

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	Baa1/P-2
Bank Financial Strength	D+

Contacts

Analyst	Phone
John Tofarides/DIFC	971.44.01.9536
Mardig Haladjian/Limassol	357.25.586.586

Key Indicators

United Arab Bank PJSC

	[1]2009	2008	2007	2006	2005	[2]Avg/CAGR
Total Assets (US\$ mn)	1,905	2,059	1,684	1,304	1,125	14.06
Total Capital (US\$ mn)	412	311	349	298	261	12.10
Recurring Earning Power % [3]	4.33	3.96	4.21	3.74	4.19	4.09
Return on Average Assets %	3.86	3.64	3.85	3.30	3.75	3.68
Net Interest Margin %	4.70	4.47	5.03	4.66	4.44	4.66
Cost / Income Ratio % [4]	33.00	35.11	32.78	35.36	32.61	33.77
Problem Loans % Gross Loans	3.56	1.81	2.73	3.72	--	2.95
Shareholders' Equity % Assets	22.14	16.12	20.16	22.70	22.51	20.73

[1] As of December 31. [2] Compound Annual Growth Rate for total assets and capital. [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 United Arab Bank PJSC ("UAB"), which translates into a baseline credit assessment (BCA) of Baa3. The rating reflects UAB's modest franchise and long history and reputation within its home market. It also reflects UAB's satisfactory financial fundamentals, underpinned by its good asset quality and capitalisation levels and efficient cost controls. However, the rating is constrained by its limited geographic diversification, and lending and funding concentrations.

UAB's global local currency (GLC) deposit ratings set at Baa1/P-2, reflect a two-notch uplift from the bank's Baa3 BCA. This is based on Moody's assessment of a high probability of systemic support in case of need, similar to other domestic banks in the United Arab Emirates (UAE), along with moderate support imputed from its principal (40%) shareholder, The Commercial Bank of Qatar (CBQ).

Rating Drivers

- UAB has a small franchise with systemically insignificant market shares
- Strong financial fundamentals in terms of capitalisation, profitability and efficiency
- Sound asset quality, with limited real-estate-related exposures, compared with its UAE peers
- Credit and funding concentration remains a challenge, which could affect future asset quality and liquidity levels
- High levels of contractually short-term customer deposits, although this is common to all UAE banks
- The strategic alliance with CBQ gives the bank additional benefits in terms of both product knowledge as well as in risk management architecture, systems and structure

Rating Outlook

All UAB's ratings carry a stable outlook.

What Could Change the Rating - Up

An upgrade in UAB's BFSR is likely to depend on (i) maintaining strong financial performance in the more challenging, current operating environment, without stressing liquidity and capitalisation levels; (ii) further improving its risk-management structures and systems, and reductions in credit and funding concentration levels; and (iii) improving its earnings stability levels through higher levels of retail banking activities. An upgrade of the bank's GLC deposit rating could be prompted by an upward movement of its BFSR.

What Could Change the Rating - Down

UAB's BFSR could be downgraded: (i) if its local - market franchise weakens substantially; (ii) severe deterioration in its financial fundamentals affects its asset quality, profitability and capitalisation; and/or (iii) if there is major (although unlikely) geopolitical instability in the region.

Recent Results and Company Events

Results for the six months ending June 2010 showed a stable increase in profitability with net-interest income almost unchanged from the H1 2009 level, at around AED160.5 million, while net fees and commissions were slightly higher at AED35.6 million from AED31.2 million in H1 2009. Loan-loss provision expenses were lower than the figures for H1 2009, which illustrates the bank's strong LLR coverage levels and robust performance of its loan book in 2010. The net profit for H1 2010 was AED140.8 million (US\$38.3 million), 5% higher compared with H1 2009. Total assets at the end of June 2010 totalled AED 6.761 billion (US\$1.837 billion) versus AED6.284 billion (US\$1.707 billion) at the end of March 2010 from AED6.995 billion (US\$1.900 billion) at YE2009. The downsizing in the bank's balance sheet that peaked in Q1 2010 is showing some signs of reversal in Q2 2010, however assets are still below the YE2009 levels. During Q2, the bank paid the AED150 million proposed dividend and also dispersed AED409 million in loans bringing down its core liquid asset ratio (cash and due from banks) to 14.5% from 24.0% at YE2009.

