MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades ratings of 15 European covered bonds following methodology update

Global Credit Research - 12 Mar 2014

Places nine ratings on review for upgrade and confirms three ratings previously on review for downgrade

Madrid, March 12, 2014 -- Moody's Investors Service has today upgraded by one notch the ratings of covered bonds issued under 15 European programmes. Concurrently, the rating agency placed nine ratings on review for upgrade and confirmed three ratings, which were previously on review for downgrade.

Today's rating actions follow Moody's update of its covered bond rating methodology. The rating agency has adjusted its reference point, the covered bond (CB) anchor, for determining the probability that an issuer will cease making payments under a covered bond programme.

Please click on this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBS_SF359934 for the list of affected credit ratings. The list is an integral part of this press release. For a list of the disclosures on each of the credit ratings covered please see the ratings rationale section of this press release.

Additionally, the covered bonds of a further 58 transactions now benefit from a CB anchor that is higher than the senior unsecured/deposit rating (SUR) used prior to the methodology update. Please click on this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBS_SF359933 for the list of affected programmes. The higher CB anchor reduces the minimum collateral level which is consistent with the bonds' current ratings; it also increases the robustness of the covered bond ratings against any future issuer rating downgrade.

These transactions however did not benefit from a rating upgrade, largely because they were already Aaa, or were at their respective sovereign ceilings.

RATINGS RATIONALE

Today's rating actions reflect Moody's update of its rating methodology for covered bonds. In the European Union and Norway, Moody's now bases the CB anchor on the higher of (1) the issuer's adjusted baseline credit assessment (BCA) plus up to two notches; or (2) the SUR plus up to one notch. For the programmes affected by these rating actions, the new CB anchor is higher than their SUR, reflecting a lower probability that the issuer will stop servicing its payment obligations under the covered bonds.

The CB anchor's level of notching over the issuer's adjusted BCA or SUR depends on the issuer's debt ratio (i.e., 0%-5% for zero notches of uplift, 5%-10% for one notch of uplift or 10%+ for two notches of uplift over the adjusted BCA only). The debt ratio is the issuer's bail-in-able debt to total liabilities. Moody's calculates the level of bail-in-able debt in accordance with the principles described in Appendix A2 of the methodology. The debt ratio does not impact the CB anchor in cases where the SUR already incorporates material levels of government support.

The disclosures on each of the credit ratings affected by today's rating actions include the CB anchor point, cover pool losses, collateral risk, market risk, collateral score, TPI (timely payment indicator), TPI leeway and the minimum over-collateralisation consistent with the current covered bond rating.

The ratings of covered bonds issued from nine programmes are on review for upgrade following today's rating actions. Moody's review employing the updated methodology will take into account additional information which the issuer may provide. This information may include the level and/or form of over-collateralisation the issuer plans to hold, and information relevant to its debt ratio.

KEY RATING ASSUMPTIONS/FACTORS

Moody's determines covered bond ratings using a two-step process; an expected loss analysis and a TPI framework analysis.

EXPECTED LOSS: Moody's uses its Covered Bond Model (COBOL) to determine a rating based on the expected loss on the bond. COBOL determines expected loss as (1) a function of the probability that the issuer will cease making payments under the covered bonds (a CB anchor event); and (2) the stressed losses on the cover pool assets following issuer default.

The cover pool losses for each programme is an estimate of the losses Moody's currently models if a CB anchor event occurs. Moody's splits cover pool losses between market risks and collateral risks. Market risks measure losses stemming from refinancing risks and risks related to interest rate and currency mismatches (these losses may also include certain legal risks). Collateral risks measure losses resulting directly from cover pool assets' credit quality. Moody's derives the collateral risk from the collateral score.

TPI FRAMEWORK: Moody's assigns a TPI, which indicates the likelihood that the issuer will make timely payments to covered bondholders if the issuer defaults. The TPI framework limits the covered bond rating to a certain number of notches above the CB anchor.

FACTORS THAT WOULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING:

The CB anchor is the main determinant of a covered bond's rating robustness. The TPI Leeway measures the number of notches by which Moody's might lower the CB anchor before the rating agency downgrades the covered bonds because of TPI framework constraints.

A multiple notch downgrade of the covered bonds might occur in certain limited circumstances, such as (1) a sovereign downgrade negatively affecting both the CB anchor and the TPI; (2) a multiple-notch lowering of the CB anchor; or (3) a material reduction of the value of the cover pool.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was "Moody's Approach to Rating Covered Bonds", published in March 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions of the disclosure form.

Moody's did not use any stress scenario simulations in its analysis.

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this rating action, and whose ratings may change as a result of this rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Jose I de Leon
Senior Vice President/Manager
Structured Finance Group
Moody's Investors Service Espana, S.A.
Calle Principe de Vergara, 131, 6 Planta
Madrid 28002
Spain
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Juan Pablo Soriano
MD - Structured Finance
Structured Finance Group
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Espana, S.A.
Calle Principe de Vergara, 131, 6 Planta
Madrid 28002
Spain
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454