MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades DKK 890.1m CDO notes of ScandiNotes V

Global Credit Research - 23 Dec 2011

London, 23 December 2011 -- Moody's Investors Service announced today that it has downgraded the ratings of the following notes issued by ScandiNotes Five p.l.c.:

Issuer: ScandiNotes Five p.l.c.

....DKK 218,100,000 Class A Floating Rate Limited Recourse Secured Senior Notes due 2015, Downgraded to Ba3 (sf); previously on Mar 16, 2011 Confirmed at Baa3 (sf)

....DKK 672,000,000 Class B Floating Rate Guaranteed Limited Recourse Secured Senior Notes due 2015, Underlying Rating: Downgraded to Caa3 (sf); previously on Mar 16, 2011 Downgraded to Caa2 (sf)

ScandiNotes Five p.l.c., issued in December 2007, is a static cash CDO backed by a highly non-granular portfolio of subordinated loans made to Danish commercial and savings banks. All the loans in the portfolio have the flexibility to redeem at the five year call option in December 2012. Should they choose not to redeem, the underlying loans will be subject to an increase in the coupons paid.

RATINGS RATIONALE

Today's rating downgrades reflect the significant credit deterioration in the underlying portfolio as well as the occurrence of default of Max Bank in October 2011. The deterioration is reflected in the change in the weighted average credit quality of the pool from B2 to Caa1 (excluding defaulted assets). Max Bank had an exposure of DKK 100 million which represented about 9% of the outstanding portfolio. Currently there are 11 loans totalling DKK 1,050 million remaining in the portfolio.

Following the default of Max Bank the overcollateralisation ratios of both Class A and Class B have deteriorated. The overcollateralisation ratio of Class A was 572.3% (excluding the final swap payment) in the last rating action in March 2011 as compared to 481.4% today. The ratio of Class B has decreased from 129.2% to 118.0% since the last action.

The Class B and C notes are guaranteed by the European Investment Fund (EIF). Following the default of Max Bank, the notional amount of Class C without the EIF guarantee has been written down to DKK 213,657,414 from DKK 308,190,527 as reported in the last rating action in March 2011 (initial notional amount was DKK 417.9 million). Due to this writedown, Moody's is retaining the underlying rating of Class C at Ca which is consistent 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).

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 between the notional amount and the issue price 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 the expiry 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, though it is now only relevant to Class C due to the total write down of Class 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.

All the loans in the portfolio are assessed by credit estimates. In the base case scenario Moody's stressed the default probability of the pool by a factor of 30% in order to capture the increased rate of default. The stressed weighted average default probability of the pool was 50.9% in its base case.

Moody's also considered various additional scenarios, which include defaulting all the loans with Caa2 or lower credit estimates or assuming the four obligors with better credit quality repaying at the five-year call option in December 2012 to redeem the notes. In these scenarios, model outputs deviate less than one notch from the base case scenario.

The credit assessment of the portfolio reflects the difference in performance between senior and more junior debt since the beginning of the crisis, incorporating Moody's 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.

Because the portfolio references a low number of generally small Danish banks and concerns 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% for the base case, though a stress case of 75% was also looked at which had about 1.5 notch negative impact compared to the base case output.

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

Moody's notes that this transaction is subject to a high level of macroeconomic uncertainty, which could negatively impact the ratings of the notes, as evidenced by uncertainties of credit conditions in the general economy.

As noted in Moody's comment '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 lower the maximum achievable rating for structured finance transactions with meaningful exposure to some of these countries.

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 estimated low non investment grade.

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

3) The majority of the portfolio consists of loans whose credit quality has been assessed through Moody's credit estimates. Further information regarding specific risks and stresses associated with credit estimates are available in the report titled "Updated Approach to the Usage of Credit Estimates in Rated Transactions" published in October 2009.

The methodologies used in this rating were "Moody's Approach to Rating Corporate Collateralized Synthetic Obligations" published in September 2009, and "Moody's Approach to Rating Collateralized Loan Obligations" published in June 2011. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

Under these methodologies, Moody's modelled the transaction using a bespoke CDOROM and cash flow model in order to capture the specific characteristics of the transaction, incorporating the assumptions contained in the above methodologies. Moody's CDOROM™ was used to simulate the default for each asset in the portfolio. Losses on the portfolio derived from those scenarios have then been applied as an input in the cash flow model to determine the loss for each tranche. In each scenario, the corresponding loss for each class of notes is calculated given the incoming cash flows from the assets and the outgoing

payments to third parties and noteholders. By repeating this process and averaging over the number of simulations, an estimate of the expected loss borne by the notes is derived. Moody's CDOROM™ relies on a Monte Carlo simulation which takes the Moody's default probabilities as an input. Each portfolio is modelled individually with a standard multi-factor model reflecting Moody's asset correlation assumptions. The correlation structure implemented in CDOROM is based on a Gaussian copula.

In addition, Moody's supplemented the runs by using solely CDOROM to model the cash flows and determine the loss for each tranche.

As such, Moody's analysis encompasses the assessment of stressed scenarios.

In addition to the quantitative factors that are explicitly modelled, qualitative factors are part of the rating committee considerations. These qualitative factors include the structural protections in each transaction, the recent deal performance in the current market environment, the legal environment, specific documentation features, and the potential for selection bias in the portfolio. All information available to rating committees, including macroeconomic forecasts, input from other Moody's analytical groups, market factors, and judgments regarding the nature and severity of credit stress on the transactions, may influence the final rating decision.

REGULATORY DISCLOSURES

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

Information sources used to prepare the rating 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 did not receive or take into account a third-party assessment on the due diligence performed regarding the underlying assets or financial instruments related to the monitoring of this transaction in the past six months.

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