

PRE-SALE REPORT

Paragon Mortgages (No. 21) PLC

RMBS/BTL/UK

Closing Date

[13 November 2014]

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Analyst Contacts

Jonathan Livingstone
Vice President – Senior Analyst
+44.20.7772. 5520
jonathan.livingstone@moodys.com

Annabel Schaafsma
Managing Director
+44.20.7772.8761
annabel.schaafsma@moodys.com

» contacts continued on the last page

MOODY'S CLIENT SERVICES:

London: +44.20.7772.5454
clientservices.emea@moodys.com
Monitoring: monitor.rmbs@moodys.com

ADDITIONAL CONTACTS:

Website: www.moodys.com

Provisional Ratings

Series	Rating	Amount (million)	% of Notes/	Legal Final Maturity	Coupon	Subordination*	Reserve Fund*	Total Credit Enhancement*
A	(P)Aaa(sf)	£[•]	[87.65]%	[June 2042]	3mL + [•]%	[12.35]%	[2.5]%	[14.85]%
B	(P)Aa2(sf)	£[•]	[7.1]%	[June 2042]	3mL + [•]%	[5.25]%	[2.5]%	[7.75]%
C	(P)A1	£[•]	[2.75]%	[June 2042]	3mL + [•]	[2.5]%	[2.5]%	[5.0]%
D	Not rated	£[•]	[2.5]%	[June 2042]	3mL + [•]	[0]%	[2.5]%	[0]%
Total		£[•]	100.0					

The ratings address the expected loss posed to investors by the legal final maturity. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

* At close, as a % of total notes with no benefit attributed to excess spread.

The subject transaction is a non-revolving cash securitisation of buy-to-let mortgages extended to obligors in England and Wales. Subject to certain conditions there will be prefunding of [•] added by [31 May 2015].

Asset Summary (£[153.1] million provisional pool cut-off date as of 30/09/2014*)

Seller(s)/originator(s):	Paragon Mortgages (2010) Limited ("PML", a wholly-owned subsidiary of Paragon)
Servicer(s):	Paragon Mortgages (2010) Limited subcontracted to Paragon Finance PLC
Receivables:	First ranking buy-to-let mortgage loans to individuals and corporate borrowers secured by property located in England and Wales.
Methodologies Used:	» Moody's Approach to Rating RMBS Using the MILAN Framework, March 2014 (SF360375)
Models Used:	MILAN (UK settings) & ABSROM (UK settings)
Total Amount:	(i) £[153.1] million of mortgage loans originated by PML and included in the provisional pool (ii) Up to £[•] million of mortgage loans originated by PML before the closing date (iii) Up to £[•] million of pre-funded loans originated by PML before [31 May 2015].
Length of Revolving Period:	Static, although there is prefunding in the deal; new loans can be added on or before [31 May 2015].
Number of Borrowers:	[906]
WA Remaining Term:	[20.4]years
WA Seasoning:	[0.1]years
Interest Basis:	[63.7]% Fixed (reverting to Libor plus a margin) [34.6]% Libor Linked (reverting to Libor plus a margin) [1.8]% Non Reversionary Libor Linked

Asset Summary (Continued)

WA Current LTV:	[72.1]%
WA Original LTV:	[72.3]%
WA indexed LTV:	[71.9]%
Borrower credit profile:	100% prime borrowers
Delinquency Status:	
0 - 30 days in arrears	Nil
Greater than 30 days in arrears	Nil
Borrower concentration:	
Top 10 borrower concentration	[5.3]%
Top 20 borrower concentration	[9.0]%

* The asset summary is computed by Moody's from the £153.1 million provisional pool

Liabilities, Credit Enhancement and Liquidity

Excess Spread At Closing:	[1.9]% annualised excess spread at closing (assuming 1.0% libor and 0.30% senior fees). After paying the administrator subordinated and the issue servicers provider fees this will provide additional funds to repay the Class A, Class B and Class C Notes should they not be redeemed at the call option date in December 2018.
Credit Enhancement/Reserves:	[1.9]% Excess spread [2.5]% Non-amortising reserve fund (First Loss Fund) at close, building up to [4.0]% of closing note balance if (i) two month + arrears exceed [3.0]% or (ii) cumulative losses exceed [2.0]% of the original notes' balance. Subordination of the Class D notes
Form of Liquidity:	Principal to pay interest mechanism, with principal receipts for Class B and Class C interest being subject to the debit balance of the PDL not exceeding certain limits. Margin reserve to cover negative carry from the prefunding and the further advance reserves. Reserve fund. [2.5]% of the aggregate of the Class A, Class B Class C Notes outstanding is ring-fenced within the Reserve Fund for the payment of senior expenses and interest on the Class A, Class B and Class C Notes (subject however to Class B and C Note restriction of relevant PDL not exceeding 50%). Subordinated lender can add funds to the shortfall fund to meet the minimum margin requirements.
Number of Interest Payments Covered by Liquidity:	Liquidity covers the equivalent of [4.5] months' interest payments at a Libor of 5.7%. As Interest payments are made quarterly this is equivalent to at least one quarterly payment.
Interest Payments:	Quarterly in arrears on each payment date
Principal Payments:	Quarterly pass-through on each payment date
Payment Dates:	15th of March, June, September and December First payment date: 15 March 2015
Hedging Arrangements:	There are non balance guaranteed swaps for the fixed loans Basis risk for the Libor-linked loans due to the different reset dates for the loans and the liabilities.

Counterparties

Issuer:	Paragon Mortgages (No. 21) PLC
Sellers/Originators:	Paragon Mortgages (2010) Limited ("PML"), a wholly owned subsidiary of Paragon (Not rated)
Servicer(s):	Paragon Mortgages (2010) Limited
Back-up Servicer(s):	Homeloan Management Limited (Not rated), owned by Computershare (Not rated)
Back-up Servicer Facilitator:	Structured Finance Management Limited (Not rated)
Cash Manager:	Paragon Mortgages (2010) Limited
Back-up Cash Manager:	Homeloan Management Limited
Calculation Agent/Computational agent:	Citibank, N.A., London Branch (A2/P-1)
Back-up Calculation/Computational Agent:	N/A
Swap Counterparties:	Lloyds Bank plc (A1/P-1) Macquarie Bank Limited (A2/P-1)

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody.com for the most updated credit rating action information and rating history.

Issuer Account Bank:	Barclays Bank plc (A2/P-1)
Collection Account Bank:	Barclays Bank plc (A2/P-1)
Paying Agent:	Citibank, N.A., London Branch
Trustee:	Citicorp Trustee Company Limited (Not rated)
SFM Corporate Services Provider	Structured Finance Management Limited
Paragon Corporate Service Provider:	Paragon Mortgages (2010) Limited
Arrangers:	Macquarie Bank Limited, London Branch Lloyds Bank plc
Joint Lead Manager(s):	Lloyds Bank plc Macquarie Bank Limited, London Branch Morgan Stanley & Co. International plc Natixis
Subordinated Lender	Paragon Finance PLC

Moody's View

Outlook for the Sector:	Positive
Unique Feature:	<p>Collateral: Prefunding in the deal (as a proportion of the final £[•] million pool) The transaction account will be funded with [0.87]% at closing for making discretionary further advances.</p> <p>Structure: The replacement trigger placed on Barclays Bank plc as account bank is A3, which is lower than the A2/P-1 level often seen in UK RMBS transactions.</p>
Degree of Linkage to Originator:	Originator group companies performs servicing and cash bond management replacement although a back-up has been appointed at close.
Originator's Securitisation History:	
# of Precedent Transactions in Sector:	[26]
% of Book Securitised:	82%
Behaviour of Precedent Transactions:	<ul style="list-style-type: none"> » Collateral performance of Paragon transactions has been consistently better than the buy-to-let sector average, although there have been a limited number of rating actions due to counterparty exposures. » Collateral performance: In 2010 following Moody's BTL portfolio review, it increased its expected loss in all nine of Paragon's mortgage deals then outstanding. The MILAN CE were not increased at this time but in March 2014 Moody's increased the MILAN assumption in Paragon Mortgages No.7 plc from 13% to 14.5% to reflect the high remaining borrower concentration. » Operational risk: In February 2013 Moody's confirmed the Aaa(sf) ratings of the senior notes in eight Paragon mortgage transactions following the addition of a back-up servicer facilitator and the addition of estimation language to ensure continuity of payments in case of servicer disruption. At the same time, Moody's downgraded the Class A notes to Aa3(sf), Class B notes to A1(sf) and Class C notes to A3(sf) in Paragon Mortgages No. 14 plc due to limited credit enhancement and the transaction being excluded from the restructuring process. This rating action concluded the review for downgrade initiated by Moody's in October 2011 following the downgrade of Skipton Building Society to Ba1/NP from Baa1/P-2. » Swap counterparty risk: Following the introduction of Moody's updated approach to assessing swap counterparty linkage in structured finance transaction, on 14 November 2013 Moody's placed on review for downgrade 26 classes of notes in four Paragon mortgage transactions due to swap counterparty exposure although the Paragon Mortgages No. 12 plc notes were subsequently confirmed following a restructuring. The notes in Paragon Mortgages No. 11 plc notes remain on review for downgrade. » Due to exposure to Royal Bank of Scotland ("RBS", Baa1/P-2) as currency swap counterparty, Moody's downgraded notes from Paragon Mortgages No.7 plc and Paragon Mortgages No. 9 plc in March 2014 and May 2014 respectively.

Key Differences between Subject and Precedent Transactions:	<p>Assets: The pre-funding conditions will be limited to (i) the top 20 borrower concentration not exceeding £25 million and (ii) Moody's providing a rating agency confirmation. Paragon deals prior to Paragon 19 had additional pre-funding conditions.</p> <p>Structure: Up to 10% product switches for rate type will remain in the deal – in previous Paragon deals these have been repurchased. A product switch can however only remain in the pool if any reduction in spread is cash collateralised for the duration of the new discount or fixed period.</p> <p>Similar to Paragon 19 and Paragon 20 the issuer is an orphan company which simplifies the legal analysis of the transaction. Paragon issuers prior to Paragon 19 were part of the Paragon group.</p>
Portfolio Relative Performance:	
Expected Loss/Ranking:	[1.25]% - in line with the two most recent Paragon deals due to the similar asset quality
MILAN CE/Ranking:	[12.0]% - in line with the two most recent Paragon deals due to the similar asset quality
Weighted-Average Aaa Stress Rate For House Prices for a benchmark loan:	[31.3]%
Potential Rating Sensitivity:	
Chart Interpretation:	At the time the rating was assigned, the model output indicated that Class A would have achieved a Aaa(sf) rating even if the expected loss was as high as [3.75]%, MILAN CE was as high as [19.2]% and all other factors were constant.
Factors Which Could Lead to a Downgrade:	Deterioration of the underlying collateral beyond modelled stress Significant deterioration in the credit quality of the transaction counterparties Unforeseen legal or regulatory changes
Factors Which Could Lead to an Upgrade:	Performance of the underlying collateral better than Moody's expectations Deleveraging of the capital structure

EXHIBIT 1*:

Class A

MILAN CE Output

		12.0%	14.4%	16.8%	19.2%
Median Expected Loss	1.25%	Aaa*	Aaa(0)	Aaa(0)	Aaa(0)
	1.9%	Aaa(0)	Aaa(0)	Aaa(0)	Aaa(0)
	2.5%	Aaa(0)	Aaa(0)	Aaa(0)	Aaa(0)
	3.75%	Aaa(0)	Aaa(0)	Aaa(0)	Aaa(0)

* Results under base case assumptions indicated by asterisk '*'. Change in model-indicated rating (# of notches) is noted in parentheses.