Despite the increase in loans, customer deposits fell by 3.3% to AED4.302 billion during H1 2010, thereby exacerbating the already high net loans-to-deposits ratio to 120% from 107% at YE2009. Capitalisation levels (shareholders' funds) remained stable at 25% of total assets at 30 June 2010 versus 24% at YE2009. The H1 2010 net profit retention was basically netted-off with the dividend payment, leaving the amount of shareholder's funds unchanged at AED1.666 billion (US\$453 million). No information on asset quality was presented in the unaudited financial statements as of the end of June 2010, but given the current loan-loss provisioning levels that have improved compared with data for H1 2009, we believe that UAB's asset-quality levels have not deteriorated further.

DETAILED RATING CONSIDERATIONS

Our detailed considerations for UAB's currently assigned ratings are as follows.

Bank Financial Strength Rating

Moody's assigns a BFSR of D+ to UAB, which reflects the bank's strong financials and its relatively strong franchise positioning among the UAE nationals. UAB's financials have proved resilient to the Dubai property-related crisis as the bank has been mainly involved in manufacturing and trade and has minimal exposure to real estate compared with its peers. UAB's financial metrics compare favourably with those of its similarly rated peer group. CBQ is supportive of UAB's risk-management practices and systems, new product design and upgrading of management information systems

However, the BFSR also reflects the bank's high dependence on corporate clients for loans and deposits, which leads to borrower and funding concentrations. As a point of reference, the assigned BFSR of D+ is one notch below the C- outcome of Moody's bank financial strength scorecard to better-reflect these risks on the bank's franchise value, liquidity and asset quality.

Qualitative Factors (70%)

Factor 1: Franchise Value

Trend: Neutral

UAB is among the smaller banks in the UAE and the smallest in our rated universe with total assets of AED6.994 billion (US\$1.904 billion) at year-end 2009 capturing a market share of less than 0.5%. Although on its market share UAB seems like a tiny financial institution, it remains an important bank in its domicile emirate of Sharjah. However, its market share and sustainability are subject to rising competition. The bank's operations are geographically concentrated in the UAE market, which as per Moody's methodology is a "mid-sized market". Therefore, we view its geographic diversification as modest. The bank's main focus will continue to be corporate banking, mainly the medium-sized customers and more specifically manufacturing and trading businesses. The more granular retail-banking business continues to be underdeveloped compared with other UAE banks.

In late 2007, CBQ acquired 40% of UAB. CBQ is the second largest bank in Qatar and offers a wide range of banking products and services. The strategic alliance with CBQ somewhat strengthens UAB's earnings stability. With CBQ's assistance, new retail banking strategies are expected to emerge. A further expansion in niche retail segments, in Islamic financial services and wealth management should be anticipated in line with the bank's risk appetite, liquidity and capital levels. The bank's small branch network and its focus on what it identifies as "committed expatriates" and UAE nationals allow for a very focused, service-oriented retail franchise. UAB has built its franchise offering good-quality service and intends to maintain the same levels of service quality in the future. It benefits from satisfactory earnings diversification.

The economic slowdown in 2009 forced the bank to downsize slightly its balance sheet, from an already small level; however, this was in response to tightening credit standards and increased risk aversion. The bank was incorporated in 1975 and has a significant reputation - especially within UAE's indigenous local population - with long-lasting client relations. However, its earnings stability is largely dependent on corporate activities, which Moody's traditionally assesses as less predictable and more volatile compared with retail banking. Given the bank's modest market shares and high reliance on corporate versus retail business, the franchise value score is at E+.

Factor 2: Risk Positioning

Trend: Neutral

UAB's modest risk positioning assessment takes into account the bank's high credit and funding concentrations, and developing risk-management practices. It also considers the low risk appetite of the bank and its conservative risk-management culture.

