

Rating Action: Moody's takes action on Paragon No.9 following changes to the swap documentation

11 May 2018

London, 11 May 2018 -- Moody's Investors Service ("Moody's") has today upgraded the ratings of four Notes in Paragon Mortgages (No.9) PLC ("Paragon 9"). Moody's affirmed the ratings of the three senior Notes and the Counterparty Instrument Rating (CIR), which had sufficient credit enhancement to maintain the current ratings. The upgrades were prompted by proposals to amend the swap documentation.

...GBP346M Class Aa Notes, Affirmed Aa1 (sf); previously on Apr 13, 2018 Affirmed Aa1 (sf)

...EUR355M Class Ab Notes, Affirmed Aa1 (sf); previously on Apr 13, 2018 Affirmed Aa1 (sf)

...US\$60M Class Ac Notes, Affirmed Aa1 (sf); previously on Apr 13, 2018 Affirmed Aa1 (sf)

...GBP7M Class Ba Notes, Upgraded to Aa2 (sf); previously on Apr 13, 2018 Downgraded to A1 (sf)

...EUR29.5M Class Bb Notes, Upgraded to Aa2 (sf); previously on Apr 13, 2018 Downgraded to A1 (sf)

...GBP3M Class Ca Notes, Upgraded to A1 (sf); previously on Apr 13, 2018 Upgraded to A2 (sf)

...EUR66M Class Cb Notes, Upgraded to A1 (sf); previously on Apr 13, 2018 Upgraded to A2 (sf)

...Cross Currency Swap for Class Cb Notes, Affirmed A1 (sf); previously on Apr 13, 2018 Upgraded to A1 (sf)

RATINGS RATIONALE

Today's upgrades reflect proposed amendments to the swap documentation following the downgrade of the long-term senior unsecured debt ratings of NatWest Markets plc ("NWM", formerly known as the Royal Bank of Scotland plc) (Baa2/P-2, A3(cr)/P-2(cr)). NWM acts as the swap counterparty in the transaction.

Moody's has been requested to assess the impact on the ratings of the Notes issued by Paragon 9 of amendments to the swap documentation. The Transfer Trigger is to reference NWM's Counterparty Risk Assessment, instead of its long-term unsecured rating, and is set at a minimum of A3(cr). Following the breach of collateral trigger, NWM is required to post collateral in favour of the issuer. According to the swap amendment, NWM will post the collateral in accordance with enhanced formulas as defined in Moody's Approach to Assessing Counterparty Risks in Structured Finance published in July 2017.

The upgrades of the tranches Ba, Bb, Ca and Cb reflect the implementation of the aforementioned amendments to the swap documentation and the sufficient credit enhancement available under these Notes. The ratings of classes Aa, Ab, Ac, Ba, Bb, Ca and Cb in Paragon 9 are constrained by swap counterparty exposure.

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.moody.com for a copy of this methodology.

The analysis undertaken by Moody's at the initial assignment of a rating for an RMBS security 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.

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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.

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.

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