

Ratings

Category	Moody's Rating
Outlook	Negative
Bank Deposits	Ba2/NP
Bank Financial Strength	D
Senior Unsecured	Ba2
Subordinate	Ba3

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Key Indicators

Promsvyazbank	[1]2009	2008	2007	2006	2005	Avg.
Total Assets (US\$ million)	15575.85	15718.00	11946.67	6856.41	3854.35	10790.26
Shareholders' Equity (US\$ million)	1254.10	1342.69	1127.76	697.88	406.17	965.72
Return on Average Assets	-0.13	0.41	1.56	1.78	2.02	1.13
Recurring Earnings Power [2]	4.45	4.20	3.21	2.99	3.23	3.62
Net Interest Margin	6.43	7.01	5.88	5.49	4.93	5.95
Cost/Income ratio (%) [3]	39.04	43.88	51.29	55.56	52.93	48.54
Problem Loans % Gross Loans	13.10	2.84	0.45	0.33	0.35	3.41
Equity % Assets	8.05	8.54	9.44	10.18	10.54	9.35

[1] As of December 31. [2] Preprovision income % average assets. [3] Non-Interest Expense % Operating Income.

Opinion

SUMMARY RATING RATIONALE

Moody's assigns a Bank Financial Strength Rating (BFSR) of D to Promsvyazbank (PSB), which translates into a Baseline Credit Assessment (BCA) of Ba2. The rating reflects: (i) the bank's entrenched market franchise in the corporate segment, along with some diversification of its business to the SME and retail segments, (ii) its significant geographical diversification, with a sizeable portion of business volume attributable to the regional network, (iii) favourable liquidity profile and sound liquidity management; and (iv) the bank's well-diversified operational income sources and strong cost-efficiency metrics.

The factors constraining PSB's ratings are: (i) the bank's modest capital levels; (ii) significant deterioration of PSB's

asset quality exerting negative pressure on its bottom-line profitability and capitalisation levels; and (iii) the significant single-name concentration of the bank's loan book.

PSB's Global Local Currency (GLC) deposit ratings of Ba2 (negative outlook)/ Not Prime do not incorporate any element of systemic support given the bank's relatively low social importance in the context of the overall Russian economy. Nor do PSB's deposit ratings factor in any support from the bank's shareholders. Although such support can not be ruled out, its scope and timeliness are uncertain, in Moody's view. PSB's GLC deposit ratings, therefore, are based solely on its BCA.

Credit Strengths

- Solid and sustainable market positions in corporate banking and longstanding business relationships with a variety of large corporate clients
- Diversification to retail and SME segments, as well as good geographic expansion of the business over the recent years
- Healthy pre-provision profitability underpinned by diversified revenue streams
- Favourable cost-efficiency indicators
- Stable and well-diversified funding base and sound liquidity management

Credit Challenges

- The still significant single-name concentration of the bank's loan book
- Capitalisation levels, albeit boosted by a new capital increase, are still modest
- Deteriorating asset quality indicators weigh negatively on PSB's bottom-line profitability and capitalisation levels

Rating Outlook

All of PSB's global scale ratings carry a negative outlook reflecting Moody's concerns about the bank's historically modest capital level, which is further suppressed by the still deteriorating asset quality.

What Could Change the Rating - Up

As PSB's ratings carry a negative outlook, their upgrade is a remote possibility in the foreseeable future.

What Could Change the Rating - Down

Although a new capital injection completed in February 2010 somewhat eased negative pressure on PSB's ratings, Moody's will continue to monitor the potential impact of PSB's weakening asset quality and the volume of its related party business on the bank's economic capitalisation metrics. In the event of worsening of any of the above rating factors, PSB's ratings may be downgraded.

Recent Results and Company Events

As of YE2009 PSB reported total IFRS assets of RUB471 billion (US\$15.6 billion) compared to RUB462 billion (US\$15.7 billion) a year earlier, equity declined to RUB38.2 billion (US\$1.26 billion) from RUB40.0 billion (US\$1.36 billion). In 2009 PSB reported IFRS loss of RUB626 million (\$US21 million) compared to net profit of RUB1.56 billion (US\$53 million) for the previous reporting period.

In February 2010 PSB completed a new share issue in the amount of RUB5.4 billion (including RUB1.5 billion transfer from Tier 2 to Tier 1 capital and remainder being fresh capital injection). As a result of this share issue, European Bank for Reconstruction and Development (EBRD) became a new shareholder of PSB holding an 11.75% stake, while another minority shareholder - Commerzbank (CB) - maintained its 15.32% share in the bank.

