

Credit Opinion: Ringkjøbing Landbobank A/s

Ringkjøbing Landbobank A/s

Denmark

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	A1/P-1
Bank Financial Strength	C+

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Key Indicators

Ringkjøbing Landbobank A/s

	[1]2007	2006	2005	2004	2003	Avg.
Total assets (DKK billion)	17.83	17.27	13.36	9.46	7.53	--
Total assets (EUR billion)	2.40	2.32	1.79	1.27	1.01	--
Total capital (DKK billion)	2.23	2.19	1.72	1.37	1.15	--
Return on average assets	2.16	2.82	2.32	2.52	3.06	2.68
Recurring earnings power [2]	2.65	3.29	3.12	3.63	4.46	3.63
Net interest margin	2.72	2.90	3.16	4.09	4.28	3.61
Cost/income ratio (%)	32.76	29.25	34.77	37.42	32.64	33.52
Problem loans % gross loans	0.11	0.16	0.34	0.25	0.41	0.29
Tier 1 ratio (%)	12.70	10.40	11.60	12.20	15.10	12.33

[1] As of June 30. [2] Preprovision income % average assets

Opinion

SUMMARY RATING RATIONALE

Moody's assigns a C+ Bank Financial Strength Rating (BFSR) to Ringkjøbing Landbobank A/S, which translates into Baseline Credit Assessment of A2. The rating reflects the Danish bank's strong intrinsic financial strength, solid regional presence and good financial fundamentals. The rating also takes into account the bank's challenges such as borrower concentration and exposure to the wind turbines sector.

Ringkjøbing Landbobank A/S is among the 15 largest banking group in Denmark, with total assets of DKK19.6 billion (EUR 2.63 billion) at 3Q 2007. Headquartered in Ringkøbing in western Denmark, the bank is a full-service regional bank, and has a total of 16 branches and 278 full-time employees at 3Q 2007. The bank's core operations concentrate on corporate, SME and retail banking as well as specialised/niche products, in particular financing of wind turbines and private banking.

Moody's believes that the probability of systemic support for Ringkjøbing Landbobank is moderate, given the strong regional franchise, which results in a one-notch uplift in the deposit ratings to A1/Prime-1 from the A2 Baseline Credit Assessment.

Thus the deposit and debt ratings of Ringkjøbing Landbobank incorporate three elements: (1) the bank's BFSR of

C+, (2) Moody's assessment of a moderate probability of systemic support (a component of joint-default analysis, referred to as JDA), and (3) the seniority of its deposits and debt.

Credit Strengths

- Strong local brand in western Jutland region
- Stable and healthy earnings from core operations
- High operating efficiency
- Good asset quality and strong capitalisation

Credit Challenges

- Maintaining profitability levels
- Preserving asset quality across the economic cycle
- Reducing borrower concentration
- Reducing reliance on interbank funding
- Concentrated exposure to the wind turbine sector
- Further integration and upgrade of risk management practices

Rating Outlook

All the ratings of Ringkjøbing Landbobank have a stable outlook.

What Could Change the Rating - Up

The BFSR may face positive rating pressure should there be an improvement in the bank's risk positioning due to a reduction in borrower concentration, improvement in liquidity as well as risk management practices. The Global Local Currency (GLC) rating could be upgraded if (a) the BFSR is upgraded and/or (b) the level of systemic support increases.

What Could Change the Rating - Down

A downgrade of Ringkjøbing Landbobank's BFSR would likely be triggered by any material franchise erosion or increase in risk appetite - whether market or credit. The GLC rating could be downgraded if systemic support decreases.

Recent Results and Developments

Ringkjøbing Landbobank recorded a pre-tax profit of DKK358.2 million in 3Q 2007, a 20% decline from DKK450.5 million at 3Q 2006. Although the bank's net interest income increased by 19% to DKK345.9 million, and net fee and commissions increased by 14% to DKK129.9 million, the results were negatively affected by a decrease in the capital gains on securities in the bank's investment portfolio to DKK14.5 million at 3Q 2007 from a capital gain of DKK99.1 million at 3Q 2006. Furthermore, operational expenses increased by 14% and income from provision write-backs declined to DKK14.1 million at 3Q 2007 from DKK69.7 million at 3Q 2006.

Ringkjøbing Landbobank reported total assets of DKK19.6 billion at 3Q 2007, an increase from DKK14.5 billion at 3Q 2006. Total capital and Tier 1 ratios were 13.9% and 12.3%, respectively, at 3Q 2007, compared to 14.2% and 12.2% at 3Q 2006. Earnings as of 3Q 2007 is included in the Tier 1 ratio.

