CreditOutlook

Credit Implications of Current Events

15 DECEMBER 2014

NEWS & ANALYSIS

RATINGS & RESEARCH

Last week we downgraded Merck, Momentive Specialty Chemicals, Samson Investment Company, Bayonne Energy Center, Nedbank Private Wealth Limited, SRLEV, REAAL Schadeverzekeringen and several commercial mortgage securities. We upgraded Whiting Petroleum, Power Sector Assets & Liabilities Management, Homer City Generation, Al Madina Insurance, Allied Irish Banks, BDO Unibank, Bank of the Philippine Islands, Metropolitan Bank & Trust Company, Land Bank of the Philippines, Cigna, Shanghai Pudong Development Bank and the Philippines, among other rating actions.

Last week we published on global oilfield services, global business and consumer services, UK oil exploration and production, Asia-Pacific corporates, European business services, US consumer durables, US homebuilders, Russian integrated oil, UK pork, EMEA speculative-grade retailers, US retailers, US airports, EMEA airports, UK water, Australian power, global banks, European banks, Asian banks, global investment banks, Vietnamese banks, Latin American asset managers, Canadian insurers, global money market funds, Swedish banks, Australian banks, US P&C insurers, US closed-end muni funds, global asset managers, Italian insurers, oil-exporting sovereigns, GCC sovereigns, Latin American sovereigns, United Arab Emirates, Sweden, Korea, Zambia, Moldova, Switzerland, Czech Republic, Botswana, Peru, St. Maarten, German Laender, Russian regions, Canadian provinces, Italian regions, French regions, Alberta, Saskatchewan, US ports, US local governments, US hospitals, US universities, student loan ABS, US CMBS, credit card ABS, global covered bonds, US RMBS and German covered bonds, among other reports.

RECENTLY IN CREDIT OUTLOOK

Corporates

Abengoa's Plans to Optimise Its Capital Structure Are Credit Positive

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Last Thursday, Abengoa S.A. (B2 stable), a Spanish engineering and construction company, announced that it intended to reduce its stake in subsidiary Abengoa Yield (YieldCo, unrated) and accelerate the sale of concession assets to YieldCo. This would be credit positive for Abengoa, provided the proceeds from the transactions go to reducing Abengoa's very high gross corporate leverage.

Abengoa intends to cut its stake in YieldCo to no less than 51% from 64% currently. Based on YieldCo's current market capitalisation of around €1.7 billion, we estimate that the reduction would result in up to €220 million of proceeds. Abengoa will also accelerate the sale of two assets to YieldCo at a sale price of $170-$200 million (€140-€160 million).

These two transactions would provide Abengoa with a cash inflow of roughly €370 million, which, if the funds go toward reducing corporate debt, would lower Abengoa's gross corporate leverage (including non-recourse debt in process) to around 7.3x on a pro forma basis from 7.6x for the 12 months ended September 2014. However, with Abengoa guiding investors on a net corporate leverage target of 4.5x in 2015 (including non-recourse debt in process), it remains to be seen whether Abengoa is also committed to reducing its very high corporate leverage on a gross basis. A willingness to do so, while keeping liquidity adequate, is one of our major rating considerations.

We assume that even with a 51% stake, Abengoa will continue to fully consolidate YieldCo. At the same time, YieldCo will most likely finance the purchase of Abengoa's concession assets with a combination of a drawdown of its credit facilities and cash on the balance sheet. As such, both transactions combined would have a very limited effect on Abengoa's Moody's-adjusted net consolidated debt/EBITDA, which was 9.3x for 12 months ended June 2014, although it would be at the cost of an increased dividend leakage from YieldCo to other shareholders.

YieldCo is a publicly traded arm of Abengoa, offering Abengoa a platform to recover equity invested in concession projects at high EBITDA multiples. Abengoa made its first asset sale in September for $323 million and we expect that the company will sell other concession assets to YieldCo on a recurring basis, most of which will be projects that it has completed and are operational. Abengoa's target for net corporate capex (i.e., equity contributions into its concession business net of proceeds from the disposal of concessions) is €150-€200 million in 2015, which should lead to positive free cash flow generation at the corporate level.

If Abengoa reduces its stake in YieldCo further, it would ultimately allow Abengoa to deconsolidate it and report its stake using the equity method, which would lead to optically improved consolidated leverage. Although such a scenario would be positive, there will continue to be rather strong linkages between YieldCo and Abengoa, including the contingent risk of support to YieldCo if needed. As such, we would continue monitoring developments in YieldCo as an important qualitative factor in rating Abengoa.

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Metsa Board Mulls Issuing Equity to Partially Finance Its Restructuring, a Credit Positive

Last Wednesday, Metsa Board Corporation (B1 positive), a leading European primary fibre paperboard producer, said that it was considering pursuing a €100 million rights issue to partially fund its shift away from paper production. Such a transaction would be credit positive for Metsa Board because the proceeds will expand its folding boxboard production capacity, close loss-making paper operations and provide liquidity to fund an investment in associated company Metsa Fibre.

The company would use rights issue proceeds, along with an existing cash balance of around €200 million as of September 2014, to finance a new folding boxboard machine at the company's Husum mill in Sweden. Greater capacity will help Metsa Board meet increasing demand for folding boxboard products, with the company expecting to spend approximately €170 million over the next two years on the expansion. The machine will increase Metsa Board's folding boxboard production capacity by approximately 400,000 tons per year to a total capacity of approximately 1.3 million tons annually. Metsa Board expects to fully utilize its current production capacity of 935,000 tons by late 2015, assuming demand continues to increase.

Metsa Board also will close two paper machines and convert one paper machine at Husum to produce linerboard, increasing its total linerboard capacity by 300,000 tons to 700,000 tons. Husum will continue to produce uncoated fine paper until the linerboard sales volumes have grown to the full capacity of the machine it is converting, which the company expects will occur by the end of 2017. Both the new folding boxboard machine and increased linerboard capacity will allow the company to increase its paperboard sales volumes in 2016, resulting in an annual reported EBITDA contribution in the range of €50 million.

The company also intends to divest its Gohrsmühle paper mill in Germany next year, but does not rule out closing it if the company's divestment efforts are unsuccessful. This production site currently generates approximately €20 million of negative reported EBITDA annually, with sales of around €85 million. We view the plan to exit the declining and loss-making paper production sector by the end of 2017 as credit positive overall, but note the closure could include upfront restructuring costs of up to €50 million.

Metsa Board also plans to increase its stake in Metsa Fibre, an associated company in which Metsa Board has a 24.9% stake. This investment envisages the replacement of Metsa Fibre's current pulp mill in Äänekoski, Finland, which the company expects will cost approximately €1.1 billion. Metsa Board's equity share in Metsa Fibre will require a maximum capital investment of €30 million. Metsa Fibre expects to make a final investment decision by spring 2015, which would then require a capital injection in 2016.

NEWS & ANALYSIS

Credit implications of current events

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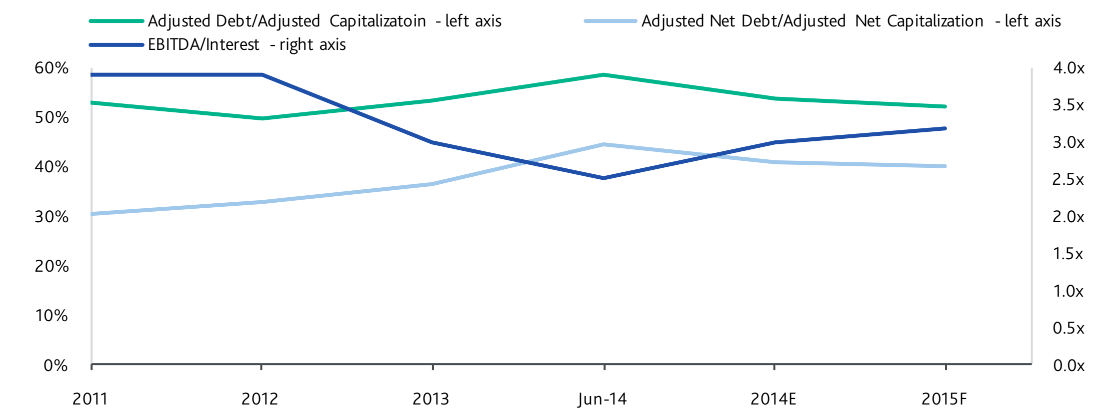
Dalian Wanda Commercial Properties' IPO Is Credit Positive

Last Wednesday, Dalian Wanda Commercial Properties Co., Ltd. (DWCP, Baa2 stable) released its global offering prospectus and initial public offering (IPO) timetable, through which the company plans to raise HKD25.0-HKD29.8 billion by issuing 600 million shares at HKD41.80-HKD49.60 per share. The IPO is credit positive because it will enhance DWCP's liquidity and capital structure, thereby improving the company's credit quality and supporting its current rating and outlook. A successful IPO will enhance DWCP's equity base and capital structure.

Depending on the final offer price and the exercise of the over-allotment option (the company's underwriters can issue a further 90 million shares by exercising this option), we estimate that DWCP's net debt/net capitalization ratio will decline to 38%-42% at the end of 2014, from 44.5% at the end of June 2014. DWCP expects to start trading on the Hong Kong Stock Exchange on 23 December.

The IPO will also reduce the company's reliance on debt funding, thereby enhancing its interest coverage. We estimate that the company's EBITDA/interest ratio will rise to 3.0x-3.5x in the next 12-18 months from 2.5x for the 12-month period ended in June 2014 (see exhibit below). In addition, DWCP's IPO will expand its investor base.

DWCP's Leverage and Interest Coverage Ratios Will Improve Post-IPO



Sources: Moody's Financial Metrics and Moody's Investors Service estimates

DWCP's good liquidity is reflected by its strong cash balance of RMB80 billion at the end of June 2014, covering 2.4x of its short-term debt of RMB34 billion. The proceeds from the IPO will provide additional liquidity for business expansion. According to the IPO prospectus, DWCP will use 90% of the net proceeds, or HKD24 billion (around RMB19 billion), to fund the construction of its 10 development projects. The company will use the remainder for working capital purposes, reducing the company's borrowings.

A successful listing would also enhance corporate governance, including controls over related-party transactions, increased transparency and timely disclosure of financial results in accordance with Hong Kong Stock Exchange listing requirements.

DWCP's current Baa2 issuer rating is based on the company's prudent pre-IPO dividend policy, which pays out 20% of net profit. Any material change to that would affect its current rating.

Banks

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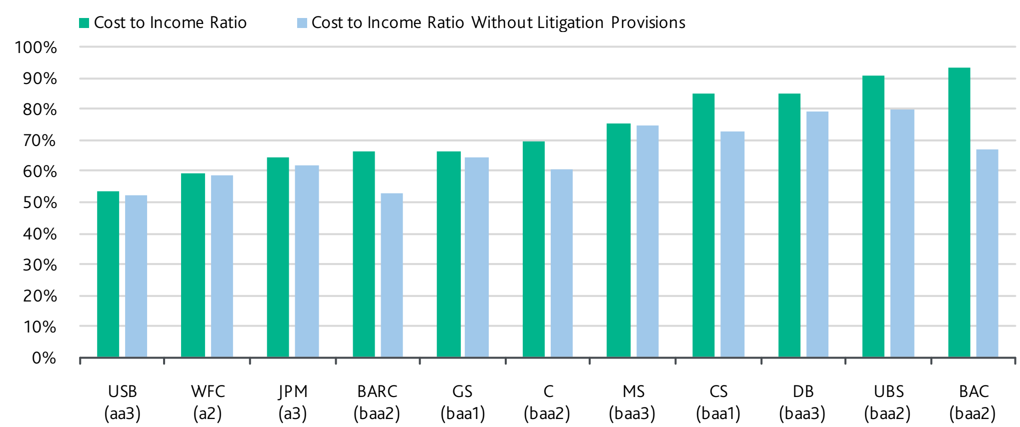
Citigroup Gets Buffeted by More Litigation and Restructuring Headwinds, a Credit Negative

Last Tuesday, Citigroup Inc. (Baa2 stable) CEO Mike Corbat announced that the bank's fourth-quarter results will be depressed by a further $2.7 billion in litigation provisions and $800 million of restructuring charges. He added that market volatility in early October contributed to weak fixed income trading revenues, leaving the firm only marginally profitable for the quarter. This quarterly performance is credit negative for Citigroup bondholders, and Mr. Corbat's comments regarding fixed income market conditions may also portend weak fourth-quarter trading results for other investment banks.

