CreditOutlook
Credit Implications of Current Events
16 JUNE 2014

NEWS & ANALYSIS

RATINGS & RESEARCH

Last week we downgraded Johnson Controls, Avanza Spain, PPL Energy Supply, Centras Insurance and Providence Health & Services, and upgraded 38 tranches from 2005-06 US subprime RMBS transactions, among other rating actions.

Last week, we published on North American and EMEA chemical, South and Southeast Asian high-yield, European telecom, Chinese retail, US dental service, North American railroads, US engineering and construction, European high-yield, US electric utilities, UK infrastructure guarantees, Georgia Power and South Carolina Electric, Australian airports, US P&C insurers, Italian banks, Balkan banks, econometric modelling of banks creditworthiness, European money market funds, terrorism risk insurance, Africa, Kazakhstan, multilateral development banks, Spanish regions, US housing finance agencies, French covered bonds, Canadian ABCP, European RMBS and ABS, US jumbo reverse mortgages and European securitisation, among other reports.

RECENTLY IN CREDIT OUTLOOK

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Corporates

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Emirates Order Cancellation Is Credit Negative for Airbus, Credit Positive for Boeing

Last Wednesday, Emirates Airline (unrated) announced that it had cancelled its order for 70 A350 XWB aircraft from Airbus Group N.V. (A2 stable). The order was originally valued at $16 billion based on 2007 list prices when the contract was initially struck, but is now worth closer to $22 billion. The cancellation is credit negative for Airbus and credit positive for The Boeing Company (A2 stable) because as a leading carrier in the rapidly growing Middle East market, Emirates has shown its preference for the Boeing 777X over the Airbus A350 XWB.

Although Emirates remains a significant Airbus customer, particularly for its double-decker A380 jumbo jets, the cancellation fully eliminates the forthcoming A350 XWB from its fleet plan and follows the carrier's November 2013 order for 150 777X aircraft at the Dubai Air Show. Following the cancellation, the A350 XWB order book will be down nearly 10% in unit terms to a still-healthy 742 airplanes from 812 in May 2014. The company's total backlog of 5,514 aircraft will decline less materially, by just 1.3% on a unit basis, although the higher price point of the new widebody planes relative to the average selling price for aircraft in Airbus' overall order book suggests a loss in order value of nearly 3% based on our estimates.

But given that the aircraft from the initial Emirates order were not scheduled to begin deliveries until 2019, and because the A350 XWB production skyline was nearly full through around 2020 before the cancellation, we do not expect Emirates' move to immediately hurt the financial profile of Airbus or any of the other affected companies in the supply chain, including principal engine supplier Rolls-Royce plc (A3 stable), United Technologies Corporation (A2 negative), Thales (A2 negative), Rockwell Collins, Inc. (A3 stable) and Spirit Aerosystems, Inc. (Ba2 negative). In fact, we believe demand will remain relatively strong for the airframe, and more broadly for larger gauge, more fuel efficient equipment. We also believe that Airbus will ultimately have a relatively easy time filling the vacated production slots, likely at higher price points, to boot. Moreover, we do not believe that the Emirates order cancellation is indicative of a broader order bubble. In fact, we expect order activity to remain brisk.

But if the cancellation spurs Airbus to shift its product strategy, including possibly re-engining the A380 and/or A330 models for enhanced operating efficiency or a stretch of the A350-1000 for more seating capacity, we estimate the incremental development costs would be several billion dollars, which, in turn, would compress the company's otherwise improving profitability. As key airline customers such as Emirates increasingly voice their preference for enhanced operating efficiencies, we believe that Airbus and Boeing and their key suppliers will consider taking such potentially costly measures to maintain, if not grow, market share as a means to ensure their product offerings remain consistent with current (albeit sometimes fickle) market requirements.

Rolls-Royce indicated that the Emirates cancellation will reduce its total backlog by about 3.5%, or £2.6 billion in value. The company is significantly exposed to a potentially broader shift to the 777X and away from the A350 XWB given its position as sole engine supplier on the Airbus product, and General Electric Company's (Aa3 stable) status as the sole engine supplier on the competing Boeing platform.

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Stronger PC Demand Is Credit Positive for Intel and Hewlett-Packard

Last Thursday, Intel Corporation (A1 stable) raised its second-quarter and full-year guidance because of stronger-than-expected business PC demand. Intel expects second-quarter revenue of $13.5-$14.0 billion, up 5.8% from the company's previous guidance of $12.5-$13.5 billion. Intel also expects revenue growth for the full year, versus initial guidance of flat year-over-year growth. Driven by higher business PC volume, Intel now projects gross margins of 64%, up from earlier expectations of 63%.

Stronger business PC demand is credit positive for Intel because incremental unit demand for more profitable business PC processors (versus consumer) drives higher revenue and improves gross profitability. Higher gross profitability is key to supporting the company's strong research and development and capital expenditure requirements, which we estimate will total $21-$22 billion this year. Intel's favorable comments around PC demand are also positive for Hewlett-Packard Company (HP, Baa1 negative), which derives 30% of its revenue and 10% of operating profit from PCs.

Thursday's announcement, Intel's first positive update in the past five years and driven by the pace of Windows XP operating system upgrades, reiterates the trend that HP noted in its second quarter ended 30 April. In that quarter, HP's PC revenue increased 8% from a year earlier, while its operating profit expanded 21% from a year earlier, driven by 6% unit growth in both desktop and notebook PCs. We expect Dell Inc. (Ba3 stable) to also benefit given its commercial PC market focus.

In addition to improved execution by HP, the implication is that HP's average selling prices for PCs are actually slightly up compared with our expectation of typical downward pressure. Higher average selling prices are a consequence of HP's stronger mix of business PCs (we estimate 60% of HP's PC sales are to businesses) relative to lower-margin consumer PCs, where HP reported a 2% unit decline.

Intel's positive pre-announcement suggests that the PC market is finding a bottom after two years of unit declines. More importantly, HP indicated that the Windows XP refresh cycle should last another 12-18 months, which alleviates the risk that the upgrade cycle is mostly over.

The news from Intel and HP follows similar comments from the world's largest PC maker, Lenovo (unrated), which said it sees the beginning of a corporate replacement cycle in the US, with China enterprise and education demand also staging a recovery. Lenovo also stated that tablet cannibalization of PC demand has slowed, while demand from large enterprise and small and midsize business PC customers is strengthening.

It remains to be seen how much the corporate refresh cycle in the first half of 2014 will carry through the second half of 2014 and into 2015 and whether a base for worldwide PC unit sales has been established. But, based on Intel's announcement, and echoing American writer Mark Twain, it appears that reports of the death of the PC have been greatly exaggerated.

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B/E Aerospace's Planned Split into Two Entities Brings Uncertainty About Debt Allocation

Last Tuesday, B/E Aerospace Inc. (Ba1 negative) announced that it planned to split into two publicly traded companies, one comprised of its aircraft cabin interior equipment business and the other made up of its consumables operations, which focuses on the aerospace and energy services markets. The planned separation would be credit negative for B/E if all existing debt were to remain with aircraft cable interior equipment company following the spinoff because it would lead to a sizable increase in that operation's leverage. Following the separation announcement, we changed our outlook on the company's ratings to negative from stable.

The company has not yet disclosed how it would allocate its debt between the two entities, or even whether it can. If all existing debt was to remain with the aircraft cable interior company following the spinoff, as we believe is likely, it would lead to a sizable increase in B/E's leverage. Under this scenario, B/E's standalone earnings would likely decline by about 40% (i.e., the reported portion of the consumables business). We estimate that on a pro forma basis, this would increase debt to EBITDA by approximately two turns to 5.3x from about 3.3x, after the financing effect of the pending EMTEQ and Fischer acquisitions. B/E expects to complete the spinoff in first-quarter 2015.

The company's announcement comes a week after B/E disclosed its plans to acquire EMTEQ Inc. and F+E Fischer for about $470 million. The company expects to close the EMTEQ acquisition by the end of this month and the Fischer deal in the third quarter of this year. We expect that B/E will fund the acquisitions with debt. Taking into consideration the expected debt financing and combined profits of EMTEQ and Fischer, we estimate that B/E's debt/EBITDA will rise to 3.3x from 2.8x as of 31 March 2014.

The company's Ba1 corporate family rating reflects its leadership position as the world's largest manufacturer of aircraft cabin interior products, its strong position as a distributor of consumables and our expectation of continued record-high aircraft delivery rates and original equipment manufacturer order backlogs. B/E has a track record of making debt-funded acquisitions that increase financial leverage and then using cash flow to reduce debt and restore leverage metrics to pre-acquisition levels within a few quarters.

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Nexeo's Composites Business Sale Is Credit Positive

Nexeo Solutions LLC (B2 negative) on Monday said it would sell its composites business for $61.5 million to Composites One (unrated).We expect it will use sale proceeds to reduce its debt and elevated leverage metrics, a credit positive.

The US-based chemical-distribution company significantly increased debt to help fund its $100 million acquisition of Chemical Specialists and Development/Startex Chemical in December 2013, and its $125 million acquisition of Archway Sales in April 2014. The additional debt weakened Nexeo's debt/EBITDA ratio to 7.9x for the 12 months that ended 31 March, from 5.7x for same period in 2013.

Nexeo's negative rating outlook reflects its high leverage as well as its low EBITDA margins, which have trailed expectations since Nexeo's formation in 2011. We noted in February that a debt/EBITDA ratio above 6.0x and EBITDA margins below 4% by the end of 2014 would put Nexeo's B2 rating at risk for a one-notch downgrade.

Proceeds from the new composites business sale and expected earnings contributions from the two acquisitions improve Nexeo's pro forma leverage as of 31 March to about 6.4x. Both mark steps in Nexeo's efforts to shift its chemical distribution product portfolio toward high-margin specialty chemicals and away from the commodity chemicals market. Still, Nexeo's credit quality remains stressed, even though the sale and recent acquisitions bring business benefits that include a promise of higher profitability from specialty chemicals.

Nexeo expects its new specialty-chemical acquisitions to boost EBITDA margins, which have hovered around 3% since 2011. Selling its low-margin composites business should bolster Nexeo's efforts to improve margins. But to drive EBITDA margins, as well as cash generation and leverage reduction, Nexeo must successfully integrate both acquisitions and realize cost savings and efficiencies.

Additionally, Nexeo's plan to spend nearly $50 million to complete the buyout of its joint venture position in China's Beijing Plaschem (unrated), which began in early 2013, still shadows its credit profile. Nexeo has already increased its initial share to 80% from 60%, and plans to buy two final 10% stakes by the first quarter of 2015.

