MOODY'S
INVESTORS SERVICE

# Rating Action: Moody's upgrades four Spanish covered bonds ratings

Global Credit Research - 11 May 2017

Madrid, May 11, 2017 -- Moody's Investors Service has taken the following rating actions:

Issuer: ABANCA Corporacion Bancaria, S.A. (ABANCA)

- Mortgage Covered Bonds issued by ABANCA Corporacion Bancaria, S.A.: Upgraded to A1 from A3.

Issuer: Banco CEISS, S.A. (Banco CEISS)

- Mortgage Covered Bonds issued by Banco CEISS S.A.: Upgraded to A1 from A2.

Issuer: Caja Rural de Granada (CRG)

- Mortgage Covered Bonds issued by Caja Rural de Granada: Upgraded to Aa2 from A1.

Issuer: Ibercaja Banco S.A. (Ibercaja)

- Mortgage Covered Bonds issued by Ibercaja Banco S.A.: Upgraded to A1 from A2.

RATINGS RATIONALE

Today's rating actions follow the improved credit quality of Banco CEISS, S.A. (unpublished ratings) and Caja Rural de Granada (unpublished ratings) and Moody's changes to the CR Assessments (CRA) of the following banks:

1) ABANCA Corporacion Bancaria, S.A. CRA upgraded to Ba1(cr) from Ba3(cr).

2) Ibercaja Banco, S.A. CRA upgraded to Ba1(cr) from Ba2(cr)

As a result, the covered bond (CB) anchor for these programmes is now higher. The Timely Payment Indicator (TPI) of Probable restricts the covered bond ratings for ABANCA and Ibercaja covered bonds. For Banco CEISS and CRG covered bonds, the TPI Leeway is unpublished. All programmes hold sufficient over-collateralisation (OC) to achieve the new ratings (please see below Expected Loss section for more information).

For further details on the rating actions on ABANCA and Ibercaja Banco, please refer to Moody's press release (http://www.moodys.com/viewresearchdoc.aspx?docid=PR_366034 ).

KEY RATING ASSUMPTIONS/FACTORS

Moody's determines covered bond ratings using a two-step process: an expected loss analysis and a TPI framework analysis.

EXPECTED LOSS: Moody's uses its Covered Bond Model (COBOL) to determine a rating based on the expected loss on the bond. COBOL determines expected loss as (1) a function of the probability that the issuer will cease making payments under the covered bonds (a CB anchor); and (2) the stressed losses on the cover pool assets should the issuer cease making payments under the covered bonds (i.e., a CB anchor event).

The CB anchor for these covered bonds is the CR assessment plus 1 notch. The CR assessment reflects an issuer's ability to avoid defaulting on certain senior bank operating obligations and contractual commitments, including covered bonds. Moody's may use a CB anchor of CR assessment plus one notch in the European Union or otherwise where an operational resolution regime is particularly likely to ensure continuity of covered bond payments.

ABANCA CORPORACION BANCARIA, S.A. - MORTGAGE COVERED BONDS

The cover pool losses for ABANCA's mortgage covered bonds are 31.8%. This is an estimate of the losses

Moody's currently models following a CB anchor event. Moody's splits cover pool losses between market risk of 20% and collateral risk of 11.8%. Market risk measures losses stemming from refinancing risk and risks related to interest-rate and currency mismatches (these losses may also include certain legal risks). Collateral risk measures losses resulting directly from cover pool assets' credit quality. Moody's derives collateral risk from the collateral score, which for this programme is currently 17.7%.

The over-collateralisation in the cover pool is 278.2%, of which ABANCA provides 25% on a "committed" basis. The minimum OC level consistent with the A1 rating target is 19.5%, of which the issuer should provide 1% in a "committed" form. These numbers show that Moody's is not relying on "uncommitted" OC in its expected loss analysis.

BANCO CEISS, S.A. - MORTGAGE COVERED BONDS

The cover pool losses for Banco CEISS' mortgage covered bonds are 28.7%. This is an estimate of the losses Moody's currently models following a CB anchor event. Moody's splits cover pool losses between market risk of 19.8% and collateral risk of 8.9%. Market risk measures losses stemming from refinancing risk and risks related to interest-rate and currency mismatches (these losses may also include certain legal risks). Collateral risk measures losses resulting directly from cover pool assets' credit quality. Moody's derives collateral risk from the collateral score, which for this programme is currently 13.2%.

