MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades Heta Asset Resolution's covered bonds

Global Credit Research - 05 Mar 2015

London, 05 March 2015 -- Moody's Investors Service has today downgraded to Ba1 from Baa3 the covered bonds issued by Heta Asset Resolution AG (backed senior unsecured Ca).

RATINGS RATIONALE

Today's rating action follows Moody's decision to downgrade Heta Asset Resolution AG's Carinthian-state-guaranteed debt rating sand a revised assessment of the unguaranteed senior unsecured debt (not publicly rated).

For further information on the rating action on Heta Asset Resolution's backed senior unsecured debt, refer to the press release "Moody's downgrades Heta Asset Resolution's Carinthian-State-Guaranteed Debt Ratings"

http://www.moodys.com/viewresearchdoc.aspx?docid=PR_319197

Moody's Timely Payment Indicator (TPI) remains "High".

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 event); and (2) the stressed losses on the cover pool assets following a CB anchor event.

The CB anchor for this programme is the senior unsecured rating (SUR) plus 0 notches, given that the debt ratio is below 5%.

The cover pool losses for the programme are 44.1%. 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 34.3% 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 19.6%.

The over-collateralisation (OC) in the cover pool is 312.6 %, of which the issuer provides 38.5% on a "committed" basis.

The minimum OC level consistent with the Ba1 rating target is 55.5%, of which the issuer should provide 37.0% on a "committed" basis. These numbers show that Moody's is 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 based on data as of 30 September 2014.

TPI FRAMEWORK: Moody's assigns a 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.

FACTORS THAT WOULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING:

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 bond ratings. The TPI Leeway measures the number of notches by which Moody's might lower the CB anchor before the rating agency downgrades the covered bond ratings because of the TPI framework's constraints.

The TPI assigned to this programme is High. The TPI Leeway for this programme is unpublished, thus any reduction of the CB anchor may lead to a downgrade of the covered bonds.

A multiple-notch downgrade of the covered bonds might occur in certain circumstances, such as (1) a sovereign downgrade negatively affecting both 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 this rating was "Moody's Approach to Rating Covered Bonds" published in March 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

We published a Request for Comment (RFC) on 8 January 2015. In the RFC, we propose an adjustment to the anchor point we use in our covered bond analysis. The proposed changes in this RFC apply to all new and existing ratings for covered bonds. If we adopt the proposed changes, we expect more covered bond ratings to be positively affected than negatively affected. However, in light of the banking RFC (see RFC published on 9 September 2014 by our Banking group) and the CR rating RFC measure (see RFC published on 8 January 2015 by our Banking group), we are not in a position to fully assess and disclose the exact impact of the proposed changes to our covered bond methodology (https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBS_SF390257).

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 rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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