MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades Danish bank CDO notes of Mare Baltic 2005-1

Global Credit Research - 20 Jul 2010

Approximately Euro 256 million of debt securities affected

London, 20 July 2010 -- Moody's Investors Service has downgraded the following notes issued by Mare Baltic PCC 2005-1

Issuer: Mare Baltic PCC Limited - Series 2005-1

EUR201.6M Euro 201,600,000 Class A Floating Rate Limited Recourse Secured Asset Backed Notes due 2010/2015 Notes, Downgraded to Caa3; previously on Jan 13, 2010 Downgraded to Caa2 and Remained On Review for Possible Downgrade

DKK413.37M DKK 413,370,000 Class B 2% Limited Recourse Secured Asset Backed Notes due 2010/2015 Notes, Downgraded to C; previously on Mar 25, 2009 Downgraded to Ca

This transaction is a static cash CDO of junior subordinated loans to predominantly Danish commercial and savings banks. The portfolio is non-granular, referencing 17 performing issuers, with the three largest exposures representing 40.3% of the performing portfolio.

Today's downgrades reflect widespread deterioration in the outstanding portfolio, as indicated by the updated credit estimates Moody's uses to assess the credit quality of the majority of the portfolio. This deterioration is reflected in the change in the average rating of the pool from B1 to B3 once stresses for non-granular pools (please see below) have been incorporated.

Moody's notes that Class B has been written down to zero under the terms of the swap covering the notes and will receive payment only in the event that sufficient recoveries are received from the five defaulted loans in the pool. Reflecting this, the action on Class B is commensurate with the Moody's expected recoveries for the notes, as outlined in the paper titled "Moody's Approach to Rating Structured Finance Securities in Default" (November 2009).

The deterioration of the portfolio has been driven by the negative performance of the Danish Banking Sector in the context of the global financial crisis. In response to the financial crisis, the Danish government created two bank packages that have been providing support to the banks. Bank Package I is due to expire on 30 September 2010, which Moody's expects will have a negative impact for Danish banks, in particular for weaker institutions which may see some depositors withdraw their funds in favour of stronger banks. Whilst this may be mitigated by Bank Package II, which offers government guarantees on senior debt for up to three years, the subordinated debt of Danish banks remains likely to suffer large losses in the event of insolvency.

The credit deterioration of the portfolio also reflects the difference in performance between senior and more junior debt since the beginning of the crisis. In addition, it incorporates Moody's revised analytical framework on subordinated debts (see press release titled "Moody's Reviews Bank Hybrids, Subordinated Debt for Downgrade", 18 November 2009), whereby the Baseline Credit Assessments of the issuing banks have been notched down by two notches to account for the subordinated nature of the loans in the pool.

As credit estimates do not carry credit indicators such as ratings reviews and outlooks, a stress of a quarter notch-equivalent downgrade was applied to each of these estimates. Also applied was Moody's policy on credit estimates in concentrated pools, which is described in the report titled "Updated Approach to the Usage of Credit Estimates in Rated Transactions" (October 2009).

Because the portfolio references a low number of generally small Danish banks and the concerns listed above surrounding the Danish banking industry, Moody's believes the likely correlation in defaults between issuers in the pool is likely to be high. Correlation was assumed to be 50%, though a stress case of 75% was also looked at. Although the issuers have an economic incentive to repay the loans at the Optional Redemption Date falling in November 2011, Moody's also considered the likelihood that the loans would not be redeemed at the end of their fifth year due to financing difficulties of the underlying banks, and found the impact to be consistent with the revised rating levels.

Moody's monitors these transactions primarily using the methodology and its supplements for cash flow CLOs as described in:

--Moody's Approach to Rating Corporate Collateralized Synthetic Obligations (December 2008)

--Moody's Approach to Rating Collateralized Loan Obligations (August 2009)

These reports can be found at www.moodys.com in the Research and Ratings directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating these issuances can also be found in the Ratings Methodologies subdirectory. In addition, Moody's publishes a weekly summary of structured finance credit, ratings and methodologies, available to all registered users of our website, at www.moodys.com/SFQuickCheck.

London
Greg O''Reilly
Associate Analyst 1
Structured Finance Group
Moody's Investors Service Ltd.
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

London
Neelam S. Desai
Senior Vice President
Structured Finance Group

Moody's Investors Service Ltd.
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454