DETAILED RATING CONSIDERATIONS

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

Bank Financial Strength Rating

Moody's believes the assigned C+ rating is an appropriate measure of the bank's intrinsic financial strength, given

the improving financials of the past three years and the continuing good operating and regulatory environments in Denmark.

Key positive elements driving the rating are the bank's solid financial fundamentals - in particular good profitability and operating efficiency. In addition, the BFSR reflects Ringkjøbing Landbobank's sturdy regional positioning.

Key negative elements constraining Ringkjøbing Landbobank's BFSR are the bank's limited national market share, high credit risk concentration, as well as concentrations into financing niche sectors.

As a point of reference, the assigned rating of C+ is in line with the outcome of Moody's bank financial strength scorecard.

Qualitative Factors (50%)

Factor 1: Franchise Value

Trend: Neutral

Ringkjøbing Landbobank's franchise value score integrates the fact that the bank is one of the 15 largest banking groups in Denmark, in terms of asset size (DKK19.6 billion at 3Q 2007). The bank is headquartered in Ringkjøbing, and its main region of operation is the western Jutland region of Denmark.

The bank is a full-service regional bank, with a total of 16 branches, and 278 full-time employees at 3Q 2007. The bank's core operations can be divided into three business areas: (1) the older branches in the local area of western Jutland, which focus on the bank's retail and corporate customers, (2) the newer branches in the central Jutland towns of Herning, Holstebro and Viborg which focus on retail customers and to a lesser extent corporate customers, and (3) the distance banking department which concentrates on private banking and asset management, but more importantly on niche product financing such as wind turbines, doctors in private practice, first-priority financing of lending properties, and financing purchases of vacation homes. The niche services have operations in Denmark as well as abroad, mainly in Germany, Spain and France.

Moody's views Ringkjøbing Landbobank's entrenched regional presence as an important factor underpinning its ratings. At 1H 2007 the bank held a market share of close to 50% - for both corporate and retail lending, in its core region of western Jutland. Moody's notes that although the area in which the bank operates is the largest local government area in Denmark in terms of size, the population is sparse and also competitive pressure is strong in Denmark. Ringkjøbing Landbobank's country-wide market share in retail lending is estimated to be close to 1%. Overall, the bank enjoys a well established market position, but also lacks geographical diversification, both factors owing to the bank having significant operations in the "local" market of western Jutland.

Around 55% of the bank's loan portfolio is classified as retail, 13% is corporate, and the remainder is specialised lending, and in particular financing for wind turbines, most of which carry state guarantees. Moody's views the earnings driven by corporate and specialised lending as less predictable in the long term than earnings from retail-based lending, but nonetheless we consider that the overall stability of earnings of Ringkjøbing Landbobank is satisfactory and fares well in comparison to its domestic peers.

A franchise value score of D+ reflects our view of the bank's strong regional presence, moderate position nationwide, and satisfactory earnings stability.

Factor 2: Risk Positioning

Trend: Neutral

Ringkjøbing Landbobank does not have any corporate governance issues and the bank operates in accordance with the general guidelines set forth by the Copenhagen Stock Exchange. The bank is owned by over 17,000 shareholders (most of which are customers) with Denmark's largest pension fund, ATP, its largest shareholder, owning a stake of over 5%. Approximately 65% of the share capital is owned by private investors, 24% is owned by Danish institutional investors, and foreign investors own 11%. Under the bank's Articles of Association, "a shareholding of up to and including nom. DKK500 carries one vote, and shareholdings exceeding that level carry two votes". These limitations would make a hostile takeover extremely expensive and thus highly unlikely; however, this protection has not led to a relaxed management style or a departure from its prudent risk management. Although the bank has an independent Chief Risk Officer, and risk management practices are adequate for the level and type of risk in the bank, the risk systems and procedures lack the sophistication of other regional players in the Nordic region. In addition, operating in and being supportive to its small operating region means that the bank has relatively large customer exposures when compared to its European peers.

Loans to households amount to 49% of Ringkjøbing Landbobank's loan portfolio. As with most Danish regional and local banks, Ringkjøbing Landbobank can secure its mortgage loan financing via the specialised mortgage lenders Totalkredit/Nykredit and DLR.

Corporate exposures are well diversified and also several of these exposures would not be determined corporate exposures under the Basel II framework. However, Ringkjøbing Landbobank has a significant franchise in providing financing for wind turbines and as a provider of other niche products.

