

Banques Populaires Covered Bonds

Covered Bonds / France

*This pre-sale report addresses the structure and characteristics of the proposed transaction based on the information provided to Moody's as of 2007. Investors should be aware that certain issues concerning this transaction have yet to be finalised. Upon conclusive review of all documents and legal information as well as any subsequent changes in information, Moody's will endeavour to assign definitive ratings to this transaction. The **definitive** ratings may differ from the **provisional** ratings set forth in this report. Moody's will disseminate the assignment of definitive ratings through its Client Service Desk. This report does not constitute an offer to sell or a solicitation of an offer to buy any securities, and it may not be used or circulated in connection with any such offer or solicitation.*

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1. PROVISIONAL (P) RATINGS

Series	Amount	Expected Maturity	Final Maturity	Rating
Series 1	€[·] billion	[·]	[·]	(P) Aaa

The ratings address the expected loss posed to investors by the legal final maturity. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

2. SUMMARY

Moody's has assigned a provisional long-term rating of (P)**Aaa** to the covered bonds (the "**Covered Bonds**") to be issued by Banques Populaires Covered Bonds (the "**Issuer**") on or about the date hereof under the terms of a €25 billion covered bonds programme (the "**Programme**") established by it.

The covered bond investors will benefit from:

1. The credit strength of the Banque Federale des Banques Populaires (the "**Sponsor Bank**" or "**BFBP**" rated **Aa2; P-1**). Moody's believes that the structure of the Programme enables the Issuer to benefit from the credit strength of the Sponsor Bank whose involvement in and commitment to the Programme is evidenced by the several roles and functions carried out by it in the context of such Programme;
2. A pool of assets (the "**Cover Pool**") indirectly backing the outstanding "**Covered Bonds**", comprising loans granted by the Banques Populaires participating to the Programme (each a "**BP**") to borrowers for the funding of residential real property located in France (each a "**Home Loan**"). The repayment obligations of the borrowers under the terms of the Home Loans will be either secured by a mortgage or guaranteed; and
3. 8.11% minimum contractual nominal over-collateralisation.

As is the case with other covered bonds, Moody's considers the credit strength of the transaction to be linked to that of certain parties - in particular the Sponsor Bank. Should such credit strength deteriorate, all other things being equal, the rating of the Covered Bonds is expected to be negatively affected.



3. STRENGTHS AND WEAKNESSES WITH MITIGANTS

Strengths

- **Sponsor Bank.** The following structural features combined with the Network Guarantee System (described below) enable the Programme to benefit from the credit strength of the Sponsor Bank:
 - The structure of the Programme enables the Issuer to benefit from the credit strength of the Sponsor Bank whose involvement in and commitment to the Programme is evidenced by the several roles and functions carried out by it in the context of such Programme. Under the Programme the Sponsor Bank will act as (i) administrative agent, (ii) servicer, (iii) calculation agent, (iv) BP Agent and may also act as a borrower under the facility granted by the Issuer under the Programme. The Sponsor Bank will also be responsible for ensuring that the Programme's hedging strategy is complied with at all times.
 - The obligation of the Sponsor Bank to request and the obligation of the BPs to add additional assets to the Cover Pool by way of pledging additional eligible assets in favour of the Issuer. In the event that the asset cover ratio is lower than 1 in respect of any asset cover test calculation period, prior to the immediately following asset cover test date, additional collateral in an amount sufficient to achieve a ratio of 1 or above shall be transferred.
- **Credit Quality of the Cover pool:** The support provided by the Cover Pool. The holders of the Covered Bonds will have the benefit of the support provided by the Cover Pool. As of the date of this report, the Cover Pool is well seasoned and has an average unindexed loan-to-value of approximately 71% (the indexed LTV being approximately 58%). The quality of the Cover Pool is reflected in its collateral score of around 5.5% - which is better than the average collateral score of more than 7% calculated for all mortgage-backed covered bonds transactions rated by Moody's.
- **Strong income underwriting standards.** All the Home Loans have been checked to confirm that borrowers can, based on their income at time of origination, afford to repay the loan over its life. This check is carried out on a more conservative basis than is generally the case across Europe. Further income is in all cases verified, and this verification does not rely on borrowers self-verification.
- **8.11% of committed over-collateralisation.** The Cover Pool should continue to offer substantial value up until Sponsor Bank Default due to the Asset Cover Test which may adjust the level of assets required to be placed in the Cover Pool based on the evolution of house prices, and the level of losses and arrears in the Cover Pool.
- **Refinancing Risk.** Provisions to allow for a principal refinancing period of 180 business days should in the event of a Sponsor Bank Default: 1) improve the sales value of the Cover Pool; 2) increase chances of timely principal payments.
- **Market Risk:** Initially there will be no currency risk in this transaction. Interest risks should be hedged by a "contingent swap". A strength of this swap is that the failure of the Issuer to make a payment in full or in part under the swap shall not allow - during the grace period - the swap counterparty to i) terminate the swap or ii) withhold in full or in part, any payment to be made to the Issuer.

