

Credit Opinion: Gazprombank

Gazprombank

Moscow, Russia

Ratings

Category	Moody's Rating
Outlook	Stable(m)
Bank Deposits -Fgn Curr	Baa2/P-2
Bank Deposits -Dom Curr	Baa2/--
NSR Bank Deposits -Dom Curr	Aaa.ru/--
Bank Financial Strength	D-
Senior Unsecured	Baa2

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Key Indicators

Gazprombank

	[1]2008	2007	2006	2005	2004	Avg.
Total Assets (US\$ million)	47137.35	38620.03	31668.47	18054.46	10584.35	[2]50.89
Shareholders' Equity (US\$ million)	8202.35	7125.42	5915.10	2321.64	1356.21	[2]53.61
Return on Average Assets	6.36	4.16	6.27	3.83	4.47	4.40
Recurring Earnings Power [3]	8.23	4.49	7.95	4.51	6.87	5.51
Net Interest margin	3.69	3.56	2.40	2.46	1.52	2.52
Cost/Income ratio (%) [4]	65.01	80.99	70.97	53.96	31.62	56.52
Problem Loans % Gross Loans	--	1.21	1.21	2.08	0.95	1.53
Equity % Assets	17.40	18.45	18.68	12.86	12.81	15.45

[1] As of June 30. [2] Compound annual growth rate. [3] Preprovision income % average assets [4] Non-Interest Expense % Operating Income

Opinion

SUMMARY RATING RATIONALE

Moody's assigns a Bank Financial Strength Rating (BFSR) of D- to Gazprombank, which translates to a Baseline Credit Assessment (BCA) of Ba3. The bank's controlling shareholder is the state-controlled OJSC Gazprom ("Gazprom", A3 foreign currency issuer rating), the world's largest integrated gas company, and its linkage to Gazprom and the Russian State has both positive and negative rating implications.

The D- BFSR is constrained by potential corporate governance issues reflecting the bank's role in fulfilling economic objectives for Gazprom and the State -- as reflected in Gazprombank's extensive involvement in financing projects and undertaking acquisitions for Gazprom (thus potentially undermining the bank's capital and liquidity position) and acting as a tool for supporting the banking sector and the real economy in times of crisis. The BFSR is also constrained by high single-name and sectoral concentrations on both sides of the balance sheet and the bank's high level of earnings volatility, which has already resulted in a decline in profitability in H2 2008 and a reduction in its capital position. The BFSR is also constrained by the difficult operating environment.

The BFSR, however, is underpinned by Gazprombank's well-established franchise in servicing Russia's gas and

related industries, stemming from (i) its role as the house bank for Gazprom, (ii) its better-than-average access to liquidity and capital sources stemming from its linkage to Gazprom and its role as a government agent in promoting its economic objectives, (iii) its position as the third-largest bank in the country, and (iv) its exposures to the country's largest companies, which are important for the economy and are eligible for state assistance in times of crisis.

The bank's Baa2 global local currency (GLC) deposit rating incorporates the following main elements: (i) its BCA of Ba3 deriving from the BFSR; and (ii) our assessment of a very high probability of support from either Gazprom or the Russian authorities in the event of need given Gazprombank's state ownership, the importance of the bank to Gazprom's operations and its importance to the banking system as the third-largest bank in Russia.

The bank's Aaa.ru National Scale Rating reflects its credit standing as compared to its Russian peers.

Credit Strengths

- The bank's captive role in servicing the cashflows, projects and employees of Gazprom Group through its branch network in suitable locations confers a strong franchise as well as high assumptions for the probability of parental and systemic support.
- A new nine-year Strategic Cooperation Agreement with Gazprom signed in 2007 could form the basis for further franchise development
- Strong core profitability
- Better-than-average asset quality
- Good access to liquidity and capital sources thanks to close affiliation with the state and Gazprom

Credit Challenges

- Corporate governance concerns stemming from engagement in Gazprom Group's operations and also being a state tool in macro policy
- Still significant reliance on Gazprom in a franchise model
- High concentrations on both sides of the balance sheet; however, loan concentration is to some extent mitigated by the reasonable credit quality (for Russia) of many of the largest borrowers
- Earnings volatility stemming from a large level of market risk on the books as well as significant share of revenues from the petrochemical segment
- The bank's liquidity position is threatened by high concentration levels in its funding base, which could require external support from both the government and the parent.