The largest single industry segment in Ringkjøbing Landbobank's corporate portfolio is credit and financial intermediation and insurance business which is 7.7% of the total loan portfolio, and 79% of the bank's core capital which is satisfactory in terms of industry concentration. Borrower concentration is high although Moody's notes that the concentrations are mitigated by prudent collateral. Ringkjøbing Landbobank has a sizeable franchise in providing financing for wind turbines, an area in which the bank has over 20 years' experience. The sale and marketing of niche products has in recent years been a highly profitable segment due to low overhead costs and no major loan losses.

The bank's liquid assets amounted to DKK5.4 billion at 3Q 2007, an increase from DKK4.3 billion at year-end 2006. Average liquid assets as a percentage of average total assets was 24% at 1H 2007 (a stable trend over the past years), which compares favourably with levels for the bank's Nordic peers. In addition, the bank has confirmed credit facilities worth of DKK1.3 billion, which are not normally used.

The bank's funding structure at 3Q2007 is divided between customer deposits (51% of total funding), interbank funding (35% of total funding) and long-term market funding (14% of total funding). The level of interbank funding has been decreasing; however, it is still at a high level and may add some volatility to the bank's overall funding structure. Moody's will continue to monitor the bank's efforts to change its funding structure towards more long-term funding.

No adjustments have been made to D score for risk positioning.

Factor 3: 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 forthcoming Banking System Outlook on Denmark for an analysis of the country's regulatory environment.

Factor 4: Operating Environment

Trend: Neutral

This factor is common to all Danish banks. Moody's assigns an A for overall operating environment which includes economic stability, integrity and corruption, and the legal system. Refer to Moody's forthcoming Banking System Outlook on Denmark for an analysis of the country's operating environment.

Quantitative Factors (50%)

Factor 5: Profitability

Trend: Neutral

Ringkjøbing Landbobank recorded a pre-tax profit of DKK358.2 million in 3Q 2007, a 20% decline from DKK450.5 million at 3Q 2006. At 1H 2007 the bank's profitability as measured by pre-provision income as a percentage of average risk-weighted assets stood at 3.03% and it has been steadily declining since 2003 when it was 4.64%. Although the profitability ratio has been steadily declining in recent years, the ratio was relatively high compared to its peers, which is a testament to the bank's expanding loan book which has provided the mitigation needed when net interest margins have been squeezed. In addition, the bank's consistently high profitability ratio has been sustained due to the highly profitable niche segment (wind turbines), which has low overhead costs.

At 3Q 2007, net interest income as a percentage of total operating income lingered between 65% and 70%, a trend that has, on the one hand, been stable over the last couple of years. Net interest margins on the other hand have been declining since 2003 from around 4.3%, to around 3% at 1H 2007.

Fee and commissions income have been experiencing a positive trend, and were about 30% of total operating income at 3Q 2007. At 3Q 2007 write back of provisions amounted to DKK14 million, while at 3Q 2006 the figure was DKK70 million.

Overall, Moody's maintains a neutral stance as regards the bank's profitability and we believe the B+ score is adequate for the bank's profitability.

Factor 6: Liquidity

Trend: Neutral

Around 24% of the bank's assets are liquid as a proportion of total assets. In addition, as with most Danish regional and local banks, Ringkjøbing Landbobank can secure its mortgage loan financing via the specialised mortgage lenders Totalkredit/Nykredit and DLR.

The bank's funding structure at 3Q 2007 is divided between customer deposits (51% of total funding), interbank funding (35% of total funding) and long-term market funding (14% of total funding).

The steady increase in gross loans over the last couple of years has prompted the need for increased interbank funding and bilateral long-term loans, with the trend being away from deposits and more reliance on interbank funding. However, the bank is working on increasing its funding profile and Moody's will continue to monitor the existing funding trends of Ringkjøbing Landbobank, especially considering the volatility of interbank funds.

The bank's liquid assets amounted to DKK5.4 billion at 3Q 2007, an increase from DKK4.3 billion at year-end 2006. Average liquid assets as a percentage of average total assets was 24% at 1H 2007, which compares favourably with levels for the bank's Nordic peers. In addition, the bank has confirmed credit facilities worth of DKK1.3 billion, which are not normally used.

Moody's views a score of C- as appropriate for bank's liquidity.