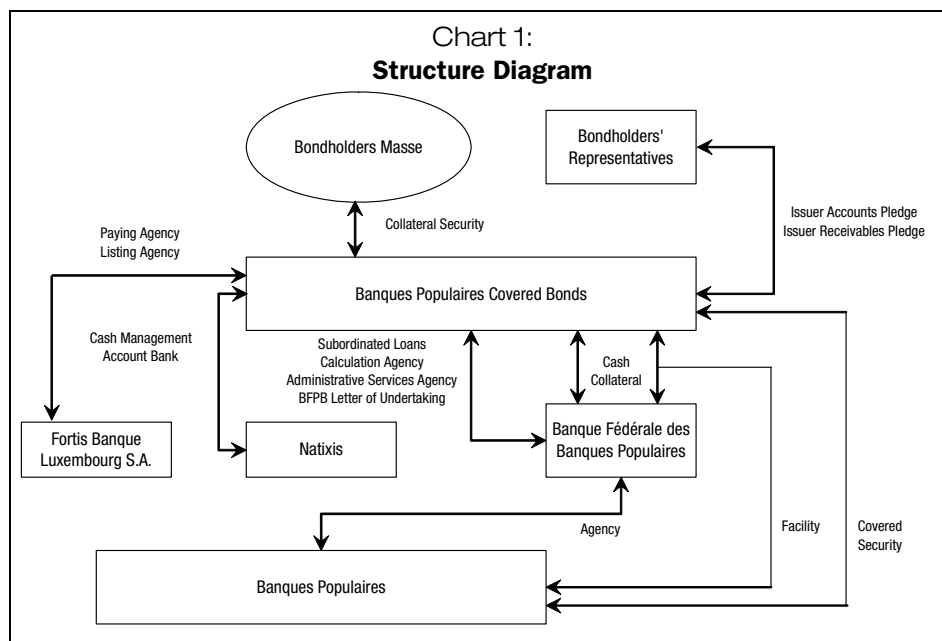
Weaknesses with Mitigants

- **Sponsor Bank:** As with most covered bonds, up until Sponsor Bank Default the Sponsor Bank has the ability to materially change the nature of the Programme. For example, new assets may be added to the Cover Pool, new bonds issued with varying promises and new hedging arrangements entered into. These changes could impact the credit quality of the Cover Pool, refinancing risk and market risks. **Mitigant:** the rating of Sponsor Bank, rated **Aa2**.
- **Credit Quality of the Cover Pool:** As in most covered bond frameworks there are few restrictions on the future composition of the Cover Pool and hence substitution risk exists. **Mitigants:** the (i) the Programme contains some eligibility criteria (please see Appendix 2) (ii) the Asset Cover Test.
- As is often the case in France, valuations are based on purchase price. **Mitigant:** this is taken into account in Moody's analysis of the Cover Pool.

- **Quality of over-collateralisation.** Under the terms of the Asset Cover Test the Covered bonds may be issued against the portion of Home Loans with an LTV Programme Limit of 80 %. However, over-collateralisation can also be made up of the portion of the Home Loan with an LTV in excess of 80% - and thus the collateral that makes up the over-collateralisation may be of a much lower quality than the base level of collateral backing the covered bonds. **Mitigants:** Moody's factors into the analysis the quality of the "over-collateralisation" when determining required over-collateralisation levels.
- The Home Loans may be secured through either (i) a first ranking mortgage, or a second ranking mortgage, but only in the event that the Sponsor Bank is also the beneficiary of the first ranking mortgage, or (ii) a guarantee which may be provided by Credit Logement, any of the Sociétés de Cautions Mutuelles Immobilières (each a "**SOCAMI**"), which are dedicated to the granting of guarantees to the exclusive benefit of the BPs in order to secure loans granted by them, or the CASDEN, whose client base are the civil servants of the Administration for Education. The SOCAMIs and the CASDEN are part of the Sponsor Bank's group. Accordingly, there is a high degree of correlation between the credit strength of the Sponsor Bank and their own credit strength. Accordingly, the quality of the guarantee securing the borrowers' payment obligations may be gradually adversely affected as the credit quality of the Sponsor Bank is reduced. **Mitigants:** the Home Loan Guarantee Triggers (as such term is defined below).
- **Refinancing risk:** In common with most covered bonds, for timely payment covered bondholders following Sponsor Bank Default may rely on proceeds being raised through the sale of, or borrowing against, assets in the Cover Pool. Following a Sponsor Bank Default the market value of these assets may be subject to substantial volatility. **Mitigants:** 1) the rating of the Sponsor Bank (**Aa2**); 2) the principal refinancing period of 180 business days as built in the pre-maturity test; 3) the stressed refinance margins applied.
- **Market risk:** The counterparty for the contingent swap is part of the Sponsor Bank group, so prior to Sponsor Bank Default a swap replacement would have to be found for the swap to continue to support the transaction post Sponsor Bank Default. **Mitigants:** collateral posting provisions should provide material support up until Sponsor Bank Default, and replacement triggers may protect bondholders following Sponsor Bank Default.
- **Time Subordination:** After Sponsor Bank Default, later maturing Covered Bonds are subject to time subordination. Principal cash collections may be used on a first-come-first-served basis, paying earlier-maturing Covered Bonds prior to later-maturing Covered Bonds. This could lead to over-collateralisation being eroded away before any payments are made to later paying Covered Bonds. Mitigant: the Amortisation Test.

4. STRUCTURAL AND LEGAL ASPECTS

The structure at a glance



The Issuer is a regulated special purpose bankruptcy entity

The Issuer

The Issuer is a special purpose entity, whose activities are restricted to the issuance of covered bonds and the holding of the relevant collateral. It is duly licensed as a French credit institution and is intended to be a ring-fenced, bankruptcy remote entity that will be unaffected by the insolvency of the Banques Populaires Group, in particular by including limited recourse and non-petition wording in the relevant Programme Documents.

The members of the Executive Board are not appointed as members of an executive board, board of directors or supervisory board of any entity of the BP Group. Among the members of the Issuer Supervisory Board, one member is independent from the BP Group. The latter person is not employed by nor appointed as director of a board of any entity of the BP Group.

The proceeds deriving from the issuance of the Covered Bonds will be lent to BPs

The proceeds deriving from the issuance of the Covered Bonds will be used by the Issuer to grant loans (each a “**Programme Loan**”) to the BPs.

Collateral Security as high as 100% of Eligible Assets belonging to any participating BP

The Security Package

The holders of the Covered Bonds will have the indirect benefit of the Collateral Security. Each BP undertakes that it shall grant up to 100% of its Eligible Assets as Collateral Security, should the need arise to cure any breach of the Asset Cover Test (see Appendix 2).

The holders of the Covered Bonds will have the direct benefit of a pledge by the Issuer over all its receivables under any Programme Loan granted to any BPs as well as a pledge of the Issuer Cash Accounts (which includes the EUR 40 million share capital) and the Issuer Securities Accounts.

Prior to the service of a BP Enforcement Notice collections will be credited to the Collection Account

As long as BFBP is rated **Prime-1**, each BP will credit to a “**Collection Account**” opened in the name of and held by such BP (i) all interest and principal received under the Home Loans granted as Collateral Security it all collections and recoveries deriving from the Cover Pool. Following the loss of **Prime-1**, but prior to the occurrence of a Group Event of Default, the BP shall transfer to the “**Collection Loss Reserve Account**” the amount of collections received during the two and half (2.5) calendar months preceding the date on which the loss of **Prime-1** has occurred. The failure by any BP to make the required payment into the Collection Loss Reserve Account will constitute a Group Event of Default.

Following the service of a BP Enforcement Notice, collections will be credited to the relevant issuer cash account

Following the service of a BP Enforcement Notice, each BP will be required to transfer to the Issuer Cash Accounts, any and all amounts then standing to the credit of its Collection Accounts and more generally to any of its bank accounts, no later than on the Business Day following the receipt of any such amount. In the event that the short-term rating of the Issuer account bank falls below **Prime-1**, such issuer account bank shall be replaced by a bank whose short-term rating is **Prime-1**.

