Credit Outlook

21 September 2020

NEWS AND ANALYSIS

Corporates

» Broadstone Net Lease's IPO will reduce leverage, a credit positive 2

» CyrusOne and Digital Realty Trust debt redemptions are credit positive 3

» NEXT Group's full-year profit guidance upgrade is credit positive 5

» Korean Air's loan to US property subsidiary Hanjin is credit positive, but potential stake sale raises uncertainty 6

» Lax security at e-payment service exposed banks and DOCOMO to widespread fraud 7

Banks

» Fed publishes scenarios for second round of 2020 stress tests, a credit positive for US banks' creditors 9

» Mexico's central bank extends pandemic-related liquidity and credit measures, a credit positive for banks 11

» Banrisul's plan to cut up to 15% of its workforce is credit positive 13

» New Zealand plans financial institutions' mandatory disclosure on climate risk, a credit positive 14

Insurers

» Hurricane Sally causes significant flood damage, but moderate losses for P&C insurers 15

» MetLife's acquisition of Versant Health is credit positive 17

Asset Managers

» Fortress' debt paydown is credit positive 19

US Public Finance

» Lack of September state aid withholding is credit positive for New York school districts 21

CREDIT IN DEPTH

» Sea level rise increases credit risk for US coastal states and local governments 23

Rising sea levels leading to more frequent and severe flooding from high tides and storm surges from weather events threaten US coastal economies, property values and critical infrastructure.

» Biggest banks are better set to withstand COVID-19 stress than banks as a whole 25

The 30 global systemically important banks are better prepared to withstand the adverse effects of the COVID-19 pandemic than the universe of Moody's-rated banks as a whole.

PODCASTS AND VIDEOS

» Podcasts and Videos 26

Our analysts discuss their latest research.

RECENTLY IN CREDIT OUTLOOK

» Articles in last Thursday's Credit Outlook 27

» Go to last Thursday's Credit Outlook

See the latest from Moody's: moodys.com/coronavirus

Rate this Research

Broadstone Net Lease's IPO will reduce leverage, a credit positive

Originally published on 17 September 2020

On 16 September, Broadstone Net Lease, Inc., the parent company of Broadstone Net Lease, LLC (BNL, Baa3 stable), priced its initial public offering at $17 a share, raising approximately $569 million in gross proceeds. The IPO is scheduled to close on 21 September, and the company intends to use the net proceeds to repay borrowings under its 2021 unsecured term loan, which has a final maturity date in February 2021, and its revolving credit facility. The deleveraging and public equity markets access are credit positive for BNL because they will strengthen the real estate investment trust's (REIT) credit profile.

The IPO follows a series of transformative steps that the net lease company has taken to grow and enhance the quality of the operating portfolio and to simplify its corporate structure. Before the IPO, a number of factors contributed to elevating BNL's operating leverage (as defined as net debt to EBITDA) above its historical year-end average of approximately 7x. In August 2019, BNL closed on a $736 million debt-funded acquisition of a pool of industrial and office/flex properties, and in February 2020 the REIT completed the internalization of its external manager, Broadstone Real Estate, LLC, at a cost of approximately $300 million, including some debt.

As of 30 June 2020, BNL's net debt to EBITDA was 7.4x, versus 9.1x as of 30 September 2019 and 8.0x at the end of 2019. Comparatively, the company's reported net debt to EBITDA was 7.0x at 30 June 2020. BNL calculates its leverage metrics on an annualized quarterly basis, which differs from our calculation, which is based on the last 12-month period, ending at the quarter. Going forward, the REIT targets operating with a quarterly annualized run-rate net debt to EBITDA (adjusted for acquisitions) of less than 6x.

Despite the shocks of the coronavirus pandemic on the global economy, BNL's reported rent collections have been resilient and are among the highest in the net lease space at an average collection rate of approximately 94% in second-quarter 2020. In August, BNL's collection rate was 98% of base rent due, while in July it was approximately 97%. Overall, BNL maintains a near-full occupancy level and good financial flexibility supported by its almost fully unencumbered asset base, which was approximately 96% of gross assets as of 30 June 2020.

Based in Rochester, New York, Broadstone Net Lease, LLC, is the operating subsidiary of Broadstone Net Lease, Inc, a publicly listed, internally managed REIT that owns, acquires and manages primarily single-tenant, net leased commercial properties. As of 30 June 2020, the portfolio consisted of 632 properties, totaling approximately 27.4 million square feet of gross leasable area across 41 states and one property located in British Columbia, Canada.

Neysa Braimah, ***Associate Analyst***
Moody's Investors Service
neysa.braimah@moodys.com
+1.212.553.7701

Juan Acosta, ***AVP-Analyst***
Moody's Investors Service
juan.acosta@moodys.com
+1.212.553.4849

Philip Kibel, ***Associate Managing Director***
Moody's Investors Service
philip.kibel@moodys.com
+1.212.553.4402

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

CyrusOne and Digital Realty Trust debt redemptions are credit positive

Originally published on 18 September 2020

On 15 September, CyrusOne L.P. (Ba1 stable) issued $400 million of senior unsecured notes, a day after Digital Realty Trust Inc.'s (Baa2 stable) European affiliate Digital Dutch Finco B.V. issued €1.05 billion of senior unsecured notes. The two data center real estate investment trusts' (REITs) debt issuance is credit positive for both because they will redeem outstanding debt and extend their debt maturity schedules with these issuances.

Both REITs have large development pipelines: $9 billion for Digital and $575 million for CyrusOne. Remaining funding requirements for the development pipelines are also meaningful at around 44% for Digital and more than 60% for CyrusOne. The issuances – two notes for Digital Realty and one for CyrusOne – priced at levels similar or better to earlier issues this year, indicate good investor interest in the segment despite the current macroeconomic environment and pandemic.

The proceeds from Digital Dutch Finco's issuance will fund the redemption of 4.75% notes due in 2023, repay borrowings outstanding under its revolving credit facilities, acquire additional properties and fund development opportunities. The redemption of notes and partial credit facility paydown will strengthen Digital Dutch Finco's liquidity position by extending its maturity to 2030 from 2023, increase availability under its revolver capacity, and provide a slight uptick in fixed charge coverage (3.8x as of second-quarter 2020) from the slightly lower costs (see Exhibit 1).

Exhibit 1
Digital Realty's Issuances in 2020

Digital Dutch Finco B.V.						
Issuance Date	Jan-20			Jun-20	Sep-20	
Amount	€300M	€650M	€750M	€500M	€300M	€750M
Maturity	10/15/2022	7/15/2025	3/15/2030	2/1/2031	9/23/2022	1/15/2032
Coupon	Fixed .125%	Fixed .625%	Fixed 1.5%	Fixed 1.25%	Floating	Fixed 1.0%

Source: Company's SEC Filings

Meanwhile, proceeds from CyrusOne's issuance will repay near-term higher cost debt, including a $300 million outstanding senior unsecured term loan due in 2023, which will extend its debt maturity schedule to 2030 from 2023, and reduce its credit facility balance (see Exhibit 2). The company in January issued €500 million of senior unsecured notes.

Exhibit 2
CyrusOne's Issuances in 2020

CyrusOne L.P.		
Issuance Date	Jan-20	Sep-20
Amount	€500M	$400M
Maturity	1/22/2027	11/1/2030
Coupon	Fixed 1.45%	Fixed 2.15%

Source: Company's SEC Filings

Digital Dutch Finco B.V.'s issuance is its third of the year. In January, the company issued €1.7 billion of unsecured notes, primarily to fund the REIT's first-quarter 2020 acquisition of Interxion, and €500 million in June.

Data center REITs have performed well during the pandemic and demand for data center space will likely be strong over the next few quarters, too. Data creation in the digital economy and enterprises moving their data storage to off-site locations is driving the demand for data storage requirements.

