

Rating Action: Moody's assigns Counterparty Risk Ratings to 22 rated banks and building societies in the UK and Crown Dependencies

27 Jun 2018

Ratings are assigned following 6 June 2018 update to Moody's Banks rating methodology

London, 27 June 2018 -- Moody's Investors Service today assigned Counterparty Risk Ratings (CRRs) to entities within the following 22 rated banking groups and building societies, which operate in the UK and the Crown Dependencies: Bank of Ireland (UK) Plc, Barclays Bank UK PLC, Close Brothers Ltd., Clydesdale Bank plc, The Co-operative Bank Plc, Coventry Building Society, ICBC Standard Bank Plc, ICICI Bank UK Plc., Investec Bank plc, Itau BBA International plc, Leeds Building Society, Lloyds Banking Group plc, Nationwide Building Society, Nedbank Private Wealth Limited, Nottingham Building Society, Principality Building Society, The Royal Bank of Scotland Group plc, Santander UK plc, Skipton Building Society, TSB Bank plc, Virgin Money plc, and Yorkshire Building Society.

For the CRRs of the entities within the HSBC Holdings plc group and within the Barclays Plc group other than Barclays Bank UK plc, please refer to the press release entitled "Moody's assigns Counterparty Risk Ratings to rated bank subsidiaries and branches of HSBC Holdings plc, Deutsche Bank AG, BNP Paribas, Societe Generale, Credit Suisse Group AG, UBS Group AG, and to Barclays Bank PLC and its rated branches", published on 13 June 2018 available at https://www.moody's.com/research/--PR_384987

Moody's Counterparty Risk Ratings (CRRs) are opinions of the ability of entities to honour the uncollateralized portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralized portion of payables arising from derivatives transactions and the uncollateralized portion of liabilities under sale and repurchase agreements. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions.

RATINGS RATIONALE

In assigning CRRs to the banks and building societies operating in the UK subject to this rating action, Moody's starts with the banks' adjusted Baseline Credit Assessments (BCAs) and uses the agency's existing advanced Loss Given Failure (LGF) approach that takes into account the level of subordination to CRR liabilities in the banks' balance sheets, and assumes a nominal volume of such liabilities.

For banks operating in Jersey and in the Isle of Man, because Moody's considers these countries to be jurisdictions with non-operational resolution regimes, Moody's starts with the banks' adjusted Baseline Credit Assessment (BCA), and uses the agency's existing basic LGF approach that provides one notch of uplift for the CRR from the adjusted BCAs. This reflects the rating agency's view that CRR liabilities are not likely to default at the same time as the bank fails and are more likely to be preserved in order to minimize banking system contagion, minimize losses and avoid disruption of critical functions.

In four cases indicated below the CRRs benefit from further uplift from government support.

-- UPLIFT FROM OUR LOSS GIVEN FAILURE ANALYSIS

- For 13 banking groups and building societies, Moody's advanced LGF approach provides three notches of uplift to the CRRs above their respective adjusted BCAs: Barclays Bank UK PLC, Close Brothers Ltd., Clydesdale Bank plc, Coventry Building Society, ICICI Bank UK Plc., Investec Bank plc, Itau BBA International plc, Leeds Building Society, Nationwide Building Society, Principality Building Society, the subsidiaries and branches of The Royal Bank of Scotland Group plc, Santander UK plc, and Yorkshire Building Society.

- For the subsidiaries and branches of the Lloyds Banking Group plc, Moody's advanced LGF approach provides three notches of uplift to the CRRs, above the adjusted BCAs, for all entities but Jersey-based Lloyds Bank International Limited (LBIL). For LBIL, in assigning the CRR the rating agency uses its basic LGF

approach because Moody's considers Jersey a jurisdiction with a non-operational resolution regime; Moody's basic LGF analysis provides one notch of uplift for the CRR from LBIL's adjusted BCAs.

Although many of these banking groups and building societies are likely to have more than a nominal volume of CRR liabilities at failure, this has no impact on the ratings because the significant level of subordination below the CRR liabilities at each of the banking groups and banking societies already provides the maximum amount of uplift under Moody's rating methodology.

- For one bank and one building society, Moody's advanced LGF approach provides two notches of uplift to the CRRs, above their respective adjusted BCAs: Bank of Ireland (UK) Plc, Skipton Building Society.

