Risk Radar

Overview

Changes from December 2011

Refinements to the Global Aggregate chart reflect greater urgency of the risk of high oil prices, potential US fiscal policy challenges and China's slowing GDP growth rate. Fitch Ratings remains primarily concerned with the negative ratings impact from the eurozone financial crisis and the fragility of the US economy. The retention of the eurozone financial crisis at a slightly reduced size and urgency was heavily debated given several events. Some of these have been positive and some negative but overall there has been progress. Positive events include the extension of three-year LTRO financing to European banks, expansion of eligible collateral and retention of assets by the European Central Bank. The completion of the Greek debt exchange and consequent removal of the threat of a disorderly default was also significant in avoiding a potential financial crisis.

Globally, investors have taken some comfort from commitments and policy actions by eurozone governments. These have supported the relief rally in risk assets and at least temporarily reduced speculation over a break-up of the euro. Volatility will remain a key feature of European financial markets reflecting concerns over the adequacy of the eurozone 'firewalls'; political risk from elections in France and Greece as well as political pressure on governments of Spain and Italy; and the risk of negative economic surprises.

The potential ratings impact of these events is concentrated in the western world as Fitch's ratings are predominantly assigned to issuers and issues in the EU and the US. We are assuming higher correlation between these two major economies and the rest of the world even under normal economic cycles. This higher correlation is driven by greater investmentand trade flows globally. Both of these regions continue to face abnormal and negative economic challenges. Ratings impact for developing economies is less, in part because on average they are rated below investment grade given their vulnerability to macroeconomic and systemic risks.

We have also added a eurozone recession indicator to better illustrate how weaker growth could impact ratings. This complements the negative ratings impact of the euro financial crisis detailed later in this report. The intensification of the crisis has resulted in lower growth and higher unemployment in numerous countries within the eurozone. Both EMEA corporate and structured finance ratings already include this potential and minimal ratings changes are expected. EMEA corporate ratings have been downgraded since 2008. Stress events for EMEA corporates are addressed in *Scenario: Eurozone Shock Case for EMEA Corporates*, published March 2012, and indicates expected resilience in corporate ratings. Structured finance analysis also embeds cyclical downturns in ratings.

In the last few months there have also been downgrades in Fitch's Viability and Issuer Default Ratings of some of the world's largest financial institutions.

> This is the second edition of the Fitch *Risk Radar*, a series that highlights the potential impact various risk factors might have on ratings. These factors are graphically illustrated using three charts. Positive and negative factors are shown in the upper and lower half, respectively, while the relative urgency or nearness of concern is indicated by distance from the Y axis. The size of a bubble reflects the number of ratings that might be affected within Fitch's ratings distribution.
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> There are three Risk Radar charts that show movement from early January 2012 when the first Risk Radar was published. The first chart is a global aggregate of factors that may have a negative or positive impact on ratings – the emphasis currently is on negative events. The remaining charts focus on the eurozone and the US. Accompanying these charts are various ratings distribution graphs based on analytical relevance.

"The risk of high oil prices, potential challenges addressing the US fiscal policy and the declining rate of growth in China's GDP have all increased in urgency and may negatively impact Fitch's credit ratings."