In the second quarter of 2020, Digital Realty signed $144 million of total bookings, up from its $71 million average in the previous three quarters. The increase partly reflects its acquisition of Interxion, a European data center landlord. CyrusOne leased approximately 22 megawatts of power, and the backlog (annualized GAAP revenue) related to leasing that had not yet commenced totaled $97 million, its highest quarter-end ever.

Jason Tam, *Associate Analyst*
Moody's Investors Service
jason.tam@moodys.com
+1.212.553.7113

Philip Kibel, *Associate Managing Director*
Moody's Investors Service
philip.kibel@moodys.com
+1.212.553.4402

Ranjini Venkatesan, *VP-Senior Analyst*
Moody's Investors Service
ranjini.venkatesan@moodys.com
+1.212.553.3828

NEXT Group's full-year profit guidance upgrade is credit positive

Originally published on 17 September 2020

On 17 September NEXT plc, the parent of NEXT Group plc (Baa2 stable), published results for the 26 weeks to 25 July, the first half of fiscal 2021, ending January 2021. In addition to the stronger-than-initially-expected sales in the first half, Next said that sales in the opening weeks of the second half of fiscal 2021 were 4% ahead of the same period last year. Although the company still expects sales in the remainder of the second half to fall short of the prior year comparable, its new central guidance is for full-year profit before tax (pre IFRS 16) of £300 million, up from £195 million in its central scenario from 29 July, a credit positive.

After the near elimination of profits in the first half (£9 million this year compared with £320 million in first-half fiscal 2020), the second-half profit before tax of £291 million embedded in the new central scenario is still 29% lower than the second half of fiscal 2020. In our view, this is a highly credible pace of recovery. The company's new central scenario sales forecast of negative 8% in the fiscal second half is better than its previous central scenario of negative 19%.

We expect the company's credit metrics to recover to pre-crisis levels within 12-18 months. In the meantime, NEXT's clear strategy since the beginning of the coronavirus pandemic to focus on cash-generating actions is credit positive, as is its decision to suspend dividends until the crisis is over. These factors combine to support NEXT Group's stable rating outlook. The company currently expects to repay the £325 million bond maturing in October 2021 from cash resources, which is also positive.

The prospects for the apparel industry in the months ahead remain uncertain. Consumer confidence and the economic outlook are fragile. Social distancing will continue to weigh on consumers' desire to shop and the extent to which wardrobe refreshes seem necessary.

However, the relative resilence of NEXT's results highlight the strength of its business model. It has sizeable and profitable online operations, a stable finance division that drives demand, and a store portfolio weighted toward retail parks, where consumers feel more comfortable shopping in this time of social distancing. The company's wide product range is also a strength, with recent strong demand in childrenswear, leisurewear and home products as people spend more time at home.

David Beadle, *VP-Sr Credit Officer*
Moody's Investors Service
david.beadle@moodys.com
+44.20.7772.5390

Danh Nguyen-Thanh, *Associate Analyst*
Moody's Investors Service
danh.nguyen-thanh@moodys.com
+44.20.7772.5585

Richard Etheridge, *Associate Managing Director*
Moody's Investors Service
richard.etheridge@moodys.com
+44.20.7772.1035

Korean Air's loan to US property subsidiary Hanjin is credit positive, but potential stake sale raises uncertainty

Originally published on 17 September 2020

On 17 September, Korean Air Lines Co., Ltd. (KAL) announced its decision to lend $950 million to its wholly owned US property subsidiary Hanjin International Corp. (HIC, B3 negative), which will be used to pay all of HIC's existing debt. At the same time, KAL indicated that it is negotiating with a certain party to refinance this intercompany loan and potentially sell its shares in HIC.

The loan from KAL is credit positive for HIC because it will address the company's near-term liquidity risk. However, KAL's potential sale of HIC can significantly affect HIC's credit quality, depending on HIC's post-transaction leverage and prospects of support from any new owner.

KAL's loan to HIC will bear 4.6% interest and have three tranches, comprising a $300 million two-year term loan, a $600 million one-year secured loan and a $50 million one-year working capital credit limit. HIC will use the proceeds mainly to repay all of its external debt: the Aa2-rated $300 million notes guaranteed by The Export-Import Bank of Korea (KEXIM, Aa2 stable) and the B1-rated $600 million secured term loan. HIC will use the remaining $50 million loan to fund its operations.

HIC's hotel revenue has declined steeply since the beginning of the coronavirus pandemic because of various travel restrictions and social distancing measures. Less business and leisure travel and the cancellations of events at the nearby LA Convention Center, which is normally a key driver of HIC's hotel demand, is likely to have a persistent effect on HIC's hotel occupancy. We estimate that this weak demand will result in negative EBITDA in 2020. Demand will remain sluggish over 12-18 months with a gradual recovery.

HIC's credit quality continues to benefit from its parent KAL's financial support, as demonstrated by this substantial liquidity injection. However, We believe that KAL will attempt to unload its stake in HIC because of weak prospects for HIC's hotel business and KAL's own liquidity needs. KAL's passenger airline business has been damaged by the coronavirus-induced decline in passenger traffic, which has been partly offset by its solid cargo business.

Sean Hwang, CFA, *AVP-Analyst*
Moody's Investors Service
sean.hwang@moodys.com
+852.3758.1587

Yong Kang, CFA, *Associate Analyst*
Moody's Investors Service
yong.kang@moodys.com
+852.3758.1529

Keun Woo (Chris) Park, *Associate Managing Director*
Moody's Investors Service
chris.park@moodys.com
+852.3758.1366

Lax security at e-payment service exposed banks and DOCOMO to widespread fraud

Originally published on 18 September 2020

On 16 September, NTT DOCOMO, INC. (DOCOMO, Aa3 stable), Japan's biggest mobile phone operator, submitted a confidential report to Japan's Financial Services Agency about a cyberattack on its e-payment service nine days after the company became aware of the attack. The cyberattack resulted in illicit withdrawals of at least ¥27.6 million from 157 customers across 11 banks, as of 17 September 0:00 AM. The company has stopped new account openings for the time being and intends to reimburse the victims in full.

Although the nominal amount stolen is not significant compared to the size of the company's balance sheet (¥7.3 trillion in assets and ¥115 billion in cash as of 30 June), the episode creates reputational risk both for DOCOMO and some of the 35 banks that subscribe to its e-payment service. These banks include 77 Bank, Ltd. (A3 stable, baa2[1]), Bank of Fukuoka, Ltd. (A3 stable, baa2), Chiba Bank, Ltd. (A1/A1 stable, a3), Chugoku Bank, Limited (A2 stable, baa1), Hiroshima Bank, Ltd. (A2 negative, baa1), Hyakujushi Bank, Ltd. (Baa1 negative, baa3), Japan Post Bank Co., Ltd. (A1 stable, baa1), Mizuho Bank, Ltd. (A1/A1 stable, baa1), Shizuoka Bank, Ltd. (A1 stable, a3) and Sumitomo Mitsui Banking Corporation (A1/A1 stable, a3). The attack also points to increasing cybersecurity risks for banks, telecommunications companies and payment service companies as they rapidly expand their digital offerings to meet customer needs amid the coronavirus pandemic.

DOCOMO cited lax security practices at its e-payment service division, which was the point of entry for the attackers. The service – which links DOCOMO's accounts and the banks' accounts – deployed weak authentication methods, such as the use of customer names, bank account numbers and four-digit pins. In contrast, the fraud appears to have had a lesser effect on those participating banks that require stricter practices such as two-factor authentication.

Reputational risk can raise a company's cost of capital and regulatory costs.[2] It can also lead to loss of customers, investors and other counterparties, triggering a reduction in revenue. The effect of a cyber incident on reputation is exacerbated when customers can easily change providers and when it occurs in sectors that serve "confidence-sensitive" customers for whom trust and brand equity are competitive differentiators.

A loss of confidence in DOCOMO could cause some of its bank customers to reconsider using the company as their digital banking service provider. This is especially true because the banks entangled in this incident now face their own reputational risk issues.