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Mexico's Auto-Parts Manufacturers Benefit from Accelerating Vehicle Production

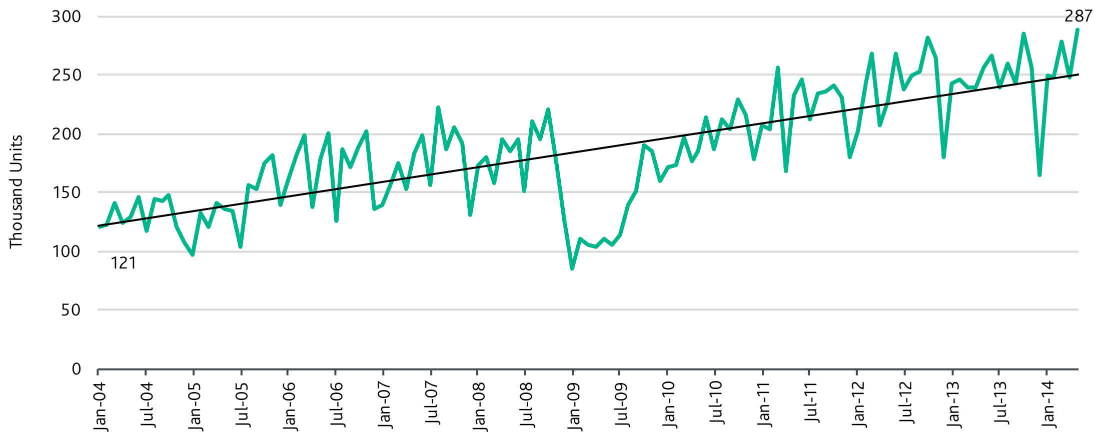
Last Monday, Mexico's *Asociación Mexicana de la Industria Automotriz* published data showing a 12.5% increase in auto production in May, versus year-ago levels. The production surge to the highest level in a decade – 287,000 units in May – is credit positive for Mexico's two auto-parts manufacturers, Tenedora Nemak, S.A. de C.V. (Ba2 stable) and Sanluis Rassini, S.A. de C.V. (Ba3 stable). Both companies are the sole suppliers for several original equipment manufacturers (OEMs). The higher production levels increase their sales volumes and benefit their profits and margins.

Mexico's monthly production of vehicles is rising steadily, if cyclically, and more than doubled over the past decade (see Exhibit 1, below). Exports account for 82%-83% of vehicle production—most of it for the US and Canadian markets.

EXHIBIT 1

Monthly Mexican Vehicle Production, 2004-14

Mexico's vehicle production more than doubled in a decade



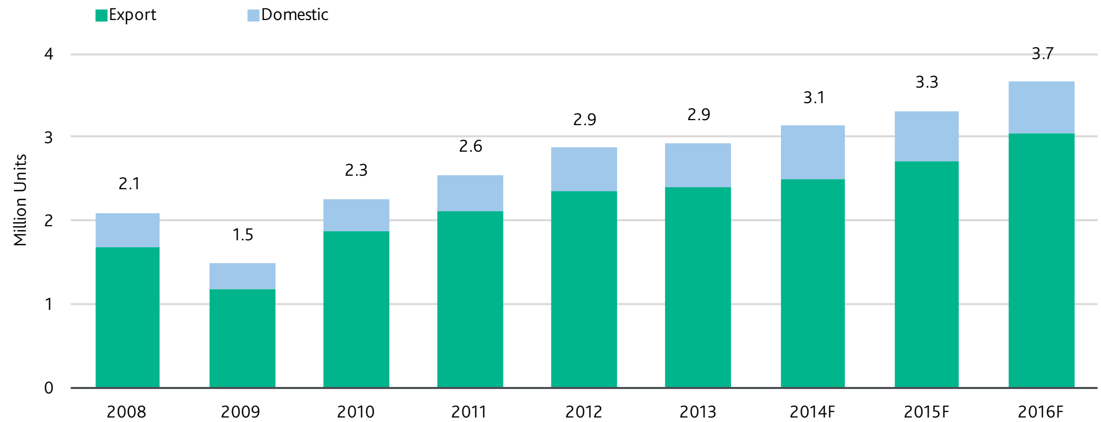
Source: Instituto Nacional de Estadística y Geografía, Mexico, using data from Asociación Mexicana de la Industria Automotriz and Asociación Nacional de Productores de Autobuses, Camiones y Tractocamiones

Industry data suggest vehicle production in Mexico will reach 3.7 million units by 2016, a 28% increase from the 2.9 million units produced in 2013 (see Exhibit 2, below).

EXHIBIT 2

Annual Mexican Vehicle Production, 2008-16

Mexico's vehicle production is set to surge



Source: IHS Automotive

Automotive production contributes about 3% of Mexico's GDP, and offers automakers several competitive advantages: low labor costs and high productivity, free trade agreements with the US and Canada, among other countries, and low transportation costs for serving its biggest trade partners. Since 2013, several OEMs, including Germany's Audi (part of Volkswagen Aktiengesellschaft, A3 positive) and Japan's Honda Motor Co., Ltd. (A1 stable) and Mazda Motor (unrated), have launched investments worth hundreds of millions of dollars each to start or increase automotive production in Mexico.

Nemak, a maker of aluminum cylinder heads, engine blocks and transmission components, has a favorable market position and size within its industry niche, with some $950 million in annual future income from new and replacement contracts. With Mexico's auto production projected to rise through at least 2016, Nemak's free cash flow will remain positive for at least a few years, after annual capital expenditures of $375-$400 million.

Sanluis, which produces suspension components and brake rotors, has a leading market position for leaf spring suspension components in the NAFTA region and Brazil, and increased production from newly launched vehicles using its parts points to solid near-term performance. While Sanluis had negative free cash flow in 2008-09, cash flow has been positive since 2011. Sanluis can expect to generate about $45-$50 million in annual positive free cash flow between now and 2016.

By 2015, surging automotive production will raise revenues for both companies by 10%-15% from 2013 levels. Nemak's leverage will keep improving accordingly; its debt/EBITDA ratio fell to 2.1x in March 2014 from 3.8x in 2011, and will fall to about 1.8x by 2015. Sanluis' debt reduction and earnings growth reduced its debt/EBITDA to 2.6x by March 2014 from 3.4x in 2010. Its leverage will approach 2.2x by the end of 2014.

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Japan Tobacco Acquisition of E-Lites E-Cigarettes Is Credit Positive

Last Wednesday, Japan Tobacco, Inc. (JT, Aa3 stable) announced that it had agreed to acquire Zandera Ltd., a privately held UK maker of E-Lites e-cigarettes, for an undisclosed price. The tuck-in acquisition is credit positive for JT because it will help diversify the company's product lines.

An investment in e-cigarettes has advantages for JT beyond diversifying its income streams. Because e-cigarettes are new, they do not yet face the same types of regulations and restrictions that traditional cigarettes do in distribution and advertising. Moreover, unlike traditional cigarettes, e-cigarettes do not generate smoke, ash or odor and thus offer a potentially more socially acceptable alternative for smokers to satisfy their cravings. E-cigarettes also currently face little taxation compared with traditional cigarettes.

Nevertheless, we expect authorities to eventually begin regulating and taxing e-cigarettes similarly to traditional cigarettes, which remains a key long-term risk. However, until that happens, we expect that the market will continue to expand. Indeed, in the US, for example, we expect e-cigarette sales to grow at least 50% annually over the next two years.

The transaction is in line with a series of tuck-in acquisitions or investments that JT has executed to expand its product breadth, including Nakhla (water pipe tobacco) in 2013 and Ploom (vapor tobacco) in 2011. Although independent companies launched the e-cigarette market, we think big tobacco companies such as JT have the capital and large distribution networks necessary to drive growth. For example, JT's investment in Ploom allowed JT to distribute Ploom products outside the US. As a result, JT now sells Ploom products in Austria, Italy, Korea, Japan, France and the UK. We think JT will continue to make such tuck-in acquisitions to expand its portfolio of products, and use its capital and distribution network to drive growth.

JT did not disclose the purchase price, but has indicated that it will fund the acquisition with cash and debt. The media reported that Zandera's revenues are about $27 million (¥2.7 billion). JT had $2.5 billion (¥253 billion) of cash on hand at 31 March. If JT paid a mid-single-digit multiple on Zandera's revenues and funded the entire purchase price with debt, JT's adjusted debt/EBITDA would not materially change from the current level of just under 1x.

Although we think earnings contributions from the target will constitute a small portion of JT's overall business, the entry price is a modest outlay given the potential upside, particularly if the e-cigarette segment remains less regulated and taxed than the highly mature traditional cigarette market.

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True Corp's Recapitalization Plan Is Credit Positive for It, but Negative for China Mobile

On 9 June, True Corporation Public Company Limited (Caa1 review for upgrade) said it plans to raise about THB65 billion (approximately $2.0 billion) through a rights offering to its existing shareholders and a private placement to China Mobile Limited (Aa3 stable). China Mobile's wholly owned subsidiary, China Mobile International Holdings Limited (CMI, unrated), will subscribe to 18% of True Corp's shares for a total consideration of THB28.57 billion (about $880 million) and enter into a cooperation memorandum with True Corp to explore potential business opportunities. The deal is credit positive for True Corp and we placed its corporate family rating on review for upgrade, but credit negative for China Mobile.

If approved by shareholders and regulators and executed as planned by late August or early September, the deal will significantly reduce the Thai telecommunications company's leverage and restore its equity base. True Corp plans to use approximately 80% of the projected THB65 billion in cash proceeds to reduce its debt. The business cooperation agreement will give True Corp an opportunity to leverage China Mobile's technology and scale: China Mobile is a leader in time-division long-term evolution technology, one of the major 4G technologies; and it is the world's largest mobile operator by the number of subscribers.

As a result of True Corp's planned debt reduction, the company expects pro forma March 2014 reported debt to decrease to THB43 billion from THB95 billion. We estimate that adjusted debt/EBITDA will fall below 4.0x-4.5x by December this year from 4.8x as of March. Prior to the transaction announcement, we had expected adjusted debt/EBITDA to increase to 6.5x-7.0x by December, given True Corp's ongoing negative free cash flow resulting from a high level of investments in 3G and 4G and the probable increase in operating lease payments to its infrastructure fund. (In December 2013, True Corp established an infrastructure fund, into which it sold its telecommunications tower assets and then subsequently listed the vehicle.) Additionally, we expect True Corp's reported shareholders' equity, which has declined amid several years of net losses, to increase to over THB70.0 billion from THB8.6 billion as of March.

The deal is credit negative for China Mobile, in part because it signals the company's increased risk appetite. China Mobile's domestic cellular business is subject to increasing competition and high investment needs, adversely affecting its margins and cash flow metrics. Overseas acquisitions, such as the investment in True Corp, will provide China Mobile an opportunity to sustain growth and diversify earning sources, but indicate increased risk appetite and a future acquisition strategy that will likely pressure the company's credit profile.

This investment's direct financial effect on China Mobile will be limited, given the company's financial strength. The total consideration accounts for 1% of China Mobile's cash and deposits and 0.7% of its total equity at year-end 2013; we expect the company to maintain its adjusted debt/EBITDA of 0.3x in 2014. China Mobile will become True Corp's second largest shareholder and will have the right to appoint two board members. The largest shareholder, the Charoen Pokphand Group (unrated), will have a stake of approximately 50%.

China Mobile is the largest mobile operator in China and True Corp is the third-largest mobile operator in Thailand by subscribers.

Infrastructure

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Covanta Will Increase Its Dividend Rather Than Buy Back Shares, a Credit Negative

On Tuesday, Covanta Holding Corporation (Ba2 stable) announced plans to increase its quarterly dividend by 40% to an annualized rate of $1 per share starting in the third quarter of this year. The dividend increase is credit negative because the higher dividends are likely to permanently add $37 million to annual cash flow requirements.

