

Rating Action: Moody's takes multiple actions on Spanish multi-cedulas

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Actions follow sovereign rating announcement

Madrid, October 25, 2012 -- Moody's Investors Service has today maintained the review for downgrade placements of 51 Spanish multi-issuer covered bonds (SMICBs) and confirmed the rating of one series. At the same time, Moody's has downgraded nine series and has placed 12 series on review with direction uncertain.

Today's actions follow (1) the conclusion of the rating reviews of several Spanish issuers' unsecured ratings; and (2) Moody's confirmation on 16 October of Spain's government bond rating at Baa3 (negative) from Baa3 (on review for downgrade).

Please click this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBS_SF304339 for the List of Affected Credit Ratings. This list is an integral part of this press release and identifies each affected issuer.

For further details on the confirmation of Spain's sovereign rating, please refer to the special comment published on 16 October 2012 (http://www.moodys.com/research/Moodys-confirms-Spains-government-bond-rating-at-Baa3PP-3-assigns--PR_257500).

For more information on the rating actions taken by Moody's Financial Institutions Group, see the press release published on 24 October 2012. (http://www.moodys.com/research/Moodys-concludes-rating-reviews-on-majority-of-Spanish-banks-after--PR_256561?WT.mc_id=BankRatings2012).

For additional information on covered bond ratings, please refer to the webpage containing Moody's related announcements <http://www.moodys.com/eusovereign>.

RATINGS RATIONALE

Moody's has maintained the review for downgrade placements of 51 SMICBs, following the maintenance of the review for downgrade placements of some of the participating underlying issuers' unsecured ratings in those series.

The confirmation of one series follows the confirmation of the ratings of all of the underlying participants in that series.

Moody's has downgraded nine series and kept them on review for downgrade. This follows the deterioration of the credit strength and subsequent downgrade of some of the underlying participants since Moody's last review in June 2012.

Moody's has decided to place certain series on review with direction uncertain in instances where the expected loss of the series has improved since Moody's last review, mainly due to the absorption of weaker participants with stronger names. Moody's notes that in these cases, some of the underlying participants' rating remain on review for downgrade.

Following the confirmation of Spain's sovereign, Spain's country ceiling remains at A3. As a result, the highest achievable rating for Spanish covered bond also remains at A3.

KEY RATING ASSUMPTIONS/FACTORS

SMICBs can be considered as a repackaging of a pool of Spanish covered bonds. Each SMICB is backed by a group of Spanish covered bonds (Cédulas Hipotecarias, CHs) that are bought by a Fund, which in turn issues SMICBs. Moody's rating for any SMICB is determined after applying a two-step process:

--- FIRST STEP: MOODY'S DETERMINES A RATING BASED ON THE EXPECTED LOSS ON THE SMICB

The main driver of the expected loss (EL) of a SMICB is the credit strength of the CHs backing the SMICBs. If the CHs perform, the SMICBs will be fully repaid. CHs are rated according to Moody's published covered bond

methodology. In the absence of any other support (for example, such as a reserve fund), the EL of the SMICB is determined directly from the weighted-average EL (weighted by their outstanding amounts) of the CHs backing the SMICB.

The primary model used is Moody's Covered Bond Model (COBOL), which determines EL as a function of (1) the issuer's probability of default (measured by its long-term rating); and (2) the stressed losses on the cover pool assets, following issuer default.

--- SECOND STEP: A SECONDARY RATING TARGET FOR SMICBs IS THE TIMELY PAYMENT

Under the SMICB rating approach, Moody's gives value to two primary liquidity supports that improve the probability of timely payment if any CH backing the SMICBs fails to make a payment on a scheduled payment date.

These are (1) the maturity extension on the SMICBs, which should ensure that a period of at least two years is available following any default on the CH (this period would be available to realise the value of the assets backing the CH); and (2) a liquidity facility (LF) that is available to cover interest payments on the SMICBs. Under the SMICB rating method, the LF benefiting any SMICB can be sized to improve the timely payment of the SMICB to a level commensurate with the SMICBs' ratings.

Irrespective of the size of the reserve or the liquidity facility, Moody's limits the maximum rating uplift of an SMICB over and above the ratings of the weakest issuers within a series. As a result of the downgrade of some of the underlying participating issuers, the SMICBs ratings have been negatively affected.

The ratings assigned by Moody's address the expected loss posed to investors. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

SENSITIVITY ANALYSIS

The robustness of a covered bond rating largely depends on the underlying issuer's credit strength.

A multiple-notch downgrade of the covered bonds might occur in certain limited circumstances, such as (1) a sovereign downgrade negatively affecting the issuers' senior unsecured rating; (2) a multiple-notch downgrade of the issuers or downgrade to low sub-investment grade; or (3) a material reduction of the value of the cover pool.

On 21 August 2012, Moody's released a Request for Comment seeking market feedback on proposed adjustments to its modelling assumptions. These adjustments are designed to account for the impact of rapid and significant country credit deterioration on structured finance transactions. If the adjusted approach is implemented as proposed, the rating of the notes affected by today rating action may be negatively affected. See "Approach to Assessing the Impact of a Rapid Country Credit Deterioration on Structured Finance Transactions", (http://www.moodys.com/research/Approach-to-Assessing-the-Impact-of-a-Rapid-Country-Credit--PBS_SF294880) for further details regarding the implications of the proposed methodology changes on Moody's ratings.

RATING METHODOLOGY

The methodologies used in these ratings were "Moody's Approach to Rating Covered Bonds" published in July 2012, and "Moody's Approach to Rating Spanish Multi-Issuer Covered Bonds" published in September 2009. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

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Information sources used to prepare the ratings are the following: parties involved in the ratings, parties not involved in the ratings, public information, and confidential and proprietary Moody's Investors Service information.

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