The over-collateralisation in the cover pool is 200.3%, of which Banco CEISS provides 25% on a "committed" basis. The minimum OC level consistent with the A1 rating target is 14.5%, of which the issuer should provide 0% in a "committed" form. These numbers show that Moody's is not relying on "uncommitted" OC in its expected loss analysis.

CAJA RURAL DE GRANADA - MORTGAGE COVERED BONDS

The cover pool losses for CRG's mortgage covered bonds are 40.2%. This is an estimate of the losses Moody's currently models following a CB anchor event. Moody's splits cover pool losses between market risk of 25.1% and collateral risk of 15.1%. Market risk measures losses stemming from refinancing risk and risks related to interest-rate and currency mismatches (these losses may also include certain legal risks). Collateral risk measures losses resulting directly from cover pool assets' credit quality. Moody's derives collateral risk from the collateral score, which for this programme is currently 22.5%.

The over-collateralisation in the cover pool is 163.2%, of which CRG provides 25% on a "committed" basis. The minimum OC level consistent with the Aa2 rating target is 35.5%, of which the issuer should provide 3.5% in a "committed" form. These numbers show that Moody's is relying on "uncommitted" OC in its expected loss analysis.

IBERCAJA BANCO, S.A. - MORTGAGE COVERED BONDS

The cover pool losses for Ibercaja's mortgage covered bonds are 29.3%. This is an estimate of the losses Moody's currently models following a CB anchor event. Moody's splits cover pool losses between market risk of 19.5% and collateral risk of 9.8%. Market risk measures losses stemming from refinancing risk and risks related to interest-rate and currency mismatches (these losses may also include certain legal risks).

Collateral risk measures losses resulting directly from cover pool assets' credit quality. Moody's derives collateral risk from the collateral score, which for this programme is currently 14.6%.

The over-collateralisation in the cover pool is 240.1%, of which Ibercaja provides 25% on a "committed" basis. The minimum OC level consistent with the A1 rating target is 15%, of which the issuer should provide 1% in a "committed" form. These numbers show that Moody's is not relying on "uncommitted" OC in its expected loss analysis.

For further details on cover pool losses, collateral risk, market risk, collateral score and TPI Leeway across covered bond programmes rated by Moody's please refer to "Moody's Global Covered Bonds Monitoring Overview", published quarterly. All numbers in this section are based on the most recent Performance Overview.

TPI FRAMEWORK: Moody's assigns a "timely payment indicator" (TPI), which measures the likelihood of timely payments to covered bondholders following a CB anchor event. The TPI framework limits the covered bond rating to a certain number of notches above the CB anchor.

For all these mortgage covered bonds, Moody's has assigned a TPI of Probable.

Factors that would lead to an upgrade or downgrade of the ratings:

The CB anchor is the main determinant of a covered bond programme's rating robustness. A change in the level of the CB anchor could lead to an upgrade or downgrade of the covered bonds. The TPI Leeway measures the number of notches by which Moody's might lower the CB anchor before the rating agency downgrades the covered bonds because of TPI framework constraints.

Based on the current TPI of Probable the TPI Leeway for ABANCA, and Ibercaja covered bond programmes is zero notches. For Banco CEISS and CRG covered bond programmes, the TPI Leeway is unpublished.

A multiple-notch downgrade of the covered bonds might occur in certain circumstances, such as (1) a country ceiling or sovereign downgrade capping a covered bond rating or negatively affecting the CB Anchor and the TPI; (2) a multiple-notch downgrade of the CB Anchor; or (3) a material reduction of the value of the cover pool.

RATING METHODOLOGY

The principal methodology used in these ratings was "Moody's Approach to Rating Covered Bonds" published in December 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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.

Moody's did not use any stress scenario simulations in its analysis.

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The below contact information is provided for information purposes only. Please see the ratings tab of the issuer page at www.moodys.com, for each of the ratings covered, Moody's disclosures on the lead analyst and the Moody's legal entity that has issued the ratings.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Miguel Lopez Patron
Analyst

Structured Finance Group
Moody's Investors Service Espana, S.A.
Calle Principe de Vergara, 131, 6 Planta
Madrid 28002
Spain
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Juan Pablo Soriano
MD - Structured Finance
Structured Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Jose de Leon
Senior Vice President/Manager
Structured Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Espana, S.A.
Calle Principe de Vergara, 131, 6 Planta
Madrid 28002
Spain
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

MOODY'S
INVESTORS SERVICE