Please see Exhibits 16 and 17 which show the potential rating sensitivities for Class B and C Notes

Strengths and Concerns

Strengths:

- » **Asset quality:** The high quality of the collateral held in the pool relative to the UK BTL sector average. Particular strengths include:
 - **Low LTVs:** Maximum LTV of loans included in the pool is 80% (before accounting for fees) compared with 85% for prior Paragon deals. For loans above £500k, £1 million and £2 million the LTV is restricted to 80%, 75% and 70%, respectively. The average original, current and indexed LTV are all around 70% and this compares favourably with the overall buy-to-let market;
 - **Prime borrowers:** No borrowers have been subject to any bankruptcy individual voluntary arrangement or county court judgments.
 - **Experience of Paragon in the buy-to-let sector:**
 - Paragon's lending decision takes into account the value of the underlying property in the case of asset sale and the value of the underlying rental cashflows. Valuation reports include comparables on both the sale value and rental cashflows;
 - Senior management has 12 years experience on average;
 - The performance of existing Paragon deals has been better than the BTL sector average (please see "Benchmark Analysis" for more details).

Stability of ratings: Under the Parameter Sensitivities at the time the rating was assigned, the model output indicated that the Class A notes would still have achieved a Aaa(sf) rating even if expected loss was as high as [3.75]% and MILAN CE [19.2]% and all other factors remained the same. The junior notes show similar rating stability to their assigned ratings.

Concerns and Mitigants:

Moody's committees particularly focused on the following factors, listed in order of those most likely to affect the ratings:

- » **Operational Risk - Servicing:** Paragon is not rated by Moody's and group companies are the originator, servicer and cash manager in the transaction. The deal is therefore exposed to counterparty and operational risk.
 - » In mitigation there is:
 - a warm back-up cash manager
 - a warm back-up servicer,
 - a back-up servicer facilitator,
 - the transaction has the equivalent of [4.5] months of liquidity
 - payments to noteholders can be made using estimated amounts in the event of relevant information on cash balances not being available.
 - » **Operational Risk – Eligible investments:** the replacement trigger placed on Barclays Bank plc as account bank is A3, which is lower than the A2/P-1 level seen in typical UK RMBS transactions. Please see treatment of concerns for more information on this.
 - » **Prefunding:** The structure allows additional loans to be added to the pool on or before [31 May 2015]. Prefunding in the deal will comprise up to £[+] million expected to complete by [31 May 2015]. This potentially introduces additional risks as the asset quality could deteriorate compared to that at close. In mitigation, the addition of pre-funded loans is conditional upon the top 20 borrowers not being greater than £[25] million and Moody's providing a rating agency confirmation. Please see "Treatment of concerns" for further details.
 - » **Level of excess spread:** There is a significant amount of excess spread in the deal at closing but this could reduce over time due to the absence of a basis swap or the presence of product switches:
 - 1. Absence of basis swap:** there is no swap in the deal to hedge the basis risk and as such the deal is exposed to the basis mismatch between the variable rate payments made to noteholders and the variable rate received under the mortgage loans.

2. Presence of product switches: Product switches can comprise up to 10% of the deal size. As a mitigant the amount of the initial discount requires to be cash collateralised and the assets must yield Libor plus [3]% for the first two years of the deal and Libor plus [4.5]% thereafter, taking into account the margin reserve. A further mitigant is that a product switch can however only remain in the pool if any reduction in spread is cash collateralised for the duration of the new discount or fixed period.

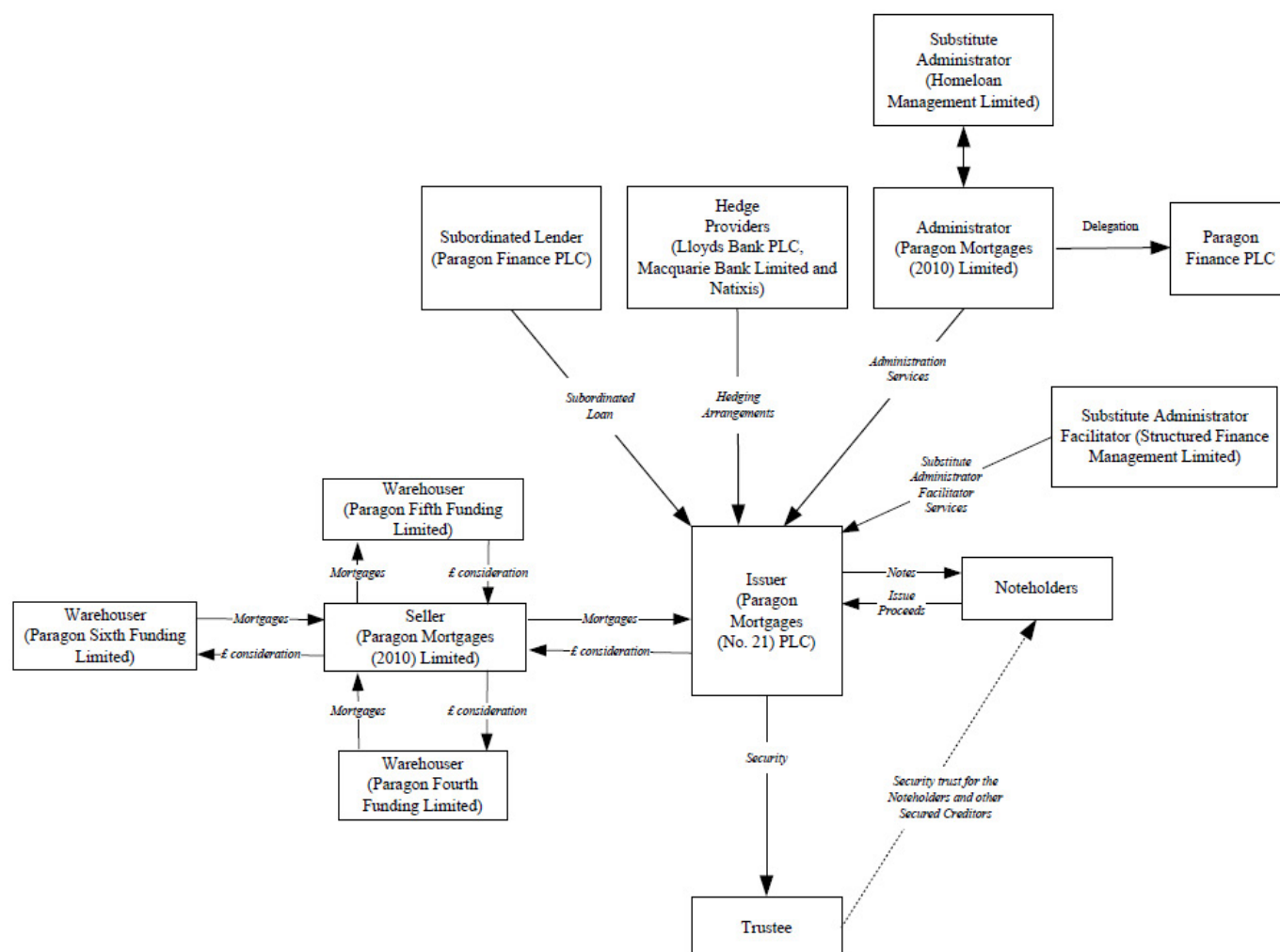
Please see "Treatment of concerns" for more details and an explanation of how Moody's has stressed the asset yield.

- » **Receiver of rent:** Paragon has used receiver of rent as means of controlling arrears and losses since 1999. Moody's believes that should the house prices weaken significantly then this could lead to an increase in loss severities. This would follow as in a severe recession a receiver of rent may be unable to successfully re-let a vacant property and so repossession would occur in any case but with a lag and an increased loss severity. Additionally, excess spread can leak out of the transaction instead of covering losses and amortising the notes down as in the case of repossession. Finally, this is an operationally more complex method of resolving payment problems compared with attempting to foreclosure sooner which could be compounded in cases where the servicer itself is under financial pressure. This has yielded positive results to date with Paragon performance metrics comparing favourably to the sector average. The strong UK rental sector is partly due to a growing proportion of the UK population relying on the private rental sector due to lifestyle choices or affordability constraints as credit conditions remain tight despite the recent increase in mortgage lending and initiatives designed to boost the credit supply. Moody's MILAN and Expected loss numbers take the use of receiver of rent into account.

Structure, Legal Aspects and Associated Risks

EXHIBIT 2

Structure Chart



Allocation of payments/pre accelerated revenue waterfall:

On each quarterly payment date, the issuer's available funds (i.e. interest amounts received from the portfolio, the reserve fund, and interest earned on the issuer's account) will be applied in the following simplified order of priority:

1. Senior expenses & senior administration fee;
2. Payments to the Swap counterparties;
3. Interest on Class A;
4. PDL on Class A;
5. Interest on Class B;
6. PDL on Class B;
7. Interest on Class C;
8. PDL on Class C;
9. Issuer Profit;
10. Remaining PDL outstanding;
11. First Loss Fund replenishment;
12. Payments due to third parties;
13. Interest on Class D (until call option date in December 2018);
14. Junior administration fees;
15. Excess spread to pay down Class A, Class B and Class C Notes after call option date in December 2018;
16. Interest on Class D (from December 2018 onwards); and
17. Amounts due on the Subordinated Loan.

Allocation of payments/pre-accelerated principal waterfall:

On each quarterly payment date, the principal amounts received from the portfolio, unutilised amounts from the pre-funding reserve and amounts applied to clear PDL will be applied in the following simplified order of priority:

1. If needed, to replenish the First Loss Fund up to the Liquidity Amount;
2. Provided that the release from the Margin Reserve Fund and the First Loss Liquidity Excess Amount are not sufficient to cover the senior expenses and interest shortfalls in items 1 to 12 of the revenue waterfall, to cover the potential shortfalls in items 1 to 3, 5 and 7. This is not available to pay item 5 (Class B interest) should there be a PDL exceeding 50% on the class B notes, plus the Class C notes and Class D notes or item 7 (Class C interest) should there be a PDL exceeding 50% on the class C notes plus the Class D notes.

3. Principal payments in sequential order:
 - To redeem the Class A Notes until repaid in full;
 - To redeem the Class B Notes until repaid in full;
 - To redeem the Class C Notes until repaid in full;
 - To redeem the Class D Notes until repaid in full.