According to a recent study by cybersecurity research firm Ponemon, financial institutions are among the sectors that have the highest post-breach churn following a cyber incident. Banking customers entrust banks with confidence-sensitive data with the understanding that it will be well protected.

However, banks' vulnerability to cyberattacks has risen amid the pandemic. Social distancing to contain the coronavirus' public health threat has been a powerful catalyst in accelerating the large-scale migration of businesses and consumers to contactless online banking.

As the cyberattack on DOCOMO's e-payment service illustrates, the pace of online banking adoption and the onboarding of new third-party service suppliers have created an ideal environment for attackers to uncover security vulnerabilities. In this particular case, the perpetrators exploited the payment service's weak authentication methods to access linked customer bank accounts and make illicit withdrawals. This type of attack does not require a high level of sophistication and reveals lax security practices and the presence of other less obvious, but potentially riskier, security vulnerabilities.

Endnotes

1 The bank ratings shown in this report are the bank's deposit rating, senior unsecured debt rating (where available) and Baseline Credit Assessment.

2 See **Reputational risks from cyberattacks arerising as episodes become more publicized**, 10 September 2020.

Mariko Semetko, *VP-Sr Credit Officer*
Moody's Investors Service
mariko.semetko@moodys.com
+81.3.5408.4209

Ryohei Nishio, CFA, *Analyst*
Moody's Investors Service
ryohei.nishio@moodys.com
+81.3.5408.4157

Tomoya Suzuki, *AVP-Analyst*
Moody's Investors Service
tomoya.suzuki@moodys.com
+81.3.5408.4204

Lesley Ritter, *VP-Senior Analyst*
Moody's Investors Service
lesley.ritter@moodys.com
+1.212.553.1607

Fed publishes scenarios for second round of 2020 stress tests, a credit positive for US banks' creditors

Originally published on 18 September 2020

On 17 September, the US Federal Reserve Board (Fed) published the hypothetical scenarios for the second round of US bank stress tests, whose results will be released by the end of the year. This follows the publication of the 2020 Dodd-Frank Act Stress Test (DFAST) for 22 large US banking groups and the US operations of 11 non-US banks on 25 June. The second round of stress tests under the published scenarios is credit positive for US banks' creditors because it will provide insight into banks' capital strength under a more tailored set of assumptions, given the coronavirus-related uncertainty.

Although the DFAST results released in June revealed that all banks exceeded the required minimum capital and leverage ratios under the Fed's severely adverse stress scenario, the underlying scenarios used were formulated before the severe economic effects of the coronavirus pandemic began to crystallize in March. And a coronavirus sensitivity analysis released by the Fed simultaneously revealed that the economic effect of the coronavirus could have a far more severe effect than the DFAST results on the banking system in aggregate. As a result, the Fed required the banks to suspend share repurchases for the third quarter, cap their dividends, and requested that each bank resubmit a new capital plan once the Fed had published new hypothetical scenarios.

In the announcement, the Fed indicated that by the end of September it would announce if restrictions on share repurchases and dividends would be extended beyond the third quarter. However, the Fed has yet to indicate whether the results of the new stress test would alter the banks' stress capital buffers. By further limiting capital distributions, both of these would be credit-positive developments for affected banks and their creditors.

Now that the new scenarios have been published, the banks have 45 days to update and resubmit their capital plans. The Fed will evaluate those plans under a baseline scenario that assumes an economic recovery and two separate scenarios that simulate severe global recessions. The goal is to test banks' resilience under a range of outcomes that will help the Fed to ensure that banks can continue to lend to the US economy under stress. The exercise will evaluate banks' resilience to different recessions by estimating their earnings, loan-loss provisions, and capital levels over nine quarters through the third quarter of 2022. The exhibit below outlines the assumptions under the two scenarios (which extend out an additional four quarters so the banks can estimate forward looking loan-loss provisions).

Forecast assumptions for second round of 2020 stress test scenarios
Domestic variables under the severely adverse and alternative adverse scenarios; Percent, except for markets variables

		Minimum		Maximum		Range		Average	
		Severely adverse	Alternative severe	Severely adverse	Alternative severe	Severely adverse	Alternative severe	Severely adverse	Alternative severe
Economics	Real GDP growth	-5.9	-9.1	24.0	24.0	29.9	33.1	5.1	4.2
	Unemployment rate	7.6	9.0	12.5	11.0	4.9	2.0	10.4	10.3
	CPI inflation rate	1.2	1.1	3.6	3.7	2.4	2.6	1.9	2.1
Interest Rates	5-year Treasury yield	0.2	0.2	0.8	1.2	0.6	1.0	0.4	0.5
	10-year Treasury yield	0.3	0.3	1.5	1.8	1.2	1.5	0.8	0.9
	BBB corporate yield	2.1	2.0	6.1	6.4	4.0	4.4	4.6	5.2
Markets	Dow Jones Total Stock Market Index	18,009	18,330	35,961	36,530	17,952	18,200	24,808	25,296
	House Price Index	161	160	220	220	59	60	179	179
	Market Volatility Index	27	28	70	70	44	42	44	47

Note: Covers Q3 2020 to Q3 2023 forecast period; not all variables included in the stress test are shown
Source: Federal Reserve

In the severely adverse scenario, the unemployment rate rises to 12.5% at the end of 2021 and then declines to 7.6% by the end of the scenario in 2023. Real GDP declines for five consecutive quarters from the third quarter of 2020 through the fourth quarter of 2021

with a sharp decline in the first two quarters. This scenario also includes a sharp slowdown abroad. In the alternative severe scenario, the unemployment rate peaks at 11% by the end of 2020 but remains elevated and only declines to 9% by the end of 2023. Real GDP declines for one quarter before starting a shallow recovery in the fourth quarter of 2021.

As in DFAST, the two scenarios also include a global market shock component that will be applied to Bank of America Corporation (A2 stable), Citigroup Inc. (A3 stable), The Goldman Sachs Group, Inc. (A3 stable), JPMorgan Chase & Co. (A2 stable), Morgan Stanley (A3 review for upgrade) and Wells Fargo & Company (A2 negative), as well as the US operations of five non-US banks, given their large trading operations. These banks, as well as State Street Corporation (A1 stable) and The Bank of New York Mellon Corporation (A1 stable), given their substantial processing operations, will also be subject to the default of their largest counterparty.

Andrea Usai, ***Associate Managing Director***
Moody's Investors Service
andrea.usai@moodys.com
+1.212.553.7857

David Fanger, ***Senior Vice President***
Moody's Investors Service
david.fanger@moodys.com
+1.212.553.4342

M. Celina Vansetti, ***MD-Banking***
Moody's Investors Service
celina.vansetti-hutchins@moodys.com
+1.212.553.4845

Ana Arsov, ***MD-Financial Institutions***
Moody's Investors Service
ana.arsov@moodys.com
+1.212.553.3763

Mexico's central bank extends pandemic-related liquidity and credit measures, a credit positive for banks

Originally published on 17 September 2020

On 15 September, Banco de México (Banxico), Mexico's central bank, announced that it will extend until February 2021 pandemic-related liquidity and credit measures implemented in April and which were to expire 30 September. By renewing these support measures, the government is maintaining facilities aimed at softening the negative economic and market effects of the coronavirus pandemic, which have strained bank operating conditions and investor and consumer confidence. Mexico's economy remains weak, reflecting uncertainty about domestic policy and the US economic recovery, its largest export partner.

In Mexico, coronavirus-related measures mostly focus on liquidity, funding and some temporary rescheduling of payments, and less on subsidized credit programs or household income support, as in other countries in the region. Because Mexico's coronavirus infection numbers are still high, risks of extended social distancing rules threaten to delay economic recovery, limit the recovery of employment and maintain low corporate earnings, which will weigh on credit conditions for at least the next 24 months.

Since 21 April, Banxico has made MXN750 billion ($35 billion) available as part of its pandemic-related relief measures (see exhibit), those now extended until February 2021. The central bank has also opened its discount window to a wider range of corporate and government securities (a measure also available to development banks), lowered banks' reserve requirements, offered secured financing at low rates and asset swaps to small and midsize enterprises (SMEs). The credit facilities directed to the SME segment most affected by the pandemic totaled MXN350 billion, a relatively small amount versus other Latin American governments' credit lines.