In the course of 2009 PSB increased its stakes in two regional banks, Volgoprombank and Nizhny Novgorod Bank, to 100% in both banks (YE2008 stakes: 95.5% and 85.1%, respectively). PSB's stake in another small regional bank - Yarsotsbank - was increased to 61.9% (from 51.3% a year earlier) in 2009 and further to 98.54% in early 2010.

DETAILED RATING CONSIDERATIONS

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

Bank Financial Strength Rating

Moody's assigns a BFSR of D to PSB, which translates into a BCA of Ba2. The rating reflects: (i) the bank's entrenched market franchise in the corporate segment, along with some diversification of business to the SME and retail segments, (ii) its significant geographical diversification, with a sizeable portion of business volume attributable to the regional network, (iii) favourable liquidity profile and sound liquidity management; and (iv) the bank's well-diversified operational income sources and strong cost-efficiency metrics.

The factors constraining PSB's ratings are: (i) the bank's modest capital levels; (ii) significant deterioration of PSB's asset quality exerting negative pressure on its bottom-line profitability and capitalisation levels; and (iii) the significant single-name concentration of the bank's loan book.

As a point of reference, the assigned BFSR is at the same level as the D outcome of Moody's bank financial strength scorecard.

Qualitative Rating Factors (70%)

Factor 1: Franchise Value

Trend: Neutral

As of YE2009 PSB ranked 10th in terms of assets and 12th in terms of own capital by Interfax. The bank has been historically strong in corporate banking, having established longstanding partnership with a large number of mid-and upper-mid-size companies, and also serving some of Russian top-100 names. PSB's corporate banking activities are fairly well diversified with it offering a full range of services to its clients; in particular, PSB is a recognised leader in factoring, holding one third of Russia's total factoring market, and a visible player in international trade finance business.

In 2009 corporate segment remained PSB's major business line accounting for 46% of the bank's total assets (54% of total operating income), a slight decline from 51% share of assets (55% of operating income) as of YE2008 due to the overall growth of portion of liquid assets (including securities portfolio) on the bank's balance sheet. PSB also actively develops SME business line: although this business line is still not sizeable accounting for 4% to total assets at both YE2009 and YE2008, its contribution to the bank's operating income increased to 8.6% in 2008 from 3.2% a year earlier. New retail lending was frozen throughout 2H 2008-2009 due to a surge in problem loans in this segment. At the same time, PSB increased its share of private deposits, building upon its expanded geographical presence and recognised brand name. Its retail deposits almost doubled in 2009 and their portion in total customer accounts increased to 33% at YE2009 from 23% a year earlier.

The wide-spread distribution network was maintained throughout the crisis (49 branches and 114 full-service sub-branches at YE2009), although a small number of non-core outlets was closed to preserve cost-efficiency. As regards operations offshore, PSB has a branch in Cyprus and representative offices in China, India and Ukraine.

PSB's investment banking business line mainly targets fee-generating products (e.g. debt origination, corporate finance, consulting) to meet the demands of its corporate clients.

We believe that PSB will be able to maintain and entrench its share of corporate banking segment going forward, including SME lending, while retail operations will be out of focus in the short to medium term. PSB deserves a D score for franchise value.

Factor 2: Risk Positioning

Trend: Neutral

PSB is beneficially owned by brothers Dmitry and Alexey Ananievs (who together control 72.93% of the bank's shares on a parity basis). Commerzbank (CB) and EBRD hold 15.32% and 11.75% stakes, respectively. Currently, the minority shareholders have no representatives on PSB's board, but two out of seven board members are independent directors. EBRD is expected to nominate its representative to the bank's board in the near future.

The risk management and control procedures at PSB are generally robust and subject to ongoing improvements involving upgrades of IT applications and risk analysis approaches. Notwithstanding the generally healthy corporate governance structures, we observe some increase in the level of related-party lending to 3.22% of the gross loan portfolio or 27% of Tier 1 capital as at YE2009 from 2.58% and 22%, respectively, at YE2008.

PSB's focus on larger corporate customers leads to significant single-party concentrations in the loan book.

As at YE2009, the 20 largest customer exposures accounted for 28% of the gross loan book or 235% of Tier 1 capital (YE2008: 26% and 224%, respectively). Servicing top-notch corporate clients remains a strategic priority for PSB, however, we note that in today's deteriorating operating environment even companies deemed to be financially strong encounter prolonged financial difficulties, hence the high level of credit concentration may bear additional risks at times of distress.

