



Moody's Investors Service

Rating Action: **Moody's downgrades six ScandiNotes CDOs**

Global Credit Research - 13 Jan 2010

London, 13 January 2010 -- Moodys Investors Service has downgraded the following 11 notes issued in six Scandinavian CDOs between 2004 and 2007:

Issuer: Mare Baltic PCC Limited Series 2004-1 (ScandiNotes II)

DKK 728,375,000 (currently DKK 152,675,000), Class A 3% Limited Recourse Secured Senior Notes due 2009/2012, Downgraded to Ca; previously on Mar 23, 2009 Downgraded to B2 and Placed Under Review for Possible Downgrade

Issuer: Mare Baltic PCC Limited - Series 2005-1

Euro 201,600,000 (currently EUR 196,868,600), Class A Floating Rate Limited Recourse Secured Asset Backed Notes due 2010/2015, Downgraded to Caa2 and Remains On Review for Possible Downgrade; previously on Mar 25, 2009 Downgraded to Ba2 and Remained On Review for Possible Downgrade

Issuer: Mare Baltic 2006-1

Euro 170,011,000 Class A Floating Rate Limited Recourse Secured Asset Backed Notes due 2011/2014, Downgraded to Ba1 and Remains On Review for Possible Downgrade; previously on Mar 23, 2009 Downgraded to Aa1 and Placed Under Review for Possible Downgrade

DKK 878,012,000 (currently DKK 727,400,000) Class B 3% Limited Recourse Secured Asset Backed Notes due 2010/2015, Downgraded to Ca; previously on Mar 23, 2009 Downgraded to Caa2 and Remained On Review for Possible Downgrade

Issuer: ScandiNotes Five p.l.c.

DKK 218,100,000 Class A Floating Rate Limited Recourse Secured Senior Notes due 2012/2015, Downgraded to Baa1 and Remains On Review for Possible Downgrade; previously on Mar 23, 2009 Downgraded to Aa2 and Placed Under Review for Possible Downgrade

DKK 672,000,000 Class B Floating Rate Guaranteed Limited Recourse Secured Senior Notes due 2012/2015, Underlying Rating: Downgraded to B1 and Remains On Review for Possible Downgrade; previously on Mar 23, 2009 Downgraded to Baa3 and Remained On Review for Possible Downgrade

DKK 417,900,000 Class C 4% Guaranteed Limited Recourse Secured Mezzanine Notes due 2012/2015, Underlying Rating: Downgraded to Caa3 and Remains On Review for Possible Downgrade; previously on Mar 23, 2009 Downgraded to B3 and Remained On Review for Possible Downgrade

Kalvebod plc - Series 4

- Series 4 EUR82,875,680 Class A floating rate secured senior notes due 2015, downgraded to Ba1 and remains on review for possible downgrade; previously on 20 March 2009 downgraded to Baa2 and remained on review for possible downgrade

- Series 4 DKK463,165,120 Class B fixed/floating rate secured mezzanine notes due 2015, downgraded to Caa2 and remains on review for possible downgrade; previously on 20 March 2009 downgraded to B3 and remained on review for possible downgrade

Amalie I Limited

- EUR94 million Series 1 Tranche A floating rate secured senior notes due 2015, downgraded to Ba1 and remains on review for possible downgrade; previously on 20 March 2009 downgraded to A3 and placed under review for possible downgrade

- EUR38 million Series 1 Tranche B floating rate secured mezzanine notes due 2015, downgraded to B1 and

remains on review for possible downgrade; previously on 20 March 2009 downgraded to Baa3 and placed under review for possible downgrade

- EUR33 million Series 1 Tranche C floating rate secured junior notes due 2015, downgraded to B3 and remains on review for possible downgrade; previously on 20 March 2009 downgraded to Ba2 and placed under review for possible downgrade

The transactions are all static cash CDOs referencing Scandinavian subordinated loans, predominantly exposed to Danish commercial and savings banks. The portfolios only reference bank debt from the Nordic area. The portfolios are all concentrated, referencing a range of 11 to 22 issuers at closing.