Commingling risk is mitigated by the hedging strategy and the Collection Loss Reserve Account

As a result of the cash management mechanisms, following the service of a BP Enforcement Notice and the transfer of title over the Home Loans to the Issuer, the holders of the Covered Bonds will be exposed to the risk that: (i) payment continue to the made to the BP's in stead of being paid to the Issuer directly; and (ii) the collections standing to the credit of the Collection Accounts (x) are not capable of being identified or (y) are not transferred to the issuer in a timely manner. This may translate in a potential liquidity shortage or, in the event that the collections have not been properly earmarked, in a credit issue. Moody's believe that the above risks are mitigated by (i) the grace period contemplated at the Issuer level swap, (ii) the Collection Loss Reserve Account and (iii) the Hedging Agreements, which cover for a limited period of time a limited amounts of interest payable on the Covered Bonds

The non-compliance with the Asset Cover Test must be cured within 1 month

In the event that the Asset Covered Test is not satisfied, the Issuer will cease to grant any further Programme Loan and no further Covered Bonds shall be issued. If, the Asset Cover Test is not remedied prior to the next monthly ACT date, this would constitute a Breach of Asset Cover Test and a Group Event of Default shall have occurred.

The following events will also trigger a Group Event of Default:

- Breach of Pre-Maturity Test,
- a BP is not complying with its obligations to service a Home Loan made to it by the Issuer, to fund the Collection Loss Reserve or to fund the Home Loan Security Reserve
- The Issuer fails to enter into an Issuer Hedging Agreement within 30 days of a Hedging Trigger Event.

**Upon a Group Event of Default the facility granted by the Issuer is cancelled and all Programme Loans become due and payable
The Pre-Maturity Test mitigates refinancing risks**

Upon the occurrence of a Group Event of Default, the Issuer shall (i) declare that the facility granted by it to the BPs is cancelled and that all Programme Loans shall immediately due and payable and (ii) the Issuer shall send a BP Enforcement Notice in view of the enforcement of the Collateral Security.

Pursuant to the Pre-Maturity Test, if BFBP has a short-term rating below P-1, BFBP must ensure that within the next 30 Business Days the Cash Collateral Account comprises an amount of cash corresponding to the payment obligations of the Issuer with respect to Covered Bonds maturing within the next 180 Business Days. (See *Appendix 2* for a description of the Pre-Maturity Test). If BFBP's short-term rating is lower than P-1 and the required amount of cash is not available on the Cash Collateral Account, a Group Event shall have occurred.

The Amortisation Test

The Amortisation Test will be carried out at least once every month following enforcement of a Group Event of Default. Please also see the *Appendix 1* for a description of the Amortisation Test.

Consequences of the Amortisation Test failure

In the event that the Amortisation Test is breached and the Issuer fails to remedy such breach prior to the immediately succeeding Amortisation Test Date, an Issuer Event of Default shall be deemed to have occurred.

Consequences of the occurrence of an Issuer Event of Default

The occurrence of the Issuer Event of Default (i) will trigger the enforcement of the Issuer Security and (ii) may trigger, provided that certain conditions are satisfied, the acceleration of the then outstanding Covered Bonds.

The Cover Pool

Each BP will provide for Eligible Assets constituting the Cover Pool.

Each BP pledges certain Eligible Assets to the Issuer (the "**Collateral Security**") in order to secure any liabilities (whether present or future) owed by any BP to the Issuer under the Programme.

The Cover Pool secures all present and future liabilities (of any BP) towards the Issuer under the Programme

Eligible Asset means (i) any receivable under a Home Loan, (ii) any substitution asset (which account for max 20% of the aggregate Adjusted Asset Amount and (iii) the credit standing to any Collection Loss Reserve Account and any Home Loan Security Reserve Account. The latter account being an account held by the Account Bank in the name of each BP containing as of the downgrading of BFBP below A3 certain amounts, namely (i) costs for the registration of certain mortgages and (ii) cash to compensate risks related to the default by CASDEN or any SOCAMIs under the in-house guarantee they have granted.

The Cover Pool will be serviced by the Collateral Providers

The Asset Cover Test takes into account down-cycles in the residential property prices

Until the appointment of a substitute servicer, each BP shall perform the servicing of the assets it has contributed to the Cover Pool. A substitute servicer will be appointed if BFBP is downgraded below **Baa2**.

The Asset Cover Test will be carried out every month. The Asset Cover ratio takes into account variations in the residential property prices by using the indexed valuation of the properties collateralising the Home Loans. (see Appendix 1 for a description of the Asset Cover Test)

5. MOODY'S RATING METHODOLOGY

Moody's Special Report regarding the rating approach to covered bonds¹ details the methodology used for rating covered bond transactions. The impact of the credit strength of the Sponsor Bank, quality of the collateral, refinancing and market risks are considered below.

5.1 Credit Strength of BFBP - the Sponsor Bank

Credit Strength of BFBP (Aa2)

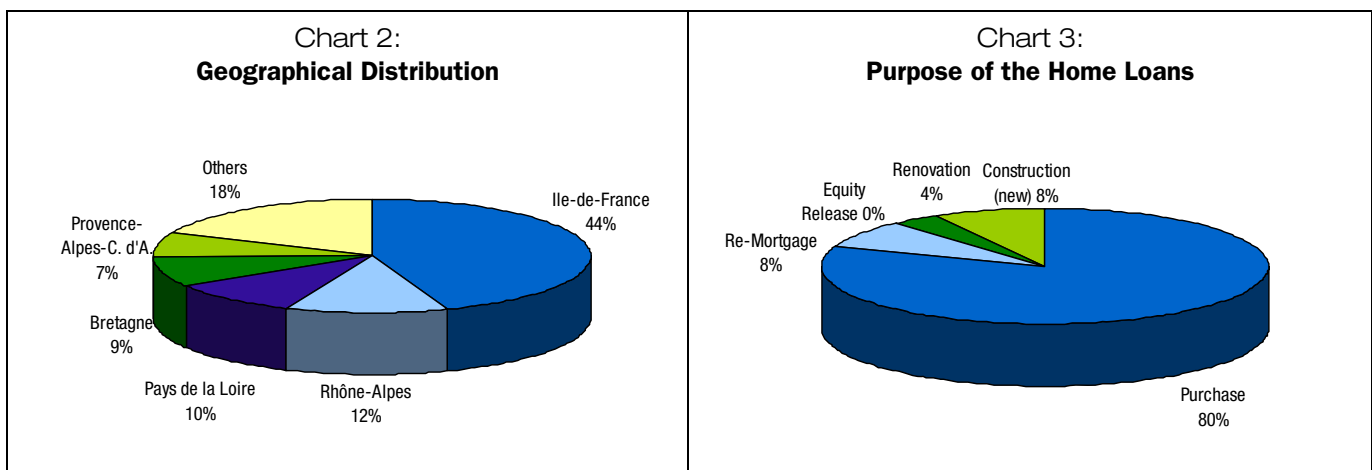
The Issuer has full recourse against each BP pursuant to the Programme Loans and also against BFBP (rated **Aa2**) pursuant to the Network Guarantee System as provided in Article L.512-12 of the Monetary and Financial Code, which requires that BFBP shall take all necessary measures to guarantee the liquidity and solvency of the Banques Populaires group (which includes all the BP's, the other Banques Populaires which do not participate to the Programme and the In-House Guarantors).