- For four banks and building societies, Moody's advanced LGF approach provides one notch of uplift to the CRRs, above their respective adjusted BCAs: The Co-operative Bank Plc, Nottingham Building Society, TSB Bank plc, and Virgin Money plc.

- For ICBC Standard Bank, due to the low volume of subordination, and the rating agency's assumption of a higher expected loss rate in a resolution scenario, Moody's advanced LGF approach results in a CRR one notch below the bank's adjusted BCA.

- For Nedbank Private Wealth Limited (NPWL) Moody's applies its basic LGF analysis because the bank operates in the Isle of Man, a jurisdiction that the rating agency considers a non-operational resolution regime; Moody's basic LGF analysis provides one notch of uplift from NPWL's adjusted BCA.

In all cases, the CRRs assigned are equal to or higher than the rated senior debt and deposit ratings, where applicable. This reflects Moody's view that secured counterparties to banks typically benefit from greater protections under insolvency laws and bank resolution regimes than do senior unsecured creditors, and that this benefit is likely to extend to the unsecured portion of such secured transactions in most bank resolution regimes. Moody's believes that in many cases regulators will use their discretion to allow a bank in resolution to continue to honour its CRR liabilities or to transfer those liabilities to another party who will honour them, in part because of the greater complexity of bailing in obligations that fluctuate with market prices, and also because the regulator will typically seek to preserve much of the bank's operations as a going concern in order to maximize the value of the bank in resolution, stabilize the bank quickly, and avoid contagion within the banking system. CRR liabilities at banks subject to operational resolution regimes therefore benefit from the subordination provided by more junior liabilities, with the extent of the uplift of the CRR from the adjusted BCA depending on the amount of subordination.

-- UPLIFT FROM GOVERNMENT SUPPORT

- For three banking groups and one building society, Moody's considers the likelihood of government support for CRR liabilities to be moderate, resulting in an additional one notch of uplift, reflecting their systemic importance to the UK and global financial system: Barclays Bank UK Plc, Nationwide Building Society, the subsidiaries and branches of The Royal Bank of Scotland Group plc, and Santander UK plc. In these cases, the CRRs are positioned four notches above their respective adjusted BCAs.

- Within the Lloyds Banking Group plc, Moody's considers the likelihood of government support for CRR liabilities to be moderate for the ring-fenced entities Lloyds Bank PLC, HBOS plc, and Bank of Scotland plc; moderate probability of support does not however result in any uplift, due to their proximity to the UK's sovereign debt rating. For the non-ring-fenced entities Lloyds Bank Corporate Markets plc (LBCM) and Lloyds Bank International Limited (LBIL), the rating agency believes the likelihood of government support to be low, resulting in no uplift, due to their small size and low systemic importance.

- For the remaining 17 banking groups and building societies, due to their limited systemic importance, Moody's believes there is a low probability of government support for CRR liabilities, which does not result in any further uplift: Bank of Ireland UK Plc, Close Brothers Ltd., Clydesdale Bank plc, The Co-operative Bank Plc, Coventry Building Society, ICBC Standard Bank Plc, ICICI Bank UK Plc., Investec Bank plc, Itau BBA International plc, Leeds Building Society, Nedbank Private Wealth Limited, Nottingham Building Society, Principality Building Society, Skipton Building Society, TSB Bank plc, Virgin Money plc, and Yorkshire Building Society.

OUTLOOK

CRRs do not carry outlooks.

For Clydesdale Bank plc, the long-term CRR is on review with direction uncertain, while the short-term CRR, which is currently Prime-1 and at the top of the short-term rating scale, is on review for downgrade; for Virgin Money plc, the long-term and short-term CRRs are on review for upgrade. The reviews reflect the banks' potential combination. For further details on the potential impacts of the merger, which remains subject to shareholder votes at both banks and regulatory approval, please refer to our Press Release entitled "Moody's places the ratings of CYBG and Virgin Money on review" published on 21 June 2018, available at https://www.moodys.com/research/--PR_385439.

FACTORS THAT COULD LEAD TO AN UPGRADE/DOWNGRADE

The CRRs of the banks and building societies included in this rating action could be upgraded following an upgrade of their respective adjusted BCAs; for banks whose CRRs benefit from less than three notches of uplift from Moody's advanced LGF approach, a higher volume of bail-in-able debt and junior deposits could also lead to an upgrade of the CRRs.