These weak fourth quarter results will bring to a close a difficult 2014 for Citigroup, defined by weak top line growth (1% through the first nine months of 2014) and high litigation, regulatory and reengineering expenses. These headwinds have frustrated management's efforts this year to improve the quality and consistency of earnings. We estimate a return on equity of roughly 4% for the year, which will keep management under considerable shareholder pressure. Passing the Federal Reserve's Comprehensive Capital Analysis and Review next year remains a critical objective to facilitate the return of capital to shareholders.

As the exhibit below shows, Citigroup is not alone in having to absorb higher litigation costs in 2014. Mr. Corbat indicated that the fourth-quarter provisions would be principally related to investigations and litigation regarding foreign exchange, LIBOR and anti-money laundering. He expressed hope that the charges would put these issues largely behind Citigroup. However, he also acknowledged that Citigroup controls neither the timing nor the amount of settlements. No update was provided on any change to the estimate of reasonably possible losses above existing reserves (which were roughly $5 billion at the end of the third quarter).

Global Investment Bank Efficiency Ratios with and Without Litigation Charges, January-September 2014



Note: USB = U.S. Bancorp; WFC = Wells Fargo & Company; JPM = JP Morgan Chase & Co.; BARC = Barclays Plc; GS = The Goldman Sachs Group Inc.; C = Citigroup Inc.; MS = Morgan Stanley; CS = Credit Suisse Group AG; DB = Deutsche Bank AG; UBS = UBS AG; BAC = Bank of America Corporation

Source: Company filings

The exhibit illustrates Citigroup's overall efficiency ratio. But even if we look at the efficiency ratio of Citigroup's core operations, management still has work to do before it achieves its target of a mid-50s efficiency ratio in 2015, versus 62% for the first nine months of 2014.

Despite the headwinds, Citigroup has made considerable progress strengthening and stabilizing earnings in this operating environment. During the past two years, the firm has incurred $3.2 billion in restructuring charges to achieve $3.4 billion in run-rate savings (although it has had to reinvest about half of these savings into regulatory compliance initiatives). CitiHoldings, the company's legacy portfolio, operated on a breakeven basis in the second and third quarters (excluding litigation charges). The firm has also refocused its consumer banking strategy on affluent urban customers in large metropolitan areas in 24 countries, with a longer term goal of building a common global operating platform for this business. Mr. Corbat described the creation of this global consumer network and the achievement of scale out of that network as "critical to our ability to compete." Although Citigroup's restructuring is incomplete, the firm's strong capital and liquidity positions continue to support its credit rating.

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Postponement of Tougher Risk Limits Is Credit Negative for Russian Banks

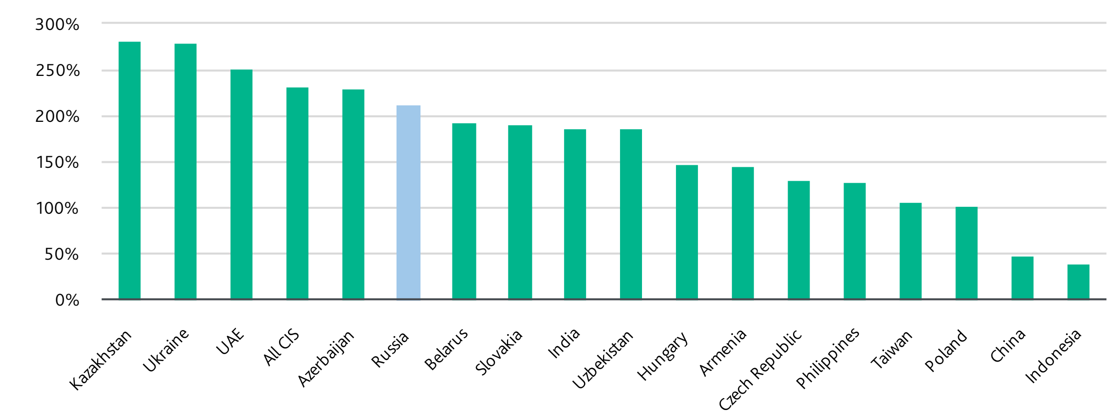
Last Monday, the financial markets committee of the Russian parliament's lower house approved a one-year postponement of tighter regulations on how much banks may lend to a single group of borrowers and to related parties. The postponement, which will become law when the full Russian parliament approves the respective amendments to the Law on the Central Bank, is credit negative for Russian banks because it means they will not have an immediate incentive to improve their high concentration levels.

In addition to removing an immediate incentive for banks to improve their concentration ratios, the postponement is credit negative because it is a step back from the Central Bank of Russia's proactive push to tighten regulation and bring local banks' risk practices closer to global standards.[1]

With foreign capital markets essentially closed to Russian borrowers, banks are actively refinancing their external corporate debt, which made the originally scheduled 1 January 2015 start date for the tighter regulations an inopportune time to introduce the new rules.

At the end of 2013, loans to Russian banks' top 20 borrowers exceeded 200% of the banks' Tier 1 equity, one of the highest ratios globally (see exhibit). Such high borrower concentrations pose a risk to banks because it means that deterioration in the creditworthiness of only a few large borrowers could significantly negatively affect a bank.

Select Countries' Top 20 Borrowers as a Percent of Banks' Tier 1 Capital



Note: UAE = United Arab Emirates; CIS = Commonwealth of Independent States. Data are for the end of 2013 for Russia and the end of 2012 for other countries.
Source: Moody's Investors Service

Currently, only borrowers for which the legal entities are in a parent-subsidiary relationship or are affiliated (i.e., one entity owns more than 20% of the other) are defined as "a group of related parties" for applying the Central Bank of Russia's rule that loans to a single group comprise no more than 25% of a bank's capital. The central bank had planned to widen the definition to better capture the substance of credit correlation risks, including groups of borrowers whose financial standing depends on one another and those that share a common shareholder. This broader definition will likely now take effect a year later on 1 January 2016.

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[1] See Russian Banks: Tighter Regulation Is Credit Positive, but Will Require Adjustments to Some Banks' Operating Models, 14 May 2014.

Similarly, plans to tighten restrictions on lending to parties related to bank management or owners – which would harmonise Russia's rules with international norms – will also likely be postponed a year to 1 January 2016.

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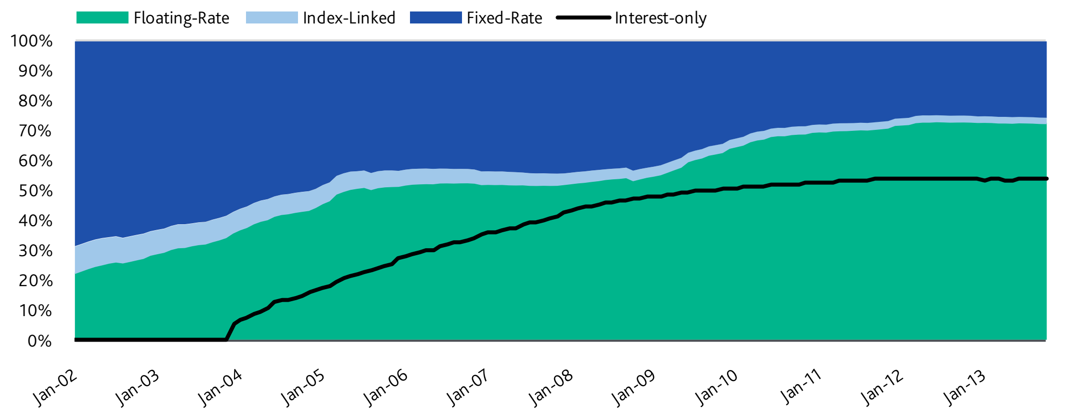
IMF Proposals to Strengthen Denmark's Mortgage Lending Are Credit Positive

Last Wednesday, the International Monetary Fund (IMF) recommended that Denmark reduce short-term funding, discourage variable-rates on Danish mortgages and dampen interest-only loans. Implementation of these recommendations would be credit positive for Danish mortgage credit institutions and covered bonds because they address vulnerabilities in the mortgage market.

The IMF recommended reducing the maturity mismatch resulting from the issuance of short-term covered bonds by implementing, for example, specific regulations or requiring additional capital. Denmark amended its covered bond legislation recently and implemented a form of a conditional pass-through structure that provides a mechanism for coping with failed refinancing auctions.[2] The suggested steps would reduce the risk that such a destabilizing event occurs in the first place.

The IMF has also recommended discouraging variable interest rates on mortgages. To achieve this, the IMF suggests further raising mortgage margins and tightening underwriting criteria for variable-rate loan products, which would make traditional 30-year fixed rate loans more attractive to borrowers. Until recently, borrowers preferred variable-rate loans (see exhibit below), which, because interest rates are at historical lows, has left borrowers exposed to a sudden spike in interest rates.

Denmark's Variable-Rate and Interest-Only Mortgage Lending as a Percent of Total Mortgage Lending



Source: Danish Central Bank

Another IMF recommendation is to curtail the use of interest-only loans. To do so, the IMF called for lower leverage limits up to which mortgages with interest-only periods can be granted and/or imposing higher capital charges until interest-only periods have expired. The IMF noted that reducing or ending the tax deductibility of interest payments would make interest-only loans less attractive, and would encourage higher amortisation levels. This would be credit positive because households that amortise loans build up home equity over time that protects against house price declines. Interest-only mortgages have grown significantly over the past 10 years after being a virtually unknown product in Denmark before 2004.

The recommendations, which the IMF suggests implementing over the next 18 months, require adoption by national regulation. Finanstilsynet, Denmark's financial supervisory authority, has started to address

[2] See Danish Financial Institutions: New Bill Regarding Refinancing Relating to Mortgage-Credit Bonds Reduces Refinancing Risk in the Danish Mortgage System, 17 March 2014.

vulnerabilities in the mortgage market via the supervisory diamond. Further, the Danish central bank has reflected on the IMF proposals and recommended a reduction of the maximum loan-to-value ratio for interest-only loans.

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Zuercher Kantonalbank's Acquisition of Swisscanto Is Credit Positive

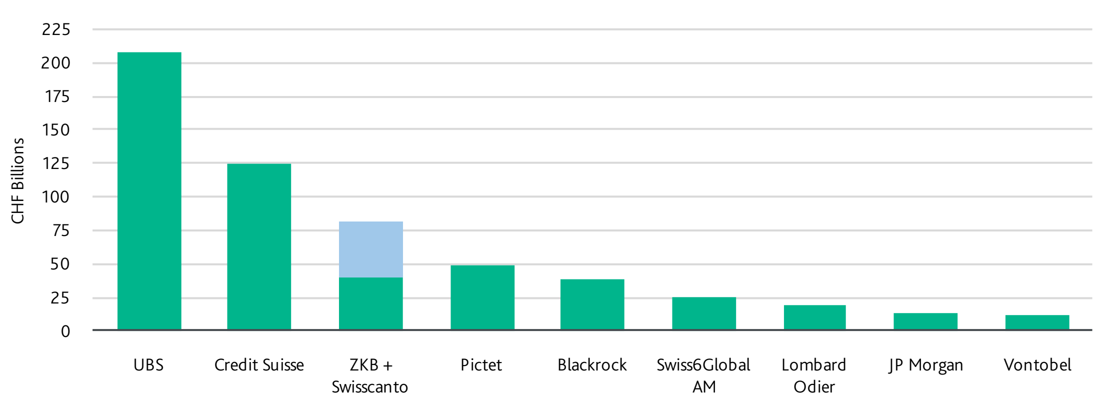
Last Thursday, Zuercher Kantonalbank (ZKB, Aaa stable, C+/a2 stable[3]) announced that it had acquired Swisscanto Holding AG (unrated), an asset manager owned by cantonal banks in Switzerland, for what we estimate is CHF700-CHF750 million. The transaction is credit positive because it strengthens ZKB's market position in Swiss asset management and adds to the bank's earnings diversification and franchise value in Switzerland. Moreover, the small negative capital effects of the deal will be more than offset by future earnings from acquired Swisscanto assets under management (AUM). The parties expect the deal to close in first-quarter 2015.

