

**Rating Action: Moody's upgrades Class A notes ratings and assigns definitive ratings to Class S notes issued by PEARL Mortgage Backed Securities 2 B.V.**

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Global Credit Research - 20 Jan 2012

**EUR 852.1 Million of Debt Securities Affected**

London, 20 January 2012 -- Moody's Investors Service has today (i) upgraded the credit ratings to the senior Class A notes; (ii) assigned definitive ratings to the new subordinated Class S notes; and (iii) affirmed the ratings of the junior Class B notes issued by PEARL Mortgage Backed Securities 2 B.V. (amounts reflect initial outstandings) as follows:

...EUR800M Senior Class A Mortgage-Backed Floating Rate Notes due 2046, Upgraded to Aaa (sf); previously on August 14, 2009 Downgraded to Aa2 (sf)

...EUR44M Subordinated Class S Notes Mortgage-Backed Floating Rate Notes due 2046, Definitive Rating Assigned Baa1 (sf)

... EUR8.1M Junior Class B Notes Mortgage-Backed Floating Rate Notes due 2046, Affirmed at Ba2 (sf); previously on August 14, 2009 Downgraded to Ba2 (sf)

PEARL Mortgage Backed Securities 2 B.V. (Pearl 2) closed in June 2007 and represents the second securitisation of Dutch residential mortgage loans which all have the benefit of a "Nationale Hypotheek Garantie" (NHG) guarantee originated by SNS Bank N.V. (Baa1 / Prime-2). The assets supporting the notes, which amount to EUR852.1 million, are prime mortgage loans secured on residential properties located throughout the Netherlands.

**RATINGS RATIONALE**

The rating action follows the restructuring of Pearl 2 completed on 19 December 2011 which comprised the following amendments:

- New subordinated Class S notes. Since the Class S notes were created from a corresponding reduction in the existing Class A notes, the total note balance of the transaction remained unaffected. However, the total credit enhancement, in the form of subordination, under the Class A notes increased substantially to 6.4% from 1.0% at closing. Within the pre-enforcement priority of payments interest and principal payments to the Class S noteholders rank junior to the Class A but senior to the Class B noteholders.

- Margin on the Class A Notes increased to 0.46% from 0.03% at closing with no further increase of step-up margin for the Class A or S noteholders. All note interest and step-up (for class B) note interest is covered under the interest rate swap with BNP Paribas.

Furthermore in January 2012 the Sellers agreed not to offer any further substitution assets to the Issuer and the Trustee confirmed that it will not purchase any further mortgage receivables from the Sellers. This terminates the substitution period which was permitted up to June 2014 at closing.

The ratings of the notes takes into account the credit quality of the underlying mortgage loan pool, from which Moody's determined the MILAN Aaa Credit Enhancement and the portfolio expected loss.

The expected portfolio loss of 0.15% (previously 0.13%) and the MILAN Aaa required Credit Enhancement of 4.2% (previously 4.3%) served as input parameters for Moody's cash flow model, which

is based on a probabilistic lognormal distribution as described in the report "The Lognormal Method Applied to ABS Analysis", published in July 2000.

The key drivers for the slightly lower MILAN Aaa Credit Enhancement number following the restructure is the fact that i) the structure is no longer revolving and as a result there is no flexibility to add new mortgage loans up to the portfolio limits; ii) the weighted average loan-to-foreclosure-value (LTFV) of 94.3% (compared to 94.2% at closing), which is in line with other prime Dutch RMBS transactions; iii) the proportion of interest-only loan parts (36%); and (iv) the weighted average seasoning of 5.7 years.

The key drivers for the portfolio expected loss are (i) the performance of the seller's books and existing HERMES and Pearl transactions; (ii) benchmarking with comparable (NHG) transactions in the Dutch RMBS market; and (iii) the current economic conditions in the Netherlands in combination with historic recovery data of foreclosures received from the seller. Given the historical performance of the Dutch RMBS market and the originators, Moody's believes the assumed expected loss is appropriate for this transaction. The expected loss is in line with other Dutch NHG transactions.

