MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades Sigma's MTNs to Ca and Not Prime, and withdraws CP ratings

Global Credit Research - 30 Sep 2008

Approx. USD 6 billion of debt securities affected

New York, September 30, 2008 -- Moody's Investors Service announced today that it has taken the following rating action on senior debt issued by Sigma Finance Corporation and Sigma Finance Inc. (Sigma):

Euro and US Medium Term Note programmes - USD 5.9 billion of debt securities affected

Current Rating: Ca and Not Prime

Prior Rating: A3, on review for downgrade and Prime-2, on review for downgrade

Euro and US Commercial Paper programmes

Current Rating: Withdrawn

Prior Rating: Prime-2, on review for downgrade

Moody's downgraded the ratings of the above debt programmes on July 14, 2008 and kept them on review in order to monitor (1) price movements in Sigma's asset portfolio, and (2) the company's ability to continue to execute ratio trades and successfully transact in repurchase agreements.

The rating of the Euro and US Commercial Paper programmes have been withdrawn as the last commercial paper was repaid on July 24, 2008, and there were no further issuances.

Repo Exposures and Notice of Default

On 30 September 2008, Sigma notified Moody's of a notice of default served by one of its repo counterparties. This has resulted in a close out of all repo contracts entered into by one counterparty, and may lead other counterparties to follow suit.

The notional amount of Sigma's assets is approximately USD 27 billion. On 30 September 2008, Sigma notified Moody's that its actual collateral held under repo agreements is a total of USD 25 billion, a figure which includes USD 17.4 billion of notional of repo liabilities and overcollateralisation of approximately USD 8 billion (approximately USD 4 billion of initial margin, and approximately USD 4 billion of variational margin). The Ca rating therefore reflects the fact that Sigma has a total of USD 2 billion of assets that has not been pledged under repo contracts supporting USD 6 billion of Medium Term Notes. While margins pledged under repo agreements could be returned to Sigma, Moody's views significant loss to the medium term notes as a likely possibility given the difficult market into which counterparties will liquidate assets to recover amounts owed by Sigma.

Entry into Natural Amortisation

Sigma's asset portfolio market value has declined to 92.8% on 19 September 2008 from 94.3% on 4 July 2008. The company's available committed liquidity of US$ 3.5 billion on 4 July 2008 was reduced to US$ 14 million on 19 September 2008.

The company's ability to transact in further repos was hindered by this price decline as well as a reduction in the types of assets favoured by repo counterparties. Available committed liquidity facilities from banks have been drawn down and breakable assets have been liquidated; these have, in some instances, been used to meet margin payments, causing the company to breach its minimum liquidity covenants, thus triggering entry into Natural Amortisation on 19 September 2008.

A depletion of cash reserves, entry into natural amortisation, and increasing demand for margin payments by repo counterparties resulted in a close out of repo contracts by one counterparty today. The effect for MTN investors will be an acceleration of the notes and likely failure to pay when due.

Portfolio Quality

Financial institutions comprise 63.91% of the portfolio, split into bank direct obligations 39.06%, bank holding companies 10.79%, finance companies 6.05%, other financial institutions 4.14%, and monoline & insurance companies 3.87%. The balance is made up of ABS with the following important asset classes: CDO 21.32%, credit cards 4.91%, CMBS 2.09%, and prime UK, Dutch and Australian RMBS 1.5%. The portfolio has limited exposure to ABS CDOs and no direct exposure to US subprime RMBS. The average life is 3.71 years. In terms of credit quality, 32.62% of the portfolio is Aaa-rated, 49.3% Aa-rated, 15.86% A-rated, 1.8% Baa-rated, and the balance rated Ba-B.

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