Firms exhibit much less flexibility in cutting dividends than they do in adjusting share buybacks, the option Covanta has previously used to return what it considered excess cash to shareholders. The increased dividend comes at a time when revenue prospects remain under pressure for the Morristown, New Jersey-based Covanta, a developer, owner and operator of infrastructure for energy-from waste projects. Future earnings and cash flows are likely to experience greater volatility and Covanta's aging waste-to-energy equipment requires greater maintenance spending.

Pro forma, dividends will grow from a higher base of $130 million, increasing to just under 40% of operating cash flows from around 30% as of 31 March. The company also announced plans to cut selling, general and administrative expenses and operating and maintenance costs by about $30 million per year starting next year via various across-the-board cost savings and efficiency initiatives.

Covanta's projected cost savings will help offset the higher dividend payment and keep its credit metrics reasonably well positioned in the Ba rating category. Pro forma, we expect the ratio of cash flow pre-working capital/debt to marginally improve to 15% from 14% as of 31 March, while retained cash flow/debt will weaken to around 9% from 10%.

Covanta last year announced that it had a contract to remove waste from New York City, which will add incremental cash flow starting next year and increase to about $20-25 million in EBITDA by 2017. The company has also made progress on building an energy-from-waste plant in Dublin, Ireland, which, if completed, would provide another long-term source of stable cash and earnings that would further mitigate the company's more aggressive dividend policy. However, completion of the Dublin project is several years away.

Banks

US Federal Reserve Proposes Credit-Positive Modifications to Bank Stress Tests

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Last Thursday, the Federal Reserve (Fed) proposed several modifications to its annual bank stress testing process, including two items that aim to reduce banks' ability to distribute capital as a result of shortcomings it identified in the current process. The Fed's proposals are credit positive because they will result in more conservative capital planning and management.

Perhaps the most interesting component of the Fed's notice was its revelation that in previous stress testing cycles some banks exploited a timing difference inherent in the process whereby they did not carry forward planned increases in capital distributions beyond the four-quarter period for which they requested the increase.

Specifically, the Fed's annual Dodd-Frank Act Stress Test and Comprehensive Capital Analysis and Review encompasses a nine-quarter period during which the Fed evaluates banks' capital distribution requests against the backdrop of a hypothetical stress scenario. However, in each stress testing cycle, the banks' capital distribution requests (typically some combination of higher dividends and/or share buybacks) only cover a four-quarter period, and the Fed does not explicitly approve or object to banks' capital distribution plans in the remaining quarters.

The Fed indicated that some banks took advantage of this difference by projecting "markedly reduced distributions" in the periods that were not subject to its approval or objection. This practice, therefore, boosted those banks' projected capital ratios in the final quarters of the stress testing period. However, in the following stress test cycle, those same banks submitted "significantly increased distributions" relative to what they projected a year earlier for those same exact quarters, calling into question whether the initial projection was a true reflection of management intent. Moreover, those same banks once again projected reduced distributions for the final quarters of the new testing horizon.

We agree with the Fed's view that "this practice erodes the credibility of large bank holding companies' capital plans," and note that the Fed hinted that it would object to such capital plans in the future on qualitative grounds. The Fed did not disclose the number or identity of the offending banks that engaged in this practice.

Another credit-positive item is a proposed rule that would limit a bank's capital distributions if it failed to execute planned capital issuances. Under the rule, the net amount of banks' capital issuances and distributions must be at least as great as the net amount projected in each calendar quarter. Moreover, the Fed suggested that another potential reason to object to a bank's capital plan on qualitative grounds would be if it consistently failed to issue capital as projected. The Fed highlighted a proposed exception to this rule for instances when capital issuances were not completed if they were intended to support an acquisition that ultimately was not consummated.

The Fed also proposed other modifications, including a change in the start date of each stress testing cycle to 1 January of each year, beginning in 2016, from the current 1 October start date. This would result in banks submitting their plans in April as opposed to January and would shift the Fed's publication of results to June from March.

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Liquidnet's Settlement of SEC Investigation Is Credit Positive

On 6 June, Liquidnet Holdings, Inc. (B3 stable) announced that it had agreed to pay a $2 million fine to resolve a US Securities and Exchange Commission (SEC) investigation into allegations that the company inappropriately used private client data. Although Liquidnet paid a fine, for which it had fully reserved in the first quarter, the settlement is credit positive because it removes the threat of further regulatory action and allows a number of its customers to resume trading on its platform. As part of the settlement, Liquidnet made no admission of wrongdoing and stated that there was no harm to clients.

Liquidnet provides a venue for its buy-side institutional investor members to anonymously buy and sell large blocks of equity securities directly among themselves, which allows the execution of large block trades with a more minimal market effect than what would occur on an exchange. Its approximately 750-firm membership includes many of the world's largest investment managers. The matched-trade process that Liquidnet performs generates commissions that constitute 99% of Liquidnet's revenues.

In May 2012, the SEC opened an investigation into the use of descriptive communications by Liquidnet's equity capital markets business and the possibility that it failed to protect members' confidential information. Although many members initially ceased trading with Liquidnet as a result of the investigation, some returned even as the investigation continued. However, a few large money managers remained on the sidelines because their internal processes require closure of any investigation before trading can resume.

Resolving the SEC investigation should help Liquidnet win back former clients. Liquidnet has kept in contact with these firms throughout the process, which should allow for a seamless return to the platform. As such, the resolution with the SEC should be a catalyst to improve Liquidnet's revenue and profitability.

Although the resolution of the SEC investigation removes the threat of further regulatory punishment in connection with this matter, Liquidnet and all market infrastructure firms still face risks related to potential SEC regulatory reforms of the equity market structure. Although we consider the possibility of such regulatory changes as likely, their timing, scope and ultimate effect remain uncertain.

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ICE Launch of Euronext IPO Is Credit Positive

On Tuesday, Intercontinental Exchange Group Inc. (ICE, A3 stable) set an indicative price range for the previously announced IPO of Euronext Group N.V. A successful Euronext IPO will allow ICE to reduce leverage, which increased with its November 2013 acquisition of NYSE Euronext. Management has publicly stated that IPO proceeds will be used to reduce debt and move ICE toward a targeted 1.5x debt/EBITDA ratio on a company-reported basis from 2.5x at year-end 2013. Moody's adjusted debt/EBITDA was 2.9x at year-end 2013.

Although the amount of the Euronext Group IPO proceeds and the exact execution logistics remain unknown, the IPO launch is a key step toward ICE's targeted post-NYSE-acquisition deleveraging plan and is therefore credit positive. Additionally, the Euronext business had been a significant drag on the legacy NYSE operations profitability given difficulties in achieving targeted cost savings, making a successful divestiture crucial to ICE's profit strategy.

Concluding the IPO would also demonstrate ICE's ability to execute one of the more complex elements of the NYSE acquisition strategy. Although ICE has had a strong track record of successfully integrating complementary companies, the NYSE Euronext acquisition was larger and much more complex than prior transactions.

ICE's negotiation with multiple pan-European regulators and government officials resulted in their approval of the IPO, demonstrating management's effective navigation of complex regulatory hurdles. The company also separated Euronext from the previously intertwined NYSE Liffe business, the European derivatives platform that ICE plans to integrate into its current platforms. These steps were essential in divesting Euronext and indicate overall execution progress.

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Shareholders Rebuke of New York Community Bancorp's Executive Pay Is Credit Negative

On 6 June, New York Community Bancorp, Inc. (NYCB, Baa1 stable) stated in a regulatory filing that a majority of its shareholders rejected the company's executive pay plan. Although the rebuke is not binding on the company, it is credit negative because it highlights mounting shareholder pressure for NYCB to improve shareholder returns, which comes with increased credit risk.

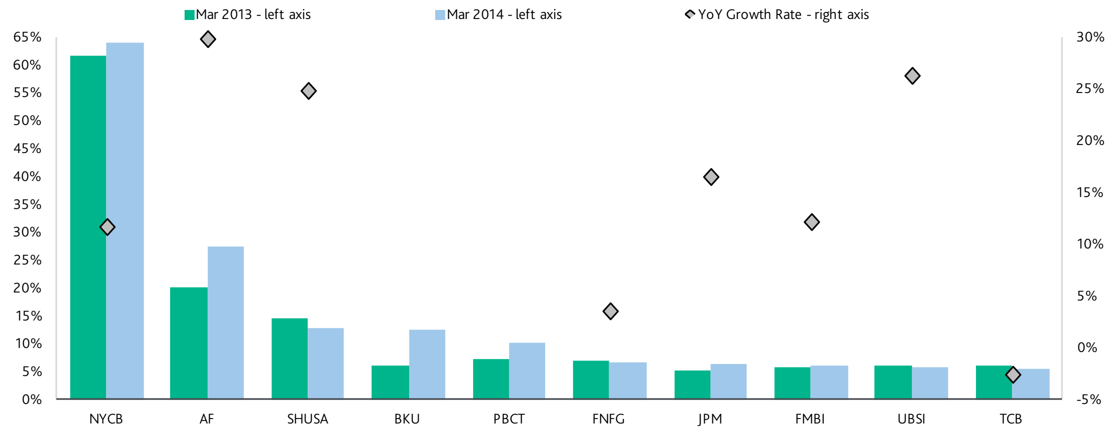
In the first quarter of this year, NYCB's return on equity (ROE) was about 8%, insufficient to cover its cost of capital. NYCB's current equity price is supported by the company's elevated dividend payout ratio, which exceeds 90%, generating a high dividend yield of 6.3%. However, management's stated desire to cross the $50 billion threshold is a potential threat to maintaining the dividend because that would subject NYCB to the Dodd-Frank Act's stricter standards for large bank holding companies, including much lower dividend limits.

But if management decides to curtail the company's growth, it will be difficult for NYCB to improve its ROE without substantially reducing equity, which would reduce bondholders' protection. The company has little ability to improve its profitability and return on current capital. NYCB generated 88% of its revenue from net interest income in the first quarter and its current net interest margin is negatively pressured by the protracted low interest rate environment, in which new loans are being reinvested at lower interest rates. For the 12 month ending 31 March, for example, NYCB's net interest margin fell 23 basis points and was 2.72% at quarter-end. Meanwhile, there is little room for expense cuts because the efficiency ratio (noninterest expense to revenue) is already very low and among the lowest of the rated banks.

Targeting new business, principally through loan growth, is one way in which NYCB can improve its ROE. However, meaningful growth amid intense competition in the multifamily sector will challenge the bank's sound underwriting discipline, which has been the hallmark of its performance to date. The bank specializes in lending to rent-regulated apartment buildings in the greater New York City region. However, this market has recently attracted much more competition from other banks hungry for loan growth. Furthermore, the government-sponsored enterprises have reduced their multifamily loan originations to comply with regulatory mandates, which further fuels growth in banks' multifamily lending. Growing competition will test NYCB's underwriting, including its appetite for narrower pricing, weaker structure or higher loan to value.

The exhibit below shows the 10 rated banks most exposed to multifamily loans. The bars show each bank's concentration in multifamily relative to total loans as of 31 March 2013 and 2014, respectively, on the left axis. The diamonds show the recent growth rate, on the right axis. The top five banks on the left are mainly growing in the New York City metro market. Among these banks, NYCB has by far the largest multifamily portfolio relative to total loans. Although its growth rate was less than the majority of banks shown in the exhibit, it grew the portfolio by close to 12% in the last year.

