

Credit Opinion: Banco De Valencia S.A.

Banco De Valencia S.A.

Valencia, Spain

Ratings

| Category | Moody's Rating |
|-------------------------------|-----------------------|
| Outlook | Negative |
| Bank Deposits | A3/P-2 |
| Bank Financial Strength | C- |
| Senior Unsecured -Dom Curr | A3 |
| Subordinate -Dom Curr | Baa1 |
| BVA Preferentes, S.A. | |
| Outlook | Negative |
| Bkd Preferred Stock -Dom Curr | Baa2 |

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Key Indicators

Banco De Valencia S.A.

| | [1]2007 | 2006 | 2005 | 2004 | 2003 | Avg. |
|------------------------------|---------|-------|-------|-------|-------|----------|
| Total assets (EUR billion) | 19.63 | 15.86 | 12.23 | 9.73 | 7.59 | [2]24.34 |
| Total capital (EUR billion) | 1.94 | 1.41 | 1.13 | 0.93 | 0.64 | [2]30.09 |
| Return on average assets | 0.76 | 0.80 | 0.87 | 0.89 | 1.04 | 0.87 |
| Recurring earnings power [3] | 1.54 | 1.44 | 1.62 | 1.75 | 2.14 | 1.70 |
| Net interest margin | 1.89 | 1.86 | 2.01 | 2.28 | 2.90 | 2.19 |
| Cost/income ratio (%) | 39.47 | 42.15 | 43.13 | 44.52 | 43.66 | 42.59 |
| Problem loans % gross loans | 0.61 | 0.42 | 0.45 | 0.61 | 0.56 | 0.53 |
| Tier 1 ratio (%) | 7.22 | 6.13 | 5.85 | 6.42 | 5.40 | 6.20 |

[1] As of December 31. [2] Compound annual growth rate. [3] Preprovision income % average assets.

Opinion

SUMMARY RATING RATIONALE

Moody's assigns a bank financial strength rating (BFSR) of C- to Banco de Valencia, which translates into a Baseline Credit Assessment (BCA) of Baa1. The rating reflects the bank's good franchise in the Autonomous Region of Valencia, low market risk appetite and strong efficiency levels. However, the BFSR also reflects the bank's tight liquidity position (with a high reliance on short-term funding), high credit risk concentration to the real estate and construction sectors and deteriorating asset quality indicators (although these compare favourably with the system's average).

Banco de Valencia's long-term global local currency (GLC) deposit rating of A3 receives a one-notch uplift from the Baa1 BCA. This reflects our assessment of a moderate probability of support for the bank from its parent, Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja, rated A2/P-1/C). Bancaja fully consolidates Banco de Valencia in its accounts via the 70%-owned Bancaja Inversiones, the holding company that groups together Bancaja's shareholdings in listed companies including its 38.4% stake in Banco de Valencia. The rating also takes into account Moody's assessment of a moderate probability of systemic support for the bank in the event of a stress situation.

Banco de Valencia's debt ratings are A3/Prime-2.

Credit Strengths

- Good franchise in its home region of Valencia
- Limited market risk appetite
- Strong efficiency levels based on strict cost controls and synergies with its parent company, Bancaja
- Focus on retail banking adds predictability to its earnings

Credit Challenges

- Very short-term bias of market funding, mainly using interbank borrowings
- Improving its liquidity profile despite the current disruption to the capital markets
- Maintaining profitability in the context of a weaker operating environment and higher provisioning requirements, which will adversely affect bottom-line results
- High risk concentration by borrower and in the real estate and construction sectors, which are expected to continue suffering from a sharp adjustment
- Rapid increase in problem loans and deterioration in provisioning cushions

Rating Outlook

The outlook on the BFSR and the debt and deposit ratings is negative (see Recent Results and Company Events), which reflects Moody's concerns that as long as access to long-term wholesale funding is disrupted, Banco de Valencia's liquidity position will remain under pressure given its reliance on short-term financing and, more precisely, on the more volatile interbank market. In addition, the negative outlook is based on the results of the internal assessment that Moody's has developed to anticipate the probability of rating migration in case of a higher-than-predicted increase in problem loans. According to our calculations, Banco de Valencia has a vulnerability to a weakening of its financial metrics in the event of growth in problem loans.

What Could Change the Rating - Up

An upgrade of Banco de Valencia's ratings is unlikely in the medium term given the recent downgrade and the negative outlook on the ratings. Potentially, a positive rating action could be driven by the combination of the following factors: (i) significant improvement in the bank's liquidity; (ii) a reduction of its exposure to the real estate and construction sectors; (iii) lower borrower concentration in its loan portfolio; and (iv) stronger profitability indicators.