Moody's believes that (i) the obligations imposed on BFBP as Sponsor Bank to ensure that a minimum amount of over-collateralisation in the Cover Pool is maintained; and (ii) BFBP's commitment to the Programme evidenced by the several functions carried out by it in the context of such Programme, enable the Issuer to benefit from the credit strength of the Sponsor Bank.

For more information on the fundamental credit quality of the Sponsor Bank, please see the latest Moody's bank credit report on BFBP.

5.2 Quality of the Collateral

The Collateral at a Glance



The Home Loans underlying the Covered Bonds are residential loans only

The Home Loans in the Cover Pool are residential loans only. Each Home Loan in the Cover Pool has to satisfy the "Eligibility Criteria" listed in Appendix 2.

The total loan balance as of the date of this report was approximately € 4,76 billion. The Cover Pool is well seasoned (32 months), has an average unindexed loan-to-value of approximately 71% (the indexed LTV being approximately 58%) and is characterised by some degree of geographical concentration (mainly in the with 44.41% of the Home Loans originated in the Departement of *Ile de France*). 3.49% of the Home Loans in the Cover Pool are floating rate and 96.51% are fixed rate. 89.7% of the properties are owner-occupied, 7.7% are buy-to-let and 2.6% are second homes.

¹ Moody's Rating Approach to European Covered Bonds, dated 13 June 2005

All the above factors were incorporated into Moody's analysis of the Programme. Moody's calculates a Collateral Score based on the characteristics of the Home Loans registered in the Cover Pool, using a scoring model in order to assess the credit quality of the Cover Pool.

Substitution risk is mitigated by specific structural features.

As with most covered bonds in Europe, there are few restrictions or limitations on the future composition of the Cover Pool. This may have the effect of creating substitution risk. Mitigants to the substitution risk which should protect the quality of the Cover Pool over time include the following:

- The Eligibility Criteria;
- If the Asset Cover Test detects a deterioration of the assets, BFBP shall ensure that more collateral is added in order to satisfy the Asset Cover Test; and
- The Cover Pool composition will be monitored by Moody's.

The Home Loan Security

Credit Risk. The Home Loans included in the Cover Pool may be secured through either (i) a first ranking mortgage, or a second ranking mortgage, but only in the event that the relevant BP is also the beneficiary of the first ranking mortgage, or (ii) a guarantee which may be provided by a SOCAMI, by the CASDEN (each referred to as an "In-House Guarantor") or Credit Logement. There is a high degree of correlation between the credit strength of the Sponsor Bank and the credit strength of any of the In-House Guarantors. Accordingly, the quality of the guarantee securing the receivables of the relevant BP under a Home Loans secured by an In-House Guarantor will be gradually adversely affected as the credit quality of the Sponsor Bank is reduced. Moody's believe that the above risk is mitigated by the following "**Home Loan Guarantee Triggers**": (A) upon the downgrading of the Sponsor Bank below A3, the In-House Guarantors must either credit to a reserve account (i) the amount necessary in order to register the mortgage in respect of each of the Home Loans guaranteed by it or (ii) an amount appropriate to compensate risks related to the its default under the guarantees it granted in respect of Home Loans as determined by the calculation agent, and (B) within 60 days from the downgrading of the Sponsor Bank of Baa2, (i) the BPs shall use all reasonable efforts (or shall ensure that the In-House Guarantors use all reasonable efforts) to create and register the mortgage rights securing the Home Loans with respect to which each In-House Guarantor has granted a guarantee or (ii) the BPs shall ensure that the relevant obligations of the In-House Guarantors are on their turn guaranteed or insured by an entity rated at least A3, or (iii) the BPs shall substitute the Home Loans guaranteed by In-House Guarantors by Home Loans secured by a mortgage or any Substitution Assets. For the purpose of such Asset Cover Test Home Loans that are not secured by a first ranking mortgage or do not have the benefit of a guarantee provided by a suitably rated entity will be ignored; and the failure to pass the Asset Cover Test will result – irrespective of any grace period - in a Group Event of Default.

5.3 Refinancing the Cover Pool

Covered Bonds will benefit from liquidity support.

Following Sponsor Bank Default, where the "natural" amortisation of the Cover Pool assets alone cannot be relied on to repay principal, Moody's assumes that funds must be raised against the Cover Pool at a discount if covered bondholders are to receive timely principal payment. After a Sponsor Bank Default the market value of these assets may to subject to substantial volatility. Examples of the stressed refinance margins used by Moody's for different types of prime quality assets are published in Moody's method piece.

Aspects specific to this programme that are refinancing positive include:

- the Covered Bonds will benefit from the liquidity support provided by the grace period contained in the swap and by the liquidity support provided through the Pre-Maturity Test.
- Aspects specific to this programme that are refinancing negative include:
- the Covered Bonds do not benefit from an extendable maturity.

Issuer level swap as a source of liquidity

The payment obligations of the Issuer under the swap will be subject to a nine-month grace period. Moody's view such structural feature as a form of liquidity support.

Cover Pool and Covered Bonds are denominated in the same currency

Hedging Strategy: while the Sponsor Bank is rated A1 or above, any market risk will be hedged in accordance with the Sponsor Bank's existing internal hedging policies

Hedging Strategy: upon the loss of A1, the Sponsor Bank shall ensure that the Cover Pool is hedged through a swap agreement

All Covered Bonds have an element of rating linkage to a) the transaction counterparties and b) the supporting collateral

5.4 Market Risk

The Cover Pool and Covered Bonds are denominated in the same currency. Accordingly as of the date of this report, investors are not exposed to any currency risk.