Moody's notes that the Class A notes of Mare Baltic PCC Limited (ScandiNotes II) were partially redeemed in November 2009. This followed the decision of the majority of the underlying assets to redeem their loans at the five-year call option and the final exchange amount of DKK 60,700,000 paid to the Class A from the termination of the five-year asset swap between the SPV and HSH Nordbank. Despite this, the outstanding portfolio of DKK 135 million is insufficient to repay the remaining Class A notes in full.

Moody's further notes that the transition of the Class A ratings of Mare Baltic 2006-1 was increased due to inaccurate data input during a prior review in 2009. If the correct data input had been used in that review, it is likely that the modelled rating of the Class A notes of Mare Baltic 2006-1 would have been downgraded to roughly the single A range. The Class B notes were not affected by this in previous monitoring.

Today's downgrades reflect: (i) The defaults of Icebank and Spron in the Mare Baltic 2005-1 portfolio. This follows previous defaults of Roskilde, Fionia and Egnsbank Han Herred, which are referenced in multiple pools and reflected in the most recent rating actions in March 2009; (ii) credit deterioration in the outstanding portfolios; (iii) the outlook for subordinated and hybrid debt and the application of Moody's stresses; (iv) the application of Moody's stresses for concentrated pools with significant exposure to credit estimates.

The credit deterioration of the portfolio, captured by ratings at the subordinated level that can differ significantly from the senior and deposit ratings, is reflected in the decline of the average credit quality from investment grade, with a range of Baa1 to Baa3, to an average rating closer to B1 with no portfolio better than Ba2. Due to defaults in the portfolios, some notes had already been written down, causing Moody's to apply the recovery ratings according to its methodology "Moody's Approach To Rating Structured Finance Securities In Default" (November 2009).

Recent developments in the Danish banking sector have highlighted the significant correlation risk in the underlying portfolios of these transactions. In response to the financial crisis, the Danish government created a support package (Bank Package I), which guarantees depositor and senior debt, but requires each bank covered by the scheme to pass a solvency test that specifies a minimum level of capital. If a bank fails this test, it is taken over by the government-owned Financial Stability Company as part of the guarantee of depositors and senior debt, causing the subordinated debt, which is not covered by the scheme and referenced by the ScandiNotes CDOs, to default. Bank Package II enabled Danish banks considered in the scheme to benefit from capital support in the form of hybrid core capital and to issue medium-term loans of up to three years under a state guarantee until the end of 2010. As these support schemes are intended to be temporary, Moody's has considered the risk posed to the outstanding pools from the withdrawal of state funding support.

The downgrades also reflect the difference in performance between senior and more junior debt since the beginning of the crisis. Moody's notes that it has recently revised its analytical framework, as announced in the press release titled "Moody's Reviews Bank Hybrids, Subordinated Debt for Downgrade" (18 November 2009). As such, all subordinated debt instruments in the Nordic region remain on review for possible downgrade

The underlying assets tend to be small banks, which constitute part of a fragmented banking market in Denmark, with a few large banks and more than 100 regional and local banks. Today's rating actions also reflect the concentration in the portfolios of these small banks, which has exacerbated the severe impact of the financial crisis and the weakening asset quality caused by negative economic growth in Denmark.

Furthermore, all of the pools have significant exposure to assets that are not publicly rated but are assessed by credit estimate. The smallest proportion of assets assessed by credit estimate in a pool is 55% and the largest approximately 80%. As credit estimates do not carry credit indicators such as ratings

reviews and outlooks, a stress of a quarter notch-equivalent assumed downgrade was applied to each of these estimates as well as the treatment of estimates in concentrated pools, which is described in the report titled "Updated Approach to the Usage of Credit Estimates in Rated Transactions" (October 2009).

Although the issuers have an economic incentive to repay the loans at the five-year call option, 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.

The notes remain on review for downgrade as Moody's continues to update its credit views on the underlying assets and as the outlook for Danish banking sector remains negative. Further explanation of Moody's view on the Danish bank market can be found in the announcement "Moody's reports: Negative outlook maintained for Danish banking system" (13 July 2009).

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.moody.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.moody.com/SFQuickCheck.

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