What Could Change the Rating - Down

A further downgrade could be prompted: (i) a failure to deliver significant improvements in the bank's liquidity position with a broader diversification of market funds both by tenor and instrument; (ii) a deterioration of Banco de Valencia's loss-absorption capacity, driven by a significant increase in problem loans; (iii) severe adjustments in the real estate sector to which Banco de Valencia has a large exposure; and/or (iv) an inability to maintain adequate capitalisation levels

Recent Results and Company Events

During the first three quarters of 2008, Banco de Valencia reported a consolidated net income of EUR 117.97 million (12.39% year-on-year increase). Net interest income rose by 14.21% compared with the equivalent period of 2007 to EUR 283.5 million, mainly driven by the still sound growth (+8.33%) of the bank's loan book. The non-performing loan ratio stood at 1.85% in September 2008 (compared with 0.61% in 2007) and 120.13% was provided for (vs. 315.59% at year-end 2007). As of June 2008, Banco de Valencia reported a Tier 1 ratio of 6.87% and a total capital ratio of 10.47%.

On 4 November 2008, Moody's downgraded Banco de Valencia's BFSR to C- from C and changed the outlook to stable from negative. The downgrade reflects the challenges the institution is facing due to its tight liquidity position and to the negative credit trends in Spain's operating environment. The sharp correction of the real estate sector - which is expected to continue - coupled with rising unemployment figures have adversely affected asset quality indicators. Besides, Banco de Valencia has high credit risk concentrations, both by borrower and to the real estate

industry, with a higher concentration than that of peers in segments that we consider relatively risky, such as non-mortgage-guaranteed loans to real estate developers.

Due to the downgrade of the BFSR, Banco de Valencia's deposit and debt ratings were downgraded to A3 from A2, reflecting Moody's assessment that these ratings should be aligned with the intrinsic financial strength of the bank. The outlook on both ratings is negative.

DETAILED RATING CONSIDERATIONS

Detailed considerations for Banco de Valencia's ratings are as follows:

Bank Financial Strength Rating

Moody's assigns a C- BFSR to Banco de Valencia. The rating is supported by the bank's good franchise in the Autonomous Region of Valencia, low market risk appetite and strong efficiency ratio. Key elements constraining the BFSR are the bank's high credit risk concentration to the real estate and construction sectors, deteriorating asset quality indicators (although these compare favourably with the system's average) and a tight liquidity position, with a high reliance on short-term funding sources.

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

Qualitative Factors (50%)

Factor 1: Franchise Value

Trend: Neutral

Banco de Valencia, with total assets of EUR 21.5 billion and 452 branches as of September 2008, is a medium-sized Spanish retail and commercial bank with a good business franchise in the region of Valencia. It is particularly active in the retail and small and medium-sized enterprises segment, and also lends to a few large corporates. Lending to individuals contributes more than 40% of the bank's total revenues.

It is the largest player in the Valencia region among commercial banks, with market shares as of June 2008 of 24% for deposits and 16% for loans. If we include savings banks, Banco de Valencia would rank third, after Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja, rated A2/P-1/C), the market leader and the parent company of the bank, and Caja de Ahorros del Mediterráneo (A2/P-1/C).

Valencia is a key economic region in Spain, accounting for around 10% of the population and 10% of domestic GDP. The economy is relatively diversified and includes industries such as automotive manufacturing, chemicals, textiles, furniture, ceramics, toy manufacturing and, above all, tourism. Spurred by strong competition and diminishing margins, Banco de Valencia has diversified its geographic presence to other parts of Spain over recent years, particularly along the east coast. In addition to 326 branches in the Valencia and Murcia regions, the bank now has 43 branches in Madrid, 18 in Almeria, 33 in Catalonia, and 32 in spread in Andalusia (excluding Almeria), Aragon, Navarra, La Rioja and the Balearic Islands.

For the next year, Banco de Valencia has no intention of continuing to expand its branch network and will focus on reinforcing its deposit base and prudently managing its assets in the context of deteriorating asset quality and a lending slowdown.

Banco de Valencia scores C- for franchise value.

Factor 2: Risk Positioning

Trend: Neutral

Like its domestic peers, Banco de Valencia's risk positioning is constrained by high credit risk concentrations in terms of single-group exposures and in the real estate development/construction sectors, which together represented around 39% of total lending as of June 2008. The bank also has significant exposure by borrower, which increases its vulnerability to the continued negative performance of the real estate sector in Spain. Although, to date, the bank has successfully managed to subrogate a significant percentage of all lending to developers with less risky mortgages to individuals, this exposure is a key element of risk going forward in light of the pessimistic prospects of the sector.