Allocation of payments/PDL-like mechanism:

PDL is recorded when there is 1) realised losses 2) replenishment of the First Loss Fund up to the Liquidity Amount (as defined below) and 3) use of principal to cover potential interest shortfalls. A realised loss is defined as the difference between the outstanding amount of the loan and any proceeds after the foreclosure of a mortgage loans.

Performance Triggers

Trigger	Conditions	Remedies/Cure
Pre-funding	The purchase of the additional mortgage loans does not adversely affect the then current rating of the notes; or The top 20 borrowers make up more than £[25] million.	The additional mortgage loans will not be added to the pool. Any amount standing to the credit of the pre-funding reserve will be used as principal to pay down the notes on the second IPD.
Reserve Fund Build-up	two month arrears exceeds [3.0]%; or Cumulative losses exceed [2.0]%	If one of the conditions is met, the Reserve Fund will build up from [2.5]% to [4.0]% of the initial note balance.
Stop Further Advance (FA)	The Reserve Fund is not at its required amount; Amount of FA is greater than [5.0]% of initial note balance; Following the FA, the average LTV is more than [1]% above the average LTV as determined on the second Principal Determination Date; 90 day arrears is greater than [2.0]%; or PDL greater than zero following any application of subordinated loan drawdown.	No further advance allowed.
Stop Product Switch (rate type)	Event of default Amount of Product Switches for rate type is greater than [10.0]% of original pool plus prefunded loan balance Reduction in interest rate is not cash collateralised	Product switch (rate type) requires to be repurchased
Stop Product Switch (repayment type)	Amount of Product Switches for repayment type is greater than [10.0]% of original pool plus prefunded loan balance	Product switch (repayment type) requires to be repurchased

Reserve Fund: The non-amortising Reserve Fund (First Loss Fund) will be fully funded at closing from the Subordinated Loan and will be [2.5]% of the initial note balance.

The reserve fund will be replenished before the interest payment on the Class D Notes.

If at any time, more than [3.0]% of the mortgages are more than 2 months in arrears (**Arrears Trigger**), or if cumulative losses are greater than [2.0]% (**Loss Trigger**), the Required Amount of the First Loss Fund will increase from [2.5]% to [4.0]% of the original notes' balance through the capture of excess spread and drawings on the Subordinated Loan, and

will have to be maintained at that level until those triggers are cured.

Moody's gives benefit to the Loss trigger but not to the Arrears Trigger in its cashflow analysis.

Subject to certain conditions described hereinafter, [2.5]% of the outstanding balance of the Class A, Class B and Class C Notes will only be available to pay senior fees and interest on such notes and as a result will not be available to cover losses.

Moody's considers that the reserve fund in this transaction is slightly weaker than other comparable UK RMBS transactions as it can also be used for liquidity purposes.

Margin Reserve Fund: the Margin Reserve Fund will be funded at closing from the Subordinated Loan to an amount equal to [.]% of the original notes' balance and will be distributed as part of the revenue waterfall on interest payment dates. The Margin reserve will inject cash into the deal should the weighted average coupon be less than Libor plus [3.0]% in the first two years and Libor plus [4.5]% thereafter.

Liquidity:

- » **Principal to pay interest mechanism:** principal receipts from the mortgage loans are available to cover potential interest shortfalls.
- » **The Liquidity Reserve is a further source of liquidity:** Subject to the conditions described below the Liquidity Amount (included as part of the First Loss Fund requirement) equals [2.5]% of the outstanding Class A,B and C Notes and will be used to cover any remaining shortfalls for senior fees, swap costs and rated note interest after use of the margin reserve fund and the portion of the reserve available for losses. Should there be a Class B or Class C PDL exceeding 50% of the relevant class plus subordinated tranches then the Liquidity Amount will not be available for the relevant class and the Liquidity Amount will be reduced correspondingly.

Assets:

Asset transfer:

- » True Sale by way of equitable assignment

Borrower concentration:

- » As discussed in treatment of concerns on page 18 the top 20 borrowers account for [9.0]% of the balance of the provisional pool, equivalent to [.]% of the final pool should pre-funding take place.

Mitigant:

- » Moody's has conducted a detailed borrower level analysis of these loans and has concluded that the credit risk from the largest borrowers in the pool is in line with the pool as a whole. At [63.7]%, the weighted average LTV is lower than that of the overall pool although [15] out the top 20 borrowers are self employed compared with 50.9% of the overall pool
- » The top 20 borrowers own on average nine properties in total. Paragon have not previously originated loans

to 19 of these borrowers, with the existing borrower not having been in arrears with Paragon since 2006.

Interest-Only Loans:

- » There are [92.4]% interest-only in the provisional pool. Moody's has applied its standard 25% interest-only MILAN penalty to all loans which are not repayment.

Interest rate mismatch:

- » **Fixed-Floating mismatch:** [63.4]% of the pool balance are fixed rate mortgages, which will revert to three-month sterling Libor between [January 2016] and [October 2019]. The notes pay three-month sterling Libor which leads to an interest rate mismatch in the transaction.
- » **Base rate mismatch:** The Libor-linked assets reset date differs from that of the Note Libor. [36.3]% of the provisional pool balance is exposed to this timing mismatch from closing with the remainder following reversion from fixed.

Mitigant:

- » To mitigate the fixed-floating rate mismatch, the structure benefits from a series of interest rate swaps provided by Lloyds Bank plc (A1/P-1) and which mature in [September 2019] once all fixed rate loans have rolled off. If additional fixed-rate PML loans are acquired in the prefunding period before 31 May 2015 additional swaps will be provided by Lloyds Bank plc, or Macquarie Bank Limited (A2/P-1) to cover such loans.
- » Under the swap agreements:
 - During the term of the fixed rate loans, the issuer will pay a weighted average fixed swap rate of [1.42]%
 - The swap counterparties will pay three-month sterling Libor.
 - Based on the closing pool, the notional will be fixed until [December 2015] and then decreases until [September 2019] - in accordance with an amortization schedule, meaning that it will potentially deviate from the outstanding fixed-rate loan balance over time should prepayments or defaults occur before May 2019.
 - This deviation risk is however limited by the fact that fixed-rate mortgages currently face a 5% early repayment penalty until May 2019, and the low level of the swap rate.

- The swap documents are expected to be substantially consistent with Moody's Model Swap Framework (see [Moody's Approach to Assessing Swap Counterparties in Structured Finance Cash Flow Transactions](#) published in November 2013). However, the replacement trigger for the swaps provided by Lloyds Bank plc will be set at Baa1, which is lower than the A3/P-2 level often seen in UK RMBS transactions. Nevertheless, given the current rating of swap counterparties the lower replacement trigger does not have a negative impact on the ratings of the notes.
- » The transaction is unhedged with respect to Libor-linked loans and basis risk is introduced as the loans reset on the 1st of January, April, July and October whereas the notes reset on the 15th March, June, September and December.
- » As in previous Paragon transactions, drawings can be made on the subordinated loan to fund the margin reserve fund so as to ensure that the weighted average interest of the pool plus income from early redemptions and any other income received by the issuer is at least at certain level. For Paragon 21 this mitigates the risk of margin compression for prefunded loans and product switches. For the first two years of the transaction the margin reserve ensures that the asset margin is at least Libor plus [3.0]% with a level of Libor plus [4.5]% thereafter.
- » Moody's has also taken the absence of basis swap into account in the stressed margin vector used in the cashflow modelling (see the "Treatment of concerns" section below for further details).

Cash Commingling: Payments under the loans are paid under a direct debit scheme into a collection account held with Barclays Bank plc (A2/P-1).

Mitigants:

Due to the following mitigants no cash commingling has been modelled:

- » There is a declaration of trust over the collection account in favour of the Issuer.
- » Payments made by borrowers to the collection account are transferred daily to the issuer account in the name of the SPV held by Barclays Bank plc (A2 / P-1).
- » The replacement trigger placed on the collection account bank is Baa3.

Loan substitution: No substitutions are allowed.

Loan conversions: Product switches for rate type and repayment type are permitted up to a 10% limit for each based on the criteria in the performance triggers table.

Further Advances: The Seller can grant further advances to the loans already in the pool, which may give rise to liquidity concern for the pool. The further advance reserve will be fully funded at closing out of the £[.] million pre-funding reserve in an amount equal to [0.87]% of the initial amount of the notes, with the negative drag being covered by the Margin Reserve Fund up to the call option date in December 2018. In addition, any funds in the further advance reserve not used by such date or earlier, as determined by the servicer, will be released and used to repay Class A Notes.

Mitigant: The key eligibility criteria for further advances are as follows:

- » The Lending guidelines are satisfied.
- » The various triggers in the "Performance Triggers" section continue to be met.
- » The same hedging arrangement must be in place as for the closing pool.

Moody's considers that the triggers and criteria for adding further advances in the Paragon Mortgages (No. 21) Plc pool are in line with the criteria seen in other UK buy-to-let RMBS transactions, with there being only a limited impact on the MILAN CE as a result.

Originator Profile, Servicer Profile and Operating Risks

Date of Operations Review: [4 February 2014]

Originator Background: Paragon

Rating:	» Not rated
Financial Institution Group Outlook for Sector:	» Negative
Ownership Structure:	» PLC
Asset Size:	» £[10] billion assets under management
% of Total Book Securitised:	» [82]% excluding warehouse
Transaction as % of Total Book:	» [3]%
% of Transaction Retained:	» Class D Notes held by Paragon at close

Originator Assessment

Main Strengths (+) and Challenges(-)

Overall Assessment: Average

Originator Ability

Sales & Marketing Practices	+ Separate sales and underwriting function + One-to-one meetings with professional landlords - Origination channels: 90% brokers vs. 10% packagers with lower broker delivery as the infrastructure seems to make it too easy for brokers to send non-eligible clients
Underwriting Policies & Procedures	+ Depending on the complexity of the file underwriters spend between 1.3/3.7 hours and have a high level of experience – (64% have more than 10 years experience). + No exceptions allowed. + No CCJ and no self-certification - Income data is collected yet is not relied upon in the affordability calculation
Property Valuation Policies & Procedures	+/- Full internal valuation performed by internal qualified surveyors. Expertise on rentability of property is needed. + Extensive report produced with pictures, comparables and rentability assessment.
Closing Policies & Procedures	All checks are performed through notary with all documents being imaged
Credit Risk Management	Specific product though moving more to more risky non professional landlords Independent risk management team with separate reporting lines.

Originator Stability

Quality Control & Audit	+ Independent team with 4 people in their team. Small centralised team that can do the checks on underwriters locally.
Management Strength & Staff Quality	+ Average experience of underwriter's manager is 12 years + 64% of underwriters have more than ten years experience + Training involves "buddy" principle with four eyes review 20% turnover rate
Technology	Internally built system Timely information received upon request Documents are scanned and are available in the head office.