The largest industry exposure - to real estate and construction sectors (considered by Moody's jointly, since we see a high correlation between the two, and both have been particularly affected by the crisis) - slightly declined to 13% of the total loan book and 111% of Tier 1 capital at YE2009 from 16% and 136%, respectively, at YE2008, but still raises concerns, as the tenors of loans granted to this sector are particularly long and subject the bank's loan quality to protracted negative market developments. The credit exposure to wholesale trade (which is itself fairly well diversified) at the level of 12% of the total loan book looks less worrying.

PSB's proprietary trading position is historically modest and is aligned with liquidity management, whereby the bank maintains a portfolio of predominantly fixed income (and mostly repoable) instruments to keep better balance between liquidity and profits-generation. Similar to the majority of other large Russian banks in 2009, PSB's augmenting of its liquidity cushion, coupled with the growth of securities market indices, led to an increase of the portion of its securities portfolio in the total assets: this accounted for 10% at YE2009 compared to 5% a year before. Majority of these investments are marked-to-market, which may entail material trading losses in case of the market indices going down.

The unadjusted score for risk positioning is D, which we maintain together with a neutral trend.

Factor 3: Regulatory Environment

All Russian banks are subject to the same score on the regulatory environment. This factor does not address bank-specific issues; instead, it evaluates whether regulatory bodies are independent and credible, demonstrate enforcement powers and adhere to global standards of best practices for risk control. Refer to Moody's Banking System Outlook for Russia, published in October 2009, to obtain a detailed discussion on the regulatory environment.

Factor 4: Operating Environment

Trend: Neutral

This factor is also common to all Russian banks. Moody's assigns an E+ score for the overall operating environment. Refer to Moody's Banking System Outlook for Russia, published in October 2009, to obtain a detailed discussion on the operating environment.

Quantitative Rating Factors (30%)

Factor 5: Profitability

Trend: Weakening

PSB's pre-provision income is adequate with recurring earning power having increased to 4.45% in 2009 from 4.20% for the previous year. At the same time, the bottom-line result is negative: RUB626 million (\$US21 million) loss in 2009 compared to net profit of RUB1.56 billion (US\$53 million) for the previous reporting period. The surge in loan loss provisioning was the major reason for 2009 losses, as well as 2008 weak profitability, as the bank had to charge provision expenses of 61% and 47%, respectively, of its total operating income in these two accounting periods.

Overall, the sources of PSB's earnings are well-diversified. Net interest income accounts for 75% of total operating income, with the net interest margin (NIM) having narrowed just slightly to 6.43% in 2009 from 7.01% in 2008, a healthy result compared to banking system average and taking into account PSB's relatively conservative product mix. At the same time, we expect to see some further shrinkage of margin in 2010, as the decline in funding costs lags behind that of lending rates. Fee-and-commission income provides another stable income stream of 16% of total operating income, although we are of the opinion that a further increase in the share of fee-based income can be achieved.

We expect PSB's bottom-line profitability to be close to break-even point in 2010, as the negative pressure by provisioning charges will persist. The bank's proprietary trading book may also bring losses in case of further significant shocks on securities markets, which can not be ruled out in today's volatile operating environment. We maintain a C+ outcome for profitability generated by the scorecard and attach to it a weakening trend.

Factor 6: Liquidity

Trend: Neutral

Thanks to its established positions in the corporate segment and on the wholesale money markets, both domestic and international, PSB is benefiting from its diversified liabilities structure. In 2009 the bank augmented its corporate and - in particularly - retail deposit base, which replaced market borrowings having matured during this period. As a result, PSB's net loan to deposit ratio achieved a comfortable level of 103% at YE2009 down from 125.5% at YE2008. The concentration of large customer accounts and deposits still remains an issue: the top-10 customer deposits comprised 32% of the total as at YE2009, slightly down from 38% a year earlier.

Similar to the whole banking sector in Russia, PSB demonstrates excessive liquidity with one third of its assets being held in liquid assets, and we do not envisage any upcoming refinancing or liquidity issues for 2010, unless abnormal macroeconomic stresses arise. Liquidity scores C, neutral trend.

Factor 7: Capital Adequacy

Trend: Weakening

PSB's capital adequacy has been historically modest. The bank's Basel 1 Tier 1 and total CAR ratios were 9.91% and 14.32% at YE2009 (YE2008: 9.70% and 13.14%, respectively). A new capital in the amount of 5.4 billion (including RUB1.5 billion transfer from Tier 2 to Tier 1 capital) injected by EBRD and CB somewhat boosted PSB's capital levels, providing also some leeway to include more Tier 2 capital to total CAR (PSB placed US\$200 million subordinated Eurobonds in late 2009). That said, we believe that the weakening profitability and the still deteriorating asset quality will continue to weigh negatively on the bank's capital levels. We maintain a B+ score for capital adequacy, as generated by the scorecard, along with a negative trend.