Our estimate of the acquisition price equals 1.3%-1.4% of Swisscanto's CHF52.6 billion of AUM as of 30 June 2014, and includes CHF360.3 million for the 81.9% of Swisscanto shares that ZKB does not already own. In addition, the cantonal banks selling their stakes in Swisscanto will receive additional annual payments during 2016-18, depending on their individual contributions to the future performance of the acquired business.

Through the deal, we estimate that ZKB will create goodwill of up to CHF400 million in 2015-18, which will reduce its total capital ratio by about 70 basis points over the same period from 15.9% as of 30 June 2014. However, gains resulting from the acquisition and ZKB's net profit of CHF700-CHF750 million per year will more than make up the decline in the capital ratio.

With the strong Swisscanto brand, ZKB will boost its position as Switzerland's third-largest asset manager with combined pro forma AUM of CHF105 billion as of 30 September 2014 (or combined investment fund AUM of CHF 82.1 billion; see Exhibit 1). ZKB will also become Switzerland's largest occupational and pension fund manager and manage Switzerland's largest investment foundation for pension funds, which will allow ZKB to leverage and expand its existing products and better operate within the highly competitive institutional asset management market.

EXHIBIT 1
Swiss Investment Funds' Assets Under Management

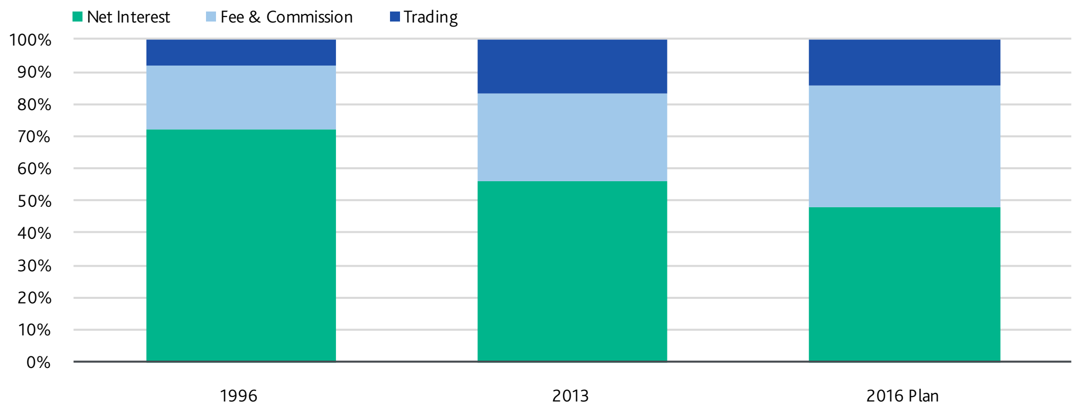


Sources: Swiss Funds and Asset Management Association and Zuercher Kantonalbank

[3] The bank ratings shown in this report are the bank's deposit rating, its standalone bank financial strength rating/baseline credit assessment and the corresponding rating outlooks.

The resulting AUM growth potential and the realisation of cost synergies from the integration of Swisscanto into ZKB will support the bank's net profit. Although the transaction will be earnings neutral in 2015, we expect it to add approximately 5% to the bottom line starting in 2016, which would diversify ZKB's earnings further and reduce its dependence on net interest income in a challenging low interest-rate environment. Exhibit 2 shows the distribution of ZKB's core earnings before and after the Swisscanto deal.

EXHIBIT 2
Components of ZKB's Core Earnings Before and After the Swisscanto Purchase



Source: Zuercher Kantonalbank

The deal will also have a positive effect on the profitability of the rated cantonal banks selling their stakes in Swisscanto: Berner Kantonalbank AG (A1 stable, C+/a2 stable), which has a 7.6% stake; St. Galler Kantonalbank (Aa1 stable, C+/a2 negative), which has a 5.4% stake; and Banque Cantonale Vaudoise (A1 stable, C/a3 positive), with a 7.3% stake.

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Lower Milk Prices Are Credit Negative for New Zealand Banks

Last Wednesday, New Zealand-based Fonterra (unrated), the world's second-largest milk processor, forecast that its milk payout for the current season ending in May 2015 would be NZD4.70 per kilogram of milk solids, down from an earlier forecast of NZD5.30 and well below the record NZD8.40 for the 2014 season. The decline is credit negative for New Zealand banks because a lower payout reduces the income that farmers receive, thereby threatening the asset quality of banks exposed to the dairy sector.

As shown in Exhibit 1, ANZ Bank New Zealand Limited (Aa3 stable, C/a3 stable[4]) and Bank of New Zealand (Aa3 stable, C/a3 stable) are the most exposed to New Zealand's agricultural sector among New Zealand's five largest banks, and dairy loans comprised an average of around 69% of banks' total agricultural loans as of March 2014. The other three banks are ASB Bank Limited (Aa3 stable, C+/a2 stable), Westpac New Zealand Limited (Aa3 stable, C/a3 stable) and Kiwibank Limited (Aa3 stable, D+/baa3 stable).

EXHIBIT 1
New Zealand Banks' Exposure to the Agricultural Sector
Agriculture as a percent of total credit exposure including all financial assets

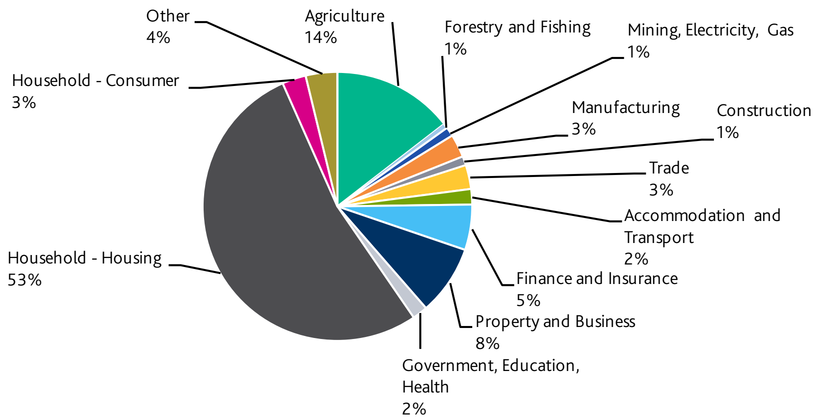
Bank of New Zealand	15%
ANZ Bank New Zealand	12%
ASB Bank	11%
Westpac New Zealand	8%
Kiwibank	0%

Source: The banks

A deterioration in the asset quality of dairy loans would have a material effect on the banks. As Exhibit 2 shows, New Zealand's agricultural exposures comprised the second-largest sector concentration in bank loan portfolios as of March 2014, after housing loans. When the dairy payout last dropped sharply in 2009, banks' agriculture nonperforming loan ratios (NPLs), which include impaired loans and loans 90 days past due, spiked to 3.92% of total loans at September 2010 from 0.20% at September 2008 (see Exhibit 3). Moreover, a weakened dairy sector risks having a meaningful second-order negative effect on New Zealand's economy.

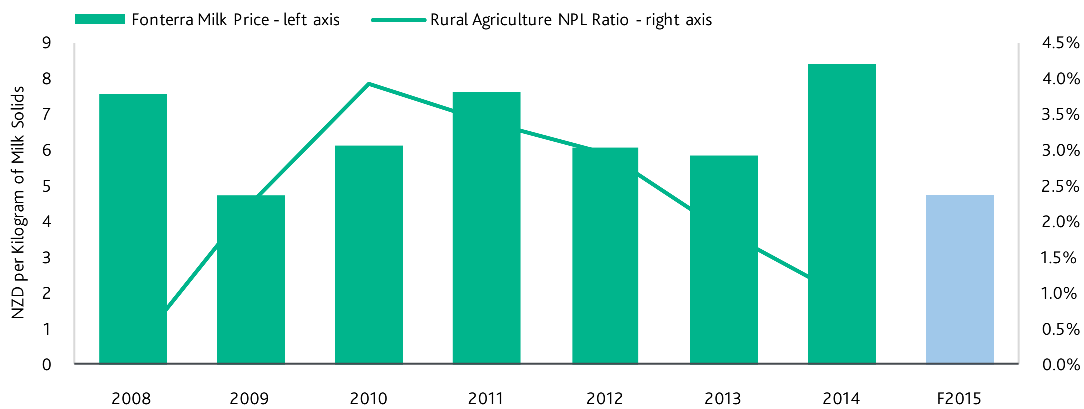
[4] The bank ratings shown in this report are the bank's deposit rating, its standalone bank financial strength rating/baseline credit assessment and the corresponding rating outlooks.

EXHIBIT 2
New Zealand Banks' Loan Portfolio by Sector as of March 2014



Source: Reserve Bank of New Zealand

EXHIBIT 3
Fonterra's Milk Price versus New Zealand Agriculture Nonperforming Loan Ratio



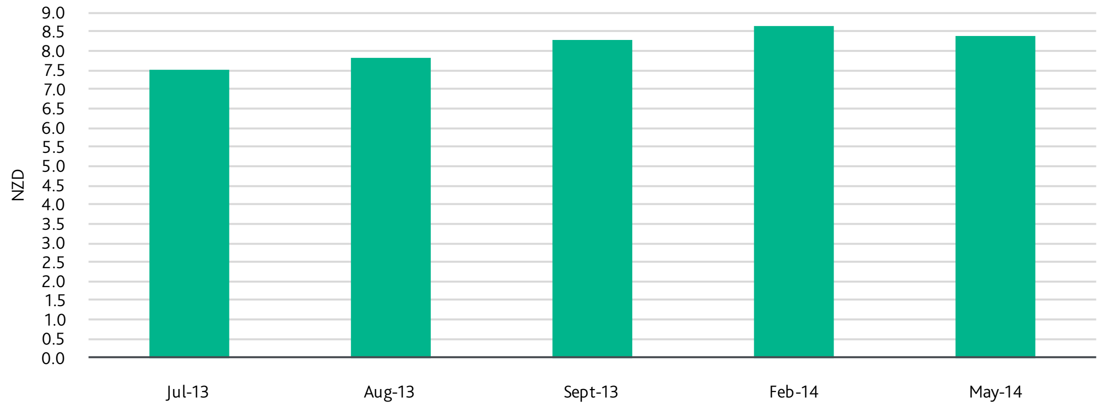
Sources: Reserve Bank of New Zealand and Fonterra

We do not expect NPLs to return to September 2010 levels because farmers have become more cautious since then and did not respond to the record payout in the 2014 season by significantly increasing spending and debt. Furthermore, farmers knew well in advance that 2015 prices would be lower than 2014 levels, allowing them to manage down expenses and defer any significant capital expenditures.

Another important factor is that Fonterra's payout price is an average price for the season. As shown in Exhibit 4, Fonterra's forecasts rose progressively during the 2014 season, implying that farmers would have received additional income at the end of the season to compensate for the lower price they received in the early part of the season. This additional income late in the 2014 season should provide some buffer to their lower expected 2015 income. In addition, if milk prices were to recover in the 2016 season to the long-term average of NZD6.00, it would contain the challenge to bank asset quality from Fonterra's 2015 price drop.

EXHIBIT 4

Fonterra Milk Payout Price Forecasts During the Season Ended May 2014



Source: Fonterra

Declining milk prices are a result of demand and supply factors. Slower economic growth in China, a major export market for New Zealand's milk producers, has weakened demand. Exacerbating that effect is the strength of the New Zealand dollar. Meanwhile, last season's high milk price has resulted in more investment to increase the global supply. At the same time, Russian import restrictions have closed a major market to milk producers in the European Union, adding to the global milk glut.

