

**Announcement: Moody's updates on Paragon Mortgages (No. 11) PLC following Cross Currency Swap Counterparty downgrade**

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Global Credit Research - 13 Aug 2012

London, 13 August 2012 -- Moody's has determined that the execution of a deed of undertaking (the "Deed") by Barclays Bank PLC (the "Cross Currency Swap Counterparty") relating to swap agreements between Paragon Mortgages (No. 11) PLC (the "Issuer") and the Cross Currency Swap Counterparty will not, in and of itself and at this time, result in a downgrade or withdrawal of the current ratings of the notes (the "Notes") issued by the Issuer. Moody's opinion addresses only the credit impact of the Deed, and Moody's is not expressing any opinion as to whether the Deed has, or could have, other non-credit related effects that may have a detrimental impact on the interests of noteholders and/or counterparties.

On 21 June 2012, Moody's downgraded the long term senior unsecured rating of the Swap Counterparty to A2 from Aa3. This resulted in a "ratings event" under the swap agreement. The swap agreements contemplate several alternative remedial actions which the Cross Currency Swap Counterparty may take following a ratings event. The remedial actions are - by way of paraphrase - (a) transferring the swap agreement to a third party, (b) obtaining a guarantee, (c) posting collateral and (d) taking some other appropriate action.

On 26 July 2012, the Cross Currency Swap Counterparty executed the Deed. Pursuant to the Deed, the Swap Counterparty undertakes that if either its short-term rating is downgraded below P-1 or its long-term rating is downgraded below A2 then, within 30 business days of the occurrence of any such event, it will post collateral in favour of the Issuer or take some other remedial action. Moody's has determined that the execution of the Deed will not, in and of itself and at this time, result in a downgrade or withdrawal of the current ratings of the Notes, even if it constitutes a remedial action under (d) above.

Moody's has assessed the probability and impact of a default of the Cross Currency Swap Counterparty on the ability of the Issuer to meet its obligations under the transaction, including the impact of the loss of any benefit from the swap and any obligation the Issuer may have to make a termination payment.

The principal methodology used in this rating was Moody's Approach to Rating RMBS in Europe, Middle East, and Africa published in June 2012. Please see the Credit Policy page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

Factors identified in the Rating Implementation Guideline, Framework for De-Linking Hedge Counterparty Risks from Global Structured Finance Cashflow Transactions published in October 2010 were also taken into account in the rating analysis.

Moody's notes that on 2 July 2012 it released a Request for Comment in which the rating agency requested market feedback on potential changes to its rating implementation guidance for the hedge counterparty risk in structured finance transactions. If the revised rating implementation guidance is implemented as proposed, the rating of the Notes may be negatively affected. Please refer to Moody's Request for Comment, entitled "Approach to Assessing Linkage to Swap Counterparties in Structured Finance Cashflow Transactions" for further details regarding the implications of the proposed methodology changes on Moody's ratings.

As the euro area crisis continues, the rating of structured finance notes remain exposed to the uncertainties of credit conditions in the general economy. The deteriorating creditworthiness of euro area sovereigns as well as the weakening credit profile of the global banking sector could negatively impact the ratings of the notes. Furthermore, as discussed in Moody's special report "Rating Euro Area Governments Through Extraordinary Times -- An Updated Summary," published in October 2011, Moody's is considering reintroducing individual country ceilings for some or all euro area members, which could affect further the maximum structured finance rating achievable in those countries.

Moody's will continue to monitor the ratings of the transaction. Any change in the ratings will be publicly disseminated by Moody's through appropriate media.

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