MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades three ESMEE Master Issuer Belgian SME ABS notes

Global Credit Research - 25 Jan 2016

Madrid, January 25, 2016 -- Moody's Investors Service has today affirmed Aaa (sf) rating of Class A and upgraded to Aa1 (sf), A1 (sf) and Baa2 (sf), respectively, the Class B, C and D notes issued by ESMEE Master Issuer N.V. - S.A. Series 0-2009-1 (ESMEE), following the proposed amendments and the better-than-expected collateral performance:

EUR 7550M A Notes, Affirmed to Aaa (sf);

....EUR1750M B Notes, Upgraded to Aa1 (sf); previously on September 5th 2013, upgraded to Aa3 (sf);

....EUR400M C Notes, Upgraded to A1 (sf); previously on September 5th 2013, upgraded to A3 (sf);

....EUR300M D Notes, Upgraded to Baa2 (sf); previously on September 5th 2013, upgraded to Ba1 (sf).

ESMEE is a revolving cash securitisation backed by loans granted to small and medium-sized enterprises (SME) originated by BNP Paribas Fortis SA/NV (A1/P-1) that never started to amortize since closing in December 2009.

RATINGS RATIONALE

The proposed amendments include (i) the increase of underlying SME portfolio from around EUR 8,045 M to EUR 9,995 M and the increase from EUR 8,280 M to EUR 10,350 M Series 0-2009-I SME Asset-Backed Notes; (ii) the postponement of the step-up date (and thus the substitution end date) and the maturity date of the reserve fund notes to October 2018, as well as the extension of the notes' final maturity date to October 2052; and (iii) the reduction of the margin on the Class A from 0.35% to 0.28%.

This rating action reflects the better-than-expected performance of the transaction, evidenced by the low delinquency and loss levels observed since the closing date in December 2009. As of December 2015, loans 90+ days in arrears represented 0.24% of current balance, whilst cumulative defaults represented 0.72% and cumulative losses 0.10% of total securitised assets. Moody's also notes that the composition and quality of the underlying portfolio has not materially changed since closing.

As a result, Moody's reviewed some of its key modelling assumptions for the transaction, reducing the expected mean default rate to 6.4% from 10% of the current balance (Ba2/Ba1 equivalent) for the current pool and to 13% from 13.3% of the current balance for the replenishment portfolio (Ba3 equivalent) and increasing the coefficient of variation (CoV) to 65% from 45% while keeping the average recovery rate unchanged at 70%.

As of August 2015, the portfolio anticipated post-amendment amounted to approximately EUR 9,994 M and was composed of 159,748 contracts granted to around 90,000 borrowers, mainly small and medium-sized companies. The portfolio had a weighted average seasoning and remaining life of approximately 3.84 years and 4.1 years, respectively.

The last rating action for the Esmee transaction was taken on the 5th of September 2013, when we upgraded to Aa3(sf), A3(sf) and Ba1(sf) respectively the Class B, C and D notes following the mitigation of set-off risk in the transaction on the back of the passing of the Belgian Mobilisation Act in August 2012 and the better-than-expected collateral performance.

Moody's used ABSROM to model the cash flows and determine the loss for each tranche. The cash flow model evaluates all default scenarios that are then weighted considering the probabilities of the inverse normal distribution assumed for the portfolio default rate. In each default scenario, Moody's calculates the corresponding loss for each class of notes given the incoming cash flows from the assets and the outgoing payments to third parties and noteholders. Therefore, the expected loss for each tranche is the sum product of the 1) probability of occurrence of each default scenario and 2) loss derived from the cash flow model in each default scenario for each tranche.

As such, Moody's analysis encompasses the assessment of stressed scenarios.

METHODOLOGY

The principal methodology used in these ratings was "Moody's Approach to Rating EMEA SME Balance Sheet Securitisations", published in October 2015. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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

Factors or circumstances that could lead to a downgrade of the rating affected by today's action would be (1) the worse-than-expected performance of the underlying collateral; (2) the deterioration in the credit quality of the counterparties; and (3) a deterioration of the macroeconomic environment in Belgium.

Factors or circumstances that could lead to an upgrade of the ratings affected by today's action would be a significant improvement of the performance of underlying collateral.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions of the disclosure form.

The analysis relies on an assessment of collateral characteristics to determine the collateral loss distribution, that is, the function that correlates to an assumption about the likelihood of occurrence to each level of possible losses in the collateral. As a second step, Moody's evaluates each possible collateral loss scenario using a model that replicates the relevant structural features to derive payments and therefore the ultimate potential losses for each rated instrument. The loss a rated instrument incurs in each collateral loss scenario, weighted by assumptions about the likelihood of events in that scenario occurring, results in the expected loss of the rated instrument.

Moody's quantitative analysis entails an evaluation of scenarios that stress factors contributing to sensitivity of ratings and take into account the likelihood of severe collateral losses or impaired cash flows. Moody's weights the impact on the rated instruments based on its assumptions of the likelihood of the events in such scenarios occurring.

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