Insurers

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US House Passes Collins Amendment, a Credit Positive for Systemically Important Insurers

Last Wednesday, the US House of Representatives passed the Insurance Capital Standards Clarification Act of 2014 (widely known as the Collins Amendment), which allows the Federal Reserve to impose insurance-relevant leverage and capital requirements to systemically important financial institutions (SIFIs). The measure, which the US Senate passed in June, is credit positive for systemically important insurers because it allows regulators to more closely align capital charges with the risks of those insurers' assets and liabilities.

Among the affected insurers are non-bank SIFIs such as American International Group, Inc. (Baa1 stable) and Prudential Financial, Inc. (Baa1 stable), and potentially MetLife, Inc. (A3 stable), whose preliminary designation as a non-bank SIFI is not yet final following the company's request that the Financial Stability Oversight Council (FSOC) review the designation.

Insurers designated as non-bank SIFIs are placed under the jurisdiction of the Federal Reserve System, and are subject to enhanced group-wide supervision beyond, and in addition to, the current state regulatory system. Non-bank SIFIs must pass rigorous stress tests and satisfy solvency, capital adequacy and liquidity requirements, all of which is positive because it should make insurers more financially conservative and limit their ability to assume outsize risks, thereby protecting their credit profiles.

However, if capital requirements become burdensome, as would be the case if the Fed applied time deposit capital standards to longer-dated insurance policies, systemically important insurers would have to increase prices or stop selling certain products altogether. Affected insurers would be at a competitive disadvantage to other insurers or other financial service providers not subject to Fed oversight.

The congressional action also has international ramifications: outside the US, regulators are also pursuing a separate set of capital standards for global systemically important insurers. The enactment of the Collins Amendment provides global regulatory authorities more flexibility to harmonize their capital rules with more insurance-centric rules in the US.

Despite the fact that Washington recognizes that there are differences between insurers and banks, there is still a great deal of uncertainty regarding the capital regulations and what their ultimate effect will be on insurers. Specifically, even though the Fed has more flexibility in setting capital standards, the absolute level of the capital requirements and how different products are treated under the regime remains unknown.

Sovereigns

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Collapse of Israel's Governing Coalition Is Credit Negative

Last Monday, the parliament of Israel (A1 stable) unanimously voted to dissolve itself after about 20 months in office amid disagreements within the governing coalition. Israel's political turmoil is credit negative for the sovereign because it will dampen economic confidence, delay the implementation of growth-boosting reforms and hinder fiscal planning for the next two years.

The collapse of the government was the result of a series of disagreements within the coalition that came to a head when Prime Minister Benjamin Netanyahu on 2 December dismissed two of his ministers, Finance Minister Yair Lapid and Justice Minister Tzipi Livni.

Although Israel's 2015 budget had already received cabinet approval, it was the proximate cause of the government collapse. The Palestinian peace process, the handling of the military operation in Gaza and, most recently, a proposal to enshrine Israel's status as a Jewish state were among other issues that have divided the coalition since it took office in March 2013. Both Mr. Lapid and Mr. Livni had opposed the bill.

With early elections set for 17 March 2015, next year's budget will not be approved until mid-year at the earliest. The law in these circumstances calls for the government to execute one twelfth of the 2014 budget each month, with discretion about specific allocations given to the Accountant General. The government has implemented this method several times in the past, most recently in 2013, and it will restrain expenditure growth. Next year's budget deficit could therefore be lower than the 3.4% of GDP approved by cabinet, in which case Israel's debt to GDP ratio would decline slightly next year, instead of inching upward as we had previously expected. Although positive in that sense, it is more of an accident than emblematic of good fiscal policy management.

The political turbulence is credit negative because it creates policy uncertainty, weighing on economic sentiment, curbing investment and dampening economic activity. Moreover, growth-enhancing structural reforms, such as increasing economic competition by reducing the power of the country's business monopolies and reducing tariffs on imports are likely to stall. Such reforms are vital because Israel's potential growth has significantly moderated owing to slower export demand and slower labor force expansion. Moreover, the country is only now recovering from the effects of this past summer's conflict with Hamas in Gaza. Real GDP shrank slightly in the third quarter of 2014 because of military operations and we forecast that 2014 real GDP growth will fall to 2.3% from 3.2% in 2013.

The lack of policy continuity will also hinder fiscal planning. The shortened electoral cycle is likely to lead to politicians making costly promises for tax breaks or new spending programs that will affect future budgets and be difficult to reverse. Although Israel has had fiscal rules in place since 2010 that target the continued decline of its debt-to-GDP ratio, the government in some years has failed to adhere to them, in part because of political turnover.

Israel's system of proportional representation is inherently unstable, with coalition governments often formed by ideologically disparate partners. As a result, no administration lasts a full term. That said, this most recent administration was unusually short. In spite of this volatility, fiscal management has been effective in recent years, helped by strong nominal growth, shrinking interest payments and reduced defense spending.

We expect nominal growth to be lower than its roughly 6% average before the global financial crisis and general government interest/revenue ratios to stabilize at current levels of about 7% in the coming years. Defense spending is also likely to rise again next year, especially if a broader coalition comes to power. As a consequence, we believe that Israel will need more consistent fiscal planning to keep its debt metrics on a declining path.

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Côte D'Ivoire Receives Further Debt Relief from France, a Credit Positive

On 4 December, French President Francois Hollande announced that France would provide €1.12 billion of debt relief to Côte d'Ivoire (B1 positive) under the Debt Reduction and Development contracts (C2D) implemented by French public development agency Agence Française de Développement (unrated). This announcement is credit positive for Côte D'Ivoire because it will help the sovereign continue a debt-reduction effort that began in 2011, when it completed its Highly Indebted Poor Countries initiative, and included debt cancellations granted by the Paris Club organization of creditors in 2012.

C2D constitutes approximately 24% of gross government debt. However, we consider France's C2D assistance to be aid spread over time, rather than debt. The new agreement between France and Côte d'Ivoire will make this assistance more likely and predictable. Excluding C2D, we expect the country's public debt burden to fall to 25% of GDP in 2015 from 68% in 2011.

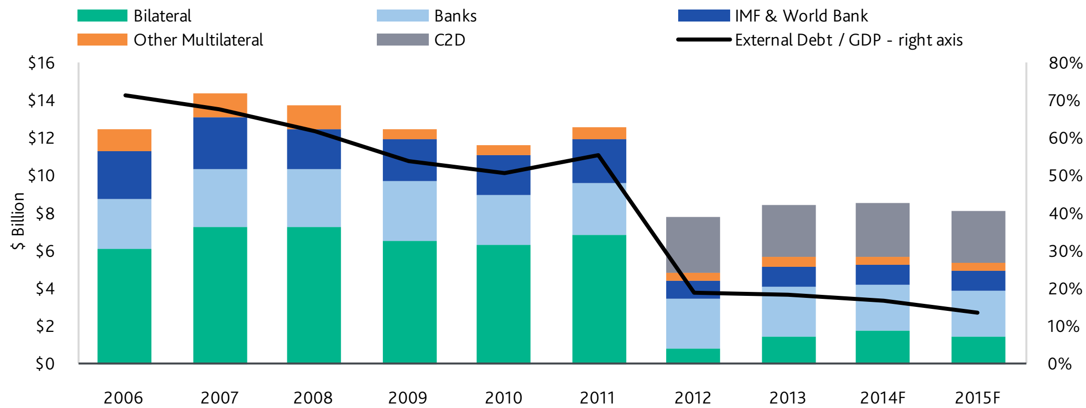
The €1.12 billion of debt forgiveness will cover 2015-20 and is the second tranche of assistance granted to the country under the C2D programme. Côte d'Ivoire's C2D programme started in 2012 and totals €2.89 billion of debt forgiveness. Côte d'Ivoire has already received a first tranche of €630 billion for 2012-15.

According to the conditions of the C2D, Côte d'Ivoire will continue to service the cancelled debt, but as soon as France recognizes the repayment, France will pay a subsidy of an equal amount to a special account with the Central Bank of West African States to fund investments targeting education, health and transportation infrastructure. Given that Côte D'Ivoire decides the projects in which to invest, and because most of these projects would have been financed by the government anyway, we consider C2D as part of the budget allocation process and a quasi-public source of funds.

C2D allows Côte d'Ivoire to increase its capital expenditures. Between 2009 and 2013, capital expenditures rose to 6.1% of GDP from 2.9% and we estimate they will be 7.2% of GDP this year. Public investment in infrastructure supports increases in productivity and acts as a catalyst for foreign direct investment. Lower public debt ratios will improve debt affordability, which is already favourable given that most of the government's debt has concessional terms and long tenures.

The disbursement of the second tranche of the C2D reflects strong donor support, a key credit factor supporting the country's declining government debt ratio (see exhibit below). This is the largest amount granted under a C2D contract, which demonstrates France's and, more generally, the international community's, support of Côte d'Ivoire.

Côte d'Ivoire's External Debt by Creditor



Source: Côte d'Ivoire Finance Ministry

US Public Finance

Nevada Budget Shortfall Erases Gains Made During Recovery

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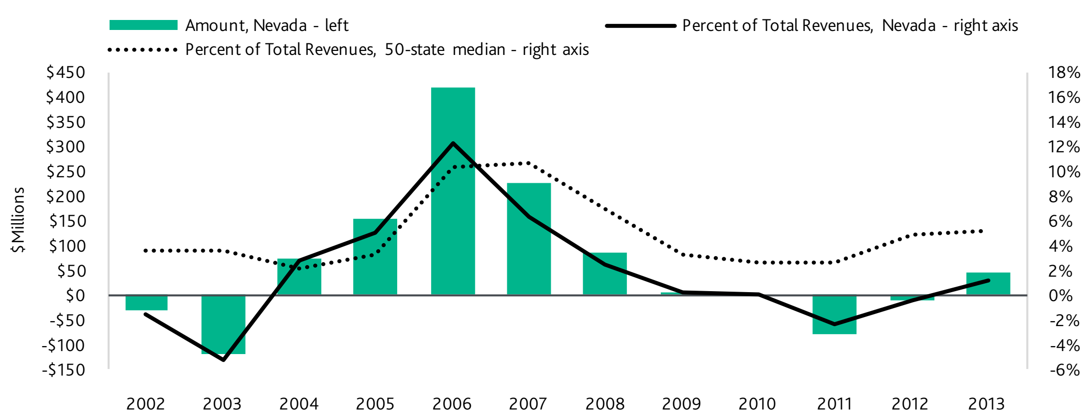
Last Monday, Nevada's Interim Finance Committee announced a projected budget shortfall of $162 million for the fiscal year ending 30 June 2015, owing to weak gaming and mining revenues and higher-than-expected school enrollment. We expect Nevada (general obligation limited tax Aa2 stable) to use reserves to fund the shortfall, a credit negative step backward at a time when most states are rebuilding reserves.

Nevada expects to end fiscal 2015 with an available fund balance of $8 million, which is $162 million below the statutorily required minimum of 5% of the $3.3 billion budget and $170 million below what the state had previously expected. The state revised revenues downward by $87 million because of weakness in mining and gaming revenues. The state revised spending upward by $81 million mostly owing to unexpectedly strong growth in school enrollments.

Nevada, like most states, has been slowly rebuilding reserves over the past few years, although Nevada's reserves remain well below their pre-recession peaks (see exhibit below). The last of the 50 US states to exit the recession, doing so in 2011, Nevada was able to get its available fund balance, the sum of the unassigned fund balance reported in the general fund and its rainy day fund, into positive territory in fiscal 2013. However, the new shortfall will erase those gains as the state uses the reserves it built up over the past couple of years to plug the deficit. The decrease in reserves will cause it to lose ground against peers that are expanding their financial cushions.

Nevada's Available Balances



Note: Available balances are the sum of the unassigned fund balance and the rainy day fund.
Source: Moody's Investors Service

The state revised down gaming revenues by $41.5 million, reflecting that their recovery has not been as robust as during previous economic recoveries. Gaming win, the revenues that casinos net, was down 4.6% in the three months that ended October 2014.