Factor 8: Efficiency

Trend: Neutral

So far PSB has been successful in curbing its operating expenses to the level fairly good for a country-wide universal bank: the cost-to-income ratio was 39% in 2009 down from 44% in 2008 and 51% in 2007; the ratio of operating expenses to average assets was 2.85% in 2009, more than 1.5 times covered by recurring earning power of 4.45% for the same period. Going forward, we expect this trend to be largely preserved given the bank's specific focus on operational efficiency, similar to the majority of its competitors adopting cost-reduction strategies for the period of low cycle in local economy. Therefore, we believe the score for cost efficiency of A, together with a neutral trend, is a fair measure of the bank's position in respect to this factor.

Factor 9: Asset Quality

Trend: Weakening

Similar to the whole banking sector, throughout 2009 we were witnessing a strong weakening trend in the quality of PSB's corporate and retail loan books. Corporate and SME loans with the signs of impairment soared to 24.5% of total corporate and SME loans as at YE2009, up from just 9.0% at YE2008, with the loan loss provision (LLP) being at the level of 10.51% and 4.57%, respectively. Retail loans quality is also quickly deteriorating with the share of 90+ delinquent loans having increased to 33.8% of gross retail loans at YE2009 from 10.6% at YE2008. The deteriorating trend was particularly visible on the background of shrinkage of the retail loan book which decreased by almost 20% during the year. Loan loss provision accumulated with respect to retail loans (27.15% at YE2009 up from 12.47% a year earlier) looks reasonable, as it covers 90+ delinquent loans almost in full.

In addition to impaired loans, PSB reports problem loans that comprise - in accordance the bank's definition - loans with principal and/or interest overdue by more than 90 days and loans restructured as a result of the borrowers' inability to repay. This accounted for 12.3% and 2.8% at YE2009 and YE2008, respectively. On top of that, PSB said that at YE2009 approximately 30% of the corporate loan book was rescheduled (as management asserts, due to relationship management considerations) and circa 4.5% of the corporate loans were renegotiated (while otherwise they would become past due). We are of the opinion that any of the two above named loan categories (rescheduled and/or renegotiated) are at risk of their sizeable portions migrating to problem loan category.

We attach a weakening trend to a D+ score generated by the BFSR scorecard.

Global Local Currency Deposit Rating (Joint Default Analysis)

PSB's Ba2 (negative outlook) /Not Prime global local currency deposit ratings are directly linked to the bank's BCA

and do not incorporate any element of government support, given that the bank's systemic importance for the Russian banking system and economy is relatively modest.

The likelihood of support, in case of need, from the bank's shareholders cannot be ruled out; however, the timeliness and scope of such support are uncertain. Therefore, parental support has not been factored into PSB's ratings to date.

Notching Considerations

PSB's senior unsecured debt ratings are at the same level as its GLC deposit rating, while the bank's subordinated debt ratings are notched off its GLC deposit rating.

Foreign Currency Deposit Rating

The Ba2 (negative outlook) /Not Prime foreign currency deposit ratings of PSB factor in the foreign currency transfer risk. PSB's Ba2 (negative) /NP foreign currency deposit ratings are at the same level as its GLC deposit ratings and are not constrained by Russia's country ceiling for foreign currency deposits.

Foreign Currency Debt Rating

PSB's senior unsecured foreign currency obligations are rated Ba2 (negative outlook) and the bank's subordinated foreign currency obligations are rated Ba3 (negative outlook).

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 the event of a stress situation 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. AAaa 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

Promsvyazbank

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						D	Neutral
Corporate Governance [2]				x			
- Ownership and Organizational Complexity							
- Key Man Risk				x			
- Insider and Related-Party Risks				x			
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+	Neutral

Economic Stability					x		
Integrity and Corruption					x		
Legal System				x			
Financial Factors (30%)						C+	
Factor: Profitability						C+	Weakening
PPP % Avg RWA- Basel I	4.68%						
Net Income % Avg RWA- Basel I				0.68%			
Factor: Liquidity						C	Neutral
(Mkt funds-Liquid Assets) % Total Assets			6.62%				
Liquidity Management			x				
Factor: Capital Adequacy						B+	Weakening
Tier 1 ratio (%) - Basel I		9.67%					
Tangible Common Equity / RWA- Basel I	9.67%						
Factor: Efficiency						A	Neutral
Cost/income ratio	44.74%						
Factor: Asset Quality						D+	Weakening
Problem Loans % Gross Loans				5.46%			
Problem Loans % (Equity + LLR)			23.54%				
Lowest Combined Score (9%)						D+	
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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