Servicer Background:

Rating:	» Not rated
Total Number of Mortgages Serviced:	» 62,000
Number of Staff:	» 141

Servicer Assessment:

Main Strengths (+) and Challenges (-)

Overall Assessment: Average

Servicer Ability

Loan Administration	+ All loan administration functions performed centrally
Early Arrears Management	+ Early warning signs used such as cancelled direct debits and through monthly external credit checks for all loans. + Proactive and early contacting of the borrowers.
Loss Mitigation and Asset Management	+ Few repossessions and low losses - Active receiver of rent strategy to mitigate losses

Servicer Assessment:	Main Strengths (+) and Challenges (-)
Servicer Stability	
Management Strength & Staff Quality	+ Very experienced staff + Low turnover
IT & Reporting	+ Improvements in the IT system + Frequent back up testing.
Quality control & Audit	+ Overall robust quality control framework + Daily audits to examine the adequacy between issues encountered by borrowers and action taken by collectors - Not all phone calls recorded
Strength of Back-up Servicer Arrangement:	» Warm

Back-up Servicer Background: Homeloan Management Limited

Rating:	Not rated
Type of back-up:	Warm
Receivable Administration:	
Method of Payment of borrowers in the pool:	Direct debit for all completions
% of Obligor with Account at Originator:	None
Distribution of Payment Dates:	Payments are on the last working day of the month.

Cash Manager Background: Paragon

Rating:	Not rated
Main Responsibilities:	Preparation of investor report Obligation to make payments according to waterfall
Calculation Timeline:	Calculation date: last business day of February, May, August and November IPD: 15 th of March, 15 th of June, 15 th of September and 15 th of December (if not a business day, then the next succeeding business day) End of grace period: seven days in respect of principal and 15 days in respect of interest

Back-up Cash Manager Background: Homeloan Management Limited

Back-up Cash Manager and Its Rating:	Homeloan Management Limited (Not rated), owned by Computershare (Not rated).
Main Responsibilities of Back-up Cash Manager:	Calculation date: last business day of February, May, August and November IPD: 15th day of March, June, September and December Note Interest Determination Date: 1st day of each interest period (which runs between two IPDs)

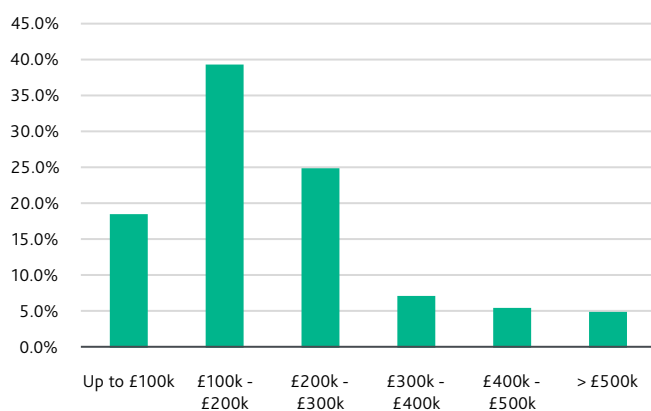
Originator/Servicer/Cash Manager Related Triggers

Key Servicer Termination Events:	Insolvency, payment default, non-performance
Appointment of Back-up Servicer Upon:	Appointed at closing
Key Cash Manager Termination Events:	Insolvency, payment default, non-performance.
Appointment of Back-up Cash Manager Upon:	Appointed at closing
Notification of Obligor of True Sale	Termination of MAAL as administrator or service of an enforcement notice.
Conversion to Daily Sweep (if original sweep is not daily)	Ongoing daily sweep
Notification of Redirection of Payments to SPV's Account	None
Accumulation of Set Off Reserve	Not applicable
Accumulation of Liquidity Reserve	Not applicable

Collateral Description (Provisional pool as of 30/09/2014)

EXHIBIT 3

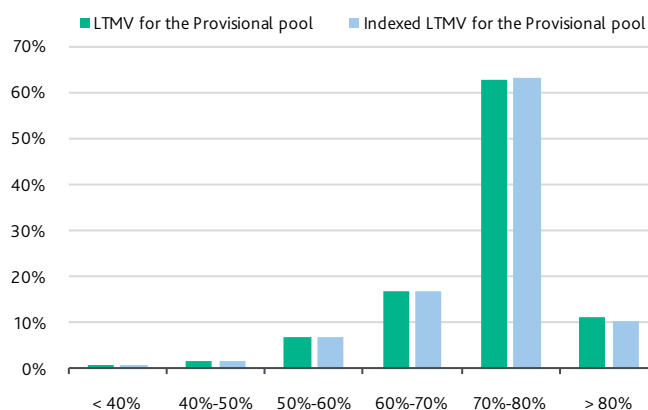
Portfolio Breakdown by Loan Size



Source: data provided by the originator, Moody's computations

EXHIBIT 4

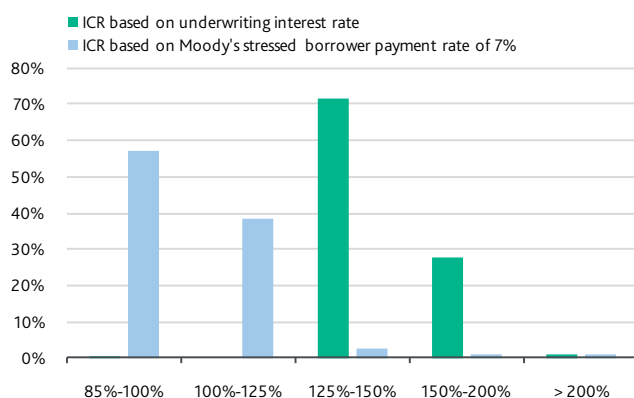
Portfolio Breakdown by LTV



Source: data provided by the originator, Moody's computations

EXHIBIT 5

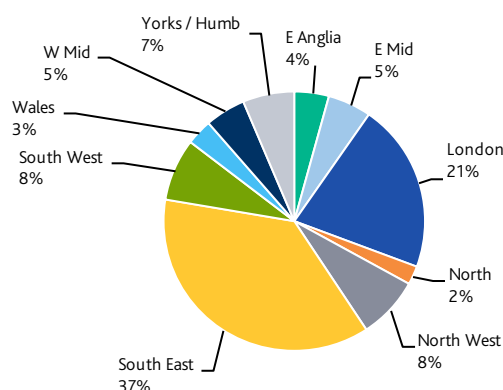
Portfolio Breakdown by ICR



Source: data provided by the originator, Moody's computations

EXHIBIT 6

Portfolio Breakdown by Geography



Source: data provided by the originator, Moody's computations

Product Description: The assets backing the notes are first-ranking prime mortgage loans originated by Paragon Mortgages (2010) Limited ("PML"). All loans in the pool are secured on residential properties located in the UK.

Eligibility Criteria: The key eligibility criteria are as follows:

- » Each loan constitutes a valid and binding obligation of the borrower, and is a first legal charge over the property;
- » The properties are located in England and Wales and do not have agricultural restrictions and are not construction loans;
- » The maximum initial mortgage term is 30 years and the minimum term is 5 years;
- » The final maturity date is not later than 31 May 2040;

- » Prior to making an initial mortgage loan, a valuation is made either by a valuation by the Seller's valuer or a valuer appointed on the Seller's behalf. Further advances may be made using indexed valuations;
- » No loans will be included in the portfolio where total lending to the borrower by Paragon is greater than £5,000,000;
- » All borrowers were at least 18 years old at the origination date of the mortgage; and
- » Rental value is at least 125% of the reference rate multiplied by the loan balance for single self-contained properties, and at least 130% in other cases. The first monthly payment due has been paid by the borrower.

Special Situations:

- » The portfolio consists of loans categorised by the Seller as being Buy-to-Let Loans.

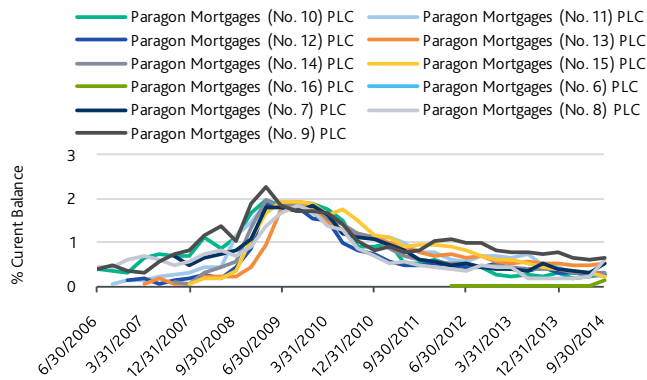
Credit Analysis

Precedent Transactions' Performance:

- » The performance of the originator's precedent transactions in this sector are within Moody's expectations.

EXHIBIT 7

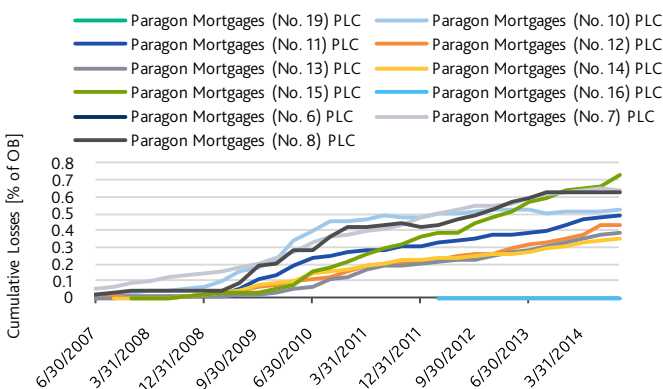
90+ Days Arrears for Paragon transactions



Source: Moody's Investors Service, periodic investor reports

EXHIBIT 8

Losses for Paragon transactions



Source: Moody's Investors Service, periodic investor reports

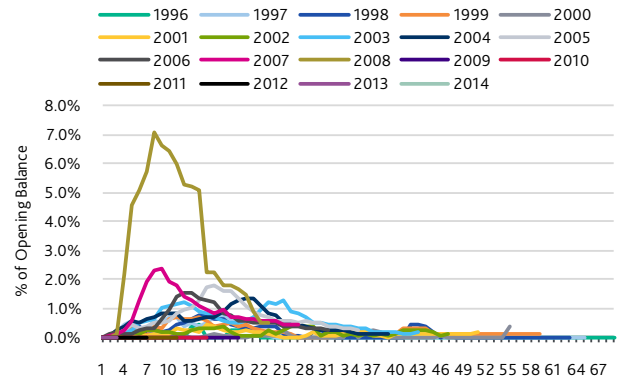
Data Quantity and Content:

- » Moody's has received loan by loan data on 1,739 loans which were repossessed from 2003 through 2013.
- » In addition, Moody's has received meaningful information about 90+ Days arrears and loss vintage data split by quarter since 1996, along with roll rates between arrears buckets for the period running from 2007 to 2014.
- » In Moody's view, the quantity and quality of data received is similar compared to transactions which have achieved high investment grade ratings in this sector.