Nevertheless, we still expect Las Vegas, Nevada, to outperform struggling regional gaming markets. Renewed consumer confidence owing to lower gas prices and increasing payrolls will fuel growth from US tourists and Las Vegas will retain its unique position as a destination for overseas visitors. In the 2007-09 recession, the state was able to enact revenue enhancements that balanced the budget on a temporary basis, and we expect that the state will again adopt measures to improve its budgetary position in the next budgetary biennium.

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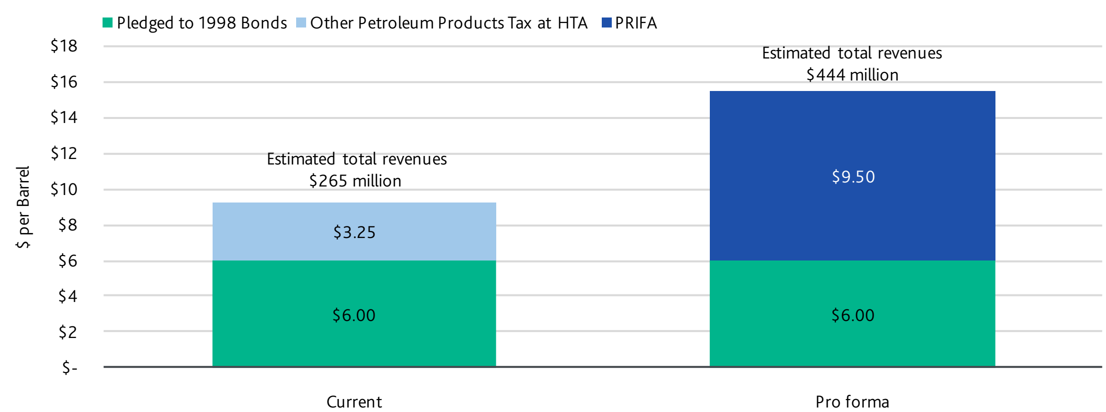
Puerto Rico Legislation Imperils Bond Issuance that Would Boost Development Bank Liquidity

During its annual session ended Friday, Puerto Rico's legislature approved the issuance of bonds by the Puerto Rico Infrastructure Financing Authority (PRIFA) to pay back loans made by the Government Development Bank for Puerto Rico (GDB, B3 negative) to Puerto Rico Highway and Transportation Authority (PRHTA, Caa1/Caa2 negative). The transactions would help maintain GDB's liquidity by repaying $2.2 billion of principal and interest on the loans. However, the legislature imposed conditions that will delay, and may even prevent, the bond issuance, a credit negative for GDB and for Puerto Rico (B2 negative) itself, which relies on the continued liquidity of GDB. To issue bonds, amendments to authorizing legislation will have to be made when lawmakers reconvene in January.

Authorizing legislation would raise the petroleum products tax by 68% to $15.50 per barrel from $9.25, allowing Puerto Rico to pledge 61% of the total tax, or $9.50 per barrel, to the new bonds (see exhibit below). PRIFA is an attractive issuer because it is not legally allowed to restructure debt under a bankruptcy-like law that Puerto Rico passed this summer.

Puerto Rico Petroleum Taxes and Pledges



Source: Government Development Bank for Puerto Rico

Puerto Rico Governor Alejandro García Padilla on 12 December said that he would sign the bill (HB 2212), even though the legislature added conditions that impede a bond sale. One condition requires that the petroleum products tax increase be contingent on implementation of a broad tax overhaul, which will be far more complex and time-consuming than the petroleum tax increase alone. Another excised a provision for annual inflation adjustments to the petroleum tax. A third limits borrowing costs on bonds backed by the new tax revenues, capping the coupon at 8.5% and requiring an issue price of at least 93 cents on the dollar. Depending on the maturity and security features of the bonds, these limits threaten to thwart the planned sale, given that investors in Puerto Rico securities have demanded high yields in recent months.

Amendments removing these provisions could be enacted in the legislative session starting next month, leaving time for a February offering of the PRIFA bonds. GDB President Melba Acosta in a statement underscored the importance of making the PRIFA bonds attractive to investors. The law already includes some provisions to that end: a general obligation guarantee from Puerto Rico and a stipulation that any related legal proceedings take place in New York City.

If sold, the new petroleum products tax bonds would help sustain liquidity at GDB, which serves not only as the central government's fiscal agent, but also as its fund repository. GDB reported total net liquidity of $1.7 billion as of 31 October, consisting of $2.1 billion of securities, bank deposits and money market instruments, net of securities pledged as collateral. Failure to refinance loans to PRHTA would put GDB on a path toward insufficient reserves at a time when it will face mounting pressure from its own debt-service requirements. Principal payments due on GDB's notes rise to $876 million in the fiscal year ending 30 June 2016, from $481 million in fiscal 2015.

Securitization

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Mexican Proposal to Cap Mortgage Balance Adjustment Is Credit Negative for RMBS

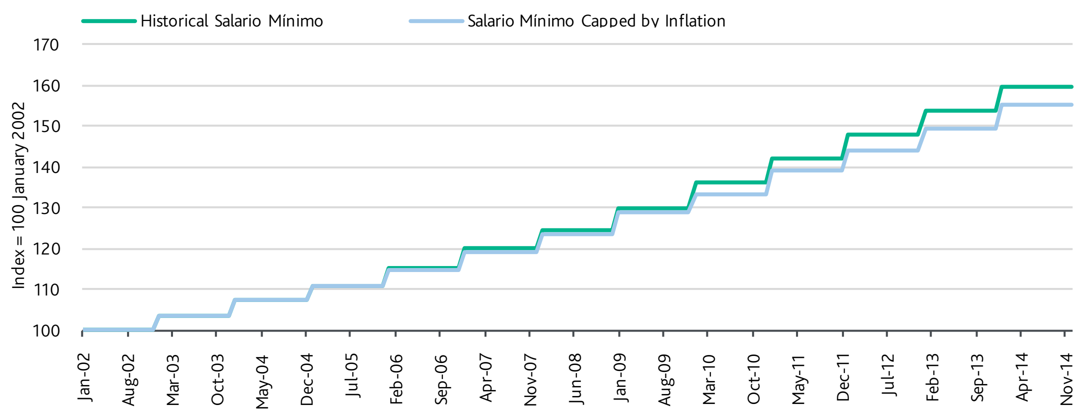
Last Wednesday, the Low Chamber of the Mexican Congress approved a bill aimed at capping loan-balance adjustments to mortgages originated by Infonavit and Fovissste, government-related institutions that originate mortgage loans for low-income borrowers. These changes are credit negative for residential mortgage-backed securities (RMBS) sponsored by Infonavit and Fovissste, because they will be backed by less collateral value than would have been the case without the cap. The cap on the mortgage balance adjustment creates a negative precedent for the Mexican mortgage market because Congress is modifying the terms of private lending agreements.

According to the proposed bill, existing mortgage balances would continue to be adjusted by changes in Mexico's minimum salary level (*salario mínimo*, or SM), but there would be a cap on the maximum annual adjustment for mortgage loan balances equal to Mexico's inflation rate. We expect the Mexican Senate to pass the bill this month.

If the SM increases more than inflation, investors in RMBS transactions will be deprived of the benefit of the total SM increase, a credit negative. This effectively changes the terms of the mortgage loans backing RMBS transactions that Infonavit and Fovissste sponsor. If inflation is higher than the SM, the mortgage balances would continue to be adjusted by the SM.

Exhibit 1 compares the historic increase in the SM since 2002 with the SM capped by inflation. The comparison results in a difference of 2.75% under the new legal framework by 2014. The securities balance in these RMBS transactions are adjusted by Unidades de Inversión, an inflation-linked index calculated with the same inflation index used to cap the minimum salary, which mitigates the lower mortgage balance adjustment.

EXHIBIT 1
Comparison of Mexico's Historical Salario Mínimo with and Without the Proposed Cap

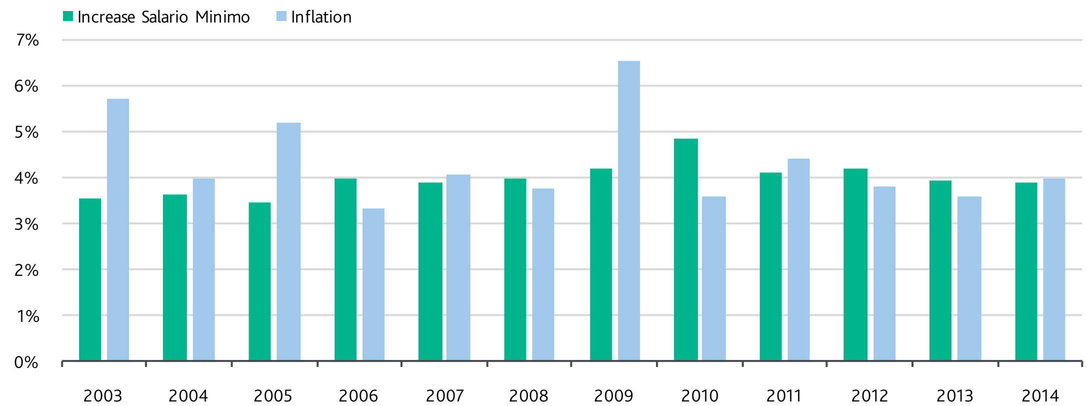


Source: Moody's Investors Service calculations based on information from Mexico's Comisión Nacional de los Salarios Mínimos and Instituto Nacional de Estadística, Geografía e Informática

As Exhibit 2 shows, the SM adjustments in certain years have been higher than inflation (2006, 2008, 2010, 2012 and 2013). Also, the SM for 2015 will increase to a level significantly higher than inflation, with independent studies suggesting increases of at least twice the inflation rate, which we estimate will be

4.0%-4.5% in 2014. Fovissste and Infonavit will have 720 days to discontinue originating mortgages linked to SM.

EXHIBIT 2
Comparison of Mexico's Salario Mínimo and Inflation



Source: Moody's Investors Service calculations based on information from Mexico's Comisión Nacional de los Salarios Mínimos and Instituto Nacional de Estadística, Geografía e Informática

RATING CHANGES

Significant rating actions taken the week ending 12 December 2014

Corporates

Altice International S.a.r.l.

	4 Dec '13	Review for Downgrade 10 Dec '14
Corporate Family Rating	B1	B1
Outlook	Negative	Review for Downgrade

The review for downgrade follows confirmation that Altice has signed, through its Altice Portugal S.A. subsidiary, a definitive agreement to purchase the Portuguese assets of Portugal Telecom from Oi S.A.. It also reflects the negative effect that this all-debt financed transaction will have on Altice's leverage. The review will assess the effect of the ultimate corporate and financing structure for the planned acquisition on the leverage and liquidity of Altice and its rated subsidiaries, as well as the benefits that further scale and scope could bring to Altice's operations.

Kaisa Group Holdings Ltd.

	20 May '14	Outlook Change 11 Dec '14
Corporate Family Rating	Ba3	Ba3
Outlook	Stable	Negative

The outlook change reflects Kaisa's announcement that, effective 31 December 2014, Chairman Kwok Ying Shing will resign from the company, and the risks that his resignation pose to the competitiveness of the company and the uncertainty of its future business strategy.

Merck KGaA

	23 Sep '14	Downgrade 12 Dec '14
Long-Term Issuer Rating	A3	Baa1
Short-Term Issuer Rating	P-2	P-2
Outlook	Review for Downgrade	Negative

The downgrade follows Merck's announcement that it has made an all-cash offer to acquire the shares of Sigma-Aldrich Corporation for $140 per share. If the company completes the transaction as proposed, adjusted debt will more than triple.

Momentive Specialty Chemicals Inc.

	1 May '14	Downgrade 11 Dec '14
Corporate Family Rating	B3	Caa1
Outlook	Negative	Negative

The downgrade reflects the company's continued weak financial performance, elevated leverage, increased capital spending on new capacity and exposure to volatile commodities.

