MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades long-term ratings of 3 notes and affirmed 3 notes in Paragon Mortgages (No. 11) PLC

Global Credit Research - 02 Feb 2017

London, 02 February 2017 -- Moody's Investors Service has today upgraded the long-term ratings of 3 notes and affirmed 3 notes in Paragon Mortgages (No. 11) PLC. The upgrades reflects decrease in cross currency exposure following the redenomination of the Class A1 notes in GBP. Moody's affirmed the rating of the notes that had sufficient credit enhancement to maintain current rating of the affected notes.

Issuer: Paragon Mortgages (No. 11) PLC

....US$985M Class A1 Notes, Upgraded to Aaa (sf); previously on Jul 2, 2015 Confirmed at Aa1 (sf)

....GBP149.5M Class A2a Notes, Upgraded to Aaa (sf); previously on Jul 2, 2015 Confirmed at Aa1 (sf)

....EUR219.7M Class A2b Notes, Upgraded to Aaa (sf); previously on Jul 2, 2015 Confirmed at Aa1 (sf)

....GBP16M Class B1a Notes, Affirmed Aa2 (sf); previously on Jul 2, 2015 Upgraded to Aa2 (sf)

....EUR82.4M Class B1b Notes, Affirmed Aa2 (sf); previously on Jul 2, 2015 Upgraded to Aa2 (sf)

....EUR87.5M Class C1b Notes, Affirmed A2 (sf); previously on Jul 2, 2015 Upgraded to A2 (sf)

RATINGS RATIONALE

On 17 January 2017, the A1 Note Conditional Purchasers (The Royal Bank of Scotland plc, A3(cr)/P-2(cr), and Deutsche Bank AG, London Branch, A3(cr)/P-2(cr)) purchased the Class A1 notes. As a result of the purchase, the Class A1 notes reverted to 3-month GBP LIBOR plus the "Maximum Reset Margin" agreed at issuance (0.10% p.a.) and will pay interest on a quarterly basis. In addition, the currency swap for the Class A1 notes was terminated and all outstanding principal monies and interest due in respect of the Class A1 Notes are made in GBP. Also see Moody's New Issue Report (http://www.moodys.com/viewresearchdoc.aspx?docid=PBS_SF72521) for a description of the conditional notes purchase. The above described changes to the notes were based on the documents as of deal closing.

Barclays Bank Plc, currently rated at A1(cr)/P-1(cr), is the currency swap provider to the transaction. The transaction's total exposure to the cross currency swap decreased to 36% from 84% of the transaction's total rated notes following the redenomination of the Class A1 notes in GBP. Today's rating actions took into consideration reduction in the notes' exposure to cross currency swap counterparty.

The short-term rating of the Class A1 notes (P-2 (sf)) addressed the promise of receiving the principal amount and all the accrued interests at the "A1 Note Mandatory Transfer Date" which occurred on 17 January 2017. Moody's has been informed that this promise has been fulfilled. Therefore the short-term rating was withdrawn.

The principal methodology used in these ratings was "Moody's Approach to Rating RMBS Using the MILAN Framework" published in September 2016. Please see the Rating Methodologies page on http://www.moodys.com for a copy of this methodology.

The analysis undertaken by Moody's at the initial assignment of 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 and (3) improvements in the credit quality of the transaction counterparties.

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.

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 credit rating action on the support provider and in relation to each particular credit 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 credit rating action, and whose ratings may change as a result of this credit 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.

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.

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appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

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