- » Whole book vintage data was not available going back to the last recession.

EXHIBIT 9

Vintage arrears data from Paragon's book

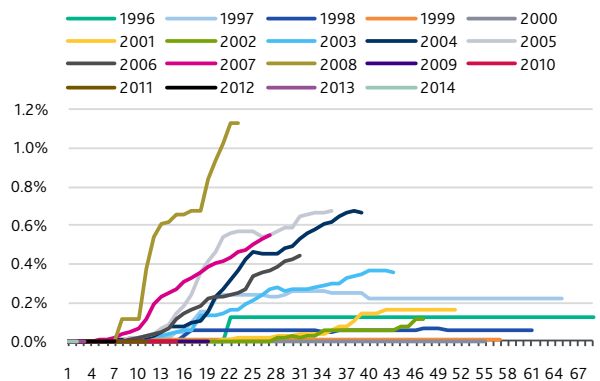


N.B: please note that the curve for the 2008 vintage arrears is not representative given that the sample size was very small due to the warehouse closing in February 2008.

Source: data provided by the originator

EXHIBIT 10

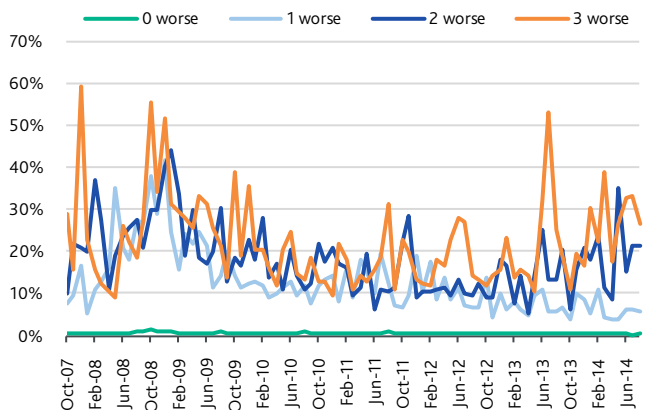
Vintage losses data



Source: data provided by the originator

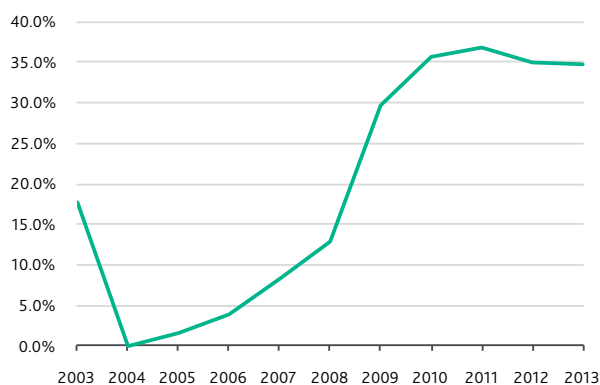
EXHIBIT 11

Roll rates (in months' delinquent)



Source: data provided by the originator

EXHIBIT 12

Average loss severity per year of sale

Source: data provided by the originator

Assumptions and definitions: Other values within a range of the notional amount listed below may result in achieving the same ratings.

Assumptions

Spread compression / margin analysis	Moody's has haircut the yield by around [0.5]% p.a. to account for the absence of basis swap and impact of higher yielding loans prepaying or defaulting earlier.
--------------------------------------	---

Stressed Fees	[0.30]% p.a. plus £[50,000] fixed fees
---------------	--

Definitions

WA asset margin at closing	[3.0]% margin post swap at closing taking into account the discount margin reserve. [63.7]% loans covered by fixed swap [36.3]% Three-month Libor loans unhedged
----------------------------	--

WA asset margin after reset	All the loans revert to three-month Libor plus a margin.
-----------------------------	--

Asset reset date	Fixed loans reset between [January 2016] and [October 2019]
------------------	---

Liabilities reset date	Not applicable, although there is an optional call in [December 2018]
------------------------	---

Interest on cash	Average rate for investment is currently [0.41]%
------------------	--

Actual Fees	[0.15]% p.a. + £[50,000] fixed fees paid senior, a further [0.15]% of servicing fee is paid junior in the waterfall.
-------------	--

PDL Definition	The Principal Deficiency Ledger records any losses on the assets and the application of any principal to meet any potential interest shortfalls.
----------------	--

Expected Loss:

The expected loss of [1.25]% for this transaction was obtained by benchmarking it with other securitisations of buy-to-let mortgages originated by UK mortgage originators and taking into account the buy-to-let nature of the mortgages, the experience of Paragon in the buy-to-let

sector. In particular, Moody's assumed that the top 20 borrowers would increase to the limit of £[25] million in the final pool.

Modelling Approach:

Loss Distribution: The first step in the analysis is to determine a loss distribution of the pool of mortgages to be securitised. Due to the large number of loans and supporting historical data, Moody's uses a continuous distribution to approximate the loss distribution: the lognormal distribution.

In order to determine the shape of the curve, two parameters are needed: the expected loss and the volatility around this expected loss. These parameters are derived from two important sources: historical loss data and the loan-by-loan model.

Moody's uses performance data provided by the originator in addition to other relevant data in order to extrapolate expected losses for the loan pool. Examples of data include market and sector wide performance data, the performance of other securitisations, and other originators' data.

To obtain the volatility under stressed scenarios, Moody's takes into account historical data. However observed historical volatility may not be significant (given insufficient data points, or incomplete data), and in addition may not be representative for the future as it is based on the previous economic environments experienced.

Consequently, Moody's determines a number representing the enhancement that would be required for a pool of mortgages to obtain a rating consistent with Aaa under highly stressed conditions. This enhancement number (the "MILAN CE" number) is produced by using a loan-by-loan model, which looks at each loan in the pool individually and based on its individual characteristics such as LTV or other identified drivers of risk, will produce a benchmark CE number. This assumes stressed recovery rates (through house price decline), time to recovery, interest rates and costs to foreclosure. The weighted-average benchmark CE number will then be adjusted according to positive and negative characteristics of each loan or of the pool as a whole to produce the MILAN CE number.

Modelling assumption: The MILAN CE number and the expected loss number form the basis of Rating Committee discussions and are used to derive the lognormal distribution of the pool losses.

The standard deviation of the distribution is found by setting the expected loss of the area of the lognormal distribution beyond the MILAN CE equal to the expected loss that is consistent with the idealised expected loss of a Aaa tranche.

Tranching of the Notes: Once the loss distribution of the pool under consideration has been computed, a cash flow model is used to assess the impact of structural features of the transaction. It calculates the average lives and the losses experienced by the notes for every loss scenario for the portfolio. Based on these numbers, the expected loss and the weighted-average lives for the notes are calculated as weighted averages based on the probabilities of the respective scenarios. The expected loss on each tranche together with the notes' weighted-average life determines the rating, which is consistent with Moody's target losses for each rating category.

The rating of the notes is therefore based on an analysis of:

- » The characteristics of the mortgage pool backing the notes
- » The relative roll-rate levels and arrears in this type of lending compared to conventional lending
- » Sector-wide and originator specific performance data
- » Protection provided by credit enhancement and liquidity support against defaults and arrears in the mortgage pool
- » The roles of the swap and hedging providers
- » The legal and structural integrity of the issue

Treatment of Concerns:

Operational Risk – servicing and cash management:

Paragon is not rated and is the originator, servicer and cash bond manager in the transaction. In mitigation, the deal is in line with Moody's guidelines on operational risk as there is a warm back-up servicer, a back-up servicer facilitator and a warm back-up cash bond manager in place at closing.

It should be noted however that Homeloan Management Limited, who acts as both back-up servicer and back-up cash bond manager, have the right to resign from their functions upon giving written notice. The resignation would become effective on the earlier of (i) six months following notification provided that a substitute back-up servicer and back-up cash manager has been found and (ii) 12 months following the notification.

In the latter case, if no replacement was found, the transaction would be left without any back-up servicer, causing the deal to be out of line with Moody's operational risk guidelines and potentially having a multi-notch rating impact. Moody's believes however that the role of facilitator to find a suitable third party during this 12 month period, and the additional liquidity available from the reserve fund mitigate this risk.

If PML as servicer fails to provide the calculation report for the cash management within three business days of the determination date (which falls 15 days prior to the IPD) then the substitute administrator must immediately assume the performance of the calculation and payment services.

The back-up servicer facilitator would assist the issuer in appointing a replacement cash bond manager to perform the cash bond administration services if the substitute cash bond manager fails to assume the performance of the calculation and payment services within five business days of the servicer failing to deliver a servicer report.

The back-up servicer has undertaken a mapping exercise such that the back-up servicing arrangement was classified as warm from close.

In the event that the back-up servicer either becomes the primary servicer or is no longer able to fulfil the role of back up servicer, the back-up servicer facilitator is responsible for finding a replacement back-up servicer.

To mitigate against the increased operational risk there is slightly more than five months of liquidity available to pay the senior fees and debt servicing costs on the rated notes assuming Libor of 5.7%.

Due to the presence of netting within the fixed – floating swap agreement there will be cash available to pay the issuer's side of the swap agreements in line with the rating assigned.

To ensure continuity of payments both the terms and conditions of the notes and the swap documents contain estimation language whereby the cashflows will be estimated from the three most recent servicer reports should a current servicer report not be available.

However, should no servicing report be available and amounts in the principal and revenue waterfalls require to be estimated then it is possible that cash is will leak out of the transaction.

Prefunding:

The structure allows for additional loans to be added to the pool between the closing date and on or before 31 May 2015. Prefunding in the deal may equal up to [.]% of the principal amount of the notes to be issued. The risk of increased borrower concentration is mitigated by the condition that the top 20 borrower concentration shall be limited to £[25] million. Additionally, the purchase by the issuer of such pre-funded loans is conditional upon Moody's delivering a rating agency confirmation.

Should the prefunding not take place, any funds in the prefunding reserve not used by May 2015 will be released and used to repay Class A Notes. This mitigates against the risk of borrower concentration should prefunding not take place and the pool remains concentrated with only around 1,000 borrowers.

Additionally as most of the borrowers are professional property investors with loans originated in a narrow timeframe there could be a particularly high correlation in performance during a downturn which has been taken into account in Moody's expected loss and MILAN assessments.

Level of excess spread could decline:

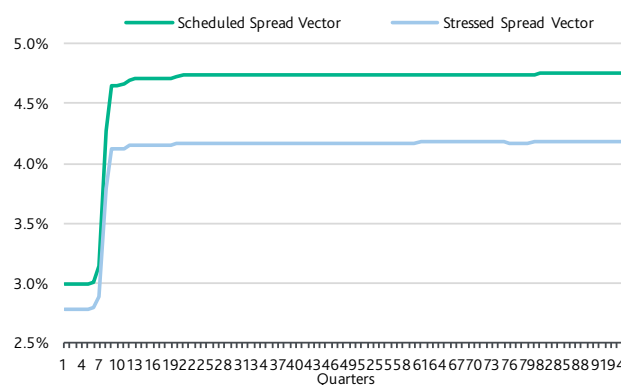
- » At closing, [63.7]% of the pool are fixed and [36.3]% Libor-linked. After [five] years the pool will be entirely of Libor-linked loans that are expected to pay a margin over three month Libor of at least [4.5]%. This, combined with the relatively low note coupons, means that the transaction benefits from significant excess spread.
- » Absence of basis swap: The transaction is however unhedged with respect to Libor-linked loans and basis risk is introduced as the loans reset on the 1st of January, April, July and October whereas the notes reset on the 15th March, June, September and December.