Multifamily Loans as Percent of Total Loans and Loan Growth, 1Q 2013 vs. 1Q 2014



Key: NYCB = New York Community Bancorp, AF = Astoria Financial Corporation, SHUSA = Santander Holding USA, BKU = BankUnited, PBCT = People's United Financial, FNFG = First Niagara Financial Group, JPM = JPMorgan Chase & Co, FMBI = First Midwest Bancorp, UBSI = United Bankshares, TCB = TCF Financial Corporation

Note: BankUnited's year over year loan growth was 247%.

Source: Federal Reserve's Regulatory FR Y-9C

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Argentina's Interest Rate Ceilings Are Credit Negative for Banks

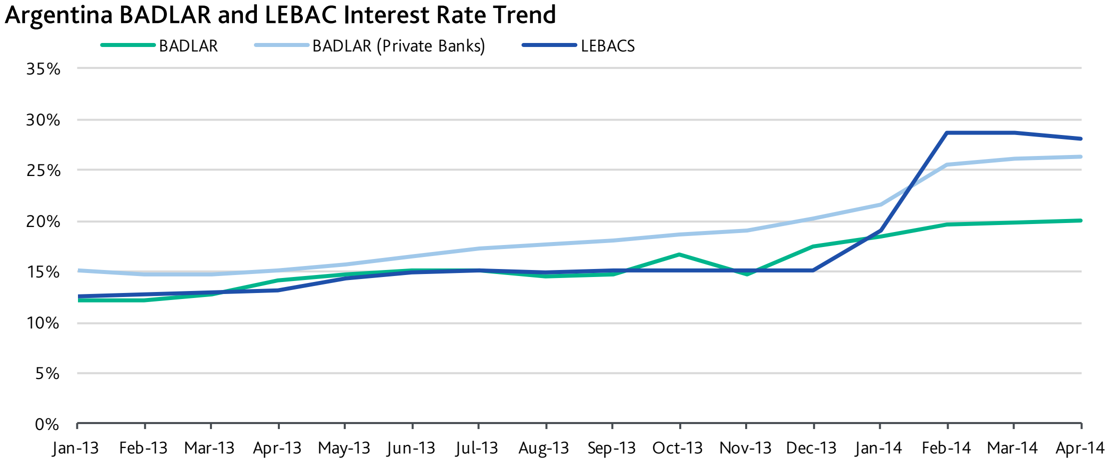
On Wednesday, new regulations capping or limiting a variety of interest rates went into effect in Argentina (Caa1 stable), a day after the Central Bank announced them. The new regulations directly cap interest rates on personal loans and car loans, indirectly limit rates on credit cards, and require banks to gain central bank approval before increasing fees and commissions on basic services, including maintenance fees on savings and checking accounts.

These new regulations are credit negative for Argentine banks and will reduce their profitability. Banks will have to lend at below-market rates amid rising funding costs and a 30% annual inflation rate. This will reduce their net interest margins in market segments that have been key drivers of lending growth – personal loans (42.5% of total household indebtedness), credit cards (35%) and car financing (8.8%). New limits on bank fees, which accounted for 29.2% of banks' total revenue in 2013, for basic services such as checking will also hurt earnings.

Each month, the regulator will announce the maximum lending rate for each type of loan, which it will calculate using a pre-set multiple of the going interest rate on central bank notes (LEBACS). The maximum rate allowed will be twice the interest rate on LEBACS, which was recently 28.8%, but the specific cap for each lender will vary depending on the lender's size and the type of loan.

Argentina's deposit benchmark rate, BADLAR, has climbed more than 700 basis points since June 2013 (see exhibit).

Argentina BADLAR and LEBAC Interest Rate Trend



Source: Central Bank of Argentina

The Central Bank will separate banks in two groups, and large banks will generally face a much lower cap than smaller lenders.

One group will include government-owned banks, which act as financial agents of regional governments, and banks with at least 1% market share of deposits. Their lending rate cap will be calculated using a multiplier of 1.25x the reference rate for car loans and 1.45x for personal loans. Credit card rates are capped at 1.25x the rate on personal loans. Based on the current reference rate on central bank notes, the maximum allowable rate for this group would be 35.28% per annum on car loans, 40.92% on personal loans and 51.15% on credit card loans.

Negatively affected large banks within the group with over a 1% deposit market share include Banco Santander Rio S.A. (Caa2 stable, E/caa1 stable[1]), Banco de Galicia y Buenos Aires S.A. (Caa2 stable, E/caa1 stable) and Banco Macro S.A. (Caa2 stable, E/caa1 stable) because personal loans and credit cards are more than half of their loan portfolios. However, their broader product mix and market power will mitigate the effects on their bottom line.

The second group includes consumer finance institutions, whose rate caps will be calculated using multipliers of 1.4x for car loans and 1.8x for personal loans. Based on today's reference rates, this caps car loans at 39.51%, personal loans at 50.8%, and credit card loans (which are calculated at 1.25x the personal loans cap) at 63.5%. Banks that focus exclusively on consumer finance or car financing will be more affected. Examples of these include Toyota Compania Financiera de Argentina S.A. (Caa2 stable; E/caa1 stable), GPAT Compania Financiera S.A. (B2 stable)[2] or PSA Finance Argentina Comp.Fin.S.A. (Caa2 stable, E/caa1 stable). Consumer finance institutions like Cordial Compañía Financiera S.A. (Caa2 stable, E/caa1 stable) and Compañía Financiera Argentina S.A. (Caa2 stable, E/caa1 stable) will probably see tighter spreads and business volumes.

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1 The ratings shown are the bank's foreign currency deposit rating, its standalone bank financial strength rating/baseline credit assessment and the corresponding rating outlooks.
2 The rating shown for GPAT Compania Financiera S.A. is the local currency issuer rating, and the corresponding rating outlook.

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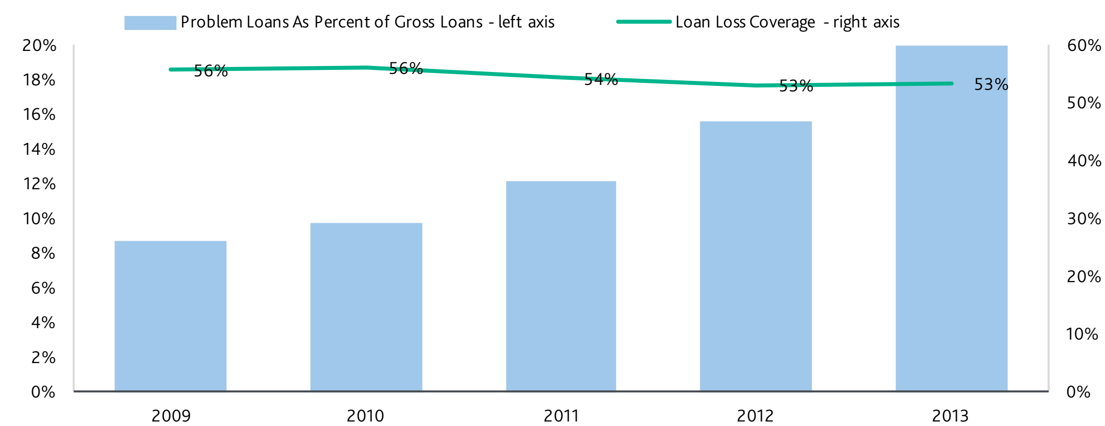
Monte dei Paschi Sells Nonperforming Loans to Fortress, a Credit Positive

Last Tuesday, Banca Monte dei Paschi di Siena S.p.A. (MPS, B2 negative, E/caa3 no outlook[3]) announced a binding agreement for the disposal without recourse of a €500 million (book value gross of provisions) nonperforming medium-term loan portfolio to a securitisation vehicle financed by affiliates of Fortress Investment Group LLC (unrated), to be finalised by 30 June. The disposal is credit positive for MPS because taking losses on nonperforming loans will aid the bank in attracting new capital.

Furthermore, by disposing of almost 12,000 small loans the bank frees up administrative and management resources. The sale also indicates that MPS has adopted a proactive balance sheet management strategy, which it intends to pursue in the future, and provides both management and investors (if terms are disclosed) insight into the appropriateness of valuations MPS applied to this portfolio. The exhibit below shows the status of the bank's high problem loans[4] and reserve coverage, which is below the Italian 59% average.

Banca Monte dei Paschi di Siena's Problem Loans and Coverage



Source: Moody's Banking Financial Metrics

Italy's developing market for problem loans will likely allow other Italian banks to more rapidly reduce the substantial problem loans on their balance sheets that otherwise would require long workout periods.

Details are scant and the price of the transaction was not disclosed. The bank has said that the effect of the disposal on BMPS' profit and loss and balance sheet is negligible because the problem-loan portfolio being disposed of is less than 2% of MPS' problem loans. Nevertheless, this is a step toward more sizable portfolio transfers at acceptable prices. The fact that specialised institutions such as Fortress are becoming familiar with such portfolios is likely to be conducive to more significant subsequent sales.

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

4 Problem loans include nonperforming loans (*sofferenze*), watchlist (*incagli*), restructured (*ristrutturati*), and past-due (*scaduti*) loans; we adjust these numbers and only incorporate 30% of the watchlist category as an estimate of those more than 90 days overdue.

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Privatisation for Philippines' United Coconut Planters Bank Is Credit Positive

On Monday, Philippine National Bank (PNB, Ba2 positive, D-/ba3 positive[5]) announced that it is conducting due diligence for a possible acquisition of the government's 72% equity stake in United Coconut Planters Bank (UCPB, B2 stable, E/caa1 stable). The PNB announcement followed news reports of other Philippine banks' interest in acquiring UCPB.

PNB's announcement is credit positive for UCPB because it confirms there is strong market interest in the government's stake and it will likely prompt other potential acquirers to enter the bidding process. A smooth completion of UCPB's privatisation will also help it raise new equity capital to meet Basel III capital requirements. And, if UCPB is successfully privatised and acquired by a larger bank, we expect its credit profile would benefit from the support of its new majority shareholder.

UCPB confirmed that it is still finalising the terms and conditions for its recapitalisation plan, and expects to release the terms by year end, before beginning the public bidding process. The bank expects to raise new equity from new investors from the recapitalisation exercise, which will allow it to continue its business growth and maintain its minimum Tier 1 capital ratio above 10%, inclusive of the capital conservation buffer that went into effect in January for all Philippine banks.

In the past, the bank's capital-raising activities through usual market channels were restricted by the government's sequestration of 97% of UCPB's shares since 1986 and by ownership disputes from parties that had forfeited their shares in the past. The Supreme Court of the Philippines in July 2013 ruled in favour of the government on the 72% equity stake in cases filed by the parties that had been disputing ownership, which facilitated the government plans to privatise UCPB. The remaining 25% stake remains under litigation.

In contrast to the government, UCPB's eventual new majority shareholder is likely to view UCPB as a strategic addition to expand its domestic operations. Therefore, we expect that the new shareholder will support UCPB, a credit positive for UCPB's depositors and creditors.