Conversely, the CRRs of these banks and building societies could be downgraded following a downgrade of their respective adjusted BCAs, or by a reduction in their stock of bail-in-able debt and junior deposits.

LIST OF AFFECTED RATINGS

Issuer: Abbey National Treasury Services plc

..Assignments:

....Long-term Counterparty Risk Rating (Local and Foreign Currency), assigned Aa2

....Short-term Counterparty Risk Rating (Local and Foreign Currency), assigned P-1

Issuer: Abbey National Treasury Services plc (Paris)

..Assignments:

....Long-term Counterparty Risk Rating (Local and Foreign Currency), assigned Aa2

....Short-term Counterparty Risk Rating (Local and Foreign Currency), assigned P-1

Issuer: Abbey National Treasury Services PLC (US Br.)

..Assignments:

....Long-term Counterparty Risk Rating (Local and Foreign Currency), assigned Aa2

....Short-term Counterparty Risk Rating (Local and Foreign Currency), assigned P-1

Issuer: Bank of Ireland (UK) Plc

..Assignments:

....Long-term Counterparty Risk Rating (Local and Foreign Currency), assigned A3

....Short-term Counterparty Risk Rating (Local and Foreign Currency), assigned P-2

Issuer: Bank of Scotland plc

..Assignments:

....Long-term Counterparty Risk Rating (Local and Foreign Currency), assigned Aa3

....Short-term Counterparty Risk Rating (Local and Foreign Currency), assigned P-1

Issuer: Barclays Bank UK PLC

..Assignments:

....Long-term Counterparty Risk Rating (Local and Foreign Currency), assigned Aa2

...Short-term Counterparty Risk Rating (Local and Foreign Currency), assigned P-1

Issuer: Close Brothers Ltd.

..Assignments:

...Long-term Counterparty Risk Rating (Local and Foreign Currency), assigned Aa2

...Short-term Counterparty Risk Rating (Local and Foreign Currency), assigned P-1

Issuer: Clydesdale Bank plc

..Assignments:

...Long-term Counterparty Risk Rating (Local and Foreign Currency), assigned A2, placed on review direction uncertain

...Short-term Counterparty Risk Rating (Local and Foreign Currency), assigned P-1, placed on review for downgrade

Issuer: Coventry Building Society

..Assignments:

...Long-term Counterparty Risk Rating (Local and Foreign Currency), assigned Aa3

...Short-term Counterparty Risk Rating (Local and Foreign Currency), assigned P-1

Issuer: HBOS plc

..Assignments:

...Long-term Counterparty Risk Rating (Local and Foreign Currency), assigned Aa3

...Short-term Counterparty Risk Rating (Local and Foreign Currency), assigned P-1

Issuer: ICBC Standard Bank Plc

..Assignments:

...Long-term Counterparty Risk Rating (Local and Foreign Currency), assigned Baa3

...Short-term Counterparty Risk Rating (Local and Foreign Currency), assigned P-3

Issuer: ICICI Bank UK Plc.

..Assignments:

...Long-term Counterparty Risk Rating (Local and Foreign Currency), assigned Baa1

...Short-term Counterparty Risk Rating (Local and Foreign Currency), assigned P-2

Issuer: Investec Bank plc

..Assignments:

...Long-term Counterparty Risk Rating (Local and Foreign Currency), assigned A2

...Short-term Counterparty Risk Rating (Local and Foreign Currency), assigned P-1

Issuer: Itau BBA International plc

..Assignments:

...Long-term Counterparty Risk Rating (Local and Foreign Currency), assigned A2

...Short-term Counterparty Risk Rating (Local and Foreign Currency), assigned P-1

Issuer: Leeds Building Society

..Assignments:

...Long-term Counterparty Risk Rating (Local and Foreign Currency), assigned A1

...Short-term Counterparty Risk Rating (Local and Foreign Currency), assigned P-1

Issuer: Lloyds Bank Corporate Markets plc

..Assignments:

...Long-term Counterparty Risk Rating (Local and Foreign Currency), assigned A1

...Short-term Counterparty Risk Rating (Local and Foreign Currency), assigned P-1

