

**Rating Action: Moody's downgrades two tranches' ratings in RURAL HIPOTECARIO GLOBAL I, FTA, two affirmed**

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Global Credit Research - 22 Dec 2017

Madrid, December 22, 2017 -- Moody's Investors Service ("Moody's") has today downgraded the rating of two notes in RURAL HIPOTECARIO GLOBAL I, FTA. At the same time, 2 notes' ratings have been affirmed. The rating action reflects the deterioration in the levels of credit enhancement for the affected notes. Moody's affirmed the ratings of the notes that had sufficient credit enhancement to maintain current rating on the affected notes.

...EUR 1008.1M Class A Notes, Affirmed Aa2 (sf) ; previously on Feb 24, 2017 Affirmed Aa2 (sf)

...EUR 36.3M Class B Notes, Downgraded to Baa1 (sf) ; previously on Feb 24, 2017 Upgraded to Aa2 (sf)

...EUR 8M Class C Notes, Downgraded to Ba2 (sf) ; previously on Feb 24, 2017 Upgraded to Baa2 (sf)

...EUR 12.8M Class D Notes, Affirmed Caa2 (sf) ; previously on May 14, 2016 Affirmed Caa2 (sf)

**RATINGS RATIONALE**

The rating action is prompted by the decrease of the Reserve Fund from EUR 12.8mln to the EUR 6.4mln floor in April 2017 resulting from the decrease of the 90 days plus arrears below 1.0%. The decrease of the Reserve Fund led to the deterioration in the level of available credit enhancement. For instance, the credit enhancement for the Class B and C notes respectively decreased from 13.71% and 10.44% in January 2017 to 10.41% and 8.10% in April 2017.

In addition, the Class D notes started to amortize pro-rata with the more senior notes in October 2017 resulting from the decrease of the 90 days plus arrears below 0.75%. The reduction of the outstanding amount of the Class D notes negatively impacted the level of available credit enhancement for the Class B and C notes.

The principal methodology used in these ratings was "Moody's Approach to Rating RMBS Using the MILAN Framework" published in September 2017. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

The analysis undertaken by Moody's at the initial assignment of these ratings for RMBS securities may focus on aspects that become less relevant or typically remain unchanged during the surveillance stage. Please see Moody's Approach to Rating RMBS Using the MILAN Framework for further information on Moody's analysis at the initial rating assignment and the on-going surveillance in RMBS.

Factors that would lead to an upgrade or downgrade of the ratings:

Factors or circumstances that could lead to an upgrade of the ratings include (1) performance of the underlying collateral that is better than Moody's expected (2) deleveraging of the capital structure (3) improvements in the credit quality of the transaction counterparties and (4) a decrease in sovereign risk.

Factors or circumstances that could lead to a downgrade of the ratings include (1) an increase in sovereign risk (2) performance of the underlying collateral that is worse than Moody's expected (3) deterioration in the notes' available credit enhancement and (4) deterioration in the credit quality of the transaction counterparties.

**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.

The analysis relies on an assessment of collateral characteristics to determine the collateral loss distribution, that is, the function that correlates to an assumption about the likelihood of occurrence to each level of possible losses in the collateral. As a second step, Moody's evaluates each possible collateral loss scenario using a model that replicates the relevant structural features to derive payments and therefore the ultimate potential

losses for each rated instrument. The loss a rated instrument incurs in each collateral loss scenario, weighted by assumptions about the likelihood of events in that scenario occurring, results in the expected loss of the rated instrument.

Moody's quantitative analysis entails an evaluation of scenarios that stress factors contributing to sensitivity of ratings and take into account the likelihood of severe collateral losses or impaired cash flows. Moody's weights the impact on the rated instruments based on its assumptions of the likelihood of the events in such scenarios occurring.

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

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Antonio Tena  
Vice President - Senior Analyst  
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  
Client Service: 44 20 7772 5454

Michelangelo Margaria  
Senior Vice President/Manager  
Structured Finance Group  
JOURNALISTS: 44 20 7772 5456  
Client Service: 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  
Client Service: 44 20 7772 5454

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