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Risk Radar

Global Rating Issues

Changes April 2011

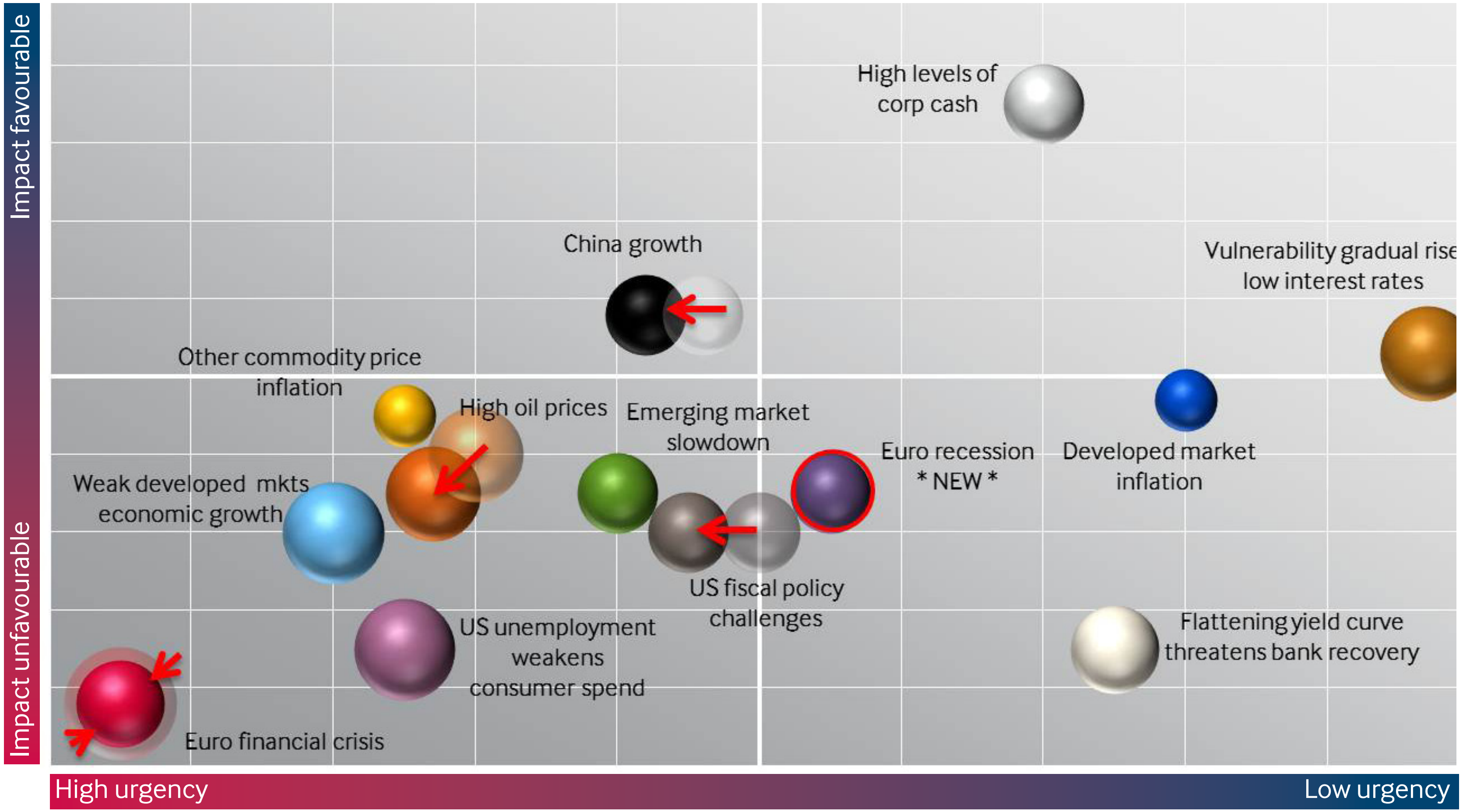


Figure 1

Fitch's view of the most pronounced issues and their effect in terms of urgency and potential impact.

Risk Radar

Global Rating Issues

April 2012

High Oil Prices – Urgency Increases as Negative Credit Factor

The biggest risk to ratings is of a shock oil price rise that leads to sustained higher prices. The US economy would be damaged in the short and medium terms if oil prices were to remain higher than $150 per barrel. The greatest impact would be felt on some global corporates and transportation-based infrastructure issuers. Downgrades to utilities could also occur given higher generation costs.

Oil remains in high demand in the US. About 44% of the US net trade deficit stems from oil imports despite increased exports of energy products. However, oil is a global commodity and its price is set by global demand. The price of gasoline is a major determinant of US consumer discretionary income and US consumer spending is estimated to drive 70% of the US economy. A short-term disruption in oil prices could therefore materially disrupt a US economic recovery.

US Fiscal Policy Errors

Congressional and super committee failures to address the US deficit may trigger the expiration of several programs of fiscal stimulus in early 2013. The expiration of the reduced payroll tax, the Bush tax cuts and lower unemployment benefits along with the automatic spending cuts of $1.2 trillion from January 15, 2013 would represent a significant fiscal tightening, estimated by the Congressional Budget Office, among others, as equivalent to 3.5% of GDP. Simply allowing existing law provisions to result in an unstructured and contractionary tightening is unlikely but would place the fragile US economic recovery at risk. In addition, the federal deficit ceiling will once again be required to be raised around the end of the year. These risks prompted Fitch to revise its Outlook on the US rating to Negative in November 2011.

China's Growth

China's status as the world's largest exporter underlines its importance as a significant trade partner to the US. Its impressive growth record, averaging close to 10%p.a. over the past two decades, has been a catalyst for an expanding middle class that is expected to contribute to an increase in domestic consumption. This is helping to spur a necessary rebalancing of China's economy away from its reliance on investment and exports to generate growth.

This will lead to a lower level of sustainable growth. Fitch expects growth of 8% in 2012 and 2013 as the economy works off excesses in the real estate sector and monetary policy is eased gradually to maintain downward pressure on inflation and house prices. Some weakening in housing and consumer demand is noted from observing trade activity and effects on trading partners such as Brazil. While the unwinding of the property market poses some risk of a so-called hard landing, China's policy flexibility mitigates this risk. Fitch anticipates that growth moderates and the direct effect on ratings will be muted.