Issuer: Lloyds Bank International Limited

..Assignments:

...Long-term Counterparty Risk Rating (Local and Foreign Currency), assigned A3

...Short-term Counterparty Risk Rating (Local and Foreign Currency), assigned P-2

Issuer: Lloyds Bank Plc

..Assignments:

...Long-term Counterparty Risk Rating (Local and Foreign Currency), assigned Aa3

...Short-term Counterparty Risk Rating (Local and Foreign Currency), assigned P-1

Issuer: National Westminster Bank PLC

..Assignments:

...Long-term Counterparty Risk Rating (Local and Foreign Currency), assigned Aa3

...Short-term Counterparty Risk Rating (Local and Foreign Currency), assigned P-1

Issuer: Nationwide Building Society

..Assignments:

...Long-term Counterparty Risk Rating (Local and Foreign Currency), assigned Aa2

...Short-term Counterparty Risk Rating (Local and Foreign Currency), assigned P-1

Issuer: NatWest Markets N.V.

..Assignments:

...Long-term Counterparty Risk Rating (Local and Foreign Currency), assigned A3

...Short-term Counterparty Risk Rating (Local and Foreign Currency), assigned P-2

Issuer: NatWest Markets N.V., London Branch

..Assignments:

...Long-term Counterparty Risk Rating (Local and Foreign Currency), assigned A3

...Short-term Counterparty Risk Rating (Local and Foreign Currency), assigned P-2

Issuer: NatWest Markets Plc

..Assignments:

....Long-term Counterparty Risk Rating (Local and Foreign Currency), assigned A3

....Short-term Counterparty Risk Rating (Local and Foreign Currency), assigned P-2

Issuer: Nedbank Private Wealth Limited

..Assignments:

....Long-term Counterparty Risk Rating (Local and Foreign Currency), assigned Baa1

....Short-term Counterparty Risk Rating (Local and Foreign Currency), assigned P-2

Issuer: Nottingham Building Society

..Assignments:

....Long-term Counterparty Risk Rating (Local and Foreign Currency), assigned A3

....Short-term Counterparty Risk Rating (Local and Foreign Currency), assigned P-2

Issuer: Principality Building Society

..Assignments:

....Long-term Counterparty Risk Rating (Local and Foreign Currency), assigned A2

....Short-term Counterparty Risk Rating (Local and Foreign Currency), assigned P-1

Issuer: Santander UK plc

..Assignments:

....Long-term Counterparty Risk Rating (Local and Foreign Currency), assigned Aa2

....Short-term Counterparty Risk Rating (Local and Foreign Currency), assigned P-1

Issuer: Skipton Building Society

..Assignments:

....Long-term Counterparty Risk Rating (Local and Foreign Currency), assigned A2

....Short-term Counterparty Risk Rating (Local and Foreign Currency), assigned P-1

Issuer: The Co-operative Bank Plc

..Assignments:

....Long-term Counterparty Risk Rating (Local and Foreign Currency), assigned Caa1

....Short-term Counterparty Risk Rating (Local and Foreign Currency), assigned NP

Issuer: The Royal Bank of Scotland plc

..Assignments:

....Long-term Counterparty Risk Rating (Local and Foreign Currency), assigned Aa3

....Short-term Counterparty Risk Rating (Local and Foreign Currency), assigned P-1

Issuer: TSB Bank plc

..Assignments:

...Long-term Counterparty Risk Rating (Local and Foreign Currency), assigned Baa1

...Short-term Counterparty Risk Rating (Local and Foreign Currency), assigned P-2

Issuer: Ulster Bank Limited

..Assignments:

...Long-term Counterparty Risk Rating (Local and Foreign Currency), assigned Aa3

...Short-term Counterparty Risk Rating (Local and Foreign Currency), assigned P-1

Issuer: Virgin Money plc

..Assignments:

...Long-term Counterparty Risk Rating (Local and Foreign Currency), assigned Baa1; placed on review for upgrade

...Short-term Counterparty Risk Rating (Local and Foreign Currency), assigned P-2; placed on review for upgrade

Issuer: Yorkshire Building Society

..Assignments:

...Long-term Counterparty Risk Rating (Local and Foreign Currency), assigned A1

...Short-term Counterparty Risk Rating (Local and Foreign Currency), assigned P-1

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in June 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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