

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



© Copyright 2010, Moody's Investors Service, Inc. and/or its licensors including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved.

CREDIT RATINGS ARE MOODY'S INVESTORS SERVICE, INC.'S ("MIS") CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. CREDIT RATINGS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MIS ISSUES ITS CREDIT RATINGS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW. INCLUDING BUT NOT LIMITED TO. COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED. REPACKAGED, FÜRTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of MOODY'S Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at <a href="https://www.moodys.com">www.moodys.com</a> under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."

Any publication into Australia of this Document is by MOODY'S affiliate MOODY'S Investors Service Pty Limited ABN 61 003 399 657, which holds Australian Financial Services License no. 336969. This document is intended to be provided only to wholesale clients (within the meaning of section 761G of the Corporations Act 2001). By continuing to access this Document from within Australia, you represent to MOODY'S and its affiliates that you are, or are accessing the Document as a representative of, a wholesale client and that neither you nor the entity you represent will directly or indirectly disseminate this Document or its contents to retail clients (within the meaning of section 761G of the Corporations Act 2001).