Of concern in the medium term is the impact of the deteriorating asset quality in the Chinese banking system, coupled with funding and liquidity challenges as the negative effects of the credit-fuelled stimulus of 2009-11 crystallize. This could impact the supply of credit to the broader economy acting as a brake on growth just at a time when the global economy is reliant on Chinese growth to lead the recovery. Fitch has recognized the growing risk factors in the financial sector for several years and most recently in *Cash Cushions Thinning as Liquidity Erodes and Forbearance Burdens Rise* published December 2011.

Risk Radar

Impact of the Euro Financial Crisis

Changes April 2011

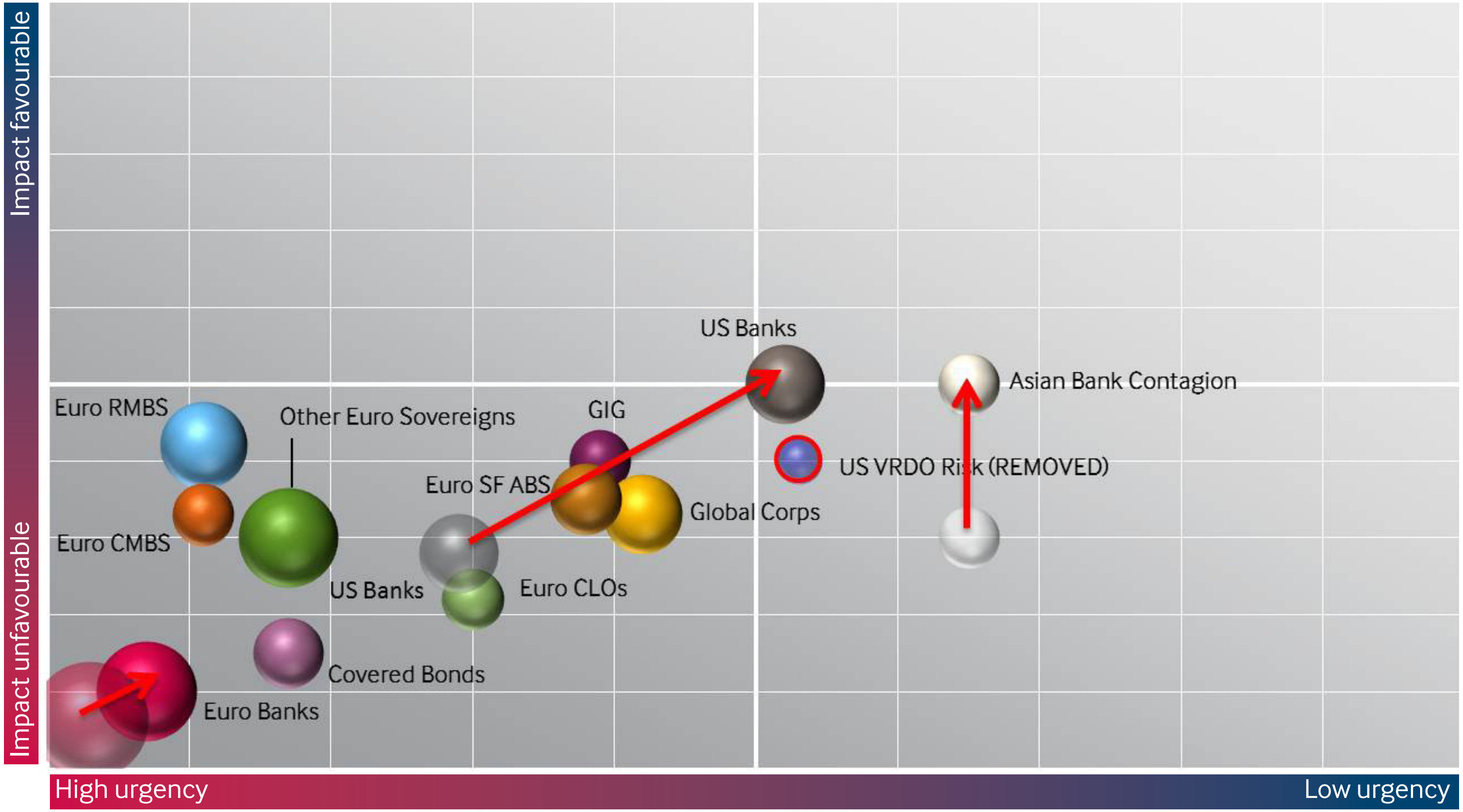


Figure 2

The LTRO initiative lowers contagion risk to US and Asian financial institutions. Downgrade risk to eurozone banks remains our greatest concern.