Product switches for rate type can comprise up to [10]% of the deal size. As a mitigant a product switch can however only remain in the pool if any reduction in spread is cash collateralised for the duration of the new discount or fixed period. The transaction is also exposed to the risk of higher yield loans prepaying first, thereby leading to spread compression over time. However the assets must yield Libor plus [3]% for the first two years of the deal and Libor plus [4.5]% thereafter, taking into account the margin reserve.

- » To account for these risks Moody's has haircut the asset yield by around [0.5]%, and performed sensitivities assuming higher prepayment rates and further yield haircuts. See Exhibit 13 below for how Moody's has stressed the margin over time in its base case.

EXHIBIT 13

Actual spread versus Moody's stressed spread



Source: Moody's Investors Service

Eligible Investments:

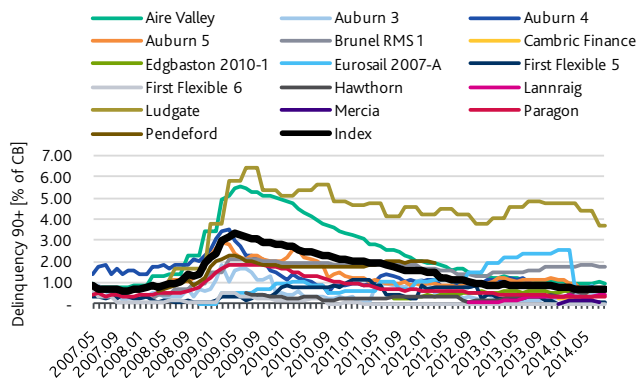
- » Barclays Bank plc as account bank would only be required to replace itself or find a guarantor at loss of A3, which is lower than the A2/P-1 level seen in typical UK RMBS transactions.
- » This is however in line with Moody's eligible investment and bank guidelines taking into consideration the following factors: (i) the current rating of the account bank (A2/P-1), (ii) the proposed A3 replacement trigger, (iii) the degree of linkage between the eligible investments and the transaction and (iv) the minimum ratings placed on the eligible investments (P-1 or A2 in the case of monies invested for a period of more than 31 days).

Benchmark Analysis

UK Buy-to-let sector Performance: In Moody's view, the historical performance of 90+ delinquencies and losses of Paragon transactions compares positively to other recent transactions in this sector. Please see below Moody's BTL index:

EXHIBIT 14

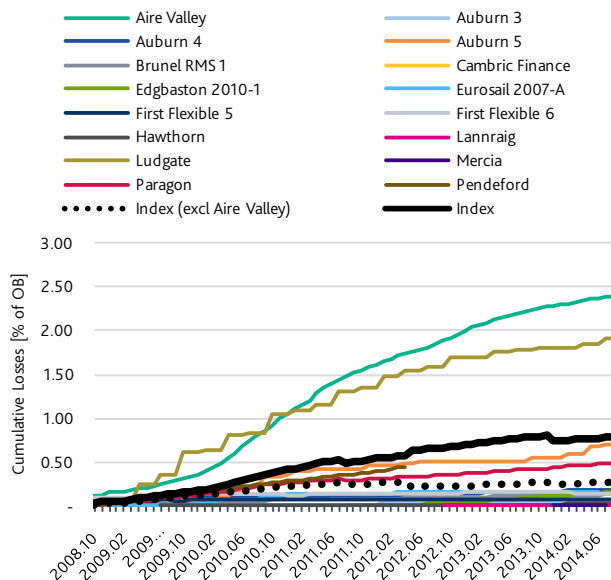
90+ Delinquencies



Source: Moody's Investors Service, periodic investor reports

EXHIBIT 15

Loss trends



Source: Moody's Investors Service, periodic investor reports

Deal Name	Paragon Mortgages (No. 21) PLC	Paragon Mortgages (No. 20) PLC	Paragon Mortgages (No. 20) PLC	Paragon Mortgages (No. 19) PLC	Paragon Mortgages (No. 19) PLC	Paragon Mortgages (No. 16) PLC	Paragon Mortgages (No. 15) PLC	Mercia	Eggbaston RMBS 2010-1 PLC	Aire Valley 2008-1
	Provisional pool	Closing pool	Provisional pool	Final pool including the FF4 loans and the prefunded assets	Provisional Pool	Final pool including the prefunded assets				
Closing date	[Nov-14]	Jul-14	Jul-14	Mar-14	Mar-14	Nov-11	Jul-07	Dec-12	Aug-10	Jul-08
Information from	Data provided by Paragon to Moody's	Data provided by Paragon to Moody's	Data provided by Paragon to Moody's	Data provided by Paragon to Moody's	Data provided by Paragon to Moody's	Data provided by Paragon to Moody's	Data provided by Paragon to Moody's	Data provided by Coventry to Moody's	Data provided by BoS to Moody's	Data provided by B&B to Moody's
Originator	Paragon	Paragon	Paragon	Paragon and Mortgage Trust Limited	Paragon and Mortgage Trust Limited	Paragon	Paragon	Godiva Mortgages Ltd	BoS (under the Birmingham Midlands brand)	Bradford & Bingley
Servicer	Paragon	Paragon	Paragon	Paragon and Mortgage Trust Services	Paragon and Mortgage Trust Services	Moorgate Asset Administration Ltd	Paragon Finance Plc	Coventry Building Society	BoS	Bradford & Bingley
MILAN CE	[12.0]%	12.0%	12.0%	12.0%	12.0%	20.5%	17.00%-17.40%	12%	20%	17.3%(at closing)
Expected Loss	[1.25]%	1.25%	1.25%	1.25%	1.25%	3.0%	0.90%-1.10%	1.6%	2.5%	1.2%(at closing)
Avg. Current LTV	[72.1]%	70.78%	70.25%	70.62%	70.7%	70.03%	79.34%	50.4%	73.4%	80.9%
% Current LTV > 70%	[73.7]%	69.55%	67.32%	72.07%	71.4%	65.6%	86.03%	0.0%	74.5%	86.9%
% Current LTV > 80%	[11]%	4.28%	2.91%	5.73%	7.4%	0.00%	64.93%	0.0%	17.4%	70.6%
% Current LTV > 90%	0.00%	0.00%	0.00%	0.36%	0.3%	0.00%	1.50%	0.0%	0.2%	11.8%
Avg. Current LTV indexed	[0.0]%	69.09%	67.92%	67.72%	66.9%	69.53%	77.56%	49.4%	72.2%	68.8%
% Self Employed	[50.9]%	52.87%	53.84%	50.2%	49.6%	62.55%	59.31%	34.8%	No data	54.6%
% Self Certified	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.0%	0.0%	22.5%
% Non-owner Occupied (Includes: Partial Owner)	100%	100%	100%	97.9%	97.3%	100%	100%	100%	100%	76.6%
% IO without collateral	[92.4]%	91.1% (including 22.1% that reverts to repayment on or before February 2017)	90.8% (including 29.89% that reverts to repayment on or before February 2017)	91.9%	91.6%	90.0% (including 51.5% that reverts to repayment in 5 years)	96.16%	80.3% (including part-and-part loans)	91.80%	72.1%
% Fixed interest	[63.7]%	32.08%	24.47%	27.2%	24.6%	34.2%	78.71%	29.9%	48.10%	78.0%
Max regional concentration	South East ([36.9]%)	South East (29.2%)	South East (29.7%)	South East (34.6%)	South East (34.1%)	South East (28.5%)	South East (27.55%)	London and South East (68.4%)	Southeast (25%)	London and Southeast (54.1%)
% CCJs	[0.00]%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	4.5%
% IVA / Bankruptcy	[0.00]%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	1.9%
% in arrears	[0.04]%	0.04%	0.33%	0.5%	0.7%	0.36%	1.11%	0.1%	0.48%	10.9%
Current Balance	£[153] million	£317 million	£239 million	£350 million	£275 million	£164 million	£812 million	£1,603 million	£3,879 million	£13,116 million
Average Borrower Exposure	£[169,011]	£172,059	£173,231	£150,926	£145,081	£203,415	161,360	115,390	£ 126,540	£126,062

Deal Name	Paragon Mortgages (No. 21) PLC	Paragon Mortgages (No. 20) PLC	Paragon Mortgages (No. 20) PLC	Paragon Mortgages (No. 19) PLC	Paragon Mortgages (No. 19) PLC	Paragon Mortgages (No. 16) PLC	Paragon Mortgages (No. 15) PLC	Mercia	Edgbaston RMBS 2010-1 PLC	Aire Valley 2008-1
Borrower top 20 (as % of pool bal)	[9.0] %	5.3%	6.2%	6.1%	7.1%	10.1%	3.3%	1.0%	0.8%	Not disclosed
WA interest rate	[4.1]%	4.5%	4.7%	3.8%	3.6%	4.9%	5.4%	4.3%	4.2%	Not disclosed
Stabilised margin*								SVR (4.74%)	2.60%	Not disclosed
Average seasoning in years	[0.1]	1.2	1.5	2.6	3.2	0.6	0.1	2.5	1.5	3.1
Average time to maturity in years	[20.4]	19.0	18.7	17.91	17.5	19.60	21.1	15.5	16.9	19
Maximum maturity date	Sep-39	Jul-39	May-39	Mar-39	Jan-39	Feb-37	Jul-37	Apr-47	May-49	Not disclosed
Average House Price stress rate**	[31.3]%	28.8%	29.6%	30.6%	30.7%	48.7%	48.7%	34.1%	48.2%	Not disclosed
Average House Price change	[0.3]%	2.7%	3.8%	7.5%	9.8%	0.7%	-0.2%	2.1%	1.7%	Not disclosed
Notes Payment Frequency	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Monthly (A1 Notes) and Quarterly (all other notes)	Quarterly	Monthly	Quarterly
Replenishment periods	0	0	0	0	0	0	0	Revolving until IPD falling in December 2016	0	Ongoing at close, now none
Total Aaa size	[87.65]%	91.1%	91.1%	89.5%	89.5%	80.4%	85%	90.5%	81.0%	87.5%
RF at Closing [§]	[2.5]%	3%	3%	3%	3%	3%	1.9%	2.5%	1.0%	3.6%
RF Fully Funded at Closing? [§]	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No, build up to 3.8%
RF Floor [§]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Hedge in place	Fixed-floating swap	Fixed-floating swap	Fixed-floating swap	Fixed-floating swap	Fixed-floating swap	Fixed-floating swap	Yes	Yes	Yes	Yes
Swap rate or guaranteed XS (if applicable)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2.5%	N/A	N/A
Principal to pay interest?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

* As per Moody's calculation

* Margin after all loans reset.