For so long as the Sponsor Bank is rated A1 or above, any market risk in respect of the Cover Pool will be hedged pursuant to the terms of the Sponsor Bank ' internal hedging policies. As of the date of this report, the Programme Loans to the BPs, the assets in the Cover Pool and the Covered Bonds are expected to be denominated in Euro. Any interest risk will be mitigated in accordance with the Sponsor Bank's internal hedging policies.

Under the terms of the hedging strategy contemplated by the Programme upon the loss of A1 by the Sponsor Bank, a swap agreement at the Issuer level and a swap agreement at the BFBP level will be entered into. Each of such swaps will be entered into not later than 30 days from the date on which such a downgrade has occurred. Failure to do so will constitute a Group Event of Default and an Issuer Event of Default. Such swaps will include the following provisions (i) standard substitution rating-based triggers, (ii) exclusion of bankruptcy as a termination event and (iii) transferability of the swap in full or in part. The swap counterparty in respect of the swap agreement at the Issuer level will be (i) the Sponsor Bank, provided that at the time the swap is entered into it is rated at least A1 or (ii) any other suitably rated swap counterparty.

Market Risk. Market risk is mitigated with the hedging strategy. The hedging strategy can be described as follows:

- For as long as the pool of eligible loans has not been transferred to the Issuer following an enforcement of the security rights granted to the Issuer, the obligations of the Issuer under the Covered Bonds will be hedged by the BPs according to their usual and current strategies and practices, which have not been reviewed by Moody's for the purpose of this transaction. **Mitigant:** The high rating of the Sponsor Bank is not only a reflection of its credit strength, but also of its competence in managing risk;
- Upon the loss of A1 by the Sponsor Bank, hedging in respect of the Cover Pool must be in place at the level of the Sponsor Bank in order to hedge interest rate and currency risks which would arise after enforcement by the Issuer of the pledge over the Eligible Assets. There is no reassurance that such hedging arrangements will be entered into in a timely manner. **Mitigants:** (i) the failure by the Sponsor Bank to enter into a compliant swap would trigger a Group Event of Default and an Issuer Event of Default; and (ii) the trigger for entering into a compliant swap has been set relatively conservatively.

6. DE-LINKAGE AND RATING SENSITIVITY

All Covered Bonds have an element of rating linkage to a) the transaction counterparties and b) the supporting collateral. Accordingly, the creditworthiness of the Covered Bonds will be affected by the credit strength of the transaction counterparties and the value of the Cover Pool.

One area of linkage impacting the majority of the Covered Bonds transactions relates to refinancing risk. This particular risk is more limited in the Programme than in many other covered bond programmes, due to the mechanics of the Pre-Maturity Test. However, there are a number of other areas of linkage that affect most covered bond programmes and these include:

- The dynamic nature of the transaction. For example, up to the default of the Sponsor Bank, new assets may be added to the Cover Pool, new bonds issued and new hedging arrangements entered into.
- More generally, the incorporation of the credit strength of the Sponsor Bank in Moody's rating method.

The probability of default on the Covered Bonds may diverge from what is expected for a Aaa senior unsecured debt instrument; however, Moody's primary rating target is expected loss

The correlation between the Sponsor Bank and the In-House Guarantors gives rise to an additional transaction-specific element of linkage.

The probability of default on the Covered Bonds may be higher than expected for **Aaa**-rated senior unsecured debt. However, Moody's primary rating target is the expected loss, which also takes severity into account, which in this case is consistent with a **Aaa** rating. Furthermore, the Covered Bonds will come under increasingly greater rating stress as the Sponsor Bank's credit strength deteriorates. This is a consequence of the linkage of the transaction to the probability of default of the Sponsor Bank.

The following are selected features that reduce the linkage of the Covered Bonds to the credit strength of the various transaction parties and the Cover Pool:

- The Asset Cover Test, which intends to ensure that the Cover Pool has substantial value at the time of the occurrence of a Group Event of Default.
- Liquidity provisions aimed at reducing the likelihood of any payment failure under the Covered Bonds following the occurrence of a Group Event of Default. This risk is mitigated by the cash collateral payments to be made by the BPs in the event that the Pre-Maturity Test is breached.
- Swap provisions aimed at reducing the impact on the Covered Bonds of a swap counterparty downgrade below certain pre-determined levels. These include the requirement that the swap counterparty posts collateral or finds a replacement following a downgrade below certain pre-agreed levels.
- The limited termination events under the swaps that would lead to a payment being made by the Issuer to the swap counterparty.
- Permitted Investments are restricted to assets with certain maturity profiles and minimum ratings.
- The Home Loan Guarantee Triggers.
- The Collection Loss Reserve Account mitigates the commingling risk in the event of the BFBP's insolvency.
- Upon the occurrence of a Group Event of Default, (i) the Cover Pool will be transferred to the Issuer and (ii) the borrowers under the Home Loans will be instructed to pay into an account in the name of the Issuer.

7. ORIGINATOR, SERVICER AND OPERATIONS REVIEW

Moody's has analysed the underwriting process as applied by the BPs. A summary of the analysis is contained under Appendix 3.

8. MONITORING

Moody's will monitor the Programme on an ongoing basis to ensure that its transaction continues to perform in the manner expected, including checking all supporting ratings and reviewing the assets on an ongoing basis. Any subsequent changes in the rating will be publicly announced and disseminated through Moody's Client Service Desk.

9. RELATED RESEARCH

For a more detailed explanation of Moody's approach to this type of transaction as well as similar transactions please refer to the following reports:

Rating Methodology

- [Moody's Rating Approach to European Covered Bond, June 2005 \(SF57011\)](#)

Special Report

- [European Covered Bond Legal Frameworks: Moody's Legal Checklist, December 2005 \(SF66418\)](#)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

APPENDIX 1: ASSET COVER TEST, AMORTISATION TEST, PRE-MATURITY TEST

Asset Cover Test

Asset Cover Test Date means the 20th day of each calendar month and each issuance date of a Series or a Tranche of Covered Bonds. The first Asset Cover Test Date shall be [·].

Asset Cover Test Calculation Period means, in relation to any Asset Cover Test Date, each period starting on, and including, the immediately preceding Asset Cover Test Date, and ending on, and excluding such Asset Cover Test Date.

Compliance with the Asset Cover Test requires compliance with the asset cover ratio R specified below (the **Asset Cover Ratio**). Such compliance is tested by the Calculation Agent from time to time subject to, and in accordance with, the relevant terms of the Facility and Security Agreement and the Calculation Agency Agreement.