Mexico's liquidity and credit measures will remain in place until February 2021

	MXN billions
Government securities term repurchase window	200
Corporate Securities Repurchase Facility	100
Resources to banks to channel credit to micro, small and midsize enterprises and individuals	250
Collateralized financing facility for commercial banks with corporate loans, to finance micro, small and midsize enterprises	100
Swaps of government securities	100
Total	**750**

Source: Banxico

Although the size and reach of the government's package are more limited than sponsored programs implemented in other large economies in the region, the extension points to the government's preventative stance against prevailing risks and uncertainties associated with the pandemic. The size of the measures also reflects the current administration's commitment to fiscal austerity.

The Mexican financial system's exposure to the SME segment, which has been most vulnerable during the economic downturn, is low and limits the need for government-sponsored aid to the sector. As of June 2020, Mexico's systemwide loan book had about a 7% exposure to SME loans, versus 18% for Brazil and 24% for Peru. Mexican banks' loans to large corporations, a segment with a healthier liquidity position than that of SMEs, comprised 60% of gross loans. Additionally, corporates withdrew from banks' committed credit facilities at the outset of the pandemic, particularly in March and April, when there was a sudden drop in economic activity and heightened market volatility.

At the same time, the government has already announced that it is finalizing the regulatory framework to extend other pandemic-related credit forbearance measures, including the waiver on provisioning requirement for renegotiated loans, which will support a second round of relief programs to be offered by banks to customers that continue to struggle to recover repayment capacity amid the deep economic recession.

Ceres Lisboa, *Senior Vice President*
Moody's Investors Service
ceres.lisboa@moodys.com
+55.11.3043.7317

Banrisul's plan to cut up to 15% of its workforce is credit positive

Originally published on 16 September 2020

On 14 September, Banco do Estado Do Rio Grande do Sul S.A. (Banrisul, Ba3 stable, ba3[1]) announced that it had proposed to lay off up to 15% of its workforce under a voluntary redundancy plan the bank in August announced it was discussing with unions. The size of the credit-positive plan is larger than the aggregate of recent job cuts by the bank, and will reduce personnel costs, increase efficiencies and improve net income.

We estimate that Banrisul's latest redundancy program would save up to BRL224 million, or 21% of trailing-12-month net income for the period that ended in June 2020. Banrisul's redundancy plan is also consistent with the cost-cutting that is occurring among other Brazilian banks as they aim to become leaner in the wake of lower business volumes, rising provisioning expenses amid record low interest rates.

As a public bank majority-owned by the Brazilian state of Rio Grande do Sul, Banrisul has limited capacity to cut administrative costs, particularly its personnel expenses. The bank's cost/income ratio averaged 61% during 2016-19, versus a system average of 53% over the same period, in large part because of its rigid labor costs. The new redundancy scheme will aid the bank in offsetting these structural costs. Additionally, improved profitability would buttress Banrisul's capital generation.

The coronavirus pandemic adds to the bank's challenges. In the first half of 2020, the bank's net income fell by 42%, driven primarily by a 5% decline in margins and a 34% rise in provisioning costs as its high administrative cost base rose further. Banrisul's profitability traditionally lags Brazil's largest banks: its 2016-19 ratio of net income to tangible assets averaged 1.3%, below the 1.5% average for Brazil's leading private banks and the 1.4% system average.

Under the voluntary redundancy plan, up to 1,500 workers who are eligible for retirement under Brazilian legislation, as well as those who have lengthy tenures but may not yet be eligible for retirement, will be able to participate. This strategy allows the bank to target those who have worked at the bank longest, and thus have accrued the most salary increases and benefits during their tenures. Any severance payments offered as part of the package will be more than offset by the ongoing salary savings.

The bank will continue to be challenged this year because we expect limited loan growth and still high provisioning costs to pressure net income. The bank's 90-day problem loan ratio rose to 3.6% in June 2020 from 2.2% a year earlier, and from 3.4% in March 2020. In response to the pandemic, the bank has renegotiated approximately 14% of its loan book, which has the potential to increase asset risk in the remainder of this year if the renegotiated loans stop performing.

In 2017, the bank announced a voluntary early retirement offer for up to 700 workers, or more than 6% of its workforce, and a voluntary redundancy plan in 2018 called for the elimination of 600 jobs, or 5.6% of its workforce. Together, these cuts saved the bank BRL220 million on a Moody's-calculated ongoing basis.

Endnotes

1 The bank ratings shown in this report are Banrisul's domestic deposit rating and Baseline Credit Assessment.

Farooq Khan, ***AVP-Analyst***
Moody's Investors Service
farooq.khan@moodys.com
+55.11.3043.6087

New Zealand plans financial institutions' mandatory disclosure on climate risk, a credit positive

Originally published on 17 September 2020

On 15 September, the Government of New Zealand announced that pending approval by Parliament, it will introduce a mandatory climate-related financial disclosure regime that requires the country's banks, insurers and other financial institutions to report on climate risks. If approved, the regime is likely to begin in 2023 at the earliest.

The new rules would be credit positive for New Zealand's financial institutions because they will make institutions that are not already doing so assess the impact of climate-related financial risk. This factor is likely to increase the visibility of such risks in the governance and risk frameworks of these institutions. The development of reporting standards could also provide institutions with new ways of assessing these risks. A standard set of reporting would also allow investors to better understand the impact of climate-related risks across different financial institutions.

New Zealand is the first country in the world to announce mandatory climate-change risk reporting, according to the government. The new requirements will apply to all banks, insurers and asset managers with total assets of more than NZD1 billion ($673 million). The requirements will also apply to government-owned financial institutions and any issuer of equity or debt listed on the New Zealand Stock Exchange. The government expects around 200 businesses to be included in the regime.

The regime will be based on the Financial Stability Board's (FSB) Task Force on Climate-related Financial Disclosures (TCFD) framework and will require included financial institutions to make annual disclosures covering governance arrangements, risk management and strategies for mitigating any climate change risks. If businesses are unable to disclose, they must explain why.

The External Reporting Board, an independent government-owned entity responsible for accounting and auditing and assurance standards in New Zealand, will be responsible for developing reporting standards. The guidelines should improve the transparency and comparability of climate-related risk disclosures, which will be also be beneficial for investors when trying to assess the impact of climate-related risks across different financial institutions.

The Financial Markets Authority, one of New Zealand's four key regulators, will be responsible for independent monitoring, reporting and enforcement of the new rules.

Daniel Yu, CFA, *VP-Senior Analyst*
Moody's Investors Service
daniel.yu@moodys.com
+61.2.9270.8198

Si Chen, *Associate Analyst*
Moody's Investors Service
si.chen@moodys.com
+61.2.9270.1416

Patrick Winsbury, *Associate Managing Director*
Moody's Investors Service
patrick.winsbury@moodys.com
+61.2.9270.8183

Hurricane Sally causes significant flood damage, but moderate losses for P&C insurers

Originally published on 18 September 2020

On 16 September, Hurricane Sally made landfall near Mobile Bay, Alabama, and the western portion of Florida Panhandle as a Category 2 storm with destructive winds of 105 mph, causing significant rain and storm surge. The storm moved slowly across Alabama and the Florida Panhandle producing 10-20 inches of rain or more in certain areas, causing significant flood damage, and then moved through Georgia and the Carolinas.

Because Sally appears to be primarily a flood event, we expect that the National Flood Insurance Program (NFIP), part of the US Federal Emergency Management Agency (FEMA), will absorb significant losses because standard property and casualty (P&C) homeowners policies do not include flood damage. P&C (re)insurers will face losses on commercial and some residential properties although loss estimates will take weeks to tally.