Risk management is largely influenced by the management services agreement with the Commercial Bank of Qatar (CBQ). In addition, CBQ's role in UAB's risk management is also instrumental in promoting suggestions to the board of directors for approval and in monitoring the implementation of the board's decisions through a management services agreement. The risk-management systems and structures that the bank implements are largely dependent on CBQ's guidance and support, which also provide for enhanced compatibility with CBQ's systems. In 2009 UAB established a board-risk committee to oversee various categories of risk and supplement the role of the board. Customer credit limits are reviewed annually and more often for higher-risk rated irregular exposures. Credit strategy, portfolio concentration and asset diversification limits are reviewed annually. A core banking solution (CBS) is under implementation and in consultation with CBQ to upgrade current CBS with more current risk management tools. Risk-adjusted performance measures are not used and stress tests are not performed regularly.

We consider that the bank's credit risk concentration at the individual borrower level is, as per Moody's globally applied standards on credit concentration, as the top 20 largest exposures capture more than twice the bank's tier 1 capital, common to most UAE banks. However, credit concentration by economic sector is considered satisfactory, and the bank is well-diversified across different industries.

UAB reports under IFRS on a timely basis; the bank's annual report has an acceptable quality of financial information and compares favourably with those of other UAE banks. However, in our view, a weaker standard of disclosure is made in the quarterly reports.

Liquidity management is adequately pursued by the bank's asset-liabilities committee (ALCO) with the implementation of effective liquidity measures and controls. ALCO examines the liquidity and market risks involved on a monthly basis. Asset-liability mismatches are not particularly acute for UAB as a large portion of its loan book (at least 1/3) is based in short-term working capital facilities that can be called. The bank has sufficient lines in place and could also access the liquidity support facilities of the central bank of the UAE (discounting a large portion of its investment book) to provide for necessary liquidity in case of large (above average) deposit withdrawals. Despite its small size, UAB has effectively weathered the liquidity crisis in the UAE in Q3 2008 and has also well-managed the market shocks caused by Dubai government owned conglomerate Dubai World Group debt restructuring announcement in November 2009.

The bank's large concentration in corporate deposits is a potential concern, although most of these appear to be long-established business relationships with the bank and demonstrate a certain level of "stickiness". During 2009, UAB has focused on maintaining a low-cost deposit base and high interest margins, and in that respect did not enter a price war to attract deposits, but rather let its balance sheet downsize in a conscious risk management decision to de-risk the balance sheet via downsizing the loan book to protect against asset quality pressures.

The bank's market risk appetite position is considered satisfactory with the majority of its investments in quoted debt securities of good credit quality.

Fully compliant with Basel II implementation as per the central bank's circular issued in November 2009. Capital requirements are well above stipulated minimum limits.

Moody's assigns a D score for the overall risk positioning.

Factor 3: Regulatory Environment

This factor does not address bank-specific issues; instead, it evaluates whether regulatory bodies are independent and credible; whether they demonstrate enforcement power; and whether they adhere to global standards of best practice for risk control.

Factor 4: Operating Environment

Trend: Weakening

UAB's operating environment assessment takes into account factors such as economic stability, integrity and corruption, and the effectiveness of the country's legal systems (based on World Bank guidance). Moody's views the operating environment in UAE as relatively stable, backed by strong overall financial fundamentals that are, in turn, underpinned by high growth and high oil receipts, a growing population, and new business opportunities. While we regard economic and political stability as credit positives, they are nevertheless partly offset by deficiencies in integrity and the effectiveness of the legal system.

Moody's expects a modest economic recovery in the UAE in 2010 to contribute to an increase in delinquencies, especially in corporate banking exposures and we remain particularly concerned about specific sectors such as real estate - especially in Dubai. Moody's discusses the UAE operating environment in length in its report Banking System Outlook on the UAE, published on 14 June 2010.

The score relative to the operating environment in the UAE is D, with a weakening trend.