The Asset Cover Ratio (R)

R means the following ratio which shall be at least equal to one (1) at each Asset Cover Test Date:

$$R = \left[\frac{\text{Adjusted Aggregate Asset Amount (AAAA)}}{\text{Aggregate Covered Bond Outstanding Principal Amount}} \right]$$

Whereby:

Aggregate Covered Bond Outstanding Principal Amount means, at any Asset Cover Test Date, the aggregate amount of principal (in Euro or Euro equivalent with respect to Covered Bonds denominated in a Specified Currency) outstanding at such date under all Covered Bonds.

Adjusted Aggregate Asset Amount (AAAA) means, at any Asset Cover Test Date:

$$(AAAA) = A + B + C + D - (HC + NC)$$

The Asset Cover Test is set such that the Adjusted Aggregate Asset Amount of the Collateral Security is at least equal to the outstanding balance of all Covered Bonds on the relevant calculation date.

Whereby:

A means the lower of:

-
- (a) the sum for each Home Loan being part of the Collateral Security of the lower of :
 - (i) that Home Loan Outstanding Principal Amount minus the Applicable Deemed Reductions, and
 - (ii) the LTV Programme Limit Percentage multiplied by the Indexed Valuation relating to that Home Loan minus the Applicable Deemed Reductions; and
 - (b) the sum of the outstanding principal amount of all the Home Loans of the Collateral Security Assets minus the Applicable Deemed Reductions multiplied by the Asset Percentage.
-

For such purpose, **Home Loan Outstanding Principal Amount** means, with respect to each relevant Home Loan, the amount of principal outstanding at the relevant date under such relevant Home Loan.

Any Home Loan within the Collateral Security that does not comply with Home Loan Eligibility Criteria will be removed from the Collateral Security Assets, and consequently no credit will be given to these Home Loans for the purpose of calculating the Asset Cover Test and consequently no credit will be given for the purpose of calculating the Asset Cover Test.

Applicable Deemed Reductions means the aggregate sum of the financial losses incurred by the Guarantors with respect to the Relevant Home Loans to the extent that such financial losses have been incurred as a direct result of a material breach of the Servicing Procedures by the Guarantors during the applicable Asset Cover Test Calculation Period (see “Collateral Security” for a description of the Servicing Procedures).

LTV Programme Limit Percentage means eighty per cent. (80%).

Indexed Valuation means at any date in relation to any Relevant Home Loan secured over any Property:

-
- (i) where the purchase price of the property is equal to or greater than the INSEE Indexed Valuation, the INSEE Indexed Valuation; or
-
- (ii) where the purchase price of the property is less than the INSEE Indexed Valuation, the Purchase Price of the property plus eighty per cent. of the difference between the INSEE Indexed Valuation and the Purchase Price of the property.
-

INSEE means the *Institut National des Statistiques et Etudes Economiques*.

INSEE Indexed Valuation means the purchase price of the relevant property increased or decreased as appropriate by the increase or decrease in the INSEE index since the date of the purchase price.

Purchase Price means in relation to any property, the purchase price of that property.

Asset Percentage means (i) ninety-two point five per cent. (92.5%) or (ii) such percentage figure as is determined on quarterly basis by the Calculation Agent.

B is equal to the aggregate amount of cash standing to the credit of the Cash Collateral Account, as reported by the Calculation Agent in the relevant Asset Report.

C equals the lesser of (i) aggregate value of Substitution Assets and (ii) the Substitution Asset Limit. The aggregate value of Substitution Assets will be determined by the BP Agent and reported to the Calculation Agent. Substitution Assets will be valued on the last Business Day of the calendar month immediately preceding each Asset Cover Test Date and be taken into account for their mark-to-market value at a discount based on a methodology agreed with the Rating Agencies.

D is equal to the aggregate value outstanding under all Permitted Investments, as determined by the Account Bank (or the Administrative Agent on its behalf) and reported to the Calculation Agent pursuant to the Issuer Cash Management and Bank Account Agreement. Permitted Investments will be valued on the last Business Day of the calendar month immediately preceding each Asset Cover Test Date and be taken into account for their mark-to-market value at a discount based on a methodology agreed with the Rating Agencies.

NC is equal to : $WAM * \text{Aggregate Covered Bond Outstanding Principal Amount} * \text{Carrying Cost Percentage}$, whereby WAM means the greater of (i) the weighted average maturity of Series of Covered Bonds outstanding as at the relevant Asset Cover Test Date and (ii) one (1) year, where **Carrying Cost Percentage** means 1.00 per cent. (1.00%).

HC is equal to (i) zero before any Issuer Hedging Agreement shall be entered into by the Issuer subject to, and in accordance with, the Hedging Strategy and (ii) otherwise, an amount equal to the payments due under the Issuer Hedging Agreements (plus interest thereon) within the period between two (2) interest payment dates (first day of such period included and last day of such period excluded) under the relevant Issuer Hedging Agreements plus two (2) months preceding the relevant Asset Cover Test Date.

Calculation of the Asset Cover Ratio (R)

On each Asset Cover Test Date, the Asset Cover Ratio (R) shall be calculated by the Calculation Agent according to the terms, definitions and calculation formula set forth above.

No later than three (3) Business Days following any Asset Cover Test Date, the Calculation Agent shall inform the Issuer, the Borrower and the BP Agent (with a copy to the Rating Agencies and to the Asset Monitor) of its calculation of the Asset Cover Ratio (R).

Non-Compliance with Asset Cover Test

Non-Compliance with the Asset Cover Test (the **Non-Compliance with Asset Cover Test**) would result from the Asset Cover Test Ratio (R) being less than one (1).

The Amortisation Test

"Amortisation Test Date" means the twentieth (20th) day of each calendar month following the enforcement of a Group Event of Default.

"Amortisation Test Calculation Period" means, in relation to any Amortisation Test Date, each period starting on, and including, the immediately preceding Amortisation Test Date, and ending on, and excluding such Amortisation Test Date.

Compliance with the Amortisation Test requires compliance with the amortisation ratio RA specified below (the **"Amortisation Ratio (RA)"**). Such compliance is tested by the Issuer Calculation Agent from time to time throughout the period following the enforcement of a Group Event of Default subject to, and in accordance with the Condition 5 (f) and the Calculation Services Agreement.

