outlooks to negative on 82 long-term European bank ratings

Global Credit Research - 29 May 2014

Affirms long-term ratings of 109 European financial institutions, upgrades one

London, 29 May 2014 -- Moody's Investors Service has today affirmed the long-term ratings of 105 banks in the European Union (EU), Norway and Liechtenstein. Of these banks, Moody's (i) changed the outlook to negative on 81 long-term ratings, (ii) changed the outlook to stable from positive on two long-term ratings, (iii) maintained the outlook at stable on 18 long-term ratings and (iv) maintained the outlook at positive on four long-term ratings.

In addition, Moody's has today upgraded the long-term and short-term deposit ratings of Ceskoslovenska obchodna banka a.s. (CSOB Slovakia), a fully-owned subsidiary of KBC Bank NV, to Baa2/Prime-2 from Baa3/Prime-3, and changed the outlook on the long-term deposit rating to negative from stable; this takes the total number of outlook changes to negative to 82.

Further, Moody's has today affirmed the long-term ratings and stable outlooks assigned to four Nordic government-related issuers (GRIs); this takes the total number of European financial institutions whose long-term ratings have been affirmed to 109

Please click on this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_171218 for the List of Affected Credit Ratings. This list is an integral part of this press release and identifies each affected issuer.

These actions follow the recent adoption of the Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism (SRM) regulation in the EU. The negative outlooks reflect Moody's view that, with the legislation underlying the new resolution framework now in place and the explicit inclusion of burden-sharing with unsecured creditors as a means of reducing the public cost of bank resolutions, the balance of risk for banks' senior unsecured creditors has shifted to the downside. While Moody's support assessments are unchanged for now, the probability has risen that they will be revised downwards to reflect the new framework.

Moody's will continue to assess the implications of the BRRD/SRM package for systemic support as the new framework develops and there is further clarity as to how it might be applied in practice. Moody's will take into account a variety of considerations (see Rating Rationale) including those that could mitigate the credit-negative implications for systemic support assessments. Should Moody's determine that the probability of support has materially changed, affected issuers' ratings would be placed under review to consider their specific circumstances.

By EU country, 12 German banks were affected, ten French banks, eight Austrian banks, five Swedish banks, four Italian banks, three Dutch banks, two Spanish banks, and one UK bank. Another 24 banks in other EU member states were also affected.

While not subject to the BRRD and SRM, 12 banks from Norway and one bank from Liechtenstein were among those whose outlooks were changed to negative. This reflects Moody's expectation, based on public comments as well as their governments' track record of mirroring EU banking regulations, that these jurisdictions will look to introduce legislation or other tools that include mechanisms similar to those in the BRRD.

RATINGS RATIONALE

--- AFFIRMATION OF LONG-TERM RATINGS AND CHANGE OF OUTLOOK TO NEGATIVE

With the European Parliament's recent vote to adopt the BRRD and SRM, the shape of the EU resolution framework is becoming increasingly clear, says Moody's. EU officials and politicians have repeatedly stressed their intention to protect taxpayers from bearing the cost of future bank resolutions. The new resolution framework is intended to give effect to this objective, including by providing for the bail-in of senior creditors to recapitalise banks where needed.

The BRRD is to be transposed into EU member countries' national laws by year-end 2014, and enter into force on

1 January 2015. The clearly stated aim of including senior unsecured creditors in any future burden-sharing, and the creation of a framework to allow that to be realized, marks an important development, with clear (if as yet difficult to measure) credit-negative implications for holders of senior unsecured bank debt in Europe.

Furthermore, the SRM Regulation, applicable only to euro area banks, creates a Single Resolution Board tasked with determining the 'least cost' path to resolving troubled banks. Moody's says that the existence of a central decision-making body with the means to fund at least part of a bank resolution provides a further limit on the potential involvement of national authorities in the management of troubled banks. Thus making it more likely that a resolution process would be triggered and the bail-in tool used, to the detriment of senior unsecured creditors.

The assignment of negative outlooks to the banks covered by this action reflects the above credit-negative developments for senior unsecured creditors.

Moody's will continue to assess the implications of the resolution framework for systemic support assessments as the new framework develops and there is further clarity as to how it might be applied in practice, including the following considerations:

--- The new framework provides some latitude for authorities (national and supra-national) to effect a bank resolution that does not include bail-in of senior unsecured creditors if, for example, doing so would unduly undermine broader financial stability;

--- The complexity associated with resolving large, cross-border banks will always be a challenge, and could limit the use of the bail-in tool; and,

--- Losses for creditors under the new framework could be lower than those in past insolvency proceedings, dampening the impact on senior unsecured debt or deposit ratings.