Quantitative Factors (30%)

Factor 5: Profitability

Trend: Neutral

UAB remains among the most profitable banks in the UAE. Compared to other corporate-oriented peers, UAB benefits from one of the highest net-interest margins. Its strategy of controlled lending growth and a constant focus on low-cost deposits have allowed it to continue to demonstrate very good net interest margins (at 4.7% in 2009 compared to 4.4% in 2008). In 2009, the net interest income rose by 18.6% to AED324 million (US\$88 million) despite the fact that gross loans declined by 12.8% to AED4.920 billion (US\$1.337 billion). On the other hand, net fee and commission income remained flat (rising by just 0.5% year-on-year) due to lower trading volumes in 2009 from the economic slowdown in the UAE. Operating expenses rose moderately by 4.6% during the year and the bank's pre-provision income (PPI) showed an annual increase of 15.9% to AED315 million (US\$86 million). Given the bank's prudent credit controls and lack of significant real estate-related lending, its asset quality remained strong in 2009 and did not result in any significant increases in loan-loss provision expenses (LLPE). The bank's net profits increased by 12.2% to AED281 million (US\$76 million) in 2009.

Moody's uses the three year average ratios of PPI to risk weighted assets (RWA) and net income (NI) to RWA to assess profitability across

banks globally. Based on these metrics, UAB has an average PPI to RWA at 4.07% and NI to RWA at 3.70%. Going forward, we expect a continuation of this trend as the UAE economy emerges from recession and begins to recover.

The bank scores an A for profitability.

Factor 6: Liquidity

Trend: Neutral

During 2009, the bank improved its liquidity position effectively following a conscious decision to 'de-risk' the balance sheet by exiting from loans that it considered high risk. The added liquidity as of YE2009 was directed to the interbank market and not to new loans (dues from banks were 177% of dues to banks at YE2009 versus 90% at YE2008). The reduction in gross loans was, however, associated with a lower reduction in customer deposits, therefore slightly improving the net loans to deposits ratio to 107% at YE2009 compared to 110% at YE2008, from 95% in 2007. The bank manages its liquidity on the basis of regulatory limits on advances to stable resources ratios stipulated by the central bank (at 88% as of 31 March 2010) as well as on other liquidity metrics it has introduced internally. The credit lines it has in place and the liquidity support facilities of the central bank (120% overdraft of its statutory deposits with the central bank, plus a large portion of its UAE debt securities can be repaid), in addition to untapped interbank lines (of over AED1 billion uncommitted lines) allow for sufficient buffers in the event of unexpected withdrawals. Compared with its peers, UAB shows a higher portion of liquid assets as a proportion of total assets in its balance sheet. UAB monitors liquidity closely and on a daily basis, while mini ALCO meetings are held on a weekly basis. The systems used to monitor liquidity and funding are also monitored by CBQ.

Moody's uses the three-year average ratios of market funds less liquid assets to total assets in order to assess the bank's liquidity. Based on this measure the bank's three-year average ratio calculates as -17.7%, which maps to a liquidity score of C+.

Factor 7: Capital Adequacy

Trend: Neutral

UAB's capital adequacy has improved considerably during 2009 through both internal capital generation and decisive 'de-risking' of the balance sheet. The bank's balance-sheet downsizing in 2009 has led to higher reduction in risk weighted assets to AED7.178 billion at YE2009 from AED8.247 billion at YE2008 following a reduction in loans and advances of 14% and trade related contingent liabilities of 6%. As a result, the bank's regulatory risk asset ratio rose to 18.9% at YE2009 compared with 12.9% at YE2008. The minimum capital adequacy ratio stipulated by the central bank is 12% as of 30 June 2010.

The bank scores A for capital adequacy.

Factor 8: Efficiency

Trend: Neutral

In 2009, UAB continued to post strong efficiency ratios, which was the result of a combination of good cost control coupled with increasing income. Its cost-to-income ratio improved to 33% in 2009 from 35% in 2008.

The bank scores A on efficiency.

