Announcement: Moody's reviews for downgrade multiple European covered bonds

Global Credit Research - 16 Feb 2012

London, 16 February 2012 -- Moody's Investors Service has today placed on review for downgrade the ratings of various covered bonds issued by Austrian, Danish, Dutch, Finnish, French and German banks. This follows Moody's recent decision to review for downgrade the senior debt ratings of the various banks supporting the covered bond programmes.

For full details, please refer to the webpage containing all Moody´s related announcements.

http://www.moodys.com/newsandevents/topics/euro-area-sovereign-crisis-affected-credits/-/007022/-/-/0/0/-/0/-/-/en/global/rr?WT.mc_id=home_banner_EUPressurePR

Please click on thishttp://www.moodys.com/viewresearchdoc.aspx?docid=PBS_SF276648 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATING RATIONALE

The decision to review for downgrade the covered bonds issued by six European countries' banks was prompted by the negative effects on the Moody's covered bond analysis stemming from the rating agency's recent initiation of reviews for downgrade of the senior debt ratings of the banks supporting the covered bonds. Any downgrade of these senior debt ratings would negatively affect the covered bonds through their effect on both the expected loss method and the timely payment indicator (TPI) framework.

- EXPECTED LOSS METHOD: As the issuer's credit strength is incorporated into Moody's expected loss assessment, any downgrade of the issuer's rating will increase the expected loss on the covered bonds. However, Moody's notes that issuers may be able to offset any deterioration in the expected loss analysis if sufficient collateral is held in the cover pool. Moody's further notes that, if the senior debt rating of the banks is downgraded below a threshold level in the single-A category, the credit that Moody's gives to the over-collateralisation held in the cover pool may be limited, if such over-collateralisation is not considered "committed". Moody's considers over-collateralisation to be "committed" if the issuer's discretion to remove the collateral is sufficiently restricted.

- TPI FRAMEWORK: The TPI framework will limit the covered bond ratings to a certain number of notches above the senior debt ratings of the banks supporting the covered bonds. This level is determined by the relationship between the TPI and the senior debt ratings of the banks supporting the covered bonds. Moody's highlights that there are many factors which may influence the application of TPIs, in particular for sub-investment-grade-rated issuers and lower-rated countries.

Moody's expects to maintain the review pending (i) the final rating action on, or confirmation of, the issuer's rating, and (ii) a determination of over-collateralisation levels consistent with any downgraded issuer rating, in conjunction with the issuers' willingness to provide further over-collateralisation where applicable.

KEY RATING ASSUMPTIONS/FACTORS

The ratings assigned by Moody's address the expected loss posed to investors. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

Covered bond ratings are determined after applying a two-step process: expected loss analysis and TPI framework analysis.

- EXPECTED LOSS: Moody's determines a rating based on the expected loss on the bond. The primary model used is Moody's Covered Bond Model (COBOL), which determines expected loss as (i) a function of the issuer's probability of default (measured by the issuer's rating); and (ii) the stressed losses on the cover pool assets following issuer default.

- TPI FRAMEWORK: Moody's assigns a timely payment indicator (TPI) which indicates the likelihood that timely payment will be made to covered bondholders following issuer default. The effect of the TPI framework is to limit the covered bond rating to a certain number of notches above the issuer's rating.

SENSITIVITY ANALYSIS

The robustness of a covered bond rating largely depends on the credit strength of the issuer.

A multi-notch downgrade of the covered bonds might occur in certain limited circumstances, such as (i) a sovereign downgrade that negatively affects both the issuer's senior unsecured rating and the TPI; (ii) a multi-notch downgrade of the issuer; or (iii) a material reduction of the value of the cover pool.

As noted in Moody's Special Comment entitled "Rising Severity of Euro Area Sovereign Crisis Threatens Credit Standing of All EU Sovereigns" (28 November 2011), the risk of sovereign defaults or the exit of countries from the euro area is rising. As a result, Moody's could potentially lower the maximum achievable rating for covered bond transactions in some countries, which could in turn result in rating downgrades.

RATING METHODOLOGY

The principal methodology used in these ratings was "Moody's Approach to Rating Covered Bonds", published in March 2010. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

The ratings have been disclosed to the rated entities or their designated agents and issued with no amendment resulting from that disclosure.

Information sources used to prepare the ratings are the following : parties involved in the ratings, parties not involved in the ratings, public information, and confidential and proprietary Moody's Investors Service information.

Moody's considers the quality of information available on the rated entities, obligations or credits satisfactory for the purposes of issuing these reviews.

Moody's adopts all necessary measures so that the information it uses in assigning the ratings is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

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Please see for each issuer the ratings tab on the issuer/entity page on www.moodys.com for the last rating action and the rating history. The date on which some ratings were first released goes back to a time before Moody's ratings were fully digitized and accurate data may not be available. Consequently, Moody's provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

The below contact information is provided for information purposes only. Please see the issuer page on www.moodys.com for Moody's regulatory disclosure of the name of the lead analyst and the office that has issued the credit rating.

The relevant Releasing Office for each rating is identified under the Debt/Tranche List section on the Ratings tab of each issuer/entity page on moodys.com.

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