For Allied Irish Banks p.l.c. (AIB), Moody's has affirmed the deposit ratings with negative outlook, and affirmed the senior debt rating with stable outlook. Specific to AIB, this reflects that the difference in uplift due to systemic support between AIB's senior debt and deposit ratings -- one notch and two notches, respectively -- may be eliminated.

ADDITIONAL RATING ACTIONS

Moreover Moody's has:

--- affirmed the supported ratings and changed the outlook to stable from positive for two banks. While the positive outlooks were previously driven by either an improvement of the bank's standalone rating or an improvement in the government's capacity to provide support, the change to stable reflects the negative influence of the BRRD/SRM framework.

--- affirmed the supported ratings and maintained the stable outlook on 18 banks including: (i) 17 entities that are considered domestically important, for which Moody's already assesses a moderate probability of systemic support, and for which Moody's does not currently expect this probability to decline to any material degree, even after full implementation of the BRRD; and (ii) one wind-down entity, Caisse Commerciale du Credit Immobilier de France (Baa2 stable; E/ca stable), which is already the recipient of systemic support and for which Moody's considers that the support mechanism in place will not be modified after implementation of the BRRD.

--- affirmed the supported ratings and maintained the positive outlook for four domestically important banks where either the government's capacity to provide support is increasing -- as reflected in the positive outlook on the government bond rating -- or the bank's underlying credit strength is improving and only modest support is factored into the current rating.

--- affirmed the long term rating and stable outlook for four Nordic government related issuers (GRIs). Municipality Finance plc in Finland (Aaa stable) and Kommuninvest i Sverige Aktiebolag in Sweden (Aaa stable) are guaranteed by their local governments. While the interaction between guaranteed debt and the bail in tool is not entirely clear, Moody's does not currently believe that the likelihood of governments being able or required to bail in such debt is sufficiently high to warrant a negative outlook. Swedish Export Credit Corporation (SEK, Aa1 stable) is already rated one notch below the Swedish sovereign, which in Moody's view reflects an adequate level of uncertainty over support. Kommunalbanken AS's Aaa stable rating reflects Moody's very high expectations of support from the Norwegian government (Aaa stable), which Moody's believes will have greater latitude in implementing the BRRD in a manner that would allow it to continue to support the entities it sees as closest to the government, including Kommunalbanken.

- upgraded the long-term and short-term deposit ratings of Ceskoslovenska obchodna banka a.s. (CSOB Slovakia), a fully-owned subsidiary of KBC Bank NV, to Baa2/Prime-2 from Baa3/Prime-3, and changed the outlook on the long-term deposit rating to negative from stable. This upgrade was prompted by the strengthened financial capacity of the Belgian parent group, KBC Bank, as indicated by Moody's upgrade on 8 May of the bank's standalone Bank Financial Strength Rating (BFSR) to C- (mapping to a baseline credit assessment of baa2) from D+/baa3 and the upgrade of KBC Bank's long-term debt and deposit ratings to A2 from A3. The assigned negative outlook reflects our systemic support assessment imbedded in the deposit ratings and BRRD-related considerations discussed in this press release.

Today's rating actions do not include all EU banks whose senior unsecured debt and deposit ratings currently benefit from systemic support. The following categories were excluded from the action:

--- Banks whose debt and deposit ratings already carry a negative outlook (78 in total). However, Moody's will factor in the implications of the new resolution framework in its ongoing assessment of these ratings.

--- Banks which are subsidiaries of non-EU parent banks and which Moody's rates using a credit substitution mechanism (nine in total). The systemic support incorporated in these banks' ratings reflects that received from non-EU home governments and is not affected by the BRRD/SRM framework.

--- Banks explicitly excluded from the BRRD framework (nine issuers) or whose debt benefits from a state guarantee Moody's does not consider the BRRD would undermine (five issuers).

Junior debt instruments are not affected by this action. Moody's has already removed all systemic support from junior instruments of European banks.

Moody's has also published today a special comment entitled " Reassessing Systemic Support for EU Banks," which provides more details on the factors behind today's rating actions

http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_170460

Please see the subsequent individual credit opinion of each respective issuer on moodys.com for the more detailed implications of this rating action.

REGULATORY DISCLOSURES

Please click on this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_171218 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

• Principal methodologies used

• Unsolicited ratings

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• [EU only] participation in unsolicited ratings

• Person approving the credit rating

• Releasing office

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The below contact information is provided for information purposes only. Please see the ratings tab of the issuer page at www.moodys.com, for each of the ratings covered, Moody's disclosures on the lead analyst and the Moody's legal entity that has issued the ratings.

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