UCPB is currently in the process of executing a 10-year rehabilitation plan that began in 2008, after the government provided financial assistance to help it deal with losses accumulated prior to 2003. As a result of its prior losses, the bank continues to have significant valuation reserves and deferred losses relating to nonperforming assets[6] of about PHP18 billion that the Philippine regulator has allowed to remain off-balance sheet and gradually enter on the balance sheet over the course of its rehabilitation process. Over the past three years, UCPB's core profitability has been robust, reflecting steady net interest margins and growth in both loans and fee income.

Among the numerous banks in the Philippines that are reportedly interested in acquiring a controlling stake in UCPB, only PNB has made a formal announcement that it is conducting due diligence on UCPB.

For PNB, the credit implications of the potential acquisition will depend on the price it pays and how it funds the acquisition. If PNB were to purchase the government's stake in UCPB at book value and fund the acquisition through a 50-50 split between cash and new equity, we estimate PNB's Tier 1 ratio would decrease about three percentage points. If it were to acquire the stake at 1.5x book value fully funded with cash, the decrease would be six percentage points. PNB's Tier 1 ratio was 16.1% as of March 2014, making the bank among the best capitalised in the Philippines.

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5 The ratings shown are the bank's deposit rating, its standalone bank financial strength rating/baseline credit assessment and the corresponding rating outlooks.
6 Includes loans and receivables, financial assets, investment properties and other foreclosed assets.

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Reserve Bank of India's Liquidity Coverage Guidance Is Credit Positive for Banks

Last Monday, the Reserve Bank of India (RBI) issued the final Basel III framework on liquidity standards, including guidelines on the minimum liquidity coverage ratio (LCR), liquidity risk monitoring tools and LCR disclosure standards. These guidelines are credit positive for Indian banks.

The guidelines' key aim is to promote bank liquidity. The RBI will phase in the LCR with a minimum requirement of 60% starting 1 January 2015, rising 10 percentage points annually until it is 100% at 1 January 2019. The LCR is designed to address short-term liquidity risk by ensuring that banks hold sufficient cash and other liquid assets to meet obligations in a 30-day market stress scenario. The RBI framework aligns broadly with the framework of the Basel Committee on Banking Supervision. At the same time, the central bank encouraged banks to adopt a ratio higher than the prescribed minimum to promote better liquidity risk management.

Earlier this month, on 3 June, the RBI lowered the statutory liquidity ratio (SLR) requirement – the portion of net demand and time liabilities that banks are mandated to invest in government bonds or other unencumbered approved assets – to 22.5% from 23.0%. Once a bank meets the minimum SLR ratio, remaining government bond holdings can be considered high-quality liquid assets. Under the guidelines, up to an additional 2% of banks' net demand and time liabilities within the SLR requirement can also count toward banks' high-quality liquid assets levels.

The guidelines also require banks to increase LCR disclosures, including information on funding concentration by borrowers, products and currencies in annual financial statements starting with the financial year ending 31 March 2015.

These guidelines will encourage banks to improve asset liability management because of the penalties associated with maturity mismatches, especially in short-term buckets. The requirement creates a credit-positive incentive for banks to focus on growing their retail deposits and reducing reliance on short-term wholesale funding.

The RBI's December 2013 quantitative impact study on a sample of banks to assess their preparedness for the Basel III liquidity ratios revealed that their average LCR varied between 54% and 507%, suggesting that the banks are already broadly compliant with the 1 January 2015 LCR minimum.

Based on our analysis, shown in the exhibit, banks with strong retail deposit franchises and less dependence on short-term funding, such as State Bank of India (Baa3 stable, D+/ba1 negative[7]), Axis Bank (Baa3 stable, D+/baa3 stable) and HDFC Bank Limited (Baa3 stable, D+/baa3 stable), are in a better position to meet the new requirements. Banks with weaker deposit franchises, as represented by smaller levels of low-cost current account and saving account deposits, and a greater reliance on short-term wholesale funding, such as Yes Bank Limited (Baa3 stable, D+/ba1 stable), will have a harder time meeting requirements. Note that for the purposes of calculating cash outflows, only those wholesale deposits and borrowings that are callable within the LCR's horizon of 30 days are included. Thus, the norms encourage long-term borrowings.

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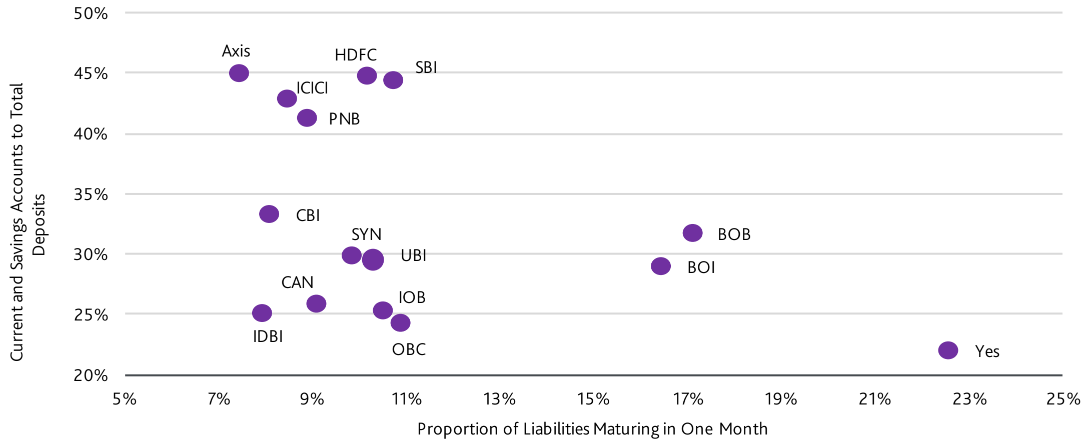
7 The bank ratings shown in this report are the bank's deposit rating, its standalone bank financial strength rating/baseline credit assessment and the corresponding rating outlooks.

Comparison of Indian Banks' Retail Franchise and Reliance on Short-Term Funding



Notes: Axis = Axis Bank Ltd; BOB = Bank of Baroda; BOI = Bank of India; CAN = Canara Bank; CBI = Central Bank of India; HDFC = HDFC Bank Ltd; ICICI = ICICI Bank Ltd; IDBI = IDBI Bank Ltd; IOB= Indian Overseas Bank; OBC = Oriental Bank of Commerce; PNB = Punjab National Bank; SBI = State Bank of India; SYN = Syndicate Bank; UBI = Union Bank of India; Yes = Yes Bank Limited.

Source: Banks' financial statements for the period ended 31 March 2014 and Moody's Investors Service

US Public Finance

Massachusetts Municipal Health Insurance Reform Is Credit Positive for Local Governments

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Last Tuesday, the Massachusetts Office for Administration and Finance released a report detailing the healthcare savings that local governments have achieved since the state's municipal health insurance reform act took effect in the fiscal year ended 30 June 2012. To date, 257 local governments (60% of the total in Massachusetts) have saved a combined $247 million in healthcare costs. In addition, the report projects that the reform will generate savings in the future and help limit the growth of health insurance expenditures, a credit positive for Massachusetts local governments.

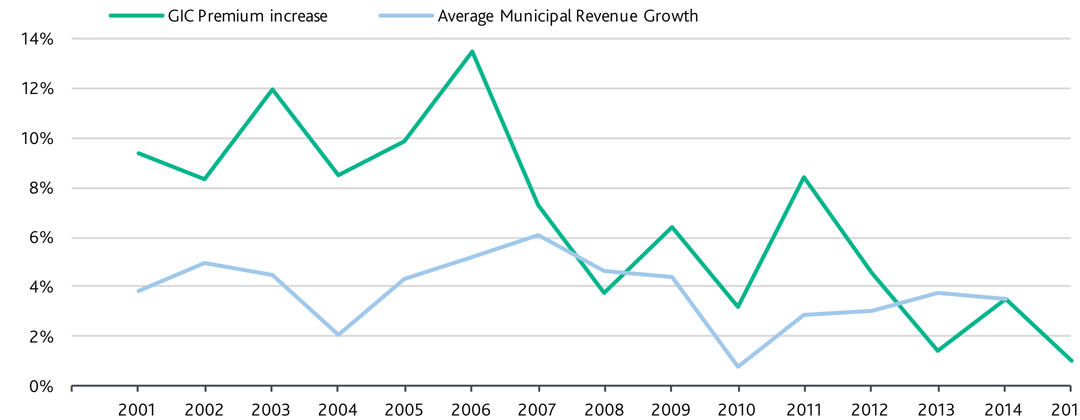
The $247 million in savings is based on the annual reporting requirements under the reform law that tracks whether a municipality used traditional bargaining or reform mechanisms to make changes in healthcare benefits and how savings compared with benchmarks. The savings over the past three years equal approximately 4% of total municipal healthcare expenditures during this time period.

Participation in the state's Massachusetts Group Insurance Commission (GIC) multi-employer healthcare plan continues to grow, with 43 local government participants and over 65,000 municipal employees. Although only a few local governments actually participate in the GIC, others are able to leverage the plan structure for their local collective bargaining efforts. The large size and negotiating power of the GIC has led to slower rate increases among private insurance providers, translating into more affordable healthcare options for local governments.

The five-year (2010-14) weighted average growth in annual premiums of 3.74% and an overall 1% rate increase planned for fiscal 2015 compare favorably with the projected 7.62% annual growth in national combined state and local health expenditures over the same time period, according to the Centers for Medicare & Medicaid Services. The Massachusetts Taxpayers Foundation projects that future savings by first-time participants and those scheduled to renegotiate under the reform will yield total savings of approximately $2.8 billion over the next 10 years.

The recent trend of moderate increases in healthcare premiums is a substantial improvement from the double-digit growth in these expenditures in fiscal years 2007-12. Moderating the annual growth rate for healthcare costs to be more in line with general municipal revenue growth will result in greater budget flexibility. For example, fiscal 2013 total healthcare expenditures for the state's municipalities increased by 4%, compared with municipal revenue growth of 3.77% (see exhibit). This is particularly important in Massachusetts, where local governments are subject to a 2.5% limit on property tax levy growth. Greater budgetary flexibility allows municipalities to address other primary expenditure items, including education and pension plan contributions, which are growing significantly.

Growth in Massachusetts Group Insurance Commission Premium and Municipal Revenue



Sources: Commonwealth of Massachusetts Group Insurance Commission and the Massachusetts Department of Revenue

Through the health reform law, municipalities can achieve savings through a 30-day expedited negotiation process between municipalities and union representatives, which can result in immediate savings owing to adjustments in plan design. Municipalities can also ensure the quality of healthcare benefits by tying minimum benefit levels to those available in the most popular GIC plan. Finally, the health reform law provides local governments with the option to directly enroll in the GIC or leverage the reform laws to negotiate their own existing local plan without adopting the reform or joining the GIC.

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California Public Schools Will Likely Benefit from Teacher Employment Ruling

Last Tuesday, a California (A1 stable) Superior Court judge issued a tentative ruling that existing teacher tenure and seniority laws are unconstitutional. The ruling, which will likely become final next month, would overturn statutes long restricting how California public school districts hire and fire teachers. The ruling is credit positive for school districts because greater employment flexibility will lead to increased budgetary flexibility. It also positions districts such as the Los Angeles Unified School District (LAUSD, Aa2 stable) and the Oakland Unified School District (unrated), both initially named defendants in the suit along with the state, to better compete with the growing number of independent charter schools.