Most US homeowners are not insured against flood unless they are located in flood zones. The NFIP is the largest nationwide provider of flood insurance to homeowners and covers most flood losses in the US. Because flood damage is typically not covered by homeowners policies, disputes may arise in cases where the immediate cause of loss (wind or rain from above versus flood) is not clear. Disputes increase and prolong the cost of the claims settlement process and may lead to lawsuits and/or regulatory intervention. P&C insurers also face potential claims on private passenger and commercial vehicles, watercraft and other insured assets. Flood-related auto claims are almost always total losses.

Exhibit 1 and 2 show the primary insurers in Alabama likely to be affected by Sally, based on their market share in the state. State Farm Mutual Automobile Insurance Company, Alfa Mutual Insurance Co. and The Allstate Corporation (A3 stable) have leading market shares in homeowners insurance in Alabama (see Exhibit 1). CNA Financial Corporation (Baa2 stable), The Travelers Companies, Inc. (A2 stable) and Liberty Mutual Group Inc. (Baa2 stable) lead the commercial property market (see Exhibit 2). Given their careful monitoring of exposures, geographic diversification, high quality reinsurance protection and strong capital bases, we believe these large national carriers are well capitalized to withstand hurricane events. Regional insurers face greater effects because of their geographic concentrations.

Exhibit 1
Alabama's top 10 homeowners insurers in 2019

Company	Alabama direct premiums written $ millions	US homeowners direct premiums written $ millions	Premium concentration in Alabama	Surplus $ millions
State Farm	$497	$18,978	3%	$116,232
Alfa Mutual	$300	$357	84%	$1,204
Allstate	$219	$8,723	3%	$19,887
USAA	$162	$6,836	2%	$30,476
Travelers	$87	$4,448	2%	$20,670
Farmers	$80	$5,944	1%	$6,220
Liberty Mutual	$65	$6,861	1%	$20,539
Nationwide	$64	$3,789	2%	$15,749
Auto-Owners	$50	$1,870	3%	$12,443
Country Mutual	$46	$896	5%	$2,837
Top 10	$1,568	$58,701	3%	$246,257
Industry	**$1,908**	**$108,832**	**2%**	**$866,627**

Data include farmowners and homeowners multiple peril. Premium concentration is calculated as 2019 farmowners and homeowners multiple peril direct written premiums in Alabama as a percentage of countrywide farmowners and homeowners multiple peril.
Sources: SNL Financial L.C. (contains copyrighted and trade secret materials distributed under license from SNL, for recipient's internaluse only) and Moody's Investors Service

Exhibit 2

Alabama's top 10 commercial property insurers in 2019

Company	Alabama direct premiums written $ millions	US commercial property direct premiums written $ millions	Premium concentration in Alabama	Surplus $ millions
CNA	$77	$4,445	2%	$10,787
Travelers	$75	$4,410	2%	$20,670
Liberty Mutual	$74	$6,285	1%	$20,539
Cincinnati	$46	$1,233	4%	$5,620
Auto-Owners	$46	$1,229	4%	$12,443
Nationwide	$45	$2,892	2%	$15,749
Alfa Mutual	$43	$52	84%	$1,204
State Farm	$43	$1,802	2%	$116,232
AIG	$42	$3,731	1%	$17,439
ACE	$42	$4,037	1%	$17,646
Top 10	$533	$30,117	2%	$238,329
Industry	**$1,212**	**$84,105**	**1%**	**$866,627**

Data include allied lines, commercial multiple peril – non liability, fire, and inland marine. Premium concentration is calculated as 2019 commercial property direct written premiums in Alabama as a percentage of countrywide commercial property premiums. A large portion of CNA's commercial property business is inland marine, which mainly comprises a cellphone warranty fronting arrangement, and is not considered catastrophe-exposed.

Sources: SNL Financial L.C. (contains copyrighted and trade secret materials distributed under license from SNL, for recipient's internal use only) and Moody's Investors Service

Commercial property insurers also risk experiencing losses from flooding, which is typically an optional coverage, generally with sub-limits. With regard to business-interruption claims, the coronavirus and related economic downturn might complicate coverage calculations and heighten the number of disputes. Some interruption claims might reflect a combination of hurricane and coronavirus effects, with coverages depending on a range of specific policy provisions.

According to FEMA, just one inch of floodwater can cause up to $25,000 in flood damage for residential properties, potentially making Hurricane Sally a costly storm in terms of flood losses. However, unlike Hurricane Harvey in 2017, which was a Category 4 storm that caused widespread flood damage in Houston and Southern Texas, Sally struck in less commercially dense areas and will be much less costly for commercial insurers than Harvey. According to the Texas Department of Insurance' last estimate, Hurricane Harvey cost P&C insurers approximately $20 billion of gross losses and $10 billion of net losses after reinsurance, with about 80% of the gross losses in commercial property and flood, and about 16% of the losses in auto and residential property.

Reinsurers could absorb some of the losses from their cedants' exposures potentially including those from NFIP's flood reinsurance program, depending on the extent of the losses. The current reinsurance program provides coverage when flood losses exceed $4 billion up to $10 billion with various participation rates by reinsurance layer. On 1 January 2020, FEMA secured a reinsurance agreement with 27 reinsurers that covers 10.25% of losses between $4 billion and $6 billion, 34.68% of losses between $6 billion and $8 billion and 21.80% of losses between $8 billion and $10 billion. In addition, FEMA has $1.2 billion of total catastrophe bonds placed with capital market investors. In 2017, FEMA recovered $1.042 billion of flood losses from reinsurers, related to heavy flood damage from Hurricane Harvey.

Siddhartha Ghosh, *VP-Senior Analyst*
Moody's Investors Service
siddhartha.ghosh@moodys.com
+1.212.553.0456

Sneha Shanghavi, *Associate Analyst*
Moody's Investors Service
sneha.shanghavi@moodys.com
+1.212.553.4589

Sarah Hibler, *Associate Managing Director*
Moody's Investors Service
sarah.hibler@moodys.com
+1.212.553.4912

MetLife's acquisition of Versant Health is credit positive

Originally published on 17 September 2020

On 17 September, MetLife, Inc. (A3 stable) announced that it had entered a definitive agreement to acquire Versant Health Holdco Inc. (B3 stable), a managed vision care provider and parent of Superior Vision and Davis Vision. The $1.7 billion all-cash acquisition is credit positive because it builds on MetLife's scalable Group Benefits business and establishes MetLife's footprint as a direct provider of vision insurance in the US.

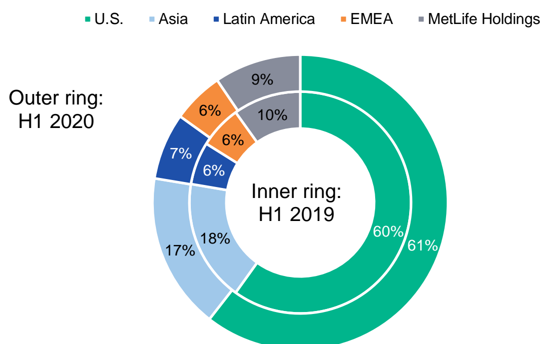
The acquisition, which the parties exoect to close in fourth-quarter 2020, will be paid entirely with cash at the holding company. As of the second quarter this year, MetLife reported holding company liquidity with cash and liquid assets of $6.6 billion, which is enough to cover annual holding company interest expense and preferred dividends of $1 billion and the acquisition price. In conjunction with the acquisition, MetLife announced that it had resumed its share-repurchase program.

Versant Health, through its subsidiaries Superior Vision Insurance Inc. (Ba3 stable) and Davis Vision, offers managed vision care services to roughly 35 million members across the US through a network of more than 50,000 providers. Its vision insurance plans include routine benefits such as eye exams, eyeglasses and contact lenses to employer groups, third parties and health plans. Plans are offered on a fully insured or administrative-services-only basis. MetLife expects that the acquisition will be accretive to earnings beginning in 2021 given the generally steady nature and predictable earnings stream of vision insurance. For 2021, MetLife estimates adjusted PFOs from Versant Health of $1.3 billion and adjusted earnings of $90 million.