Risk Radar

Eurozone Financial Crisis Risks Remain

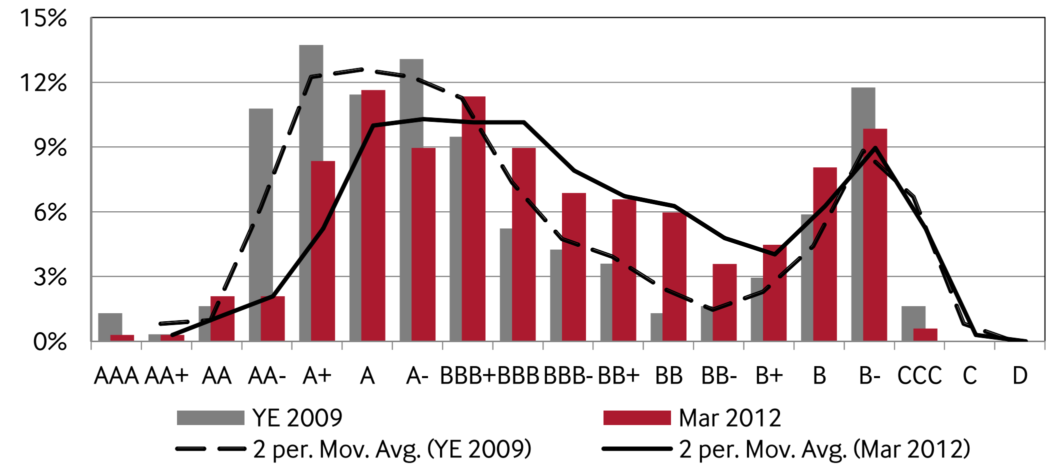
LTRO Reduces Contagion Risk

The European Central Bank LTRO initiative and collateral-widening measures have helped to resolve short-term funding pressures for Europe's banking systems. This reduced the risk of potential contagion to US and APAC banks and to the US VRDO market. The LTRO is buying policy makers time to address the fundamental issues of the eurozone crisis. The banks' reliance on LTRO has four implications. It creates subordination for existing and future holders of senior unsecured bank paper, which may impact the future cost and availability of traditional funding sources. The lengthening of maturities for bank obligations creates a concentration of refinancing risk. Banks' usage of LTRO funds to replace short-term debt reduces the level of short-term paper in the market, creating challenges for market participants (e.g. money market funds) that rely on steady flows of securities. Lastly, it has increased the interdependence between banks and their home sovereigns enabling the banks to increase their holdings of sovereign debt.