The ruling struck down five laws that protect teachers in the areas of tenure, dismissal and seniority, which plaintiffs argued deprived students of the right to basic equality of educational opportunity. The judge found existing statutes afforded unreasonable protections to ineffective teachers, harmed students and disproportionately affected school districts serving larger populations of low-income and minority students. The California Teachers Association and the California Federation of Teachers, intervenors in the case, have indicated their intention to appeal the decision.

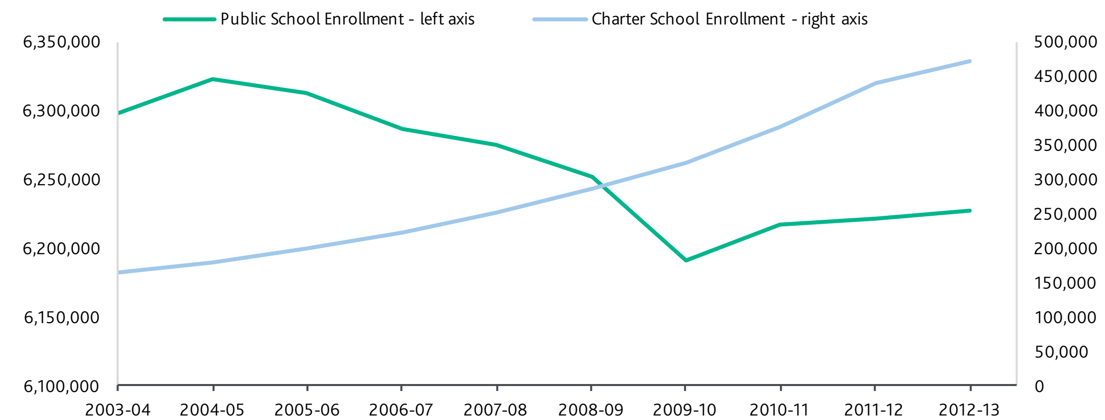
If the ruling stands, school districts will have greater budgetary flexibility, allowing them to better control labor costs, their leading expense. Better labor cost control would help them better adjust if the state reduces aid as it did during the recession. Currently, districts must grant or deny a teacher tenure after two years of employment. The ruling would allow school districts more time to determine teacher quality, which would improve educational quality and keep ineffective teachers off the payroll. Broadly, both the plaintiffs and school district defendants agreed that the tenure time frame is too short and ultimately contributes to hiring decisions resulting in lower teacher quality.

The short time frame for making decisions on tenure, which actually is less than two years, is compounded by obstacles in dismissing ineffective teachers. The judge heard testimony that dismissing a "single, grossly ineffective teacher" could take a district "anywhere from two to 10 years" and cost "$50,000 to $450,000." The court heard that LAUSD, the state's largest district, had 350 "grossly ineffective" teachers. Given the broad range in the potential cost per dismissal, dismissing these 350 could cost $18-$158 million.

California school districts must increasingly compete with charter schools to attract and retain students (see Exhibit 1). Districts lose the full amount of per-pupil funding when a student leaves a district school to attend an independent charter school, leaving fewer dollars for instruction or support programs as fixed costs are spread over a smaller number of students. If academic quality deteriorates, more students leave and funding declines.

EXHIBIT 1

California Statewide Charter School Enrollment Rose 185% in the Past Decade

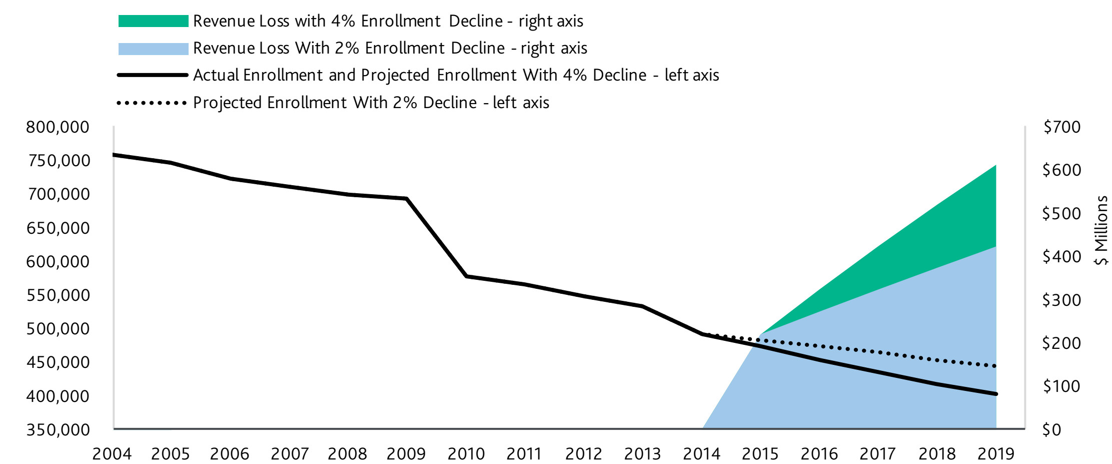


Sources: California Department of Education and the National Alliance for Public Charter Schools

LAUSD, a high-minority, high-poverty urban school district that has struggled with declining revenue as nearly 14% of area students have opted for charter schools, would likely benefit from the ruling. Over the past decade, LAUSD student enrollment has declined by more than 4% annually. If LAUSD continues to lose 4% of its students each year, by 2020 it would lose $700 million in annual revenue. If LAUSD narrows its enrollment decline to 2% a year, it would lose $470 million by 2020 (see Exhibit 2).

EXHIBIT 2

Los Angeles Unified School District Enrollment and Revenue



Source: Issuer Audited Financial Statements and Moody's Investors Service

With charter school enrollment of nearly 25%, Oakland Unified School District also stands to benefit from the court ruling, as would San Diego Unified School District (Aa3 stable) with nearly 15% of students in charter schools (see Exhibit 3).

EXHIBIT 3

Moody's Rated School Districts that Will Likely Benefit from Court Ruling

School District	Number of Charter Schools (Fiscal 2014)	Charter Enrollment (Fiscal 2013)	District Enrollment (Fiscal 2013)	Percent Enrolled in Charter Schools (Fiscal 2013)
Oakland Unified School District	38	12,292	36,180	25.4%
San Diego Unified School District	55	18,126	106,840	14.5%
Los Angeles Unified School District	262	85,680	534,376	13.8%
Sacramento City Unified School District	14	6,380	40,449	13.6%
San Bernardino City Unified School District	14	4,699	47,155	9.1%

Source: California Charter School Association and the school districts

Securitization

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Santander Consumer USA's Capital Contribution Corrects Payment Error, Increases Enhancement in Auto ABS Deal

On Friday, automobile financing company Santander Consumer USA (SCUSA) made a $71 million capital contribution to its $1.55 billion asset-backed securitization (ABS) of auto loans to correct a payment distribution error in the Class A2 notes. Servicer error and lapses in transaction governance are operational risks in securitizations that financially strong servicers can remedy, if necessary.

The transaction documents for SDART 2013-5 specify that the Class A-2-A and Class A-2-B notes are to receive principal on a pro-rata basis after the Class A-1 notes have been paid in full. However, SCUSA, which is majority-owned by Spanish bank Banco Santander S.A. (Baa1 stable), paid principal solely to the Class A-2-A notes in the SDART 2013-5 transaction over the course of two distribution dates in April and May. As a result, the Class A-2-B noteholders did not receive any principal that they were owed during those two distribution dates.

The capital contribution increases the amount of credit enhancement available to investors in the transaction, and shows the benefit of a transaction sponsor and servicer that has the ability and willingness to make payments to the securitization to correct operational mistakes. SCUSA plays both roles in the securitization.

The additional cash will bring the Class A-2-B notes into parity with the Class A-2-A notes, which will correct the payment error in the transaction. The cash injection will also increase the over-collateralization level in the transaction to almost 20% of the current pool balance from 15%. SCUSA is also increasing the target over-collateralization to this higher level, thereby providing additional credit protection to investors.

As the servicer that collects the loan payments, SCUSA is responsible for performing monthly calculations for noteholders and instructing the trustee to make payments to investors. No other party recalculates the distribution amount to noteholders or verifies, in advance, that the payment distribution is correct.

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Argentine Central Bank's Interest Rate Caps Are Credit Negative for Securitizations

Last Tuesday, the Argentine Central Bank established interest rates caps for personal loans and auto loans originated by regulated financial institutions that are below current market interest rates, especially for consumer loans.

The new regulation hurts existing securitizations because defaults on outstanding consumer loan securitizations will increase if the availability of credit diminishes as a result of interest rate caps, especially for low-credit-quality borrowers. Moreover, the new regulation increases the risk that some servicers will go out of business and will not be able to service their securitized asset pools. The interest rate caps create uncertainty about the business prospects of certain originators/servicers, particularly if the interest rate cap is below their "break even" interest rate. Servicers most at risk are small and regulated financial companies that currently lend at market interest rates significantly higher than the interest rate caps. Consumer and auto loan securitizations accounted for approximately 80% of the total securitizations issued in 2013 in Argentina.

For existing securitizations, we also expect lower prepayments resulting from the refinancing of existing loans because originators will be reluctant to refinance loans originated in a high interest rate environment. However, this effect will be offset if high-credit-quality borrowers prepay their high interest rate loans by taking lower (capped) interest rate loans, especially if banks compete for high-quality borrowers.

Banks are likely to refocus their commercial strategy on high-credit-quality borrowers, thereby limiting the availability of credit for low-quality borrowers. This shift will test borrowers' ability to repay their current loans, but partially mitigating this risk is that borrowers generally use consumer loans for exceptional situations rather than current expenditures.

The interest rate cap affects loans originated after 11 June. Future securitizations backed by consumer and auto loans will require higher credit enhancement (i.e., subordination) to compensate for the reduction in excess spread. Argentine securitizations use all available excess spread to first pay down the senior notes and then the subordinated notes. We estimate that a typical securitization with a weighted-average coupon (WAC) of 47% will require an additional 3.5% of subordination to compensate for a 7% reduction of annual excess spread in order to obtain the same rating.

Underlying pools of future securitizations will have lower pool WACs and excess spread. The exhibit below compares the pool WAC of recent securitizations with the new interest rate caps.

Recent Securitizations in Argentina

Deal Name	Originator	Regulated?	Originator Type	Pool Cut-Off Date	Pool WAC	Interest Rate Cap
Fideicomiso Financiero Supervielle Créditos 79	Banco Supervielle	Yes	Bank	4-Apr-14	47.12%	40.92%
Fideicomiso Financiero CCF 5	CCF	Yes	Financial Company	9-Jan-14	79.23%	50.80%
Fideicomiso Financiero ICBC Personales XI	ICBC Bank (Arg.)	Yes	Bank	31-Dec-13	33.98%	40.92%
Fidiecomiso Financiero Pvcred XX	Pvcred S.A.	No	Financial Company	31-Jul-14	70.04%	NA
Fideicomiso Financiero Consubond 101	Banco Sáenz	Yes	Bank	1-Nov-13	47.64%	50.98%
Fideicomiso Financiero Garbarino 102	Garbarino	No	Retailer	31-Mar-14	77.47%	NA
Fideicomiso Financiero Megabono 117	CARSA	No	Retailer	1-May-14	90.04%	NA

Source: Moody's Investors Service & Comisión Nacional de Valores

Unregulated originators and servicers such as retailers are not subject to the interest rate caps. However, their access to secured credit lines from financial institutions (or securitizations) will decline as a result of the central bank's action. Banks have an active role in the underwriting or prefunding of the originator's loans portfolio. The new regulation impairs banks' ability to continue providing prefunding credit lines backed by high uncapped interest rate loans. Banks may change their secured prefunding lines to unsecured credit lines, but they will be assuming a higher credit exposure to the originator in a challenging credit environment.