In addition to becoming a third-largest provider (based on membership) of vision insurance in the US, the acquisition provides MetLife a highly scalable platform and network, and creates opportunities to grow the group benefits segment by cross-selling products to its large customer base. The Group Benefits business is more attractive and faster-growing segment for MetLife. Its revenue and earnings contribution in recent years has increased and this transaction will strengthen MetLife's position as a leader in this business. The group business is less sensitive to interest rates and is a short-duration product portfolio. Renewals are revaluated annually or biannually so that the business can be repriced to reflect actual experience on such products.

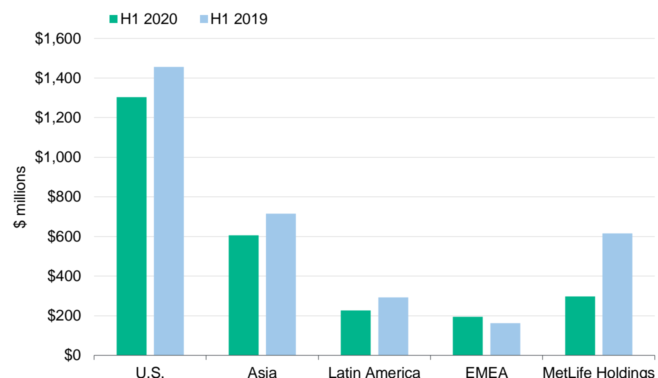
The exhibits below show the distribution of adjusted premiums and adjusted earnings available to common shareholders for MetLife through the first six months of 2020.

Exhibit 1
MetLife's adjusted premiums distribution by segment
Data as of 30 June 2020



Excludes Corporate & Other
Source: Company reports

Exhibit 2
MetLife's adjusted earnings by segment
Data as of 30 June 2020



Excludes Corporate & Other
Source: Company reports

MetLife, as one of the largest global insurance companies, provides insurance, annuities, employee benefits and asset management products in the U.S., Japan, Latin America, Asia, Europe and the Middle East. The Group Benefits business, which is one of the largest business lines for MetLife, offers life, dental, group short- and long-term disability, individual disability, accidental death and dismemberment, vision and accident and health coverage, as well as prepaid legal plans.

Manoj Jethani, *VP-Senior Analyst*
Moody's Investors Service
manoj.jethani@moodys.com
+1.212.553.1048

Marc R. Pinto, CFA, *MD-Financial Institutions*
Moody's Investors Service
marc.pinto@moodys.com
+1.212.553.4352

Scott Robinson, CFA, *Associate Managing Director*
Moody's Investors Service
scott.robinson@moodys.com
+1.212.553.3746

Fortress' debt paydown is credit positive

Originally published on 18 September 2020

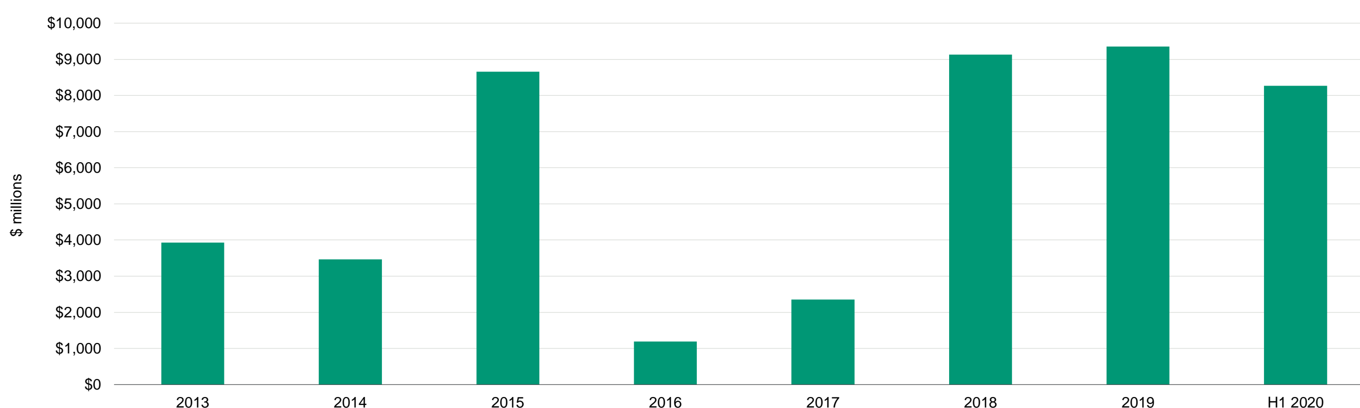
On 15 September, FinCo I LLC (doing business as Fortress Investment Group, Baa3 negative) announced a $96 million paydown on its $1.05 billion term loan and an extension of the loan maturity by 2.5 years to 27 June 2025. Theses actions are credit positive because the paydown reduces the company's debt burden and the maturity extension provides the company more flexibility to weather coronavirus-induced economic and market uncertainties.

The initial loan size at the time that SoftBank Group Corp. (Ba3 negative) acquired Fortress in December 2017 was $1.4 billion. The loan payments have been funded by a combination of mandatory repayments based on excess cash flow from designated asset sales and voluntary prepayments.

Fortress' credit profile is challenged by high leverage, and we assigned a negative outlook in May. Earnings were weaker in 2019 because of lower performance fees, which resulted in leverage rising to 4.5x as of year-end 2019, well above our expectations of 3.0x or below for an investment-grade company. With the onset of the pandemic and adverse effects on portfolio valuations, performance fees have fallen further. In the first half of 2020, performance fees of $105 million were down 60% from the prior-year period. As a result, leverage has trended higher in 2020 because of lower performance fees related to disrupted market conditions.

However, one of Fortress's strength is investing opportunistically in distressed and undervalued assets and the coronavirus-induced economic and market disruption has accelerated Fortress' already-positive fundraising trends: the company raised $8.3 billion in new capital in the first half of 2020, which was close to matching all the capital it raised in 2019, a strong fundraising year itself. Over the past two and half years, Fortress has raised more than $26 billion, far better tihan in the preceding years, as shown in the exhibit below.

Fortress' fundraising has accelerated since SoftBank acquired it in December 2017



Sources: Company reports and Moody's Investors Service

In line with its strong fundraising, Fortress has been able to accelerate its investing activities, especially since the onset of the pandemic. Since first-quarter 2019, Fortress' invested capital has grown approximately 30% to $33 billion and assets under management have grown to $45.9 billion from $39.9 billion over the same period. Additionally, the company has $13 billion in available capital for additional investments, which bodes well for increased management incentive fee earnings over the next three to five years, which should aid Fortress in its efforts to reduce its leverage to our quantitative guidance for its rating.

Fortress has several additional mitigating factors to its high leverage: the company has $455 million (pro forma as of 30 June) of cash on its balance sheet, although we estimate approximately half of that amount might be required for co-investments in its funds. The company also received May 2020 an in kind distribution of shares in New Fortress Energy (NFE), which is valued at approximately $425

million and is fully available to the company. That equals almost two years' worth of EBITDA by our calculation. In addition, Fortress has approximately $1.3 billion in unrealized incentive fees that will ultimately flow into earnings.

