

Rating Action: Moody's assigns definitive Aaa rating to Swiss Pfandbriefzentrale's covered bonds

Global Credit Research - 21 Oct 2010

London, 21 October 2010 -- Moody's Investors Service assigns a definitive long-term rating of Aaa to the covered bonds (Pfandbriefe) issued by Pfandbriefzentrale der schweizerischen Kantonalbanken AG (the issuer or Pfandbriefzentrale). The bonds are governed by the Swiss Pfandbrief Act, which was established in 1931.

RATINGS RATIONALE

A covered bond benefits from (i) the issuer's promise to pay interest and principal on the bonds; and (ii) if the issuer defaults, the economic benefit of a collateral pool (the cover pool). The ratings therefore take into account the following factors:

(i) The credit strength of the issuer. Pfandbriefzentrale is a refinancing vehicle whose sole purpose is to provide funding to Swiss cantonal banks. These banks use the funding to refinance their Swiss mortgages businesses. Pfandbriefzentrale is directly supervised by the Swiss financial supervisory authority (Eidgenössische Finanzmarktaufsicht or FINMA) and is one of two Swiss institutions that benefit from the legal privilege to issue Pfandbriefe according to the Swiss Pfandbrief Act. The 24 cantonal banks (member banks) own Pfandbriefzentrale. Moody's has assigned a private monitored rating to the issuer.

(ii) The legal framework for Swiss Pfandbriefe. There are several notable features in the Swiss Pfandbrief legislation, which include (among other things) the following: (i) There are certain property-type-specific loan to value (LTV) limits for mortgages, which secure the loans from the issuer to the member banks. These loans in turn secure the covered bonds. This chain of security (Sicherungskette) under the Swiss Pfandbrief Act therefore includes the issuer, the member banks, and the recourse to the mortgage loans. (ii) The Swiss Pfandbrief Act prevents any currency mismatch between the outstanding covered bonds and the cover assets.

(iii) The credit quality of the assets backing the covered bonds. Pfandbriefzentrale's covered bonds are collateralised by secured loans to its member banks. The loans are secured by residential or commercial mortgage loans originated in Switzerland. The collateral scores modelled for the member banks vary between 5.6% and 20.0%.

(iv) The over-collateralisation at the member-bank level. The minimum over-collateralisation levels held at the member bank level that are consistent with the Aaa rating target vary between 0% to 7.5%. This is well below the 15% level of over-collateralisation that each member bank is required to hold according to the Pfandbriefzentrale's articles of association.

The Aaa rating assigned to the existing covered bonds is expected to be assigned to all subsequent covered bonds issued by Pfandbriefzentrale under this programme and any future rating actions are expected to affect all such covered bonds. If there are any exceptions to this, Moody's will in each case publish details in a separate press release.

The rating assigned by Moody's addresses 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.

KEY RATING ASSUMPTIONS/FACTORS

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 a function of the issuer's probability of default, measured by the issuer's rating, and the stressed losses on the cover pool assets following issuer default. Moody's has assigned a private monitored rating to the issuer.

The average cover pool losses modelled for the member banks, which participate in this covered bond programme, is 26.3%. This is an estimate of the average losses Moody's currently models following issuer default. These cover pool losses can be split between Market Risk of 18.3% and Collateral Risk of 8%. Market Risk measures losses as a result of refinancing risk and risks related to interest-rate and currency mismatches (these losses may also include certain legal risks). Collateral Risk measures losses resulting directly from the credit quality of the assets in the cover pool. The average Collateral Risk is derived from the average Collateral Score for the member banks, which is currently 11.9%.

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. For Pfandbriefzentrale's covered bonds, Moody's has assigned a TPI of "Very Improbable".

SENSITIVITY ANALYSIS

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

The number of notches by which the issuer's rating may be downgraded before the covered bonds are downgraded under the TPI framework is measured by the TPI Leeway. As the issuer rating is private, the TPI Leeway is not published for this transaction.

A multiple-notch downgrade of the covered bonds might occur in certain limited circumstances. Some examples might be (i) a sovereign downgrade negatively affecting both the issuer's senior unsecured rating and the TPI; (ii) a multiple notch downgrade of the issuer; or (iii) a material reduction of the value of the cover pool.

For further details on Cover Pool Losses, Collateral Risk, Market Risk, Collateral Score and TPI Leeway across all covered bond programmes rated by Moody's please refer to "Moody's EMEA Covered Bonds Monitoring Overview", published quarterly. The figures used in this press release are based on the most recent reported data from the issuer and are subject to change over time.

RATING METHODOLOGY

The principal methodology used in rating the issuer's covered bonds is "Moody's Rating Approach to Covered Bonds" published in March 2010. Other methodologies and factors that may have been considered in the rating process can also be found on Moody's website. 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.moodys.com/SFQuickCheck.

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