RATING CHANGES

Significant rating actions taken the week ending 12 December 2014

Samson Investment Company

	12 Sep '12	Downgrade 12 Dec '14
Corporate Family Rating	B1	B3
Outlook	Negative	Review for Downgrade

The downgrade reflects weakness in the company's margins, cash flow and asset value, which have contributed to increased leverage and pressured liquidity.

Whiting Petroleum Corporation

	14 Jul '14	Upgrade 8 Dec '14
Corporate Family Rating	Ba2	Ba1
Outlook	Review for Upgrade	Stable

The upgrade reflects the benefits of Whiting's acquisition of Kodiak in an all-stock transaction valued at about $4.2 billion, with Whiting gaining basin intensification in its already established position in the Williston Basin. With the Kodiak assets, Whiting will have a larger production base and a deeper drilling inventory, which should enable enhanced drilling and operating efficiencies.

RATING CHANGES

Significant rating actions taken the week ending 12 December 2014

Infrastructure

UIL Holdings Corporation

	4 March '14	Outlook Change 11 Dec '14
Issuer Rating	Baa2	Baa2
Outlook	Negative	Stable

The outlook change reflects our expectation that the termination of UIL's offer to acquire Philadelphia Gas Works will allow the company to keep its parent level debt unchanged and maintain debt coverage ratios in line with its rating. The acquisition would have led to a higher proportion of debt at the parent company.

Entergy New Orleans, Inc.

	23 Dec '11	Outlook Change 11 Dec '14
Issuer Rating	Ba2	Ba2
Outlook	Stable	Positive

The outlook change reflects the utility's strong and sustained financial profile since it emerged from bankruptcy protection in 2007, its timely and transparent recovery prospects and incrementally improved growth going forward. Entergy New Orleans has experienced comprehensive rate settlements that have translated into strong, and sustained, financial performance.

Power Sector Assets & Liabilities Management (PSALM)

	3 Oct '13	Upgrade 11 Dec '14
Issuer/Senior Unsecured Bond Ratings	Baa3	Baa2
Outlook	Positive	Stable

The rating action follows our decision to upgrade the Philippine government's long-term foreign-currency and local-currency ratings to Baa2 with a stable outlook on 11 December 2014. Underpinning PSALM's ratings are its distinct policy role and close integration with the government.

RATING CHANGES

Significant rating actions taken the week ending 12 December 2014

Bayonne Energy Center LLC

	2 Jun '14	Downgrade 10 Dec '14
Senior Secured First Lien Credit Facilities	Ba3	B1
Outlook	Stable	Stable

The downgrade is driven by an amendment to BEC's loan documentation that reduces debt repayment requirements and raises borrowing costs. Specifically, the amendment reduces BEC's quarterly debt repayment requirement to 75% of excess cash flow from 100% thereby providing the sponsor with the ability to receive ongoing cash distributions, and increases the borrowing costs by 50 basis points.

Homer City Generation, L.P.

	13 Feb '13	Upgrade 8 Dec '14
Senior Secured Rating	Caa1	B3
Outlook	Stable	Stable

The upgrade reflects the project's strong cash flow earned during the exceptionally cold 2013/2014 winter period that resulted in improved balance sheet liquidity, even when considering 2014 summer earnings that were less than half of summer 2013. The upgrade also considers GE Capital's substantial equity contribution to fund the construction of some gas desulfurization scrubbers.

Orkuveita Reykjavikur

	16 Dec '13	Outlook Change 8 Dec '14
Issuer Rating	B1	B1
Outlook	Stable	Positive

The positive outlook acknowledges the progress Reykjavik Energy has made in strengthening its financial and liquidity profile in recent years and the increased likelihood that the company will meet our ratio guidance for a rating upgrade. Reykjavik Energy's financial profile has improved as a result of the company's strict implementation of the five-year plan approved by the board of directors in March 2011.

Financial Institutions

Al Madina Insurance Company SAOG

	26 Mar '13	Upgrade 11 Dec '14
Insurance Financial Strength	Ba2	Ba1
Outlook	Stable	Positive

The upgrade reflects the company's improvement in profitability, which we expect to continue, stronger capitalization following its IPO in November 2013, and the increasing market share in Oman's insurance sector.

Allied Irish Banks, p.l.c.

	19 Dec '13	Upgrade 9 Dec '14
Bank Financial Strength Rating/ Baseline Credit Assessment	E+/b2	E+/b1
Long-Term Domestic and Foreign Bank Deposit Ratings	Ba3	Ba2
Senior Unsecured - Domestic and Foreign	B1	Ba3
Outlook - Long-Term Domestic and Foreign Bank Deposit Ratings	Negative	Negative
Outlook – All other ratings	Stable	Stable

The upgrades reflect the improving operating environments in Allied Irish Banks p.l.c.'s two largest operating markets, Ireland and the UK; the bank's strengthening credit fundamentals and its return to profitability; and its adequate capital levels, further supported by its performance under the European Central Bank's Comprehensive Assessment.

BDO Unibank, Inc, Bank of the Philippine Islands, Metropolitan Bank & Trust Company, and Land Bank of the Philippines Upgraded

	Upgrade 11 Dec '14

We upgraded the deposit ratings of BDO Unibank, Inc., Bank of the Philippine Islands and Metropolitan Bank & Trust Company to Baa2/Prime-2 from Baa3/Prime-3; and their standalone bank financial strength ratings to C- from D+. We also upgraded Land Bank of the Philippines' deposit ratings to Baa2/Prime-2 from Baa3/Prime-3. The upgrades are in line with the upgrade of the Philippine sovereign's bond rating to Baa2 from Baa3. Specifically, they reflect the robust growth of the Philippine economy, despite slowing global demand; strong domestic consumption, which has contributed to the banks' healthy credit growth and profitability; well-anchored inflation; and the absence of any strong overheating in domestic asset markets, underpinning the banking system's improved level of asset quality.

RATING CHANGES

Significant rating actions taken the week ending 12 December 2014

Cigna Corporation

	Upgrade
	11 Dec '14

We upgraded the senior debt rating of Cigna Corporation to Baa1 from Baa2. The upgrade reflects Cigna's improved financial profile with consistent financial results for the last few years; strategic developments that have improved the company's risk profile; and Cigna's growing presence in Medicare Advantage, supplemental benefits and international markets has improved its diversity profile beyond its core US commercial healthcare business.

Danmarks Skibskredit A/S

		Outlook Change
	30 May '12	10 Dec '14
Long-Term Issuer Rating	Baa2	Baa2
Senior Unsecured	Baa2	Baa2
Outlook	Negative	Stable

The outlook change follows the change in outlook to stable from negative for the major segments of the shipping industry (Dry Bulk, Crude Oil Tankers, Product Tankers and Containers) earlier in 2014. Therefore, it reflects indications that the operating conditions in the industry are stabilizing. Moreover, the outlook change accounts for signs that the group's asset quality pressures are easing.

Nedbank Private Wealth Limited

		Downgrade
	15 Apr '13	9 Dec '14
Long-Term Domestic and Foreign Bank Deposit Ratings	Baa2	Baa3
Outlook – Bank Financial Strength	Negative	Stable

The downgrade reflects the recent downgrade of Nedbank Limited, the main operating entity of Nedbank Group, which is Nedbank Private Wealth Limited's ultimate holding company, to Baa2 from Baa1. As a result, Nedbank Private Wealth Limited's Baa3 deposit rating no longer incorporates any rating uplift driven by parental support and is directly derived from its standalone credit strength.

RATING CHANGES

Significant rating actions taken the week ending 12 December 2014

Shanghai Pudong Development Bank Co., Ltd.

	28 Nov '11	Upgrade 10 Dec '14
Bank Financial Strength Rating/ Baseline Credit Assessment*	D/ba2	D+/ba1
Long-Term Domestic and Foreign Currency Bank Deposit Ratings	Baa3	Baa1
Outlook	Stable	Stable

*Last Rating Change: 27 Nov '03

The upgrade of the bank's deposit ratings reflects a higher probability of extraordinary systemic support for the bank and the maintenance of relatively strong financial metrics despite the worsening operating environment. The upward revision of the standalone bank financial strength rating and baseline credit assessment reflects the bank's consistent execution of its business strategy and solid financial performance over the past few years, against a backdrop of slowing economic growth, interest rate deregulation and increasing competition within China's banking sector.

SRLEV NV and REAAL Schadeverzekeringen NV Downgraded

	Downgrade
	9 Dec '14

We downgraded to Baa3 from Baa2 the insurance financial strength ratings of SRLEV NV and REAAL Schadeverzekeringen NV, and to B3(hyb) from B1(hyb) the subordinated debt rating of SRLEV's hybrid instruments. The downgrade of the insurance financial strength ratings reflects the weakening credit profile of the two companies' operations as a result of declining profitability, which we expect to persist in the near future and deteriorating capitalization. The downgrade also reflects the weakening of SRLEV's market position, particularly in the group life market.

The downgrade of the hybrid securities issued by SRLEV reflects the weakening credit fundamentals of the insurance group, as well our view that coupon deferral, which has been in place since early 2013, may be prolonged for a longer period than originally anticipated.

RATING CHANGES

Significant rating actions taken the week ending 12 December 2014

Sovereigns

Philippines

	3 Oct '13	Upgrade 11 Dec '14
Gov Currency Rating	Baa3	Baa2
Foreign Currency Deposit Ceiling	Baa3/P-3	Baa2/P-2
Foreign Currency Bond Ceiling	Baa1/P-2	A3 /P-2
Local Currency Deposit Ceiling	A2	A2
Local Currency Bond Ceiling	A2	A2
Outlook	Positive	Stable

The key drivers of the upgrade are ongoing debt reduction, aided by improvements in fiscal management, continued favorable prospects for strong economic growth, and limited vulnerability to the common risks currently affecting emerging markets.

US Public Finance

UnityPoint Health, IA

	24 Apr '14	Outlook Change 11 Dec '14
Revenue Bonds	Aa3	Aa3
Variable Rate Revenue Bonds	Aa3/P-1	Aa3/P-1
Outlook	Negative	Stable

The outlook change reflects the strengthening of operating performance and balance sheet metrics in fiscal 2013, which has continued through nine-months of fiscal 2014 (on a same-store basis). UnityPoint management is starting to deliver improved results at recently affiliated organizations that previously had been struggling, including Meriter Health Services.

RATING CHANGES

Significant rating actions taken the week ending 12 December 2014

Structured Finance

Five CMBS Transactions Downgraded

On 10 December, we downgraded the ratings on 19 tranches from five transactions following the implementation of our recently published enhanced approach to rating North American conduit / fusion commercial mortgage backed securities. The downgrades from the five transactions (GSMS 2007-GG10, JPMCC 2007-CIBC20, JPMCC 2006-CIBC15, BACM 2008-1 and CD 2007-CD5) affected approximately $1.9 billion of structured securities that represent less than 1% of the ratings on the outstanding bonds covered by this methodology.

Five Classes of CD 2007-CD5 CMS Downgraded

On 10 December, we downgraded the ratings on five classes and affirmed the ratings on 11 classes in CD 2007-CD5 Mortgage Trust, Commercial Mortgage Pass-Through Certificates, Series 2007-CD5. The actions affected approximately $1.5 billion of structured securities. The downgrades reflect higher-than-anticipated realized and expected losses.

Three Classes of JPMCC 2007-CIBC20 CMS Downgraded

On 10 December, we downgraded the ratings on three classes and affirmed 13 classes in J.P. Morgan Chase Commercial Mortgage Securities Trust, Commercial Mortgage Pass-Through Certificates, Series 2007-CIBC20. The actions affected approximately $1.93 billion of structured securities. The downgrades reflect higher-than-anticipated realized and expected losses.

Corporates

Global Oilfield Services Industry Rating Methodology

This rating methodology explains our approach to assessing credit risk for companies in the oilfield services industry globally. It replaces the Global Oilfield Services Industry Rating Methodology published in December 2009. While reflecting many of the same core principles as the 2009 methodology, this updated document provides a more transparent presentation of the rating considerations that are usually most important for companies in this sector and incorporates refinements in our analysis that better reflect credit fundamentals of the industry.