** As per Moody's MILAN methodology for Aaa scenario for a benchmark loan.

§ Of original note balance.

Parameter Sensitivities

Parameter Sensitivities provide a quantitative, model-indicated calculation of the number of notches that a Moody's-rated structured finance security may vary if certain input parameters used in the initial rating process differed. The analysis assumes that the deal has not aged. It is not intended to measure how the rating of the security might migrate over time, but rather, how the initial rating of the security might differ as certain key parameters vary. For more information on Parameter sensitivities for RMBS, please refer to "[V Scores and Parameter Sensitivities in the Major EMEA RMBS Sectors](#)" published in April 2009.

Parameter sensitivities for this transaction were calculated in the following manner: Moody's assumed 16 loss distributions derived from the combinations of MILAN Credit Enhancement: 12.0% (base case), 14.4% (base x 1.2), 16.8% (base x 1.4) and 19.2% (base x 1.6) and expected loss: 1.25% (base case), 1.9% (base x 1.5), 2.5% (base x 2) and 3.75% (base x 3). The 1.25% / 12.0% scenario would represent the base case assumptions used in the initial rating process.

The tables below show the parameter sensitivities for this transaction with respect to all Moody's rated tranches.

EXHIBIT 16*

Class A

		MILAN CE Output			
		12.0%	14.4%	16.8%	19.2%
Median Expected Loss	1.25%	Aaa*	Aaa(0)	Aaa(0)	Aaa(0)
	1.9%	Aaa(0)	Aaa(0)	Aaa(0)	Aaa(0)
	2.5%	Aaa(0)	Aaa(0)	Aaa(0)	Aaa(0)
	3.75%	Aaa(0)	Aaa(0)	Aaa(0)	Aaa(0)

* Results under base case assumptions indicated by asterisk '*'. Change in model-indicated rating (# of notches) is noted in parentheses.

EXHIBIT 16*

Class B

		MILAN CE Output			
		12.0%	14.4%	16.8%	19.2%
Median Expected Loss	1.25%	Aa2*	Aa2(0)	Aa2(0)	Aa2(0)
	1.9%	Aa2(0)	Aa2(0)	Aa2(0)	Aa2(0)
	2.5%	Aa2(0)	Aa2(0)	Aa2(0)	Aa2(0)
	3.75%	Aa2(0)	Aa2(0)	Aa2(0)	Aa2(0)

* Results under base case assumptions indicated by asterisk '*'. Change in model-indicated rating (# of notches) is noted in parentheses.

EXHIBIT 17*

Class C

	MILAN CE Output			
	12.0%	14.4%	16.8%	19.2%
1.25%	A1*	A1(0)	A1(0)	A1(0)
1.9%	A1(0)	A1(0)	A1(0)	A1(0)
2.5%	A1(0)	A1(0)	A1(0)	A1(0)
3.75%	A1(0)	A1(0)	A1(0)	A1(0)

* Results under base case assumptions indicated by asterisk '*'. Change in model-indicated rating (# of notches) is noted in parentheses.

Worse case scenarios: At the time the rating was assigned, the model output indicated that Class A notes would still achieve a Aaa (sf) rating if the expected loss was as high as 1.9%, MILAN CE was as high as 19.2% and all other factors were constant.

Monitoring

Moody's will monitor the transaction on an ongoing basis to ensure that it continues to perform in the manner expected, including checking all supporting ratings and reviewing periodic servicing reports. Any subsequent changes in the rating will be publicly announced and disseminated through Moody's Client Service Desk.

Originator Linkage: Paragon acts as originator, seller and cash manager. However it is in line with Moody's recently published criteria on operational risk which delinks the transaction from Paragon's credit risk.

Significant Influences: In addition to the counterparty issues noted, further deterioration in the housing market beyond that modelled may have an impact on the subject transaction's ratings.

Counterparty Rating Triggers	Condition	Remedies
Lloyds Bank plc as swap counterparty	Loss of A3 Loss of Baa1	Post collateral Replace/Guarantor
Macquarie Bank Limited as swap counterparty	Loss of A3 Loss of A3	Post collateral Replace/Guarantor
Issuer Account Bank	Loss of A3**	Replace
Collection Account Banks	Loss of Baa3**	Replace
Other		

* See Approach to [Assessing Swap Counterparties in Structured Finance Cash Flow Transactions](#), published in November 2013.

** See [The Temporary Use of Cash in Structured Finance Transactions: Eligible Investment and Bank Guidelines](#), published in March 2013.

Loan repurchase following breach of representations and warranties (R&W):

- » If material breaches of R&W have not been remedied within 28 days of being notified by the Issuer of such breaches, the Seller shall repurchase the loan from the Issuer.

Monitoring Report:

Data Quality:

- » Investor report format is currently being finalised.
- » The report is expected to be in line with previous Paragon deals and so in line with other transactions in the sector.
- » Undertaking to provide Moody's with updated pool cut once a quarter.
- » Loan modifications for arrears management is not reported separately.
- » Further advances are reported in the investor reports.

Data Availability:

- » Report provided by: Paragon Mortgage (2010) Limited
- » The timeline for investor report is provided in the transaction documentation, The priority of payment section is published on the IPD.
- » The investor report is expected to be completed no later than 30 days following the end of the relevant collection period.
- » The frequency of the publication of the investor report is quarterly and the frequency of the IPD is quarterly.
- » Investor reports are publicly available on a website.

Representations and Warranties

The Rule 17g-7 Report of Representations and Warranties is hereby incorporated by reference and can be found at http://www.moodys.com/viewresearchdoc.aspx?docid=PBS_SF383751.

Moody's Related Research

For a more detailed explanation of Moody's approach to this type of transaction as well as similar transactions please refer to the following reports:

Methodologies Used:

- » [Moody's Approach to Rating RMBS Using the MILAN Framework, March 2014 \(SF360375\)](#)
- » [Approach to Assessing Swap Counterparties in Structured Finance Cash Flow Transactions, November 2013 \(SF344857\)](#)
- » [Moody's Approach to Assessing Set-off Risk for EMEA Securitisation and Covered Bonds Transactions, October 2013 \(SF343033\)](#)
- » [Global Structured Finance Operational Risk Guidelines, June 2013 \(SF328657\)](#)
- » [Moody's Enhanced Approach to Originator Assessments in RMBS Transactions, May 2013 \(SF153718\)](#)
- » [The Temporary Use of Cash in Structured Finance Transactions: Eligible Investment and Bank Guidelines, March 2013 \(SF316982\)](#)

Originator Research:

- » [Outlook for UK Mortgage Lenders – Key Credit Themes in 2010 and Beyond, July 2010 \(124977\)](#)

Special Reports:

- » [Housing market unlikely to derail UK economy or cause significant losses for banks, June 2014 \(172395\)](#)
- » [2014 Outlook - European ABS and RMBS, December 2013 \(SF347699\)](#)
- » [UK RMBS Unaffected by Self-Employed Borrowers' Exposure to UK Economic Weakness, May 2013 \(SF329681\)](#)
- » [UK Mortgages: Performance Will Continue to Improve in 2013, January 2013 \(SF308124\)](#)
- » [New FSA MMR rules will benefit UK prime RMBS in long term, November 2012 \(SF305091\)](#)
- » [Paragon Transactions' Potential Exposure to Pensions Liabilities Cannot be Excluded from Rating Analysis, March 2012 \(SF280676\)](#)
- » [Reduced Use of Receiver of Rent Is Credit Positive for UK Buy-To-Let RMBS, March 2012 \(SF279823\)](#)
- » [What Drives Severity of Losses on UK Mortgages, April 2010 \(SF192584\)](#)
- » [Performance of UK Residential Mortgages Originated in 1985 – 2003, March 2006 \(SF65684\)](#)

Others:

- » [Moody's take multiple actions on Paragon Mortgages \(No. 9\), \(No. 11\), \(No. 12\) PLC, May 2014](#)
- » [Moody's confirms ratings in 8 Paragon transactions on restructuring, February 2013](#)
- » [UK Buy-To-Let RMBS Indices, August 2014 \(SF383750\)](#)
- » [Credit Insight, October 2014 \(SF383391\)](#)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Appendix 1: Summary of Originator's Underwriting Policies and Procedures

Originator Ability	At closing
Sales and Marketing Practices	
Origination channels:	90% brokers, 10% direct customer enquiries
Role of the intermediaries/brokers:	The intermediary acts as the applicants adviser and submits application information only. Any validation is carried out by Paragon.
Frequency of intermediaries/brokers monitoring:	Brokers are subject to initial due diligence and monitoring of performance is ongoing.
Compensation/ incentive structure of sales team (brokers/intermediaries and branches):	Intermediaries are paid a procurement fee for introducing an application typically between 0.5% and 0.75% of the loan on completion. Paragon regional managers are compensated with a mix of basic salary and bonus. The bonus will typically equate to 25% of basic salary.
Separation and independence of sales and approval function:	Sales and underwriting operate independently and report through separate directors. Sales have no underwriting mandate.
Underwriting Policies and Procedures	
% of loans automatically underwritten (i.e. without manual approval):	0% - All loans are written based upon manual approval. The system based underwriting system is designed to filter applications and assist the underwriter, not replace them.
% of loans manually underwritten:	100%
Back-testing of automatic underwriting/internal score (if applicable):	Both manual and credit score assisted processes are reviewed on an ongoing basis and credit reports produced monthly to the Group Credit Committee.
Average experience in underwriting or tenure with company:	14% 0-5 years , 21% 5-10 and 64% with 10+ years experience
Ratio of loans underwritten per FTE[1] per day:	Within a range 2-4.7 (depending on complexity)/day
Criteria for compensation of underwriters:	Underwriters are compensated on basic salary only (no performance related bonus) and also participate in a Group wider profit related pay scheme which pays an annual sum based on a distribution of 1% of the Group's gross profit. The average over the last 5 years per employee was £1.4k
Approval rate:	The approval rate is circa 40%
Mandate/lending authority for first level underwriter/personnel:	£100k 75%LTV - is the lowest level mandate authority.
Percentage of exceptions to underwriting policies:	There are no exceptions to underwriting policy
Process and tools for the borrower identity check:	The solicitor acting for Paragon is required to complete identity checks in line with UK anti-money laundering regulation. In addition - data supplied by the credit reference agencies is used to check for M/L compliance.
Fraud prevention tools and % of applicants checked for fraud:	100% All cases are checked against Sira & Cifas databases.
Source of credit history checks:	Equifax and Credit safe are used as suppliers of consumer and commercial credit data within the underwriting process. All personal applicants and all corporate applicants are searched using these systems.
Credit history requirements:	No material adverse credit
Use of external credit bureau scores:	Personal Applicant -Equifax - Risk Navigator score - 320. Corporate applicants - Credit Safe - 30
Use of internal credit scores:	None
Methods used to assess borrowers' repayment capabilities:	All mortgages are BTL. A minimum interest coverage ratio is used to assess affordability. The monthly rental payment at inception should be no less than 125% of the mortgage payment for single self-contained units, and 130% for HMOs/multi-unit blocks.
Income taken into account in affordability calculations:	Other income information is collected and may be validated in the underwriting process but is not relied upon in the affordability assessment
Other borrower's exposures (i.e. other debts) t taken into account in affordability calculations:	Information on other debts and liabilities is collected and recorded and may be taken into account but the affordability assessment is driven by the property information.
Is interest rate stressed to calculate affordability?	The interest rate is stressed at the greater of the product rate and 5% for single self-contained units, and the greater of the product rate and 7% for HMOs/multi-unit blocks.
Is amortisation modified to calculate affordability for I/O/balloon loans?	No
Method used for income verification	Rental income is assessed by the Group's surveyor
Criteria for non income verified and %:	Not applicable
Maximum age at maturity & assessment of income for pensioners:	Not applicable
Maximum loan size:	£5m (in aggregate)
Valuation types used for purchase & LTV limits:	Full physical inspection 80%
Valuation types used for remortgage & LTV limits:	Full physical inspection 80%
Valuation types used for further advances & LTV limits:	Full physical inspection 80%
Valuation types & procedure for construction loans & LTV limits:	Not applicable
Valuation types & procedure for new built properties & LTV limits:	Full physical inspection 80%