Amortisation Ratio or "RA" means the following ratio which shall be at least equal to one (1) at each Amortisation Test Date:

$$RA = \left[\frac{TAAA'}{ACBOPA} \right]$$

whereby:

"Aggregate Covered Bond Outstanding Principal Amount (ACBOPA)" means, at any Amortisation Test Date, the aggregate amount of principal (in euro or euro equivalent with respect to Covered Bonds denominated in a Specified Currency) outstanding at such date under all Covered Bonds.

"Transferred Aggregate Asset Amount (TAAA')" means, at any Amortisation Test Date:

$$(TAAA) = A + B + C + D + E - NC$$

whereby:

"A" is equal to the sum of all Transferred Home Loan Outstanding Principal Amounts of all Home Loans title to which has been transferred to the Issuer upon enforcement of the Collateral Security following the enforcement of a Group Event of Default (each, a **"Relevant Home Loan"**), as such Adjusted Home Loan Outstanding Principal Amounts will be calculated on the relevant Amortisation Test Date,

whereby:

"Transferred Home Loan Outstanding Principal Amount" means, with respect to each Relevant Home Loan, the Home Loan Outstanding Principal Amount of such Relevant Home Loan multiplied by M, where for all the Relevant Home Loans that are less than three (3) months in arrears, M = 1 and for all the Relevant Home Loans that are three (3) months or more in arrears, M = 0.7.

"Home Loan Outstanding Principal Amount" means, with respect to each Relevant Home Loan, the amount of principal outstanding at the relevant Amortisation Test Date under such Relevant Home Loan.

"B", "C", "D" and **"NC"** have the meaning ascribed to such terms, and shall be determined, on each relevant Amortisation Test Date, subject to, and in accordance with, the terms and formula described in **"The Asset Cover Test"** above.

"E" is equal to the aggregate amount of principal and interest payments, distributions, indemnities, insurance and other proceeds, payments under any Home Loan Security and other sums received during the applicable Amortisation Test Calculation Period by the Issuer from the borrowers under the Home Loans or other relevant entities under the Collateral Security Assets whose title has been transferred to the Issuer following enforcement of the Collateral Security, as the same shall be reported by the Issuer Calculation Agent on each Amortisation Test Date subject to, and in accordance with, the relevant terms of the Calculation Services Agreement.

The Pre-maturity Test

Compliance with the Pre-Maturity Test requires compliance with the ratings specified below with respect to the Borrower within each relevant Pre-Maturity Test Period.

For the purpose hereof:

"Pre-Maturity Test Period" means the period starting from, and including, the one hundred and eightieth (180th) Business Day preceding the Final Maturity Date of each series of Covered Bonds and ending on, and excluding, such Final Maturity Date.

“Pre-Maturity Ratings Required Levels” means the required credit ratings with respect to BFBP from any of S&P or Moody's, which are respectively at least A-1 (short-term) (S&P) or P-1 (short-term) (Moody's). The Calculation Agent shall monitor the compliance with the Pre-Maturity Ratings Required Levels Levels within any Pre-Maturity Test Period.

Non-Compliance with Pre-Maturity Test means the downgrading of BFBP below any of the Pre-Maturity Ratings Required Levels within any Pre-Maturity Test Period. As a consequence of a Non-Compliance with the Pre-Maturity Test:

- a) (a) within three (3) Business Days from the occurrence of such Non-Compliance with the Pre-Maturity Test, the Calculation Agent shall send to the Cash Collateral Provider a non-compliance notice (the Non-Compliance Notice) ; and
- b) (b) within thirty (30) Business Days from the receipt of any Non-Compliance, the Cash Collateral Provider shall fund the Cash Collateral Account up to an amount (the Cash Collateral Required Funding Amount or (CCRFA)) calculated by the Calculation Agent (and indicated in the relevant Non-Compliance Notice) as being the amount of cash to be funded by the Cash Collateral Provider into the Cash Collateral Account with respect to the relevant series of Covered Bonds so as to ensure that the total amount of cash funded by the Cash Collateral Provider into the Cash Collateral Account with respect to such series of Covered Bonds (the Cash Collateral Required Total Amount or (CCRTA)) is equal to:

“CCRTA” = (Covered Bond Principal Amount + Costs)

whereby:

“Costs” means the aggregate amount of fees, costs, expenses, taxes and other ancillary sums (excluding interest and principal amounts) scheduled to be payable by the Issuer within the relevant Pre-Maturity Test Period under the relevant series of Covered Bonds.

“Covered Bond Principal Amount” means the aggregate amount of principal (in Euro or Euro equivalent with respect to Covered Bonds denominated in a Specified Currency) scheduled to be redeemed at the Final Maturity Date of the relevant series of Covered Bonds.

“Breach of Pre-Maturity Test” means the failure by the Cash Collateral Provider to fund the Cash Collateral Account up to the CCFRA within the required period following the occurrence of a Non-Compliance with the Pre-Maturity Test. A Breach of Pre-Maturity Test shall result in the occurrence of a Group Event of Default under the Facility and Security Agreement.

APPENDIX 2: ELIGIBILITY CRITERIA

- (a) prior to the date upon which the Home Loan had been made available to the borrower thereof, all lending criteria and preconditions as applied by the originator of the Home Loan pursuant to its customary lending procedures were satisfied;
- (b) the purpose of the Home Loan is either to buy, to renovate, to build or to refinance a property;
- (c) the underlying property is located in France;
- (d) the underlying property is residential, not commercial;
- (e) the Home Loan is governed by French law;
- (f) the Home Loan is denominated in Euro;
- (g) the Home Loan is either a fixed-rate loan or a floating-rate loan;
- (h) the borrower under the Home Loan is an individual;
- (i) all sums due under the Home Loan (including interest and costs) are secured by a mortgage (*hypothèque* or *privilege des deniers*) or guaranteed by a SOCAMI, the CASDEN or by the Credit Logement;
- (j) as of the date the Home Loan is registered in the Cover Pool, the current principal balance of such Home Loan is no more than Euro 1,000,000;
- (k) the loan-to-value (**LTV**) of the Home Loan is no more than one hundred per cent. (100%);
- (l) as of the date the Home Loan is registered in the Cover Pool, the remaining term for the Home Loan is less than thirty (30) years;
- (m) as of the date the Home Loan is registered in the Cover Pool, the borrower under the Home Loan has paid at least one (1) installment in respect of the Home Loan;
- (n) the borrower under the Home Loan is not an employee of the originator of such Home Loan;
- (o) the Home Loan is current (i.e. does not present any arrears) as of the date the Home Loan is registered in the Cover Pool;
- (p) the Home Loan is either monthly, quarterly or bi-yearly amortising as of the date the Home Loan is registered in the Cover Pool;
- (q) the Home Loan qualifies as sound under the flagging criteria of the Banques Populaires Group IT systems;
- (r) the borrower under the Home Loan is not rated 9 or above under the criteria of the Banques Populaires Group IT systems (as described in "Origination of the Home Loans - Decision Procedure");
- (s) the borrower under the Home Loan does not benefit from a contractual right of set-off;
- (t) the opening by the borrower under the Home Loan of a bank account dedicated to payments due under the Home Loan is not provided in the relevant contractual arrangements as a condition precedent to the originator of the Home Loan making the Home Loan available to the borrower under the Home Loan;
- (u) except where prior Rating Confirmation has been obtained, no amount drawn under the Home Loan is capable of being redrawn by the borrower thereof.

