Madrid, October 01, 2019 -- Moody's Investors Service ("Moody's") has upgraded to Aa1 from Aa2 the ratings of Abanca Corporacion Bancaria, S.A. - Mortgage Covered Bonds issued by ABANCA Corporacion Bancaria, S.A. (the issuer/"ABANCA"; deposits Ba1 positive; adjusted baseline credit assessment ba1; counterparty risk (CR) assessment Baa1(cr)).

RATINGS RATIONALE

The rating action was prompted by the upgrade of ABANCA's CR assessment to Baa1(cr) from Baa3(cr) on 1 October 2019.

As a result, the covered bond (CB) anchor for ABANCA's mortgage covered bonds is now higher. The over-collateralisation (OC) in the programme is consistent with a covered bond rating of Aa1. Spanish local country bond ceiling constrains the rating at its current level.

For further details on the rating actions on ABANCA, please refer to Moody's press release:


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 CR assessment plus 1 notch.

The cover pool losses for Abanca Corporacion Bancaria, S.A. - Mortgage Covered Bonds are 30.8%. 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 22.1% and collateral risk of 8.7%. 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 13.0%.

The over-collateralisation in the cover pool is 533.8%, of which the issuer provides 25.0% on a "committed" basis. Under Moody's COBOL model, the minimum OC consistent with the Aa1 rating is 25.5%, of which 0% needs to be in "committed" form. 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 "Covered Bonds Sector Update", published quarterly.

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.

RATING METHODOLOGY

The principal methodology used in these ratings was "Moody's Approach to Rating Covered Bonds" published in February 2019. Please see the Rating Methodologies page on www.moodys.com for a copy of this
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 this programme is 1 notch. This implies that Moody's might downgrade the covered bonds because of a TPI cap if it lowers the CB anchor by 2 notches all other variables being equal.

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.

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.

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