RATING CHANGES

Significant rating actions taken the week ending 13 June 2014

Corporates

B/E Aerospace, Inc.

	4 Nov '11	Outlook Change 11 Jun '14
Corporate Family Rating	Ba1	Ba1
Outlook	Stable	Negative

The negative outlook follows B/E's announcement that it intends to separate its business into two independent, publically traded companies, one focusing on aircraft cabin interior equipment and the second on the aerospace and energy services markets. It remains to be seen how existing debt will be allocated between the two companies.

Johnson Controls, Inc.

	16 Apr '14	Downgrade 9 Jun '14
Long-Term Issuer Rating	Baa1	Baa2
Short-Term Issuer Rating	P-2	P-2
Outlook	Review for Downgrade	Stable

The downgrade reflects our expectation that Johnson Controls, Inc.'s $1.6 billion debt-financed acquisition of Air Distribution Technologies, combined with a sizable share repurchase program, will reduce the company's operating and financial flexibility at a time when it is undertaking a major shift in its portfolio of businesses.

Motorola Solutions, Inc.

	15 Apr '14	Confirmation 10 Jun '14
Long-Term Issuer Rating	Baa2	Baa2 (confirmed)
Short-Term Issuer Rating	P-2	P-2 (confirmed)
Outlook	Review for Downgrade	Stable

The confirmation concludes the review for downgrade initiated on 15 April 2014 when Motorola announced the $3.5 billion sale of its enterprise business. The confirmation also reflects our expectation that the remaining company's capital structure and financial policies will remain consistent with the Baa2 category. Pro forma debt to EBITDA will likely increase to 3.5x or higher at close of the enterprise sale, up from 2.6x at the end of 2013.

RATING CHANGES

Significant rating actions taken the week ending 13 June 2014

Vodafone Group Plc

		Review for Downgrade
	18 Mar '14	**10 Jun '14**
Long-Term Issuer Rating	A3	A3
Outlook	Negative	Review for Downgrade

The review for downgrade follows the release of Vodafone's full-year 2013-14 results and guidance for 2014-15, leading us to revise our forecast for the company. We now expect EBITDA to bottom out in 2015-16 and then to recover slowly. We expect the company's medium- to long-term financial ratios will remain weaker than those commensurate with an A3 rating. The review will focus on (1) the measures that Vodafone could decide to take in the near term to strengthen its financial profile; and (2) the completion of the acquisition of ONO.

Weyerhaeuser Company

		Outlook Change
	22 Apr '13	**12 Jun '14**
Senior Unsecured Rating	Baa3	Baa3
Outlook	Stable	Positive

The change in outlook reflects the company's solid earnings momentum and our view that leverage will drop below 3x and remain there as the company's financial performance strengthens. Prompting the improvement will be stronger demand as US housing starts continue to rise towards normalized levels and off-shore timber demand remains strong.

RATING CHANGES

Significant rating actions taken the week ending 13 June 2014

Infrastructure

Avanza Spain S.A.U. (Avanza)

		Downgrade
	16 May '13	**12 Jun '14**
Corporate Family Rating	B1	B3
Probability of Default Rating	Ba3-PD	B2-PD
Outlook	Stable	Stable

The downgrade reflects the company's higher net debt/EBITDA owing to a drop in passenger numbers for the suburban and long-distance segments and lower earnings following renewal of the key Zaragoza concession on revised terms. Additionally, the reduction of the company's revolving credit facility to €17 million from €50 million is also credit negative in light of the company's reduced cash flow generation.

China Merchants Holdings International Co Ltd.

		Outlook Change
	29 Jan '13	**12 Jun '14**
Issuer Rating/Senior Unsecured Bond Ratings	Baa2	Baa2
Outlook	Negative	Stable

The change in outlook is prompted by the company's issuance of HKD15.3 billion ($2 billion) mandatory convertible securities, which helps improve its capital structure and reduces leverage. For analytical purposes, we accord the hybrid securities 100% equity treatment based on a review of the final structure and documentation. Around 55% of the net proceeds from the issuance will be used for debt repayment, about 40% for capex, and the remaining 5% for working capital.

EWE AG

		Outlook Change
	27 Mar '13	**11 Jun '14**
Issuer Rating/Senior Unsecured Debt Ratings	Baa1	Baa1
Outlook	Negative	Stable

The rating action recognises that EWE has recently managed to de-risk operating activities due to the re-negotiation of power supply and natural gas procurement contracts. Moreover, with the commissioning of major growth investments in renewable and conventional generation, we expect capital expenditure to normalize at about €400 million from 2015 on, which is considerably below historic levels, and should thus have a positive impact on financial metrics. Nevertheless, EWE continues to post relatively weak financial performance in a challenging operational environment.

RATING CHANGES

Significant rating actions taken the week ending 13 June 2014

PPL Energy Supply, LLC.

		Downgrade 10 Jun '14
Senior Unsecured Rating	Baa2 (23 Aug '10)	Baa3
Commercial Paper	P-2 (7 Oct '11)	P-3
Outlook	Stable	Negative

The actions follow the announcement that PPL will spin off Supply to existing shareholders and be merged with Riverstone Holdings LLC's merchant power operation at closing. The downgrade reflects the likelihood that Supply will no longer be a part of the PPL family and receiving the financial support that it has in the past.

RATING CHANGES

Significant rating actions taken the week ending 13 June 2014

Financial Institutions

Outlook on Canadian Banks' Supported Ratings Changed to Negative

11 Jun '14

The outlook change follows the Canadian government's plans to implement a "bail-in" regime for domestic systemically important banks and the accelerating global trend toward reducing the public cost of future bank resolutions through such burden-sharing. The negative outlook reflects our view that the balance of risk for the Canadian bank's senior debt holders and uninsured depositors has shifted to the downside.

Bank of Nova Scotia

		Outlook Change
	28 Jan '13	**11 Jun '14**
Long Term Rating	Aa2	Aa2
Outlook	Stable	Negative

The outlook change reflects a number of recent, risk-increasing developments that include, first, the monetization of the majority of BNS's 37% holding in CI Financial, a strong, domestic mutual fund company that had provided BNS with a stable source of earnings. Second, BNS recent acquisition of 20% of Canadian Tire Financial, which will increase BNS's exposure to unsecured consumer credit at a time of peak Canadian consumer leverage, and third, new strategy initiatives that move away from its historically traditional risk culture.

Centras Insurance

		Downgrade
	6 Aug'13	**13 Jun '14**
Insurance Financial Strength (Foreign/ Domestic)	B2	B3
Long Term Rating	B3	B3
Outlook	Negative	Stable

Our downgrade reflects the deterioration in Centras' solvency position and profitability over a number of years mainly, which has been driven by the significant regulatory changes in the Kazakh market, together with the highly competitive environment.

CorpGroup Banking S.A.

		Review for Upgrade
		13 Jun '14
LT Issuer Rating (Foreign/ Domestic)	B1	B1
Senior Unsecured (Foreign)	B1	B1

RATING CHANGES

Significant rating actions taken the week ending 13 June 2014

CorpBanca

		Review for Upgrade 13 Jun '14
Bank Financial Strength/ Baseline Credit Assessment	D+/ba1	D+/ba1
LT Bank Deposits (Domestic)	Baa3	Baa3
Senior Unsecured (Foreign)	Baa3	Baa3

CorpBanca's controlling shareholder, CorpGroup, will merge the bank with Itaú Unibanco S.A.'s Chilean subsidiary, Banco Itaú Chile in a stock-for-stock transaction to create Banco Itaú CorpBanca. Our review reflects that the merger and the transfer of control must be approved by Chile's banking regulators, the Superintendency of Banks and the Central Bank of Chile, as well as by the Colombian, Panamanian, and US banking regulators. The Central Bank of Brazil must approve Itaú Unibanco's increased investment in Chile via a capital infusion of $652 million in Banco Itaú Chile prior to the merger.

DeltaCredit Bank

	6 Dec '12	Outlook Change 10 Jun '14
Long Term Rating	Baa3	Baa3
Outlook	Negative	Stable

The outlook change reflects DeltaCredit Bank's sustainable performance demonstrated amidst deteriorating macroeconomic conditions in Russia. Specifically, we note the bank's better-than-peers' asset quality metrics, stable profitability and sound capital levels. In addition, DeltaCredit Bank is decreasing its reliance on parental funding through efficient utilization of a variety of alternative funding sources.

KCG Holdings, Inc.

	24 Mar '14	Outlook Change 11 Jun '14
Long Term Rating	B1	B1
Outlook	Stable	Positive

Our positive outlook reflects the progress KCG has made to date following its merger with Getco Holdings LLC, nearly one year ago. In the long run, a successful merger execution should result in a more diversified firm with greater economies of scale.

Mitsubishi Corporation

	26 May '08	Outlook Change 12 Jun '14
Long Term Rating	A1	A1
Outlook	Stable	Negative

The outlook change reflects our concerns over Mitsubishi's high level of leverage relative to its A1 ratings. This rise in leverage is due to a build-up in debt associated in turn with substantial investments, eroding all headroom within the company's ratings that could otherwise absorb unexpected volatility in its operating environment.

RATING CHANGES

Significant rating actions taken the week ending 13 June 2014

US Public Finance

Providence Health & Services, Washington

		Downgrade
	12 Jul '13	**9 Jun '14**
Revenue Bonds	Aa2	Aa3
Outlook	Negative	Stable

The downgrade reflects a third year of weaker operating performance, and the continuation of balance sheet and debt measures that are well below medians for the rating category. Total comprehensive debt is high, and the ongoing incremental increase in debt offsets some of the progress the organization has made in its growth of unrestricted cash and investments.

Spring Independent School District, Texas

		Outlook Change
	12 Jul '13	**9 Jun '14**
General Obligation Bonds	Aa3	Aa3
Outlook	No Outlook	Stable

The stable outlook reflects our expectation that the district's improved credit profile including increased reserves will remain, while it manages challenges associated with an elevated debt burden.

Structured Finance

US Subprime RMBS Issued 2005-2006 Upgraded

We upgraded the ratings on 38 tranches from 17 subprime transactions backed by subprime mortgage loans, affecting $1.4 billion. The upgrade reflects the improving performance of the related pools and/or the faster pay-down of the bonds resulting from high prepayments/faster liquidations.

RESEARCH HIGHLIGHTS

Notable research published the week ending 13 June 2014

Corporates

North American and EMEA Chemical Industry: Relative Comparison of Performance and Credit Metrics

The largest EMEA and North American chemical companies have strong profitability levels, generate high returns on capital and pursue conservative financial policies. However, these companies display diverging trends in profitability, with European producers actively pursuing restructuring and portfolio measures to raise margins and returns on assets towards the levels demonstrated by their North American peers.

