

Rating Action: Moody's upgrades ratings in three UK RMBS transactions

17 Jan 2019

Madrid, January 17, 2019 -- Moody's Investors Service ("Moody's") has today upgraded the ratings of three Notes in Paragon Mortgages (No. 22) PLC, Paragon Mortgages (No.23) PLC and Paragon Mortgages (No.24) PLC.

Moody's affirmed the ratings of nine Notes that had sufficient credit enhancement to maintain the current ratings on the affected Notes.

Please refer to the end of the Ratings Rationale section for a list of affected ratings.

RATINGS RATIONALE

The rating action is prompted by the deal deleveraging resulting in an increase in credit enhancement for the affected tranches and the decreased key collateral assumption, namely the portfolio Expected Loss ("EL") assumption, due to better than expected collateral performance.

Increase in credit enhancement:

Sequential amortization and non-amortizing reserve funds led to the increase in the credit enhancement available.

The credit enhancement for Class C Notes in Paragon Mortgages (No. 22) PLC, Paragon Mortgages (No.23) PLC and Paragon Mortgages (No.24) PLC affected by today's rating action, respectively increased to 22.7% from 14.0%, to 21.7% from 15.3% and to 21.5% from 14.5% since the last rating action in March 2018.

Revision of Key Collateral Assumptions:

As part of the rating action, Moody's reassessed its lifetime loss expectation for the portfolio reflecting the collateral performance to date.

Moody's decreased the EL assumption for Paragon Mortgages (No. 22) PLC, Paragon Mortgages (No.23) PLC and Paragon Mortgages (No.24) PLC to 0.70% as a percentage of original pool balance from 1.25% respectively due to the better than expected collateral performance.

Moody's has also assessed loan-by-loan information as a part of its detailed transaction review to determine the credit support consistent with target rating levels and the volatility of future losses. The MILAN CE assumptions remained unchanged for the three transactions.

Today's rating action also took into account the increased uncertainty relating to the impact of the performance of the UK economy on the transaction over the next few years due to the on-going discussions relating to the final Brexit agreement.

Counterparty Exposure:

Today's rating action took into consideration the Notes' exposure to relevant counterparties, such as servicer, account banks or swap providers.

Principal Methodology

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 Credit Ratings for this rating action were assigned in accordance with Moody's existing Methodology entitled "Moody's Approach to Rating RMBS Using the MILAN Framework" dated 11 September 2017. Please note that on 14 November 2018, Moody's released a Request for Comment, in which it has requested market

feedback on potential revisions to its Methodology for RMBS Using the MILAN Framework. If the revised Methodology is implemented as proposed, the Credit Ratings may be NEUTRALLY affected. Please refer to Moody's Request for Comment, titled "Proposed Update to Moody's Approach to Rating RMBS Using the MILAN Framework" for further details regarding the implications of the proposed Methodology revisions on certain Credit Ratings.

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 a downgrade of the ratings:

Factors or circumstances that could lead to a downgrade of the ratings include: (i) an increase in sovereign risk; (ii) performance of the underlying collateral that is worse than Moody's expected; (iii) deterioration in the Notes' available credit enhancement; and (iv) deterioration in the credit quality of the transaction counterparties.

LIST OF AFFECTED RATINGS

Paragon Mortgages (No. 22) PLC

...EUR 164.0M Class A1 Notes, Affirmed Aaa (sf); previously on Mar 6, 2018 Affirmed Aaa (sf)

...GBP 151.7M Class A2 Notes, Affirmed Aaa (sf); previously on Mar 6, 2018 Affirmed Aaa (sf)

...GBP 12.0M Class B Notes, Affirmed Aaa (sf); previously on Mar 6, 2018 Upgraded to Aaa (sf)

...GBP 12.0M Class C Notes, Upgraded to Aaa (sf); previously on Mar 6, 2018 Upgraded to Aa1 (sf)

Paragon Mortgages (No.23) PLC

...EUR 105.0M Class A1 Notes, Affirmed Aaa (sf); previously on Mar 6, 2018 Affirmed Aaa (sf)

...GBP 188.6M Class A2 Notes, Affirmed Aaa (sf); previously on Mar 6, 2018 Affirmed Aaa (sf)

...GBP 14.8M Class B Notes, Affirmed Aaa (sf); previously on Mar 6, 2018 Upgraded to Aaa (sf)

...GBP 15.8M Class C Notes, Upgraded to Aaa (sf); previously on Mar 6, 2018 Upgraded to Aa1 (sf)

Paragon Mortgages (No.24) PLC

...EUR 125.0M Class A1 Notes, Affirmed Aaa (sf); previously on Mar 6, 2018 Affirmed Aaa (sf)

...GBP 208.3M Class A2 Notes, Affirmed Aaa (sf); previously on Mar 6, 2018 Affirmed Aaa (sf)

...GBP 19.3M Class B Notes, Affirmed Aaa (sf); previously on Mar 6, 2018 Upgraded to Aaa (sf)

...GBP 25.4M Class C Notes, Upgraded to Aaa (sf); previously on Mar 6, 2018 Upgraded to Aa1 (sf)

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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