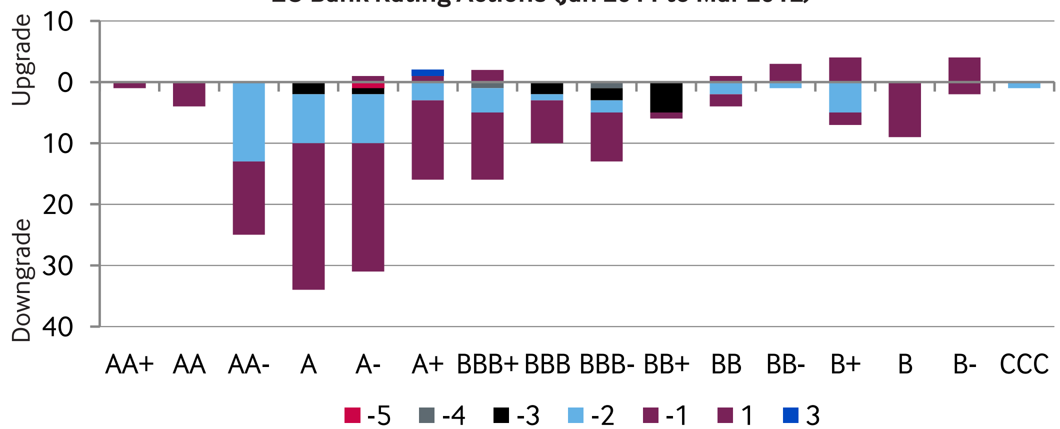
Crisis Not Yet Resolved

The Greek sovereign debt exchange (resulting in a downgrade to 'RD' and re-rating at 'B-') and second official financial program have been implemented since January. Fitch also downgraded the IDRs of other sovereigns including Italy, Spain, Belgium, Cyprus and Slovenia reflecting a combination of idiosyncratic factors and the reduced financial flexibility of sovereigns with large fiscal financing needs and significant financial imbalances. Their ratings remain on Negative Outlook. Although eurozone sovereign bond yields fell initially following the LTRO program, borrowing costs for Spain and Italy have since risen again reflecting renewed concerns over the weak economic outlook and their ability to implement reforms and austerity measures necessary for economic rebalancing. Further periods of market volatility and risk aversion are expected in the absence of a comprehensive resolution to the crisis. Credit profiles of the sovereigns and their domestic banks remain highly correlated partly reinforced by the LTRO initiative. Approximately 300 European banks were downgraded between January 2011 and March 2012, 30% more than one notch. A vast majority of these banks' IDRs are at the sovereign support floor explaining the number of banks with LT IDRs at 'A+' and 'A' in the graph to the right. Bank ratings currently assume that many will be able to strengthen their capital position — mainly expected through orderly asset sales. Only 8% of European bank ratings have either a RW Negative or Outlook Negative as of March 31, 2012. Although Fitch does not project a severe or prolonged recession in the eurozone, the recovery is likely to be anemic and uneven. The resolution of the crisis will not be possible until there is a broad based and sustainable recovery including the periphery, which currently seems far off.

EU Bank Ratings Distribution



EU Bank Rating Actions (Jan 2011 to Mar 2012)



The Eurozone Financial Crisis

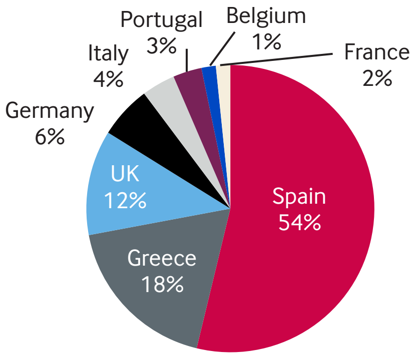
Structured Finance Issues Remain Under Negative Ratings Pressure

Ratings of SF issues in the eurozone are linked both to their respective sovereign rating and the likelihood of recession due to the resulting impact on borrowers. Economic challenges will negatively impact performance of underlying assets but the degree of impact will depend upon the length and depth of recession and the extent of any increase in unemployment. Austerity measures may constrain GDP and potentially increase unemployment if combined with weak private sector recovery. Ratings anticipate a degree of cyclical peak-to-trough asset performance. We reiterate, Fitch is not anticipating a lengthy recession in the eurozone. However certain countries are already experiencing declines in GDP and higher unemployment. Increased layoffs and reduced government spending may worsen the economic position and thus, unexpected declines in GDP may impact ratings further.

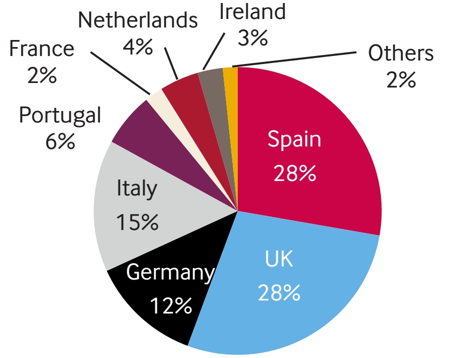
Counterparty risk could also cause further downward pressure on SF ratings. Banks are counterparties for swaps and accounts that support SF transactions. Many banks in the eurozone are no longer eligible to support SF transactions with high ratings. Workouts and refinancing of assets may also prove even more difficult to achieve in weak economic times. All of these risks could result in more downgrades. The four charts to the right provide some indication of the potential for downgrades in the near to intermediate terms by region and then by underlying product.

Structured finance ratings in Greece, Ireland and Portugal have been capped based on the uncertain environment associated with low rated sovereigns. Additional bank downgrades, especially for Italy and Spain, have impacted the eligibility of counterparties to support SF transaction ratings at high levels. Ultimately, this may threaten highly rated SF tranches. CMBS and CLO markets continue to face significant refinancing risks in 2012 and beyond. Credit profiles suggest most CMBS loans face default at maturity. Volumes of enforced properties may further impact values and appetite for new lending exacerbating refinancing further.