Business and Consumer Service Industry Rating Methodology

This rating methodology explains our approach to assessing credit risk for rated issuers in the business and consumer service industry globally. It replaces the Global Business and Consumer Service Industry Methodology published in October 2010. While reflecting many of the same core principles as the 2010 methodology, this updated document provides a more transparent presentation of the rating considerations that are usually most important for companies in this sector and incorporates refinements in our analysis that better reflect credit fundamentals of the industry.

UK Exploration and Production Sector: EnQuest & Ithaca Energy's Outlooks Turn Negative Amid Lower Oil Prices, Heavy Capex

We have changed our outlooks on EnQuest plc's B1 corporate family rating and Ithaca Energy Inc's B2 corporate family rating to negative from stable, reflecting the adverse effects of lower crude oil prices and the expected weakening in their financial profiles and liquidity during a period of heavy capital spending. These rating actions follow our recent decision on 25 November to change the outlook for the global independent E&P sector to negative from stable as we expect lower oil prices to put a damper on the sector's earnings in 2015.

Refunding Risks and Needs - Asia Pacific: Companies Can Refinance Most of the $431 Billion in Bonds Maturing Through 2018

Most rated, non-financial companies in Asia Pacific (excluding Japan) should be able to refinance their portion of the $431 billion of domestic and cross-border bonds coming due through 2018. The vast majority of the bonds maturing through 2018 are investment-grade. Investment-grade companies typically have access to a variety of funding sources, including domestic and international capital markets, and should have little trouble refinancing.

Moody's Asian Liquidity Stress Index - December 2014

Moody's Asian Liquidity Stress Index rose to 21.3% in November from 21.0% in October. The increase came as the number of rated high-yield companies with our weakest speculative-grade liquidity score (SGL-4) rose to 27 and the net number of rated high-yield companies increased by three to 127. The reading remained well below the record high of 37% reached during fourth-quarter 2008 amid the global financial crisis.

RESEARCH HIGHLIGHTS

Notable research published the week ending 12 December 2014

European Business Services: Prospects Dimmed By Weaker Economic Recovery

European business-to-business services companies whose performance is tied to economic cycles will face subdued revenue growth in 2015. We believe price competition is the biggest threat to profitability in this fragmented sector, where service offerings tend to be commoditized. However, low wage inflation and government reforms to revive growth will support profitability.

US Consumer Durables: Appliance-Makers to Benefit First from Accelerating Release of Pent-up Demand

The release of pent-up demand has started as some durable products age beyond their typical useful life, but will accelerate as the economy improves and new households are formed. Among consumer durable companies, appliance-makers will benefit first. Consumers will replace goods they use every day and that are costly to repair first, such as appliances, but will often defer replacing other durable goods, such as flooring, furniture, blinds and mattresses.

US Homebuilder Covenant Quality: Valuable Inventory Key to High Yield-Lite Deals' Dominance Among Homebuilders

High yield-lite deals dominate in the homebuilding sector. Twice the number of transactions are governed by investment-grade-like structures compared with traditional high-yield structures, even though all but one homebuilder – NVR Inc. (Baa2 stable) – is rated speculative-grade and the sector's average rating is B1. An average of 20% of the bonds issued in North America carry HY-lite features, compared with 65% of those issued by homebuilders.

Russian Integrated Oil Companies: Tax Reforms, Rouble Depreciation Help Mitigate Lower Crude Oil Prices

Russia's sharp reduction in oil export duties will help export-oriented Russian oil companies to partially offset the negative effect of weaker oil prices. We estimate that the reforms to the Russian tax code, which come into effect on 1 January 2015, will lower the overall tax burden on Russian oil exporters by 2%-3%,with OJSC Oil Company Rosneft (Baa2 negative), OAO LUKOIL (Baa2 negative) and Tatneft OAO (Baa3 negative) benefitting the most.

US Pork Industry: Hog Prices Belly-Out But Profits Will Still Sizzle

Over the next 12 months, we expect that lower hog prices will translate to lower pork input costs and boost the profit margins of makers of pork products such as Tyson Foods, Inc. and Hormel Foods Corp. in their packaged meat segments. While lower hog prices will be a dampener for hog producers, cheaper feed costs will still support better-than-average margins, including for integrated operator Smithfield Foods, Inc.

EMEA Speculative Grade Retailers: Strong Holiday Sales For UK Focused Retailers Will Boost Full-Year Profitability

We expect that Debenhams plc (Ba3 stable), Highland Group Holdings Limited (B3 stable), and New Look Retail Group Limited (B3 stable) will have the strongest holiday season sales growth in Europe, given higher GDP growth forecasts and stronger consumer sentiment. Retailers more focused on France and Germany, such as KKR Retail Partners Midco S.a.r.l. (B2 stable), Magnolia (BC) Midco S.a.r.l. (B2 stable) and Takko Fashion S.a.r.l. (Caa1 stable), face more challenging domestic market conditions.

RESEARCH HIGHLIGHTS

Notable research published the week ending 12 December 2014

US Retail: Positive Start to Holiday Sales; Auto Sales and Promotions Still a Wild Card

Early holiday 2014 promotional activity was a key driver of November retail sales, which were up 0.5% from October 2014, and up 3.4% from November2013 (excludes autos, and is the non-adjusted number). Importantly, the data runs through November 28, which means it does not include the Thanksgiving weekend. We believe our operating income forecast of 3.0%-3.5% year-over-year for fourth-quarter 2014 remains reasonable, so long as the promotional environment remains somewhat rational.

Infrastructure

US Airports Outlook: Change to Positive on Economic Growth, Higher Passenger Counts

We have changed our outlook for the US airport sector to positive from stable, as better economic growth in the US leads to more domestic travel, adding to the number of people at the airports. We expect enplanements—the number of departing passengers—to grow 3% to 4% in 2015, as we estimate they have in 2014.

EMEA Airports: A New Runway Will Have Mixed Credit Implications for London's Airports

In summer 2015 we expect the Airports Commission to recommend the construction of an additional runway at either Heathrow or Gatwick. Whatever the decision, it will be credit neutral for Heathrow, which will be London's largest airport either way. For Gatwick it will be negative – either airlines may switch to an expanded Heathrow, or additional airport charges from the runway may alienate price-sensitive airlines.

UK Water Sector: Regulatory Changes Threaten Financial Covenants for Highly Leveraged Structures, a Credit Negative

The regulatory approach to setting tariffs for the UK water companies is changing. Regulatory capital charges previously published by the regulator will no longer be available or relevant. These charges are currently incorporated in a key financial covenant for many companies.

Australian Power Industry: Increased Rooftop Solar Penetration Presents Long-Term Challenges for Power Industry

Increased use of solar panels would reduce energy consumption from the power grid. We do not expect any material negative pressure on networks over the next five years, given the recent changes to tariff regulation and the high cost of storage equipment at present. Profit margins would gradually decline over time for generators.

Financial Institutions

Global Banks Outlook: Banks' Financial Profiles Will Continue to Strengthen

Banks' standalone creditworthiness will continue to stabilize, although we don't expect a significant rebound in global GDP growth. Banks are still making significant progress restoring their financial fundamentals, despite a less than uniform economic recovery. However, interest rates, which have been historically low for some time, are set to rise, and new bank regulations will raise costs, pressuring earnings and asset quality.

European Banks Outlook: Improving Financial Stability Balanced by Weak Economic Growth and Changing Systemic Support

Europe's banks are slowly establishing a more stable financial footing, with improved capitalisation and less-risky balance sheets. But over the coming year they face continued weak economic growth across the region and persistently low profitability. The EU's bank resolution regime also comes into force in 2015, changing the landscape for systemic support and raising the risk of bail-ins for creditors of failing banks.

Asian Banks Outlook Is Stable Despite Intensifying Headwinds

We expect Asian banks' credit quality to remain broadly stable in 2015, even as credit costs increase and asset quality weakens. We anticipate gradual improvement in the region's growth momentum, despite challenges arising from diverging monetary policy among industrial economies, and a continuing slowdown in China.

Global Investment Banks' Pay Policies Still Pose Risk to Bondholders

Despite regulators' efforts to reduce emphasis on short-term results in determining executive compensation at the global investment banks, performance vesting and deferral periods are too short to cover credit cycles and potential tail risks.

European Disintermediation Continues Despite Banks' More Stable Financial Footing

Constrained bank balance sheets and receptive bond markets will enable European companies to expand their funding options, a credit positive, continuing the broader trend of disintermediation of corporate financing in Europe. However, the overall disintermediation trend is likely to slow because the largest European banks have raised significant equity and improved their balance sheet capitalization over the past 18 months, thereby creating more lending capacity.

Vietnam Banks Outlook Changed to Stable

The outlook change reflects the increasing stability in Vietnam's operating environment and macroeconomic situation, as well as a decline in liquidity stress in the banking system. It also takes into account the low bank ratings currently in place, which indicate that Vietnamese banks remain fundamentally weak and undercapitalized. The government is gradually taking steps to reform the banking sector and address the widespread asset quality-problems, but, in the absence of resources to implement a wholesale recapitalization, a solution will require more time than the horizon of this outlook.

RESEARCH HIGHLIGHTS

Notable research published the week ending 12 December 2014

Canadian Life Insurance Industry Outlook Is Stable: Continued Economic Recovery Supports Credit Quality

Canada's ongoing economic recovery will drive earnings growth in the Canadian life insurance industry in 2015. In addition to the improving economy, the industry benefits from a favorable structure, with three dominant players sharing 60%-70% of premiums, and from strong asset valuations. We expect that a gradual rise in interest rates in 2015 will also help sustain revenue and improve the earnings of Canadian insurers.

Global Money Market Fund Outlook Is Negative

We revised our outlook for the money market fund sector to negative from stable, based on our expectation that, despite cautious investment approaches, money market funds will struggle to maintain the highest credit and stability profiles in 2015 owing to an ongoing supply and demand imbalance, low to negative net yields of funds, and elevated asset flow volatility.

US Banking: Quarterly Credit Update – Third-Quarter 2014

Despite persistent challenges, tempered loan growth and ongoing improvement in asset quality make for a positive quarter. The most striking development was a tempering of loan growth, about which we have previously expressed concerns. Commercial & Industrial loans, which grew more than 10% (annualized) in each of the previous two quarters, grew only 1% in the third. The growth in multifamily and auto loans, which has been rapid in recent years, has slowed a bit. Residential mortgage non-performing loans, which are still elevated, have declined nearly 100 bps year over year. Net charge-off and early-stage delinquency ratios remained low. Restructured loans, while still elevated, continued their decline of the past few quarters. Our central economic scenario calls for benign asset quality conditions to remain in place over the next six months.

Early Implementation of Increased Capital Requirements Motivates Swedish Banks to Make Early and Large Issuances

Additional Tier 1 contingent capital securities (AT1 CoCos) will strengthen the large Swedish banks' ability to absorb losses before the point of non-viability or bank failure, a credit positive. AT1 CoCos count as better-quality capital because their principal value can be written down or converted into equity if the issuing bank's capital drops to a predefined threshold (the trigger) expressed through the common equity Tier 1 ratio.

Australian Bank Funding and Liquidity: Stronger Loan Growth Leads to More Debt Issuance

In the six months to end-September 2014, the banks issued more debt abroad, against the backdrop of improved wholesale market conditions and increased loan growth. However, the use of short-term debt was well below previous levels. The strongest loan growth segment for the banks was in investor housing.

Australian Bank Asset Quality and Capital Is at The Top of the Cycle

A low interest rate environment and broadly supportive economic conditions have boosted asset quality. Capital levels could rise over the medium term, as a result of recommendations made by Australia's Financial Sector Inquiry, or if the Australian Prudential Regulation Authority introduces a countercyclical buffer. However, past due loans have fallen only gradually, suggesting pockets of stress.