Dean Ungar, CFA, *VP-Sr Credit Officer*
Moody's Investors Service
dean.ungar@moodys.com
+1.212.553.6968

Robert M. Callagy, *Associate Managing Director*
Moody's Investors Service
robert.callagy@moodys.com
+1.212.553.4374

Marc R. Pinto, CFA, *MD-Financial Institutions*
Moody's Investors Service
marc.pinto@moodys.com
+1.212.553.4352

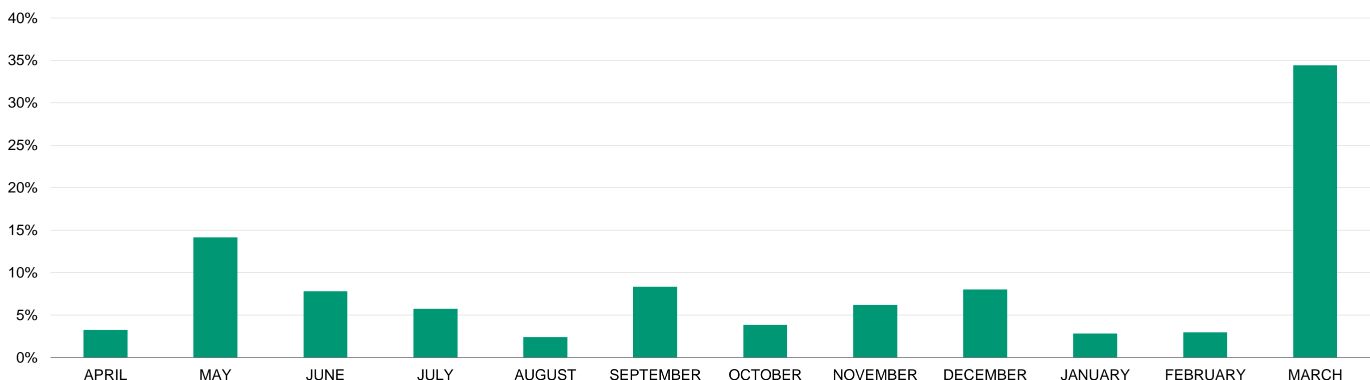
Lack of September state aid withholding is credit positive for New York school districts

Originally published on 18 September 2020

On 16 September, the New York State budget director announced that the state will not withhold any aid for K-12 school districts in September, a credit positive for the school districts. The September state aid payment provides many districts with much-needed liquidity after the summer months when, despite still having operating expenses, schools receive very little in revenue. For many, this results in very narrow cash balances and in some districts accessing the capital markets for short-term notes.

September is the third-highest month of the year for school aid distributed by the state on a dollar basis, and amounts to approximately 8% of annual disbursements for educational purposes, according to New York State cash flows (see exhibit). To date, the state has withheld approximately $300 million of the $26.4 billion in budgeted school aid amid revenue shortfalls caused by the coronavirus pandemic and has warned, in the absence of federal funding, that these reductions could become permanent and that aid for 2020-21 could be cut as much as 20%. New York has not promised that it will not make additional withholding or cuts through the rest of the year. However, the state has said that if withholding is needed in the future it will, as far as possible, avoid withholding payments to districts in the most economically distressed areas.

September state aid amounts to 8% of the annual total of disbursements for education
Fiscal year 2019-20



Source: New York State

State aid cash flows to districts can vary and it remains unclear whether, if the state withholds future aid, that withholding will be a percentage of what is paid to the district or what is left to be paid. For example, cash flows at Tuckahoe Union Free School District (Aa3 no outlook), a wealthier community, indicate that 25% of state aid is received in September. However, state aid makes up only 8% of their revenue and they rely heavily on property tax revenue. For other districts, the bulk of state aid is received later in the year. Rochester schools, which is a component unit of the City of Rochester (A2 negative), receives approximately 8% of its total aid in September, which is almost as much as they received from June through August. Nearly 60% of Rochester's school state aid payments, which account for over 80% of the city's school budget, come between December and March, with March being the biggest aid month.

While the state has promised that September aid will not be withheld, uncertainty remains about future payments and how any further withholding would impact more economically disadvantaged districts. State officials have said they will protect high-need districts as much as possible. However, this will become more and more difficult as the year progresses, particularly if school districts fund positions that were previously cut in anticipation of state aid reductions. State aid distribution in New York heavily weighs wealth in its school district funding formula. The later in the year that the state makes the aid cuts, the more painful the cuts would be, particularly

for those school districts that receive the most state aid. This is especially true if the wealthier school districts, like Tuckahoe, receive the bulk of their aid prior to the state making cuts.

Most school districts went into the fiscal 2020-21 budget year assuming some level of cuts. Many districts reduced course offerings, cut teachers, or began the year running fully remote, saving on transportation and the need for substitute teachers. Even with no withholding from the September payments, it is unlikely that school districts will reverse those decisions given uncertainty about withholding of state aid over the balance of the year.

Robert Weber, *VP-Senior Analyst*
Moody's Investors Service
robert.weber@moodys.com
+1.212.553.7280

Thomas Jacobs*, Senior Vice President/Manager*
Moody's Investors Service
thomas.jacobs@moodys.com
+1.212.553.0131

CREDIT IN DEPTH

Sea level rise increases credit risk for US coastal states and local governments

Originally published on 17 September 2020

Rising sea levels pose increasing credit risks for many coastal state and local governments. More frequent and severe flooding from high tides and storm surges from major weather events threaten coastal economies, property values and critical infrastructure. Over the next several decades, increased investment in adaptation and coordinated government responses will become essential for federal, state and local governments to more effectively respond to sea level rise. The scale of the challenges will make federal government leadership and funding even more vital.

» **Sea level rise is leading to more frequent coastal flooding, signaling a need for state and local governments to increase funding to manage risks.** Between 2000 and 2019 the Atlantic and Gulf coasts experienced a 100%-150% (depending on location) increase in annual days of high-tide flooding,[1] according to the National Oceanic and Atmospheric Administration (NOAA). Also, Four Twenty Seven, a Moody's affiliate, estimates that by 2040 rising sea levels and flooding will affect every coastal state, most of their coastal counties,[2] and over 110 cities with a population greater than 50,000.

» **Increased vulnerability to coastal flooding heightens credit risks.** More frequent coastal flooding poses risks for localities, states and the federal government because of a large and growing coastal population and vulnerable infrastructure. For state and local governments, a weaker economy, increased maintenance costs and lost tax revenue are particular credit risks over a multi-decade horizon.

» **Sea level rise adaptation efforts are credit positive, but capital intensive and stand to increase leverage.** At all levels of government, policies that encourage or mandate sustainable development (smart growth) and the capacity to invest in combating the effects of sea level rise will be critical to reducing threats. State and local governments' ability to manage debt levels while investing in adaptation efforts will become increasingly crucial to credit quality. Governments will have to balance investments to combat environmental threats with competing spending priorities.

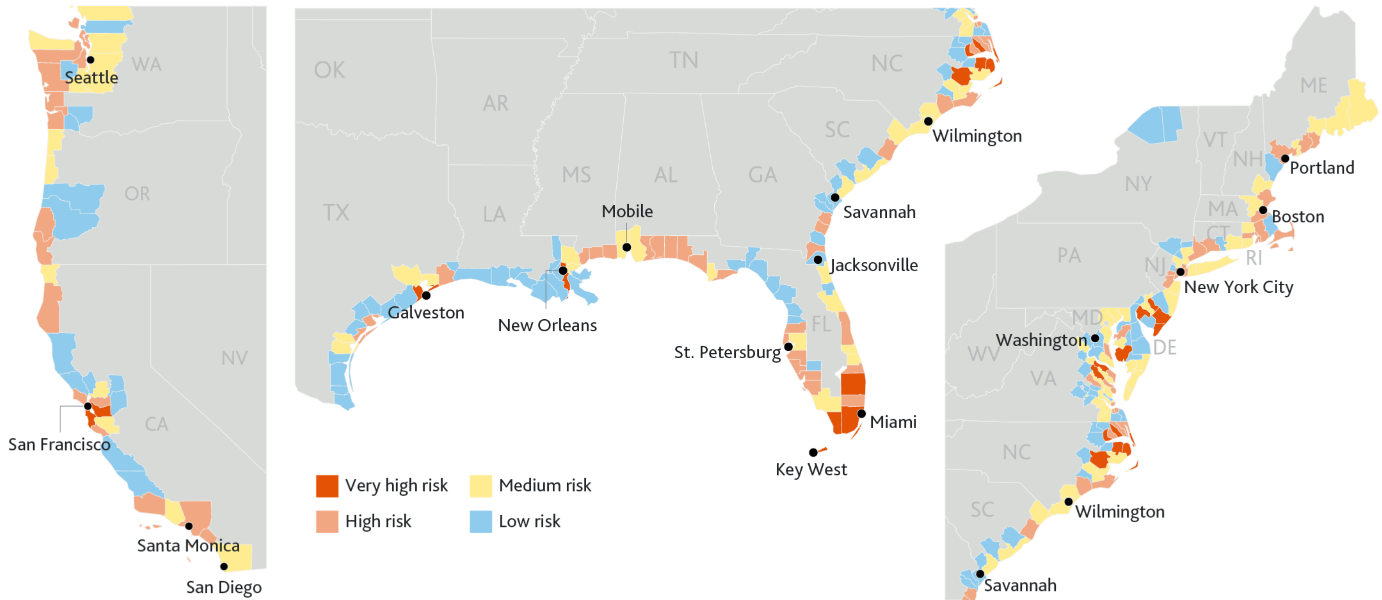
» **Coordinated efforts between the federal, state and local governments will reduce threats from sea level rise.** Governments that share adaptation strategies and financial burdens to address coastal flooding will be in a stronger position to reduce risks. Increased federal support and leadership will be increasingly critical to state and local adaptation efforts and credit quality.