Rating Outlook

The outlook on the D- BFSR is negative and is driven by the rapidly deteriorating operating environment in Russia. The possible decline in asset quality is further aggravated by the depreciation of the Russian rouble, which is also reducing borrowers' ability to meet their debt service obligations and raises the cost of foreign currency lending by the banks.

The outlook on all of the bank's deposit and debt ratings is stable.

What Could Change the Rating - Up

No upward movement in the bank's BFSR is expected in the short to medium term as reflected in the negative outlook on this rating. The outlook will likely be changed back to stable if the bank successfully overcomes the crisis with no significant deterioration in financial fundamentals. Looking forward, a BFSR upgrade could be driven by improved corporate governance accompanied by improved financial fundamentals.

What Could Change the Rating - Down

The BFSR could be negatively affected by deteriorating asset quality and/or liquidity problems stemming from involvement in an extensive bailout of the Russian banking system on behalf of the government, as well as participation in large high-risk projects for Gazprom Group.

Given the strong dependence of the deposit ratings on implicit support from Gazprom and the government, any material change in the bank's control and its importance to the Group and the economy that resulted in a reduction in our support assessment would be likely to have negative implications for the deposit and debt ratings.

Recent Results and Developments

Under IFRS, Gazprombank reported total assets of US\$47.1 billion and equity of US\$9.5 billion at end-H1 2008. The banking segment accounted for 82% of the bank's total assets at end-H1 2008 with petrochemicals and media representing the majority of the remainder; banking also accounted for 38% of the net profit before income tax, and almost half coming from petrochemicals. Despite the crisis events in September 2008, the bank grew its loan book by one third and its customer base by almost half during September-December 2008. As one of the three core banks associated with the government's objective to support the real economy, Gazprombank has not ceased its lending activities -- unlike many Russian banks. The bank has increased financing from the Central Bank of Russia (CBR) in order to continue funding its expansion -- a development that we view with caution.

DETAILED RATING CONSIDERATIONS

Detailed considerations for Gazprombank's currently assigned ratings are as follows:

Bank Financial Strength Rating

Moody's assigns a BFSR of D- to Gazprombank. The BFSR is constrained by Gazprombank's potential corporate governance issues, high single-name and sectoral concentrations on both sides of the balance sheet and the bank's high level of earnings volatility. The BFSR is also constrained by the difficult operating environment. The assigned BFSR is one notch lower than that indicated by Moody's bank financial strength scorecard, which produces an outcome of D.

Qualitative Rating Factors (70%)

Factor 1: Franchise Value

Trend: Neutral

Gazprombank, the third-largest bank in Russia, is a universal bank active in a wide array of activities, including corporate, retail, small- and medium-sized enterprises, project finance and investment banking.

Its corporate and retail franchise has historically been reliant on Gazprom Group; however, the bank has been diversifying into third-party clientele and the share of Gazprom's operations has been gradually declining (e.g. corporate loans to 7% in H1 2008 from 53% in 2003 and deposits to 23% in H1 2008 from 58% in 2003) as the bank has been growing its retail (17% at 1H2008), SME and corporate books (shifting to smaller customers).

On the other hand, we expect that the current increase in intermediation -- given the closure of the capital markets -- will result in greater demand from Gazprom Group for loans and thus the share of Gazprom's related lending is likely to grow. On the liability side, given the greater stability of Gazprom Group's cashflows compared to the majority of corporates in the Russian economy, the share of Gazprom Group is also likely to increase.

In today's operating environment, the bank has better access to liquidity and funding than the majority of the Russian banks thanks to its close affiliation with the state and its strategic role as one of the largest banks in the country. The bank's ability to grow its franchise going forward will depend on the following factors: (i) continuation of government finance; and (ii) the behaviour of its deposits. Although the bank is better positioned than most Russian banks in these respects, the stability of its franchise value, as reflected in the stability of its funding base and earnings generation power, is yet to be tested by a possible future deterioration of the economic environment, especially if combined with asset quality problems. In light of these comments, a D+ score for franchise value and a neutral trend are appropriate.

Factor 2: Risk Positioning

Trend: Neutral

Despite recent improvements, Gazprombank's corporate governance system remains weak due to its continued use in Gazprom-related financing of acquisitions and provision of long-term venture finance. In addition, as one of the three state-controlled banks, Gazprombank is actively used by the government to support the financial markets, using both government and its own resources (although it is likely to receive partial compensation for losses).