Another key characteristic of this transaction is that approximately 37% of the portfolio is linked to life insurance policies (life mortgage loans), which are exposed to set-off risk in case an insurance company goes bankrupt. The seller has not provided loan-by-loan insurance company counterparty data and instead provided a partial list of counterparty names that provide life insurance policies in the pool. Based on the available data over 46% of the counterparty exposure is linked to policies provided by subsidiaries of SNS REAAL N.V. Moody's considered the set-off risk in the cash flow analysis.

The transaction benefits from an excess margin of 25 bps through the swap agreement. The swap counterparty is currently BNP Paribas (novated from SNS Bank in June 2010). The transaction benefits from additional liquidity via a cash advance sized at 2.25% of the initial notes outstanding with a floor of 1.0%. The transaction does not benefit from a reserve fund.

Moody's Parameter Sensitivities: At the time the rating was assigned, the model output indicated that subordinated Class S would have achieved Baa3 if the expected loss was as high as 0.45% assuming MILAN Aaa CE increased to 7.5% and all other factors remained the same. Applying the same sensitivity, the model output indicated that the Class A (following the completion of the restructure) would have achieved Aa3. Moody's Parameter Sensitivities provide a quantitative/model-indicated calculation of the number of rating notches that a Moody's structured finance security may vary if certain input parameters used in the initial rating process differed. The analysis assumes that the deal has not aged and is not intended to measure how the rating of the security might migrate over time, but rather how the initial rating of the security might have differed if key rating input parameters were varied. Parameter Sensitivities for the typical EMEA RMBS transaction are calculated by stressing key variable inputs in Moody's primary rating model.

The V-Score for this transaction: is Low/Medium, which is in line with the V-Score assigned for the Dutch RMBS sector, mainly due to the fact that it is a standard Dutch prime RMBS structure for which we have over 10 years of historical performance data on precedent transactions. The primary source of uncertainty relates to operational risks relating to the servicing arrangement. The contractual servicer is SNS Bank. V-Scores are a relative assessment of the quality of available credit information and of the degree of dependence on various assumptions used in determining the rating. High variability in key assumptions could expose a rating to more likelihood of rating changes. The V-Score has been assigned according to the report "V-Scores and Parameter Sensitivities in the Major EMEA RMBS Sectors" published in April 2009.

The methodologies used in this rating were Moody's Approach to Rating RMBS in Europe, Middle East and Africa published in October 2009, Moody's Updated MILAN Methodology for Rating Dutch RMBS published in October 2009, Cash Flow Analysis in EMEA RMBS: Testing Structural Features with the MARCO Model (Moody's Analyser of Residential Cash Flows) published in January 2006, Moody's Updated Approach to NHG Mortgages in Rating Dutch RMBS published in March 2009, and Moody's

Updated Methodology for Set-Off in Dutch RMBS published in November 2009. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of these methodologies.

Other Factors used in this rating are described in The Lognormal Method Applied to ABS Analysis published in July 2000, and Global Structured Finance Operational Risk Guidelines: Moody's Approach to Analyzing Performance Disruption Risk published in June 2011.

In rating this transaction, Moody's used ABSROM to model the cash flows and determine the loss for each tranche. The cash flow model evaluates all default scenarios that are then weighted considering the probabilities of the lognormal distribution assumed for the portfolio default rate. In each default 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. Therefore, the expected loss or EL for each tranche is the sum product of (i) the probability of occurrence of each default scenario; and (ii) the loss derived from the cash flow model in each default scenario for each tranche.

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 in some countries, which could result in rating downgrades.

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

The rating addresses the expected loss posed to investors by the legal final maturity of the notes. In Moody's opinion, the structure allows for timely payment of interest and principal with respect of the notes by the legal final maturity. Moody's ratings only address the credit risk associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

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