Factor 7: Capital Adequacy

Trend: Neutral

The capital adequacy ratios have been stable over recent years, partly helped by a DKK200 million hybrid core capital loan in 2005 and a DKK300 million subordinated loan in 2006.

Total capital and Tier 1 ratios were 13.9% and 12.3%, respectively, at 3Q 2007 (including 3Q 2007 profit), compared to 14.2% and 12.2% at 3Q 2006. Ringkjøbing Landbobank's preparation to implement the standard method for measuring credit risk under Basel II and this may lead to an improvement in the bank's capital ratios.

The bank scores A for capital adequacy.

Factor 8: Efficiency

Trend: Weakening

Ringkjøbing Landbobank's cost efficiency is one of the best in Denmark. The bank cost-to-income ratio was 33% at 1H 2007, a slight deterioration from 29% at year-end 2006. Furthermore, operating expenses as a percentage of average assets have been declining steadily over the years and was 1.29% at 1H 2007, among the best in Denmark. However, Moody's expects this strong efficiency to weaken as the bank upgrades its risk management practices and thereby the add-on costs.

The bank scores A for efficiency.

Factor 9: Asset Quality

Trend: Neutral

Ringkjøbing Landbobank demonstrates strong asset quality. A key positive aspect is that problem loans as a proportion of gross loans was 0.25% for the period 2004-2006. However, Moody's sees the rapid loan growth of around 28% over the past years as a challenge for the bank's asset quality, going forward.

The amount of problem loans as well as their coverage by reserves has maintained considerably strong levels over the past three years, especially keeping in mind that a large part of the portfolio has good quality collateral. Going forward, we view Ringkjøbing Landbobank's ability to further reduce sector- and single-name concentration as an important rating driver, combined with demonstration that loan growth will not impair the asset quality, and therefore Moody's holds a neutral view on the bank's asset quality.

Given this, we believe that a score of A is appropriate for asset quality.

Global Local Currency Deposit Rating (Joint Default Analysis)

Ringkjøbing Landbobank's long-term global local currency (GLC) deposit and debt ratings are at the A1 level. These incorporate the following main elements: (1) its Baseline Credit Assessment, and (2) Moody's opinion on the

probability of systemic support for this bank.

In light of its position in the Danish market, Moody's believes that the probability of systemic support for Ringkjøbing Landbobank in the event of a financial crisis is moderate.

Under Moody's joint default analysis (JDA) methodology, the above-mentioned considerations result in a one-notch uplift in the deposit ratings to A1 from the A2 Baseline Credit Assessment. Moody's assigns a GLC deposit rating of A1 for Ringkjøbing Landbobank.

Foreign Currency Deposit Rating

The Foreign Currency Deposit ratings of Ringkjøbing Landbobank are unconstrained given that Denmark, in common with other EU members, has a country ceiling of Aaa. The Foreign Currency Deposit ratings of Ringkjøbing Landbobank are A1.

Foreign Currency Debt Rating

The Foreign Currency Debt Rating's ratings of Ringkjøbing Landbobank are unconstrained given that Denmark, in common with other EU members, has a country ceiling of Aaa. The Foreign Currency Debt Rating's ratings of Ringkjøbing Landbobank are A1.

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 Credit 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. 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

Ringkjøbing Landbobank A/s

Rating Factors [1]	A	B	C	D	E	Total Score	Trend
Qualitative Factors (50%)						C-	
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]							
- 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	--	--	--	--	--		
- Borrower Concentration	--	--	--	--	--		
- Industry Concentration	--	--	--	--	--		
Liquidity Management			x				
Market Risk Appetite			x				
Factor: Operating Environment						A	Neutral
Economic Stability	x						
Integrity and Corruption	x						
Legal System	x						
Financial Factors (50%)						B	
Factor: Profitability						B+	Neutral

PPP % Avg RWA		3.33%					
Net Income % Avg RWA	2.55%						
Factor: Liquidity						C-	Neutral
(Mkt funds-Liquid Assets) % Total Assets				13.95%			
Liquidity Management			x				
Factor: Capital Adequacy						A	Neutral
Tier 1 ratio (%)	11.40%						
Tangible Common Equity % RWA	11.80%						
Factor: Efficiency						A	Weakening
Cost/income ratio	33.81%						
Factor: Asset Quality						A	Neutral
Problem Loans % Gross Loans	0.25%						
Problem Loans % (Equity + LLR)	1.24%						
Lowest Combined Score (15%)						C-	
Economic Insolvency Override						Neutral	
Aggregate Score						C+	
Assigned BFSR						C+	

- [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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