Factor 9: Asset Quality

Trend: Weakening

UAB's asset quality remained sound in 2009, having been less affected by the current economic downturn. It has a low-risk appetite for real-estate related loans (including mortgages) and unsecured retail, which have shown the highest arrears in the UAE. UAB's lending approach is focused on trade and manufacturing commercial enterprises, which continue to perform well. These are spread across a range of relatively large and well-established companies whose products have shown high demand in the UAE (e.g. foodstuffs, industrial equipment etc.), while retail banking is pursued selectively (mainly to UAE nationals and/or what the bank identifies as "committed expatriates", those who are perceived as staying in the country long term. As a result UAB faced far fewer problem loans from "skippers" (expatriates who have left the country as a result of job losses). All retail-based lending is done on a salary-assignment basis to a list of approved employers by the bank. In addition, following a strategic decision to 'de-risk' the balance sheet in the wake of the crisis, the bank contracted its loan book early in 2009 exiting, where possible, from potentially vulnerable exposures (for example certain traders of building materials etc.). UAB's real-estate-related exposures (developers, contractors, mortgages) are below the industry average. In the context of its current capitalisation levels, we believe that UAB's real-estate-related exposures are not significant. All its mortgages are with UAE nationals, and in our view this portfolio performs very well. Furthermore, Moody's has stress tested UAB's loan portfolio for potential further economic deterioration and found it resilient at the current rating levels based on current assumptions and expectations.

Moody's assesses asset quality on the basis of three-year average ratios of problem loans to gross loans and problem loans to shareholders equity, plus LLRs. Our definition of problem loans includes the sum of both impaired loans and loans 90+ days past due, but not impaired. According to this definition, problem loans rose to AED175 million at YE2009 from AED105 million at YE2008. This increase translates into a problem-loan ratio of 3.56% in 2009 versus 1.81% in 2008, which compares favourably to our industry average of 4.95% at YE2009 (1.72% at YE2008). Similarly, LLR coverage levels continue to be 84% compared with its peer-group average of 65% at YE2009.

The bank scores B for asset quality, with a weakening trend to reflect the potential for some further weakening in asset quality, common to other UAE banks.

Global Local Currency Deposit Rating (Joint Default Analysis)

Moody's assigns GLC deposit ratings of Baa1/P-2 to United Arab Bank, based on (i) UAB's BCA of Baa3; (ii) a high probability of systemic support; (iii) moderate support from The Commercial Bank of Qatar, and (iv) the UAE's global local currency deposit ceiling of Aa2.

In accordance with Moody's Joint Default Analysis (JDA) methodology, the outcome of this is a two-notch uplift to UAB's GLC deposit ratings from its BCA. The probability of systemic support in the event of a stress situation is judged to be high, which is based on the fact that the UAE is

considered very supportive to the banking industry.

Foreign Currency Deposit Rating

We assigned UAB a foreign currency rating of Baa1/P-2, which is unconstrained

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. An 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 Ratings

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

United Arab Bank PJSC

Rating Factors [1]	A	B	C	D	E	Total Score	Trend
Qualitative Factors (70%)						D	
Factor: Franchise Value						E+	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	--	--	--	--	--		
- Insider and Related-Party Risks	--	--	--	--	--		
Controls and Risk Management					x		
- Risk Management					x		
- Controls		x					
Financial Reporting Transparency							
- 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						D	Weakening
Economic Stability					x		
Integrity and Corruption				x			
Legal System					x		
Financial Factors (30%)						B	
Factor: Profitability						A	Neutral
PPP % Avg RWA- Basel I	4.12%						
Net Income % Avg RWA- Basel I	3.75%						
Factor: Liquidity						C+	Neutral
(Mkt funds-Liquid Assets) % Total Assets	-12.39%						
Liquidity Management					x		
Factor: Capital Adequacy						A	Neutral
Tier 1 ratio (%) - Basel I	17.32%						
Tangible Common Equity / RWA- Basel I	19.83%						
Factor: Efficiency						A	Neutral
Cost/income ratio	33.63%						
Factor: Asset Quality						B	Weakening
Problem Loans % Gross Loans			2.70%				
Problem Loans % (Equity + LLR)	8.65%						
Lowest Combined Score (9%)						C+	
Economic Insolvency Override						Neutral	
Aggregate Score						C-	
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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