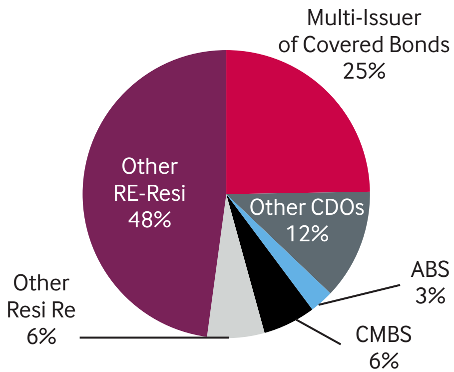
EU SF Rating Watch by Country – March 2012



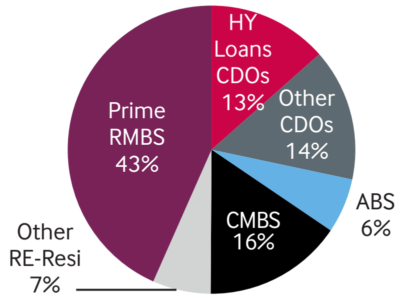
EU SF Issues Rating Outlook Distribution by Country – March 2012



EU SF Rating Watch by Product – March 2012



EU SF Outlook by Product – March 2012



Risk Radar

US Economic and Fiscal Policy Challenges

Changes April 2011

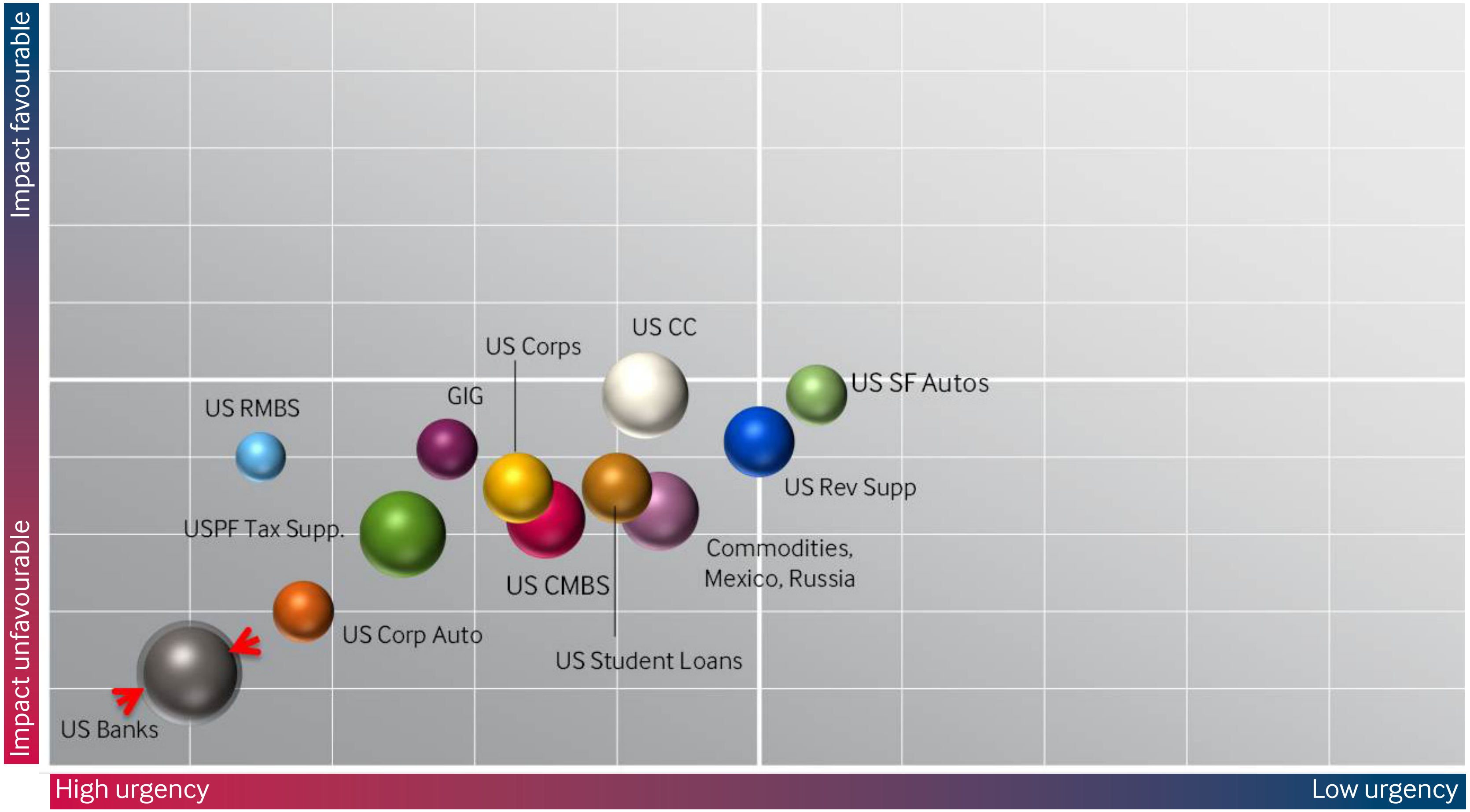


Figure 3

Fitch's base-case ratings for most analytical products incorporate minimal growth in GDP with stable unemployment levels. Nonetheless, Fitch is concerned that the situation remains fragile.

