MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades and confirms CDO Notes of Scandinotes V P.L.C.

Global Credit Research - 16 Mar 2011

London, 16 March 2011 -- Moody's Investors Service announced today the following rating actions on notes issued by Scandinotes V P.L.C. ("ScandiNotes® V"):

DKK 218,100,000 Class A Floating Rate Limited Recourse Secured Senior Notes due 2015, Confirmed at Baa3 (sf); previously on Feb 18, 2011 Baa3 (sf) Placed Under Review for Possible Downgrade

DKK 672,000,000 Class B Floating Rate Guaranteed Limited Recourse Secured Senior Notes due 2015, Underlying Rating: Downgraded to Caa2 (sf); previously on Feb 18, 2011 Caa1 (sf) Placed Under Review for Possible Downgrade

DKK 417,900,000 Class C 4% Guaranteed Limited Recourse Secured Mezzanine Notes due 2015, Underlying Rating: Downgraded to Ca (sf); previously on Feb 18, 2011 Caa3 (sf) Placed Under Review for Possible Downgrade

RATINGS RATIONALE

Scandinotes® V is a highly non-granular securitization of subordinated debt issued by Danish banks. All the assets in the pool have the flexibility to redeem the loans at the five year call option in November 2012. Should they choose not to redeem, the underlying assets will be subject to an increase in the coupons paid.

The driver of the rating actions is the recent announcement by Financial Stability, the Danish government-backed bank-support vehicle, that, effective 6 February 2011, a newly created subsidiary of Financial Stability acquired all the assets and part of the liabilities of Amagerbanken Aktieselskab ("Amagerbanken"). The transfer effectively wipes out the subordinated debt of Amagerbanken that was included in the Scandinotes® V pool.

The rating of class A remains unchanged due to the extremely high over-collateralization (527% excluding swap termination payments) benefitting this tranche. Moody's notes as well that three of the loan issuers were also included in previous Scandinotes transactions and chose to redeem their loans after five years. Two of these banks, Spar Nord Bank A/S and Middelfart Sparekasse redeemed the loans securitized in Mare Baltic 2005 in November 2010, whilst Max Bank A/S, which was securitized in Mare Baltic PCC Limited (Mare Baltic II), redeemed its loan in 2009.Should they decide to proceed similarly in the context of this transaction,the class A would be entirely redeemed.

Following the default of Amagerbanken, and in accordance with the terms of the swap documentation, Class D has been written down to zero. Without the guarantee from EIF, class C would have been written down to DKK 308,190,527 from its initial value of DKK 417,900,000. Reflecting this, and incorporating Moody's expectations of future pool performance, the action on the underlying rating of Class C 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 impact on the underlying ratings of classes B and C was mitigated by the already very low ratings on the tranches and the high default probability assigned to Amagerbanken at the last rating action (June 2010).

The majority of the assets in the pool are assessed by credit estimate. In its base case, Moody's analysed the collateral pool with a stressed weighted average default probability (DP) equivalent to a Caa 2 rating. In addition to the estimates on the underlying issuers, average portfolio rating reflected the treatment for non granular pools that rely on credit estimates outlined in the paper "Updated Approach to the Usage of Credit Estimates in Rated Transactions" (October 2009).

Moody's also considered various additional scenarios, including the jump to Caa2 scenario described in the above mentioned report. This scenario had an impact of slightly over half a notch on the model output of class A.

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 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. This had a two notch impact on the model results for Class A. Although the issuers have an economic incentive to repay the loans at the Optional Redemption Date falling in November 2012, Moody's also considered the likelihood that some or all of 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.

Recoveries on the subordinated loans in the event of default were assumed to be zero.

Sources of additional performance uncertainties include:

1) Low portfolio granularity: the performance of the portfolio depends to a large extent on the credit conditions of a few large obligors that are rated low non investment grade. This is especially true in scenarios where these obligors jump to default.

2) Moody's believes the correlation in defaults between issuers in the pool will be probably be high, with the consequence that remaining performance outcomes of the notes are likely to be binary in nature.

At closing the assets were referenced via an asset swap with HSH Nordbank AG as the counterparty. Using this mechanism, classes C and D were issued at discount paying a reduced fixed coupon. The difference was due to be paid to the noteholders by way of a final payment from the asset swap that expires in December 2012 at the same time as the call options on the underlying loans. After termination of the swap, there remains a floor in place to mitigate the interest risk between the floating rate assets and fixed liabilities on Classes C and D. When defaults occur on the underlying assets, the amount of the fixed notional of the swap that is written down is determined by the current interest rates at the time the swap is written down.

The principal methodologies used in this rating were "Moody's Approach to Rating Corporate Collateralized Synthetic Obligations" published in December 2008 and Moody's Approach to Rating Collateralized Loan Obligations" published in August 2009.

Under these methodologies, Moody's relies on a simulation based framework. Moody's used a bespoke CDOROM and cash model in order to capture the specific characteristics of the deal, incorporating the assumptions contained in the above methodologies. As such default scenarios were generated for each asset in the portfolio and these were applied in the cash flow model to compute the loss associated with each tranche in the structure.

Moody's Investors Service did not receive or take into account a third party due diligence report on the underlying assets or financial instruments related to the monitoring of this transaction in the past 6 months.

REGULATORY DISCLOSURES

The rating has been disclosed to the rated entity or its designated agents and issued with no amendment resulting from that disclosure.

Information sources used to prepare the credit rating are the following: parties involved in the ratings, public information, and confidential and proprietary Moody's Investors Service information.

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