RESEARCH HIGHLIGHTS

Notable research published the week ending 12 December 2014

US P&C Insurers: Investments Show Uptick in Risk, but Steady Coverage of Reserves

The US property & casualty (P&C) insurers have increased their investment risk moderately to compensate for reduced yields in a low interest rate environment. This risk is manageable given that the sector holds high-quality investments consistently in excess of loss reserves. High-risk assets ranged from 18% of cash and invested assets for commercial insurers to 36% for personal writers and 28% for diversified firms at year-end 2013. Commercial insurers generally take greater risk in their liabilities, with relatively large policy limits and long payout periods, leading to more conservative investment practices than for personal insurers.

US Closed-End Funds Outlook Changes to Stable from Negative for Municipal National and State Closed-End Funds

The change in outlook was prompted by the slowdown in the deterioration of municipal credit quality and a decline in leverage owing to lower interest rates. This has triggered strong gains in long-duration muni bond valuations, which also underpins the stable outlook for the sector. The outlook for all taxable closed-end funds is also stable, thanks to lower leverage and more stable underlying asset quality. In this report, we focus primarily on muni leveraged CEFs.

Global Asset Manager Outlook: Rising Industry Concentration Supports Stable Outlook

Market conditions in the global asset management industry will continue to promote growth of the largest managers in 2015, boosting industry concentration. These market trends will allow the largest managers to invest capital in new product development, interact with large distribution partners, enter new geographies and address the challenges of increasingly restrictive regulations.

Italian Insurers Outlook: P&C Remains Stable; Life Back to Stable but Challenges Remain

The outlook for the life sector is back to stable, amid a more stable macro-economic environment and less competition from banks. The outlook on the Italian P&C sector remains stable, as insurers should be able to preserve good profitability despite increasing combined ratios.

Sovereigns

Global Oil Price Decline: Oil-Exporting Sovereigns with Limited Policy Tools Are Most Exposed

Oil-exporting countries heavily reliant on oil revenues and committed to large spending programs are most likely to have difficulty accommodating low oil prices, says our global report on volatile oil prices and sovereign credit quality. The best positioned sovereigns have the greatest policy flexibility and a wide array of counter-cyclical policy tools. On balance, lower oil prices will be a positive for global economic growth in 2015.

GCC Sovereigns: Resilience to Lower Oil Prices Varies; Bahrain and Oman Most Exposed

Even if oil prices were to average between $80 and $85 a barrel in 2015 – in line with our recently adjusted forecast – we expect that most sovereigns within the Gulf Cooperation Council would be resilient to the resulting pressures without significant policy adjustments.

For Latin American Sovereigns, Hidden Liabilities Add to Credit Risk

Hidden, non-direct liabilities such as from pensions or guaranteeing the debt of enterprises is a substantial source of credit risk for Latin American sovereigns. When we look at indirect debt and contingent liabilities as well as direct debt, Brazil has the highest overall debt burden among the LATAM 5 countries – Brazil, Chile, Colombia, Mexico and Peru—and Peru has the least encumbered balance sheet.

United Arab Emirates Analysis

The United Arab Emirates' (UAE) rating is aligned with our rating on Abu Dhabi, the largest of the seven emirates which compose the UAE. This reflects our view that the government of Abu Dhabi stands fully behind the federal government of the UAE. Vast hydrocarbon reserves and the robust balance sheet of the combined emirate and federal governments underpin the UAE's fiscal strength.

Sweden Analysis

Sweden's Aaa rating and stable outlook are predominantly supported by the country's high GDP per capita, its resilient and diversified economy and robust growth prospects compared to its European peers. Moreover, Sweden has traditionally enjoyed a stable and consensus-based political environment, which is supported by high and evenly distributed wealth, good educational attainment levels and a generous social welfare system.

Korea Analysis

Korea's Aa3 government bond rating reflects the country's very high economic, institutional, and government financial strength. While not constraining the Aa3 rating, we assess susceptibility to event risk as mid-range, or moderate, stemming from North Korea's military provocations or the Pyongyang regime's possible instability.

RESEARCH HIGHLIGHTS

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Zambia Analysis

Zambia's B1 rating with a stable outlook reflects credit strengths such as (1) strong economic growth that over time will expand the production base of the economy and raise national income; (2) a track record of political stability that supports the country's developing institutional framework; and (3) fairly high government fiscal strength. However, the economy's small, relatively undiversified composition, chronic institutional weaknesses, and external vulnerability constrain sovereign credit quality.

Moldova Analysis

Moldova's B3 government bond rating with a stable outlook reflects the country's low wealth levels and small size of the economy coupled with a weak institutional framework and susceptibility to political risks stemming from the unresolved territorial conflict over Transnistria, a breakaway region in the Eastern part of the country. These concerns are balanced by credit strengths such as the country's relatively low, albeit increasing, debt burden and low debt servicing costs due to mostly concessional financing terms.

Switzerland Analysis

Switzerland's Aaa sovereign bond rating with a stable outlook is supported by a wealthy, well diversified and highly competitive economy that is a net external creditor vis-à-vis the rest of the world and has no major macroeconomic imbalances. Switzerland's credit challenges relate mainly to the country's large banking sector, though we consider the associated risks for the sovereign to be limited.

Czech Republic Analysis

Czech Republic's A1 sovereign rating and stable outlook reflect the government's prudent fiscal policy and balance sheet strength, supported by the relatively low government debt ratio and strong debt affordability metrics. The Czech Republic's economy will rebound strongly this year, leading to real GDP growth of 2.5%, following six consecutive quarters of recession.

Botswana Analysis

Botswana's A2 government bond rating with a stable outlook balances the government's relatively strong balance sheet, net external creditor position and low debt burden against its small economy, which remains heavily dependent on the diamond industry.

Peru: Deconstructing the 2014 Slowdown and Our Expectations for 2015

Despite unsettled external conditions, Peru's economy seems poised to return to stronger growth in 2015. The Peruvian economy's strong fundamentals and absence of major macroeconomic imbalances will support an acceleration to 5.1% growth in 2015. Weak business confidence hurt Peru's primary growth engine, private investment. As the economy recovers, we expect private investment to reignite as a strong contributor to economic dynamism.

St Maarten Analysis

St Maarten's Baa1 government bond rating is supported by comparatively high economic development and moderate debt levels. The rating is constrained by the untested nature of the country's institutions although we expect nation-building support and fiscal oversight from the Netherlands for a few more years.

Sub-Sovereign

German Laender Outlook: Sound Economic Trends and Very Low Interest Costs Drive our Stable Outlook

In 2015, we expect financial surpluses for most of the rated Laender, while all of them reported financial deficits five years ago. The total sector is in a position to report an aggregate surplus for the year, helped by continued growth in tax revenues.

Russian Regions Outlook: Rising Expenses and Debt are the Main Drivers of Our Negative Outlook

Russian regions' spending is set to grow, adding to deficits. Debt affordability is still manageable, but trending down. Economic deterioration will limit the regions' revenue growth to around 1% in 2015.

Canadian Provinces Outlook Is Negative

The negative outlook for 2015 reflects continuing economic uncertainty as well as the risks that attempts at fiscal redress will not be successful. Although a majority of provinces continue to move towards fiscal balance, most will remain in deficit in 2015.

Italian Regions and Cities Outlook Is Stable

Ongoing budgetary consolidation for Italian regional and local governments will continue in 2015. The combination of favorable sovereign on-lending terms and compulsory tax hikes to cover incremental debt-service costs will keep the debt repayment burden manageable, even for highly leveraged issuers.

French Regional and Local Governments Outlook Is Negative

We expect central government transfers to RLGs to fall by €11 billion by 2017, a decrease of about 25%. The capacity to absorb the transfer cuts varies according to each RLG's ability to raise tax.

Alberta and Saskatchewan: Financial Assets and Minimal Debt Burden Provide Both Provinces with Flexibility to Withstand Revenue Volatility

Both Alberta and Saskatchewan have the financial reserves and minimal debt that would allow them to ride through an external shocks such as a prolonged decline in oil prices, says our comparison of the two provinces. Alberta's reserves are particularly large, but both provinces carry a Aaa rating with stable outlook.

US Public Finance

US Ports Outlook: Multiyear Recovery in Container Volume Shifts Our Outlook to Stable

Our new stable outlook is based on the view that the continuing recovery in US container-volume growth is sustainable and that business conditions for global shipping lines, which drive cargo volume, have stabilized. We expect US container volumes to rise 2%-3% in 2015, tracking growth in the US economy.

US Public Finance Outlook: Government Revenues Growing; Hospital and University Sectors Still Pressured

In a summary report, we say state and local government sectors have stable outlooks as government revenues grow, as do the state housing finance agencies and the independent schools. Not-for-profit healthcare has a negative outlook as cash flows settle into low growth, while slow tuition growth leads to a negative outlook for higher education.

US Airports Outlooks: Change to Positive on Economic Growth, Higher Passenger Counts

We have changed our outlook for the US airport sector to positive from stable, as better economic growth in the US leads to more domestic travel, adding to the number of people at the airports. We expect enplanements—the number of departing passengers—to grow 3% to 4% in 2015, as we estimate they have in 2014.

Structured Finance

US FFELP Student Loan ABS Outlook: US Fiscal And Economic Improvements Will Support the Ongoing Good Credit Quality

Improvements in US government fiscal health and the economy, and higher seasoning of loan pools, will support the ongoing good credit quality of Federal Family Education Loan Program (FFELP) ABS in 2015. FFELP ABS depend on the US government for up to a third of the cash in a typical loan pool.

US Private Student Loan ABS Outlook: Transaction Credit Quality Will Remain Strong and Loan Performance Will Continue to Improve

Private student loan (PSL) default rates will fall further, as a result of continued declines in unemployment, the strong collateral quality of new pools and the aging of seasoned pools. New transactions will feature PSL pools of higher quality than last year, because they will contain more newly originated loans to borrowers with stronger credit profiles.

US CMBS Outlook: Commercial Real Estate Recovery Takes Root As Loan Quality Continues to Slip

Outstanding US commercial mortgage-backed securities (CMBS) will continue to perform well, but the credit quality of new loans is in danger of sliding toward the 2007 level, according to our 2015 outlook. Performance by real estate sector will continue to vary. Efforts to make commercial properties more energy-efficient will help property owners preserve collateral value.

US Credit Card Securitizations Outlook: Collateral and Bank Sponsors Remain Strong

US credit card ABS will continue to perform well in 2015 US credit card ABS performance has been favorable, thanks to the improving US economy, the prevalence of high-quality and seasoned card accounts in the card trusts, as well as issuers' lack of need to add new receivables to the trust. Furthermore, charge-offs in credit card ABS will decline in 2015, owing to a drop in the unemployment rate.

Global Covered Bonds Outlook

The strong and increasing regulatory support for European covered bonds is credit positive. While our banking system outlooks, predominantly negative in Europe, imply a negative credit view for covered bonds, the paradigm shift in regulation that partly drives the banking outlooks is broadly positive for covered bonds. Improving sovereign outlooks for key European jurisdictions are also credit positive for covered bonds, despite the stalling growth in Europe. In markets outside Europe, the credit quality of covered bonds will be strong and stable, with new jurisdictions adopting covered bond legislation that supports the quality of future covered bonds.

US RMBS Outlook: Credit Quality and Performance Remain Strong; New Asset Classes Emerge

Credit quality and performance will remain strong in new post-crisis US private-label residential mortgage-backed securities (RMBS) owing to strict underwriting standards, thorough third-party reviews and the implementation of ability-to-repay rules. Single-family rental (SFR) securitizations will expand into new markets and new multi-borrower and smaller single-borrower SFR issuers will likely bring deals to market. The pace of issuance will continue to slowly increase in 2015.

RESEARCH HIGHLIGHTS

Notable research published the week ending 12 December 2014

German Covered Bonds: Pfandbrief Act's Amended Requirements For Derivative Counterparties Are Credit Positive

The Pfandbrief Act requires swap counterparties to be of high credit quality. The recent change regarding collateral requirements is credit positive because lower counterparty credit risk increases the probability that covered bonds will continue to be hedged after issuer default. Furthermore, by requiring high credit quality derivative counterparties the Act further reduces the possibility of issuers using weak swaps in order to circumvent the onerous requirements that the Act's stressed net present value concept imposes.

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