Risk Radar

US Economic and Fiscal Challenges Remain

Minimal Changes to December 2011 Events

Fitch remains concerned about the sustainability of a recovery in the US. Some improvements have come – at a high cost – with very accommodative fiscal and monetary policy. Fitch questions the sustainability of projected growth due to the rapidly expanding US deficit. US consumers remain highly leveraged, unemployment remains high and housing has not yet hit bottom.

Improvement in the rate of US unemployment is a positive indicator. However, Fitch remains unconvinced about such improvements. Importantly, Chairman Bernanke confirmed the Federal Reserve's position to remain accommodative in its monetary policy through 2014. Perhaps this is to offset the economic volatility that may be created by the cessation of the fiscal accommodative policy (see lack of Congressional action above) or the lack of sufficient demand discussed in Bernanke's speech of March 26, 2012. Whatever the motivation, Fitch is not incorporating a strong economic recovery in its ratings base case.

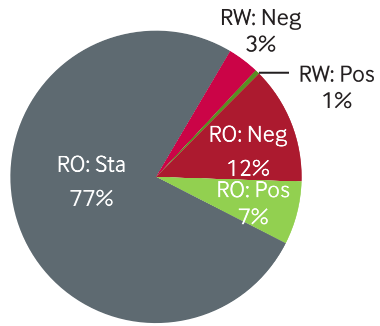
Ratings of US banks and US auto manufacturers remain vulnerable to the general health of the US economy. As demonstrated in the Risk Radar chart, the risks to other analytical sectors is materially less negative since many have already embedded loss exposures or reduced cash flows consistent with the potentially weak economy.

Downgrade risks for US banks have softened due to rating actions in December, capital raising and reduced contagion from the eurozone. More than 76% of US banks were on Outlook Stable as of March 31, 2012 as seen in the pie chart to the right. US banks' capital ratios improved through earnings retention and asset sales. Further downgrade risks remain from counterparty exposures since the eurozone financial crisis continues (although the possible effect of this is more limited now as noted above), from weakened asset quality and increased regulations hindering growth in profitability. Fitch expressed its confidence in banks passing the CCAR review in a special report dated March 13, 2012.

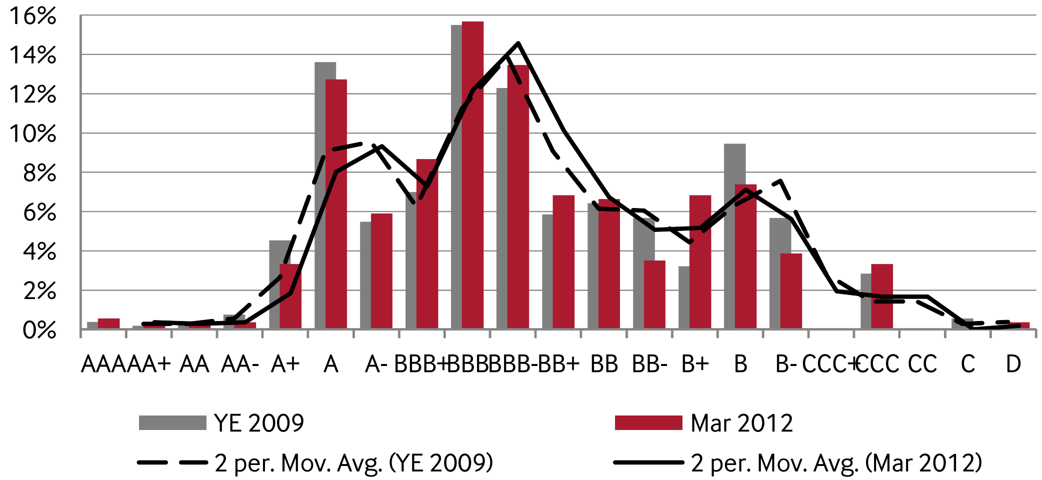
US corporate ratings trended down as evident in the "US Corporate Ratings Distribution" graph to the right. Ratings migrated incrementally and now are predominantly in the 'BBB' to 'BBB-' range as a result of a review of vulnerability to challenges facing the US and global economies. 15.4% of US corporate ratings are on Outlook Negative or Rating Watch Negative. However, the high levels of corporate cash maintained reduce negative ratings pressure from any single event.

Auto manufacturers remain particularly vulnerable to a weak US economy. Ratings of auto manufacturing related corporations have been upgraded over the last several years. Currently 19% of the corporations on Outlook Positive are related to the auto industry. A sudden change in the economy or price of oil could hurt this industry's recovery.