Sea level rise is leading to more frequent coastal flooding, signaling a need for state and local governments to increase funding to manage risks

In many regions, sea levels are rising at a rapid pace, notably along the Atlantic and Gulf coasts. This is a harbinger of heightened economic risks and increased costs to maintain infrastructure.

By 2040, nearly 5% of coastal counties will fall within Four Twenty Seven's highest risk category with 26% and 35% in the high and medium risk categories, respectively (see exhibit). Four Twenty Seven risk reflects population density, such that the greater the population density, the greater the risk. North Carolina leads with five counties with the highest exposure, followed by three in New Jersey, two in Virginia and one each in Maryland, Washington and Florida. Four Twenty Seven places nine cities in the highest risk category: Miami Beach, Florida (Aa2 stable); Jupiter, Florida (Aaa stable); Kenner, Louisiana; Camden, New Jersey; Bayonne, New Jersey (A3); Galveston, Texas (Aa3 stable); Alameda, California; and San Mateo, California (Aaa stable).

Risk from sea level rise at county level



Cities marked for informational purposes only. Risk is at the county level, meaning certain cities may have higher or lower exposure to sea level rise than their respective counties.
Sources: Four Twenty Seven and Moody's Investors Service

Click here for the full report.

Endnotes

1 High-tide flooding, which is also referred to as "nuisance flooding" or "sunny day flooding," leads to public inconveniences such as road closures, overwhelms storm drains and compromises infrastructure. It is distinct from storm surges, though they can overlap.

2 The Four Twenty Seven analysis cited in this report is based on data from 274 coastal counties. The data does not include Alaska or counties in the Great Lakes region. It includes 165 cities. Multiple counties have cities over a population of 50,000. Our analysis uses 110 cities of the 165. The 110 cities represent the city with the highest risk profile in each county.

Biggest banks are better set to withstand COVID-19 stress than banks as a whole

Originally published on 17 September 2020

Summary

The 30 global systemically important banks (G-SIBs, see peer group overview on page 2) are better prepared to withstand the adverse effects of the COVID-19 pandemic than the universe of Moody's-rated banks as a whole. After many years of restructuring and re-engineering based on lessons learned from the global financial crisis and in response to tougher regulation, these banks entered the pandemic with cleaner balance sheets, stronger capital and better liquidity. They have also built more cohesive business models and more cogent strategies.

Many of the G-SIBs share underlying characteristics that make their credit strength more durable than a typical bank rated by Moody's:

» **Strong anchor franchises in a home or specialty market.** For example, several G-SIBs, including BAC, GCA, ICBC, MUFG and TD are bona fide universal banks with leading positions (typically top-three shares) in home-market retail deposit-gathering – a cornerstone underpinning both profitability and stability of funding as well as systemic importance. In addition, leading global custody and investment servicing franchises, such as those at BK and STT, have substantial operating risks but more modest levels of long-term market and credit risk.

» **Reliable supplemental earning streams from diversified national or global businesses.** G-SIBs with universal banking business models typically complement their home-market retail deposit franchises with other firmly established businesses, such as nationally diversified consumer and SME lending operations or less capital-intensive asset and wealth management franchises (e.g., MS, UBSG). Many have spent years building select institutional businesses that benefit from global scale, including asset servicing, corporate cash management and trade finance or capital markets (e.g., C, HSBC).

» **Discerning risk appetites.** G-SIBs that engage in riskier activities, such as the global capital markets platforms that JPM, GS and RBC operate, tend to do so from a position of strength anchored in a strong home market and have a track record of effective risk management.

The G-SIBs' results so far in 2020 reflect both the immediate COVID-19 impact and the banks' underlying resilience. We expect the G-SIBs will generally outperform banks as a whole and that some may even emerge from the pandemic in stronger competitive standing.

Click here for the full report.

Podcasts and Videos

Podcast: Coronavirus to have lasting impact on auto industry, 18 September 2020

Matthias Heck and Anke Rindermann of the Corporate Finance team discuss how the coronavirus pandemic will reshape the auto industry in the years ahead.

Related report: *Coronavirus will reduce auto production capacity, localize supply chains*

Inside Emerging Markets - Podcast: Mexico's job losses will cut across the economy; political risks rise in Belarus, 16 September 2020

Gersan Zurita of the Credit Strategy & Research team discusses the steep decline in Mexican employment resulting from the COVID-19 pandemic and why the road to recovery will be long. Plus, Evan Wohlmann of the Sovereign team explains how heightened political instability in Belarus is negative for the country's sovereign credit quality.

Related reports: *Credit Conditions – Mexico: Steep job losses and slow recovery prospects will deepen economic malaise* and *Government of Belarus – B3 stable: Regular update*

Focus on Finance - Podcast: Coronavirus shock turns reinsurance outlook negative and accelerates life insurers digital transformation, 9 September 2020

James Eck from our Insurance team explains why threats to profitability turned the outlook on global reinsurers negative, while colleague Laura Bazer discusses how the coronavirus shock jolted global life insurers into a new, more digital future.

Related Reports: *Reinsurance – Global: Outlook turns negative as profitability weakens, despite higher pricing* and *Life Insurance – Global: Life insurers go virtual, tech sorts winners from losers post coronavirus*

Articles in last Thursday's Credit Outlook

NEWS & ANALYSIS

Corporates

- NVIDIA announces credit-positive acquisition of Arm Limited
- Gilead's pricey Immunomedics deal brings promising cancer drug but execution risk is high
- Liquidity boost from BNDES is credit positive for Brazilian airline Azul
- Amendment of merger plan between FCA and PSA is credit positive
- Guangzhou R&F Properties' planned share placement is credit positive
- Indonesia's reimposed lockdown will hit firms with large retail and hospitality exposures in Jakarta
- Genting Berhad's equity injection into associate is credit negative

Banks

- Norway retightens mortgage regulations after pandemic-related loosening, shielding banks from downside risks
- Substantial retail deposit withdrawals from Belarusian banks are credit negative
- ORIX's investment in Greenko Energy Holdings is credit positive
- Disclosure guidelines to improve transparency, reporting of climate risks are credit positive for Australian banks

Insurers

- Property and casualty insurers face significant losses from Western US wildfires
- Aviva's sale of its Singapore arm is credit positive

Sub-Sovereigns

- Approval of public-employee pension reform is credit positive for Brazilian State of Minas Gerais

CREDIT IN DEPTH

- Reputational risks from cyberattacks rise as episodes become more public

Click here for last Thursday's Credit Outlook.

Editors

Jay Sherman, Elisa Herr, Andrew Bullard, Julian Halliburton and Phil Macdonald

© 2020 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND/OR ITS CREDIT RATINGS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S INVESTORS SERVICE DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S INVESTORS SERVICE CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit 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 or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from $1,000 to approximately $2,700,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER 1245980