South and Southeast Asian High-Yield Corporates: Most Can Manage Foreign Currency Debt Exposure

More than half of the non-financial high-yield corporates we rate in South and Southeast Asia have at least 75% of their debt denominated in foreign currency. However, most of these companies generate revenue streams in the same foreign currency or have financial hedges in place to manage currency fluctuations. Thus, a sustained 20% depreciation in their local currency would not cause a significant contraction in EBITDA or a meaningful rise in leverage.

Mobile Telecom Consolidation in Ireland: Regulator's Remedies Raise Doubts That Competitive Pressures Will Ease In Some European Markets

The European Commission's approval of H3G's acquisition of O2 Ireland reduces the number of mobile network operators, but the requirement that H3G must sell part of its capacity to mobile virtual network operators means price competition is unlikely to ease. With a pre-fixed capacity at their disposal, the new mobile virtual network operators will have increased incentives to fill that available capacity more aggressively by offering attractive prices.

Chinese Retail Industry: Fast Online Sales Growth Slows Chinese Department Stores Sales Growth

Revenue growth will slow for rated Chinese department stores in 2014-15 as fast-growing online retailers capture an increasingly large portion of sales traffic. We have lowered our aggregate retail sales growth projections for Maoye International Holdings Ltd (Ba1 stable) and Parkson Retail Group Limited (Ba2 negative) to 0%-7% and 5%-8% for 2015 for this year to reflect continued weak same-store sales growth, rising rental expenses and the increasing threat from online retailers.

Dental Service Organizations: Aggressive Growth Is Weakening Credit

Growth initiatives among the four dental service organizations we rate are becoming increasingly aggressive. This trend, which we expect will continue over the next 12 to 18 months, is weakening credit metrics and has resulted in rating downgrades for three of the four dental service organizations. Aspen Dental maintains the strongest credit metrics but faces the most regulatory and legal risks.

North American Railroads: Moving to Positive Outlook on Broad-Based Freight Growth

The positive outlook reflects improving macroeconomic conditions in the US, which will support broad-based growth across major freight categories. We expect that rail shipments of coal will grow modestly, automotive shipments will rebound from weather disruptions, and intermodal freight will continue to be an important driver of overall volume growth, while crude oil will remain the fastest-growing freight category.

RESEARCH HIGHLIGHTS

Notable research published the week ending 13 June 2014

Engineering and Construction Industry: Global Oil and Gas Sector Strength Is Mixed Blessing for Rated E&C Companies

High oil and low natural gas prices will have an uneven effect on engineering and construction companies as new infrastructure projects get under way. While some, including Willbros, Fluor, Foster Wheeler and Zachry Holdings, will get a boost from new projects, others will see no significant benefit.

High Yield Interest: European Edition - June 2014

In this issue: European IPOs set to continue despite recent setbacks, themes from our European high-yield conference, among other topics.

Infrastructure

Public Power Electric Utility Medians and Methodology Scorecard: Stable Financial Metrics Underpin Stable Sector Outlook and Provide Key Credit Differentiation

The stable financial metrics of public power electric utilities demonstrate that they have been willing to use their strong local rate-setting authority to adjust rates to meet financial targets. This stability has underpinned the stable outlook the sector has retained throughout the recession and recovery.

Q&A: State Aid Risk and the UK Guarantees Scheme

The risk that the UK government's payment obligations under guarantees issued under the UK Guarantees Scheme will be withdrawn or unenforceable because of a breach of European Union State aid rules is remote, in our view. State aid risk where a guarantee has not received prior clearance from the European Commission will be assessed on a case-by-case basis.

Georgia Power and South Caroline Electric & Gas Peer Comparison

Both Georgia Power Company and South Carolina Electric & Gas Company are in the midst of expensive, multi-year nuclear plant construction projects. But the scale and scope of Georgia Power's Vogtle project is more manageable than that of SCE&G's Summer project, and the cost pressures are also higher on SCE&G's smaller customer base, according to our peer comparison report.

Australian Airports Stable Outlook Reflects Steady Revenue Growth

We expect aggregate revenue growth in the mid- to high-single-digit percentage range over the next 12-18 months, because of both scheduled increases in the passenger charges levied on airlines by the airports and our expectation of low but steady increases in passenger traffic. Airports in the two mining states of Western Australia and Queensland will face slower growth, however, as mining activity eases.

Financial Institutions

US P&C Insurance Survey: Slowing Commercial Rate Increases as Insurers Shift Toward Growth

US property and casualty insurers will see continued healthy pricing increases for commercial liability lines during the remainder of 2014, albeit at a slower pace than last year. As competition increases over the course of 2014, we expect that pricing increases for will fall below 6% by year-end but will remain above loss ratio trends.

Leading Indicators Send Mixed Signals For Italian Banks, Pointing To A Rough Recovery

Contradicting signals in the leading indicators of Italian banks' asset quality underscore persistent uncertainty and risks to the Italian economy, which dampen the prospects of improvement in banks' credit fundamentals.

Banking in the Balkans

After years of strain, we now expect credit conditions in the Balkans to improve. The main drivers include gradual macro-economic recovery, moderate banking penetration, and strong liquidity and capital buffers, including an average regional capital adequacy ratio of 17%, which supports financial stability.

Modelling Links Between Economic Factors and Bank Losses

We describe potential issues with the design and implementation of various econometric models, using US data as an illustration. We note that although econometric models are useful tools to inform analysts' assessments of future bank creditworthiness, they are only one input alongside many others. Ultimately, the wide uncertainties inherent in model-based approaches mean that arriving at a full and final judgment about a bank's financial strength and creditworthiness remains the role of credit analysts.

Money Market Funds Face Yield, Supply Challenges Following ECB Measures

We expect that the ECB's rate lowering announced on 5 June 2014means that prime MMFs (those not restricted to investing only in highly-rated government securities) will continue to generate positive total returns, but low yields will remain a long-term challenge for MMFs.

P&C Insurers Will Bear More Terrorism Risk

The expected extension of the US federal government's backstop for terrorism insurance will likely impose higher deductibles and risk retentions on US property and casualty insurers. An extension will likely continue the past renewal trend of shifting increased financial responsibility to insurers, however, resulting in higher deductibles and/or retentions for insurance companies. Additionally, loss triggers, which determine the amount of losses to activate the federal insurance backstop, may be increased.

RESEARCH HIGHLIGHTS

Notable research published the week ending 13 June 2014

Sovereigns

Inside Moody's Africa – June 2014

Our newsletter brings together our recent research on African sovereign, banking and corporate finance credit. We discuss the recent expansion of our team of analysts dedicated to sovereigns in Africa, as well as our sovereign outlooks for Sub-Saharan Africa, where a preponderance of stable outlooks reflects that we expect a minimum number of rating changes in the near term.

Kazakhstan Analysis

Kazakhstan's (Baa2 positive) key credit strengths include strong economic growth, its relatively large economy, a very low public debt level and correspondingly very high debt affordability. Furthermore, Kazakhstan's rating is supported by its very sizable fiscal reserves held in foreign-exchange, which provide a significant buffer against external shocks.

Five A-Rated Multilateral Development Banks: A Peer Comparison Focused on Capital Adequacy, Liquidity and Member Support

The shared credit strengths and challenges of the five MBDs that have single-A ratings include generally superior capital positions and high levels of liquidity relative to Aaa/Aa-rated peers, with the strength of shareholder support important should the MDB face solvency or liquidity problems.

RESEARCH HIGHLIGHTS

Notable research published the week ending 13 June 2014

Sub-sovereigns

Spanish Regions: The Road Towards Full Market Access

In the first in a series of reports on European sub-sovereigns' financing needs and access to market funding, we says that the central government will maintain liquidity support to regions that have already been receiving it since 2012. Access to capital markets will continue to normalize for most regions.

US Public Finance

Housing Finance Agencies Benefit from Special Status under Federal Mortgage Rules

The increased underwriting flexibility for the HFAs under the various federal mortgage lending standards opens the door for HFAs to underwrite riskier loans. But we expect the HFAs to continue their record of prudent underwriting, and the potential benefits from the increase in mortgage originations outweigh the potential risks of the loans.

Declining Liquidity Fees Will Bolster State Housing Finance Agency Earnings

Lower liquidity fees will boost earnings as a larger number of HFA contracts are priced at lower rates. HFAs with variable rate demand obligations (VRDOs) will continue to benefit from counterparty diversity and staggered expiration dates for standby bond purchase agreements (SBPAs).

Structured Finance

Changes to French Covered Bond Law Are Credit Positive

The French government has passed two regulations amending the legal framework applicable to French covered bond issuers. The changes are credit positive as they strengthen the framework for law-based covered bond programmes, issued either by sociétés de crédit foncier or sociétés de financement de l'habitat. The changes will reduce cover pool losses and the probability of payment disruption risk on covered bonds if the sponsor bank ceases supporting payments on the covered bonds.

Inside the Canadian ABCP Market: First Quarter 2014

The performance of the Canadian asset-backed commercial paper market remains strong and stable, and continues to be in line with our expectations. Activity remained slow during the first quarter of 2014. One new seller was added to one conduit during this time, and two existing sellers experienced increases in commitment.

Credit Insight: European RMBS & ABS - June 2014

This edition discusses the credit positive impact of economic recovery and increasing house prices on UK non-conforming RMBS. Strong domestic recovery and prolonged low interest rates have resulted in decreasing delinquencies, repossessions and losses. In addition, we examine the credit positive implications of the low delinquency outlook for core European auto ABS markets. Given the stable macroeconomic outlook and the good long-term delinquency trend during the financial crisis, we expect that delinquencies will remain low over the next two years.

European ABS and RMBS: Historical Resilience Will Continue Beyond 2014

Despite the 2009 global downturn and the recession affecting many European countries, none of the senior notes in EMEA asset-backed securities or residential mortgage-backed securities that we rate Aaa (sf) incurred, or are likely to incur, principal losses. As Europe's economy continues to stabilize, we expect a decrease in the number of notes likely to incur principal losses.

New Jumbo Reverse Mortgages Will Be Stronger as Lenders Adopt New FHA Rules

Two of the Federal Housing Administration's new rules for Home Equity Conversion Mortgage lenders will reduce defaults on uninsured loans from lenders that adopt the rules for their jumbo reverse mortgage programs. Jumbo loans, whose balances exceed the administration's limit for the Home Equity Conversion Mortgage program, will benefit from tighter eligibility standards and restrictions on first-year equity withdrawals that will force borrowers to retain equity for longer.

The Revival of the European Securitisation Market, Overcoming the Barriers

A recent discussion paper prepared jointly by the Bank of England and the European Central Bank expresses an optimistic outlook for the structured finance industry given increasing issuance of European securitization. This increase in issuance will provide a long-term funding source for small- and medium-sized enterprises and consumer borrowing, which should ultimately stimulate business investment, household consumption and hence economic growth.

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NEWS & ANALYSIS

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Sub-sovereigns

- » Zagrebacki Holding's Planned Demerger of Five Business Entities Is Credit Positive

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