In terms of risk management, Banco de Valencia has adequate risk management with a satisfactory risk culture spread across the organisation and a clear separation of the risk and business functions. The bank also benefits from internal scoring and rating models. Value at Risk (VaR) is calculated on a daily basis by Bancaja, based on

Banco de Valencia's reporting. The bank has a low risk appetite, with low market risk arising from its trading and banking book.

Another important aspect of risk positioning is liquidity management. Despite having implemented a liquidity contingency plan in 2007 to reduce reliance on short-term funding (namely interbank borrowing), the situation of the capital markets has prevented Banco de Valencia from accessing long-term funding and thus diversifying its debt maturity profile away from short-dated and more volatile instruments. As long as capital markets remain closed for public debt transactions, Banco de Valencia's liquidity position will be under pressure.

The bank scores D+ for risk positioning.

Factor 3: Regulatory Environment

Refer to Moody's Banking System Outlook on Spain, published in April 2008, to obtain a detailed discussion on the regulatory environment.

Factor 4: Operating Environment

Trend: Weakening

This factor is also common to all Spanish banks. Moody's assigns a B- score for the overall operating environment. Refer to Moody's most recent Banking System Outlook on Spain, published in April 2008, to obtain a detailed discussion on the operating environment.

Quantitative Factors (50%)

Factor 5: Profitability

Trend: Weakening

With a net interest margin of 1.89% and risk-weighted recurring earnings power of 1.81% in June 2008, Banco de Valencia's profitability compares well with that of similarly rated peers.

In recent years, the pressure on margins due to strong competition has been compensated for by significant lending growth. Gross loans represented 89% of total assets as of June 2008 enabling the bank to post adequate profitability figures. Its risk-weighted assets-to-total assets ratio stood at 88% at June 2008, among the highest levels for Spanish and European banks.

Banco de Valencia has an adequate revenue composition, with net interest income representing around 72% of total revenues. Fee and commission income contributes around 19% of total revenues, a level that is adequate relative to domestic competitors, but lags behind the average levels of similarly rated European peers.

Going forward, it will be challenging for Banco de Valencia to maintain current profitability ratios given the weakening credit trends in Spain, the expected growth in problem loans and the subsequent increase in provisioning requirements. Nevertheless, Banco de Valencia has sufficient flexibility to cope with a further deterioration in asset quality (about 3x and 4x June's 2008 problem loans balance) without severely damaging its financial metrics, thanks to excess provisioning and revenue recurrence.

The three-year average risk-weighted profitability metric is in the C range, while net profits as a percentage of risk-weighted assets is in the D range, giving an overall profitability score of D+, with a weakening trend.

Factor 6: Liquidity

Trend: Weakening

The liquidity ratio reflects Banco de Valencia's high reliance on market funds, which is common among its Spanish peers. In addition, looking at the average liquid assets-to-average total assets ratio of around 9% as of June 2008, Banco de Valencia's liquidity levels are modest compared with those of domestic and international peers. The bank has a modest securities portfolio on its balance sheet, representing approximately 4% of total assets, and has a high reliance on short-term funding. As of August 2008, it had a net borrowing position on the relatively volatile short-term interbank market of around EUR 1.1 billion. In addition, Banco de Valencia has accessed the ECB liquidity facilities; using EUR 1.1 billion so far, with EUR 430 million still available.

On the back of the current situation in the capital markets with no access to long-term funding, Banco de Valencia has decided to increase the amount of eligible assets to REPO at the ECB and, with that purpose, it plans to issue covered bonds and/or securitisations for EUR 500 million-EUR 1 billion. Despite having a high dependence on short-term funding, we take some comfort from the fact that customer deposits, a stable and reliable source of

funding, represent about 45% of total funding. (Also see the discussion of liquidity management in the Risk Positioning section, above).

The bank scores D- for liquidity, with a weakening trend.

Factor 7: Capital Adequacy

Trend: Neutral

The bank's capital adequacy ratios improved in Q4 2007 - with a Tier 1 ratio of 7.2% and a total capital ratio of 11.2% - after it carried out a EUR 265.5 million capital increase. Moody's acknowledges that this capital increase has again restored some financial flexibility and a capacity to absorb moderate losses. As at June 2008, Banco de Valencia reported a Tier 1 ratio of 6.87% and a total capital ratio of 10.47%.

The bank scores C+ for capital adequacy.