Unlike the majority of CIS banks, Gazprombank's loan book concentration in relation to equity is reasonable, with its 16 largest borrowers (outside the Gazprom group) accounting for 67% of equity at end-H1 2008. The credit risks are also mitigated by the sound credit quality of the largest borrowers. Market risks, although declining, are

still significant, as Gazprombank's trading securities book (albeit consisting largely of fixed income) accounted for c.30% of equity. Admittedly, the risks are not sufficient to significantly impair the bank's credit standing, but still weigh on the financials. FX market risks are covered, but the bank is exposed to credit derivative market risks as almost one third of the loan book, or 55% of end-1H2008 equity, was issued in foreign currency. Liquidity is adequately managed.

In light of these comments, the bank scores E for risk positioning, with a neutral trend.

Factor 3: Regulatory Environment

Refer to Moody's Banking System Outlook on Russia, published in September 2008, for information on the country's regulatory environment.

Factor 4: Operating Environment

Trend: Weakening

This factor is common to all Russian banks. Moody's assigns Gazprombank an E+ score for the overall operating environment. Refer to Moody's Banking System Outlook on Russia, published in September 2008, for information on the country's operating environment.

Quantitative Rating Factors (30%)

Factor 5: Profitability

Trend: Weakening

Gazprombank Group has historically been reporting very strong profitability, which was largely based on the strong performance of the petrochemical segment favoured by high energy prices. The stand-alone performance has been more modest and close to the banking average for its peer group. The bank has been able to sustain the core income reflected in the net interest margin and recurring income generation power indicators thanks to diversification of the franchise into smaller segments and deeper involvement in project finance. Profitability has been potentially very volatile as a significant portion came from the non-banking segment, which is dependent on prices of raw materials and on securities gains. In H2 2008, the bank's profitability was affected by the losses on the capital markets and decline in revenues of other segments.

Going forward, we expect the bank's profitability to decline given the combination of the following factors: (i) the decrease in prices of raw materials will lead to a decrease in revenues of the petrochemical segment - the bank's largest revenue contributor, (ii) weaker capital markets will strip the bank of a substantial proportion of its profitability, and (iii) deterioration in asset quality is likely to further pressurise the bank's profitability.

The bank scores A for profitability, but we adjust this downwards to reflect the concerns cited above.

Factor 6: Liquidity

Trend: Weakening

By year-end 2008, Gazprombank's funding base had changed significantly compared to end-H1 2008. Around 50-60% of Gazprombank's funding is being financed from depositors' accounts while the rest comes from the central bank (31%) and local and international sources of wholesale funding. Thanks to a relatively long-term average duration of wholesale funding (in 2009 the amount due for repayment represents 7% of the bank's liabilities), which is being used to finance the loan book, the bank appears able to withstand the 30% withdrawal in funding without a reduction in lending volumes. However, we note that the bank is significantly dependent on funding from the central bank, which accounted for more than 30% of funding and cannot be regarded as a stable source of funding in the long term. Although it is unlikely that the CBR will impose an abrupt return of these funds, even gradual repayment will considerably stress Gazprombank's liquidity. The bank scores C- for liquidity, but we adjust this to D- with a weakening trend to reflect the above concerns.

Factor 7: Capital Adequacy

Trend: Weakening

On the one hand, Gazprombank has historically had a strong capital base with Tier 1 ratios being constantly above 20% for the past two years. On the other hand, the capital cushion is partially linked to other segments which tie up free capital and force the bank to operate with a larger liquidity cushion; in addition, the high industry concentrations with high correlation of defaults pressurise the capital.

The shareholders have been supportive in capitalising the bank to support its growth. The current economic environment is likely to require additional efforts from the shareholders in capital replenishment. The bank benefits from having a strong shareholder and it is also likely to benefit from direct state participation as a strategically important bank. As a result, it is better positioned than the majority of Russian banks in terms of availability of capital.

The bank scores A for capital adequacy, but we adjust this to C with a weakening trend to reflect the large involvement in investment projects.

Factor 8: Efficiency

Trend: Weakening

Gazprombank's efficiency indicators remain strong and compare favourably with those of its peers, which is commensurate with its wholesale-focused business model. We believe that the potential for further improvements in the bank's efficiency is limited and it is likely to weaken as the current deteriorating operating environment will pressurise earnings and (going forward) business volumes, causing a time lag between the cost base (which the bank is unlikely to adjust promptly) and the new revenue base. The bank scores D for efficiency with a weakening trend.