NA Banks' – IDR Outlook and Watch – March 2012



US Corporate Ratings Distribution



Risk Radar

Executing on New/Developing Risks

Please also see Risk Radar January 4, 2012 to additional Special Reports

Global Corporates

Published reports: ratings are sustainable.

> *Eurozone Sovereign/Corporate Links – 2012 Update*
7 March 2012

> *Scenario: Eurozone Shock Case for EMEA Corporates*
7 March 2012

> *Updating Fitch's Oil and Gas Price Deck*
6 February 2012

> *The Global Outlook for Corporates*
31 January 2012

Sovereigns

> *Eurozone Sovereign Snapshot – Q1 2012*
27 March 2012

> *Fitch: MENA Outlook – Oil in Troubled Waters*
13 March 2012

> *Fitch: European Investors Committed to Sovereign CDS despite Greek Events*
8 February 2012

> *United Kingdom*
19 March 2012 Outlook Revised to Negative

Global SF

> *EMEA RMBS Losses*
7 March 2012

> *US RMBS 3Q11 Sustainable Home Price Projection*
5 March 2012

> *CLOs, Crisis Management and Structural Nuances*
29 February 2012

> *Italian RMBS Stress Test*
4 February 2012

Global FI

> *Major Portuguese Banks Remain on Shaky Ground*
27 March 2012

> *Higher Real Estate Coverage for Spanish Banks*
21 March 2012

> *European Banks' Use of LTRO*
28 February 2012

> *US Housing and Bank Balance Sheets*
27 February 2012

US PF

> *Improving Comparability of State Liabilities*
28 March 2012

> *Student Loan Report Card*
10 February 2012

> *2012 US Public Finance Outlooks*
19 January 2012

Global Infrastructure Group

> *Refinancing Wall for European Transport Infrastructure*
27 March 2012

> *Clouds over Solar Power Project Finance*
1 February 2012

Centralised Research

> *US Money Fund Exposure and European Banks: A Partial Disengagement*
22 March 2012

> *Fitch: Risk Appetite Returning to US Repo Market*
3 February 2012

> *Fitch Releases 2011 Sovereign Rating Transition Study*
14 March 2012

> *The Credit Outlook – Entrenched Eurozone Crisis Challenges Global Rating Stability*
26 January 2012

Risk Radar

Understanding Credit Ratings – Limitations and Usage

Ratings assigned by Fitch are opinions based on established criteria and methodologies. Ratings are not facts, and therefore cannot be described as being "accurate" or "inaccurate". Users should refer to the definition of each individual rating for guidance on the dimensions of risk covered by such rating.

Fitch's opinions are forward looking and include analysts' views of future performance. In many cases, these views on future performance may include forecasts, which may in turn (i) be informed by non-disclosable management projections, (ii) be based on a trend (sector or wider economic cycle) at a certain stage in the cycle, or (iii) be based on historical performance. As a result, while ratings may include cyclical considerations and typically attempt to assess the likelihood of repayment at "ultimate/final maturity", material changes in economic conditions and expectations (for a particular issuer) may result in a rating change.

Credit ratings do not directly address any risk other than credit risk. Credit ratings do not comment on the adequacy of market price or market liquidity for rated instruments, although such considerations may affect Fitch's view on credit risk, such as access to capital or likelihood of refinancing.

Ratings are relative measures of risk; as a result, the assignment of ratings in the same category to entities and obligations may not fully reflect small differences in the degrees of risk. Credit ratings, as opinions on relative ranking of vulnerability to default, do not imply or convey a specific statistical probability of default, notwithstanding the agency's published default histories that may be measured against ratings at the time of default. Credit ratings are opinions on relative credit quality and not a predictive measure of specific default probability. Ratings are opinions based on all information known to Fitch, including publicly available information and/or non-public documents and information provided to the agency by an issuer and other parties. Publication and maintenance of all ratings are subject to there being sufficient information, consistent with the relevant criteria and methodology, to form a rating opinion.

In issuing and maintaining its ratings, Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction.

The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors.

Users of Fitch's ratings should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed. If any such information should turn out to contain misrepresentations or to be otherwise misleading, the rating associated with that information may not be appropriate. The assignment of a rating to any issuer or any security should not be viewed as a guarantee of the accuracy, completeness, or timeliness of the information relied on in connection with the rating or the results obtained from the use of such information. If a rating does not benefit from the participation of the issuer/originator, but Fitch is satisfied that "minimum threshold" information for the given criteria is available from public information and other sources available to Fitch, then the non-participatory issuer, as with all issuers, will be afforded the opportunity to comment on the rating opinion and supporting research prior to it being published.

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