Originator Ability	At closing
LTV limit for first-time-buyers/Buy-to-let/other (please specify and delete non relevant criteria):	Maximum LTV:80% up to £500k, 75% up to £1 million and 70% up to £2 million
Collateral Valuation Policies and Procedures	
Value in the LTV calculation for underwriting purpose:	Lower of the purchase price or valuation
Value in the LTV recorded in database system if different than above	Lower of the purchase price and valuation (separately the purchase price)
Type, qualification and appointment of valuers:	Internal Surveyors Team (all RICS qualified 15yrs post qualified experience). Where necessary Paragon will instruct a panel surveyor (all RICS qualified) but these will be subject to a 100% audit by the internal surveyors function.
Monitoring of quality of valuers:	All valuations subject to a regular random audit conducted by senior audit surveyor.
Closing Policies and Procedures	
Quality check before releasing funds:	Letter/phone calls to confirm borrower information, validation that insurance is in place, check with notary, etc.
Entity responsible for the deed registration & time needed:	The solicitor acting for Paragon will register the charge in accordance with Paragon's instructions to solicitors
Data quality check (check that system and paper file match):	100%, via Image system
Credit Risk Management	
Credit risk team employees and experience:	Credit risk team runs with two senior, experienced staff and five analysts. Director of team has 27 years with Paragon, Head of Dept has eleven years with Paragon (23 years in total in credit risk industry).
Reporting line of Chief Risk Officer :	Finance Director
Ability to track loan performance by specific loan characteristics?:	Yes, performance can be tracked by any characteristic recorded on Paragon system. E.g. originator, valuer, solicitor, loan size, score etc.
* FTE: Full Time Equivalent	
Originator Stability:	
Quality Controls and Audits	
Responsibility of quality assurance:	Independent team (part of team of four) under the control of a team leader (separate to the underwriting area)
Number of files per month being monitored:	100% audit post offer and post completion with findings passed back to underwriting team leader on a monthly basis.
Recording of quality assurance findings and analysis of causes:	Yes and Yes
Frequency of operational audits for the underwriting processes:	Annually
Management Strength and Staff Quality	
Average turnover of underwriters:	20%
Training of new hires and existing staff:	Buddy principle - mixing training with 4 eye review (finally hierarchical mandate approval process). Then ongoing review for quality.
Technology	
Main software used:	ARIES is the core component of the Paragon First Mortgage systems that support all phases of flexible, repayment, endowment, rest or interest only mortgage operations, from initial application processing through servicing, accounting and collections. There are interfaces to the general ledger accounting System 21 and to various administrative systems used by finance and treasury operations. The software schedule is operated through ROBOT. A monthly process known as the collection run calculates the monthly interest owed by the customer, generates insurance premiums and creates an extract file of customer payments to be submitted to BACS. Overnight, weekly and monthly process produces reports and statistical information on redemptions, mortgage arrears and insurance premiums.
Tools/infrastructure available:	See below.
Back-up server synchronisation and distance from main server:	Paragon uses two IBM iSeries (formerly known as AS/400) computers to operate all its product application, account administration and general ledger systems. The iSeries used for front line production is known as LEOPARD and is a RISC processor series 550 with 24Gb memory and 1.8Tb RAID disk. This server is located in the primary computer room in St Catherines Court (around three miles from the administration operations campus).
Frequency of disaster recovery plan test:	Tests are carried out on a monthly basis with a full test of the BCP taking place annually. A full exercise schedule is signed off annually by the BC Working Group.
Securitisation related	
%age of book securitised	As at December 2013, the securitised assets, as a percentage of the buy to let assets, was approximately 82%.
Previous experience with buy backs from securitisations	There have been no repurchases this year. Historically, there has been one repurchase where the solicitor failed to register Paragon's charge.

Appendix 2: Summary of Servicer's Collection Procedures

Servicer Ability	At closing
Loan Administration	
Entities involved in loan administration:	None
Abandonment rate (% call not answered within 20 seconds):	Less than 3%
Early Arrears Management	
Entities involved in early stage arrears:	Internal Collections team
Hours & days of operation:	Mon to Fri 8am to 8pm. Sat 8am to 5pm
Ratio of loans per collector (FTE)[1]:	Around 350
Definition of arrears & default	Any amount missed
Pre-arrears strategy: Do you contact the borrower to remind that the payment prior to account is due?	Yes
Pre-arrears strategy: If yes, how do you select the account to be called,	Behavioural analysis and proactive arrangement contact
Arrears strategy for 1-29 days delinquent (please select and if needed customise the relevant option)	From day 1 - letter sent & collection calls (3 per day), supported with Field Calls and daily attempts at contact
Arrears strategy for 30 to 59 days delinquent (please select and if needed customise the relevant option)	From day 30 - as above
Arrears strategy for 60 to 89 days delinquent (please select and if needed customise the relevant option)	From day 60-90 Receiver-of-Rent appointed Simultaneous collections contact continues
Arrears strategy for 90 days or more delinquent to late stage (please select and if needed customise the relevant option)	Receiver-of-Rent appointed
Prioritisation rules for delinquent accounts:	Level of arrears, type of portfolio, payment type missed
Use of historical payment behaviour in the collection strategy:	Aged history used showing arrears now, previous month and previous year
Data enhancement if borrower is not contactable:	Field calls, directory enquiries, bank letters and trace companies
Reason for non-payment:	Arrears reason code data collected
Loss Mitigation and Asset Management Practices:	
Transfer of a loan to the late stage arrears team:	Receiver-of-Rent from Day 60 and Pre-Salvage where forecast loss at Day 60
Entities involved in late stage arrears:	Collections, Portfolio Relationship, Receiver, Field Team
Entities involved in loss mitigation	Portfolio Relationship, Pre-Salvage, Receiver, Litigation, Negligence review, external solicitors
Hours & days of operation:	Same as collections
Ratio of loans per collector (FTE):	Included in previous figure for collections
Analysis performed to assess/propose loss mitigation solutions:	Review including LTV, interest due vs. interest paid, pre-salvage review, information from PRM visits and negligence review
Types of loss mitigation solutions including percentage defined as the number of accounts which were 30+ delinquent for which one solution has been applied divided by the total number of accounts which were 30+ delinquent over the past 12 months.	N/a
Role of field agents:	Supporting Receiver-of-Rent in tenant contact and property management
Borrowers re-defaulting 90 days or more after loss mitigation:	N/a
Contact with borrower during the legal process:	N/a
Time from first default to litigation and from litigation to sale:	N/a
Average recovery rate on closed files, recovery time and change in price of properties sold:	N/a

Servicer Stability**Management and Staff**

Average experience in servicing or tenure with company:	Management 18 yrs, Collections staff 14 yrs and Customer Service staff 7 yrs
Yearly turnover rate:	1% in 12 months
Criteria for compensation/reward:	Basic salary and part incentive for collections staff
Training of new hires specific to the servicing function (i.e. excluding the company induction training):	Personalised training plan
Training for existing servicing staff:	Regular training including two sessions per week

Quality control and audit

Responsibility of quality assurance:	Collection Managers
Number of files (and calls) per agent per month being monitored:	A random daily audit is undertaken by the Collection Managers in respect of Mandate, DPA PSA (Problem, Solution Action) and the timing in respect of actioning certain accounts
Recording of quality assurance findings and analysis of causes:	Please see above
Frequency of operational audits for the servicing processes:	Yes - Please see above
Operating manual available to servicing staff:	Yes, this is available on a Lotus Notes Database

IT and Reporting

Main software used and its operating manual:	ARIES is the core component of the Paragon First Mortgage systems that support all phases of flexible, repayment, endowment, rest or interest only mortgage operations, from initial application processing through servicing, accounting and collections. There are interfaces to the general ledger accounting System 21 and to various administrative systems used by finance and treasury operations. The software schedule is operated through ROBOT. A monthly process known as the collection run calculates the monthly interest owed by the customer, generates insurance premiums and creates an extract file of customer payments to be submitted to BACS. Overnight, weekly and monthly process produces reports and statistical information on redemptions, mortgage arrears and insurance premiums.
Tools/infrastructure available:	Please see above
Automatic tracking and reporting of specific characteristics:	Generic Event management System (GEMS)
Back-up server synchronisation and distance from main server:	Paragon uses two IBM iSeries (formerly known as AS/400) computers to operate all its product application, account administration and general ledger systems. The iSeries used for front line production is known as LEOPARD and is a RISC processor series 520 with 8Gb memory and 1Tb RAID disk. This server is located in the primary computer room in St Catherines Court (around three miles from the administration operations campus).
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Tools/infrastructure available:	Please see above
Automatic tracking and reporting of specific characteristics:	Generic Event management System (GEMS)
Securitisation related	
Securitized loans in the servicers portfolio	All of the buy to let assets (£8.4bn) as at September 2014, with the exception of the mortgages in the PSFL Warehouse Facility (£1.3bn), Macquarie Warehouse Facility (£75mn) and Lloyds Warehouse Facility (£107mn) have been securitised into public deals.
Are defaulted loans in the securitisations checked for breach of representations and warranties?	Some cases are referred to the Securitisation Compliance area

» contacts continued from page 1

ADDITIONAL CONTACTS:

Frankfurt: +49.69.2222.7847
 Madrid: +34.91.414.3161
 Milan: +39.02.3600.6333
 Paris: +33.1.7070.2229
 New York: +1.212.553.1653

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