Factor 9: Asset Quality

Trend: Weakening

Similar to most Russian banks, Gazprombank's asset quality has been reasonable, with non-performing loans to gross loans at ca. 1% at end-H1 2008. However, in common with many peers, the bank has witnessed rapid loan growth over the past several years and has also further extended lending to smaller companies and project finance -- the areas which are currently most affected. A mitigating fact is that a significant portion of the loan book is represented by large companies which may be eligible for state assistance. In addition, ca. 13% of assets is represented by the petrochemical segment (dominated by SIBUR, rated Ba1).

The bank scores B+ for asset quality, but we adjust this downwards to reflect the above concerns.

Global Local Currency Deposit Rating (Joint Default Analysis)

Gazprombank's Baa2 long-term local currency deposit rating incorporates two main elements: (i) the BCA of Ba3 derived from the bank's BFSR; and (ii) a very high probability of support from either Gazprom (A3 foreign currency issuer rating) or the Russian authorities given its state ownership, its importance to Gazprom's operations and its importance to the banking system as the third-largest bank in Russia. The Russian government also uses Gazprombank in financial situations, demonstrated recently when Gazprombank helped bail out a defaulted bank and provided liquidity support to the banking sector and securities market.

Notching Considerations

Ratings for Gazprombank's junior and senior subordinated obligations should be notched off the GLC deposit rating.

National Scale Rating

Gazprombank is rated Aaa.ru by Moody's Interfax on Russia's national rating scale. National scale ratings (NSRs) are intended as relative measures of creditworthiness among debt issuers and issuers within a country, enabling market participants to better differentiate relative risks.

Foreign Currency Deposit Rating

The Baa2/Prime-2 foreign currency deposit ratings are not constrained by the country ceiling for such deposits..

Foreign Currency Debt Rating

The Baa2 foreign currency debt rating is not constrained by the country ceiling for such debts.

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and

soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. BFSRs do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of BFSRs include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although BFSRs exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the BFSR as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, they are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, which includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of external elements of support into the bank's Baseline Risk Assessment. In calculating the Global Local Currency Deposit rating for a bank, the JDA methodology also factors in the rating of the support provider, in the form of the local currency deposit ceiling for a country, Moody's assessment of the probability of systemic support for the bank in case a stress situation occurs and the degree of dependence between the issuer rating and the Local Currency Deposit Ceiling.

National Scale Rating

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. A Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt ratings may also be constrained by the country ceiling for foreign currency bonds and notes; however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's Bank Financial Strength Scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

Gazprombank

Rating Factors [1]	A	B	C	D	E	Total Score	Trend
Qualitative Factors (70%)						E+	
Factor: Franchise Value						D+	Neutral
Market Share and Sustainability			x				
Geographical Diversification			x				
Earnings Stability					x		
Earnings Diversification [2]							
Factor: Risk Positioning						E	Neutral
Corporate Governance [2]					x		
- Ownership and Organizational Complexity							
- Key Man Risk	--	--	--	--	--		
- Insider and Related-Party Risks	--	--	--	--	--		
Controls and Risk Management			x				
- Risk Management				x			
- Controls		x					
Financial Reporting Transparency			x				
- Global Comparability	x						
- Frequency and Timeliness				x			
- Quality of Financial Information			x				
Credit Risk Concentration					x		
- Borrower Concentration					x		
- Industry Concentration		x					
Liquidity Management				x			
Market Risk Appetite				x			
Factor: Operating Environment						E+	Weakening
Economic Stability					x		
Integrity and Corruption					x		
Legal System				x			
Financial Factors (30%)						B-	
Factor: Profitability						A	Weakening
PPP % Avg RWA - Basel I	5.28%						
Net Income % Avg RWA - Basel I	4.50%						
Factor: Liquidity						C	Weakening
(Mkt funds-Liquid Assets) % Total Assets		-2.14%					
Liquidity Management				x			
Factor: Capital Adequacy						A	Weakening
Tier 1 ratio (%) - Basel I	17.75%						
Tangible Common Equity / RWA - Basel I	17.75%						
Factor: Efficiency						D	Weakening
Cost/income ratio				68.64%			
Factor: Asset Quality						B+	Weakening
Problem Loans % Gross Loans		1.50%					
Problem Loans % (Equity + LLR)	3.60%						
Lowest Combined Score (9%)						C	
Economic Insolvency Override						Neutral	
Aggregate Score						D	
Assigned BFSR						D-	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non public information

[2] - A blank score under Earnings diversification or Corporate Governance indicates the risk is neutral

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