Factor 8: Efficiency

Trend: Neutral

With a cost-to-income ratio of 36.8% as of September 2008, Banco de Valencia has strong efficiency levels thanks to strict cost controls as well as the synergies and economies of scale deriving from its collaboration with Bancaja. Cost control is one of the bank's main priorities, as demonstrated by its success in maintaining very solid efficiency indicators despite its aggressive branch-opening programme in recent years. With operating expenses at 0.88% of risk-weighted assets, the bank has one of the leanest cost structures in the Spanish banking system.

The bank scores A for efficiency.

Factor 9: Asset Quality

Trend: Weakening

With a non-performing loan ratio of 1.85% and a coverage ratio of 120.13% as of September 2008 (0.61% and 315.59%, respectively, in 2007), the bank's asset quality indicators compare favourably with the average of Spanish financial institutions, which stood at 2.5% in August 2008. Although the problem loan ratio remains moderate compared with that of similarly rated domestic peers, it has deteriorated significantly during 2008, with net impaired loans increasing by 306% as of September 2008, and further deterioration is expected going forward, given Spain's poor economic prospects and weakening operating environment.

The bank scores A for asset quality (according to 2007 figures), but this will worsen by the end of 2008. We have adjusted this factor accordingly and therefore we think that a B score for asset quality, with a weakening trend, is more appropriate

Global Local Currency Deposit Rating (Joint Default Analysis)

Moody's assigns a global local currency (GLC) deposit rating of A3 to Banco de Valencia. Under Moody's joint default analysis, the rating receives a one-notch uplift from the A3 BCA as a result of our assessment of a moderate probability of parental support from Bancaja and a moderate probability of systemic support from Spain (Aaa local currency deposit ceiling) in the event of a stress situation.

The assessment of a moderate probability of parental support reflects, on the one hand, Bancaja's management involvement and 38% stake in Banco de Valencia, but also (i) the different brand names of the two entities, (ii) the risk that the parent could dispose of its stake in Banco de Valencia and (iii) the limited level of integration between the companies, although collaboration exists between the two in many areas (please refer to the Banco de Valencia Analysis on Moodys.com)

The moderate probability of systemic support for the bank in the event of a stress situation is based on Banco de Valencia being the third-largest player in the region of Valencia, and its relative importance to Spain's banking system.

Notching Considerations

Banco de Valencia's subordinated debt is rated Baa1, one notch below the senior unsecured debt rating. Preference shares are rated Baa2, two notches below the senior unsecured debt rating. This is consistent with Moody's notching methodology. Please refer to the Guidelines for Rating Bank Junior Securities (published in April 2007) on Moodys.com.

Foreign Currency Deposit Rating

The A3/Prime-2 foreign currency deposit ratings of Banco de Valencia are unconstrained given that Spain, in common with other EU members, has a country ceiling of Aaa.

Foreign Currency Debt Rating

The A3/Prime-2 foreign currency deposit ratings of Banco de Valencia are unconstrained given that Spain, in common with other EU members, has a country ceiling of Aaa.

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

Banco De Valencia S.A.

| Rating Factors [1] | A | B | C | D | E | Total Score | Trend |
|---|----------|----------|----------|----------|--------|-------------|------------------|
| Qualitative Factors (50%) | | | | | | C | |
| Factor: Franchise Value | | | | | | C- | 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 | | | | | | B- | Weakening |
| Economic Stability | | x | | | | | |
| Integrity and Corruption | | | x | | | | |
| Legal System | | x | | | | | |
| Financial Factors (50%) | | | | | | C | |
| Factor: Profitability | | | | | | D+ | Weakening |
| PPP % Avg RWA | | | 1.69% | | | | |
| Net Income % Avg RWA | | | | 0.90% | | | |
| Factor: Liquidity | | | | | | D- | Weakening |
| (Mkt funds-Liquid Assets) % Total Assets | | | | | 35.27% | | |
| Liquidity Management | | | | x | | | |
| Factor: Capital Adequacy | | | | | | C+ | Neutral |
| Tier 1 ratio (%) | | | 6.40% | | | | |

| | | | | | | | |
|---------------------------------------|--------|-------|--|--|--|----------------|------------------|
| Tangible Common Equity % RWA | | 6.36% | | | | | |
| Factor: Efficiency | | | | | | A | Neutral |
| Cost/income ratio | 41.58% | | | | | | |
| Factor: Asset Quality | | | | | | A | Weakening |
| Problem Loans % Gross Loans | 0.49% | | | | | | |
| Problem Loans % (Equity + LLR) | 5.35% | | | | | | |
| Lowest Combined Score (15%) | | | | | | D- | |
| 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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