The Eligibility Criteria may be amended from time to time subject to prior Rating Confirmation.

APPENDIX 3: INCOME UNDERWRITING AND VALUTATION

1. INCOME UNDERWRITING

1.1. Is income always checked?

Yes.

For employed borrowers, income is always checked on the basis of at least the 3 most recent monthly salary slips, the most recent tax statement and the 3 most recent monthly bank statements (the BP needs evidence of an employment history of at least 3 months).

For self-employed borrowers, income is always checked on the basis of 3 balance sheet and 2 P&L accounts as certified by an external auditor (the BP needs an employment history of at least 3 years), the most recent tax statement and the 3 most recent monthly bank statements.

No loans are granted to an unemployed person.

With respect to borrowers with a permanent contract, the BPs do not require a minimum duration of the employment with current employer, except Banque Populaire Rives de Paris (which accounts for 44% of the current pool) which requires a minimum period of employment with current employer of 6 months.

With respect to borrowers with no permanent contract, BPs have no rule restricting application by these candidate-borrowers, except (i) Banque Populaire Rives de Paris and Banque Populaire de la Cote d'Azur, both of which require that the candidate have a renewed "renewable" employment contract and except (ii) Banque Populaire Loire et Lyonnais, which requires that the candidate have at least an employment history of 3 years.

1.2. Does this check ever rely on income stated by borrower ("limited income verification") income stated by the borrower?

No.

1.3. Percentage of loans in Cover Pool that have limited income verification

None

1.4. If limited income verification loans are in the Cover Pool, describe what requirements lender has in place for these loans.

Not applicable – none in Cover Pool

1.5. Does income in all cases constrain the amount lent (for example through some form of Income Sufficiency Test ("IST"))?

No.

As a matter of rule, the Debt-to-Income ("DTI" or "*taux d'effort*") limit assigned to a relationship manager is not higher than 33% or, in the case of loans guaranteed by Casden, not higher than 39%. Loans guaranteed by CASDEN are loans granted to civil servants of the Administration for Education. In the event the DTI is higher than 33% (respectively 39% in relation to Casden guaranteed loans), the underwriting decision will be taken by a higher authority than the relationship manager and the 33%, respectively 39%, may be exceeded on a case-by case basis.

With respect to the income sufficiency test ("IST"), the main criteria are the DTI, and, for some BPs, the available income per family member ("*Family Ratio*" or "*Quotient Familial*"). The Family Ratio is determined pursuant to a table specifying the minimum amount of income after tax, which must be available per person for a single person, a couple, a family with 1 child, with 2 children, etc. The table is specific for each BP, however, the differences are not significant. The members in the family, the lower the required minimum income.

The DTI is computed as follows:

D = The sum of
 (i) amounts due under existing consumer loans (e.g. a car loan); plus
 (ii) amounts due under a life annuity (“*rente viagere*”); plus
 (iii) amounts, which will be due under the mortgage loan for which application is made.
Note: with respect item (iii) above, with respect to fix rate loans, the actual monthly (or other) payments will be taken into account; with respect to variable rate loans, the cap interest rate is taken into account (i.e. the rate as set at the start of the loan plus maximum 2%); where the interest rate or the principal repayments varies over the duration of the loan, the highest amount of payments are taken into account; there are no interest-only; there are a few semi-variable loans where the fix rate is amended according to the loan agreement to another contractually determined fix rate more than 5 years after origination (0.1% of the outstanding of the Cover Pool) (in such case, the highest amount of payment is taken into account) and there are no flexible loans where the amount drawn is capable of being redrawn).

I = (i) Basic salary (excluding bonus and car allowance) after tax; plus
 (ii) 70% of rents (provided the rents are stable since 3 years or longer); plus
 (iii) Allowances for children (when age of children complies with the maturity of the loan) ; less
 (iv) Alimonies
NB: Income from capital is not taken into account.

- 1.6. If not, what percentage of cases are exceptions. We do not know to which extent and how often these percentages are exceeded. However, Moody’s has been informed that 48.4 % of the current pool are Home Loans guaranteed by a SOCAMI. For these loans the DTI never exceeds 33%.
- For the purposes of any IST**
- 1.7. Is it confirmed income after tax is sufficient to cover both interest and principal. Yes, there are no interest-only loan in the Cover Pool (all the loans are amortising) and it is part of the underwriting procedure to verify that there is sufficient income (after tax) available either on the basis of the DTI test or, if the DTI ratio is exceeded, on the basis of a case-by-case analysis of the applicant’s profile.
- 1.8. If so over what period is it assumed principal will be paid (typically on an annuity basis)? Any exceptions? The period that is taken into account to establish the burden of the debt due to the loan is the effective duration over which the loan is repaid. Loans in the Cover Pool have a maximum duration of 20 years.
- 1.9. Does the age of the borrower constrain the period over which principal can be amortised? Yes, it will depend on the length of the insurance policy.
- 1.10. Are any stresses made to interest rates when carrying out the IST? If so when and for what type of products? Yes. For floating rate loans (less that 4% of the Cover Pool), the stress used is the highest applicable interest rate according to the contractual cap of such rate. In case of fixed rate loans whereby the amortisation rate is lower at the beginning of the loan and increased at a later stage, the debt burden taken into account is the highest burden over the entire life of the loan. There is otherwise no need to stress fixed rate loans.
- 1.11. Are all other debts of the borrower taken into account at point loan made? Yes, all consumer loans as serviced from any account of the borrower held at any BP and, if services from an account outside the BPs, as indicated by the borrower (the borrower being contractually obliged to provide such information to the BP at the time the Home Loan is entered into).
- 1.12 How are living expenses of the borrower calculated? And what is the stated maximum percentage of income (or income multiple if relevant) that will be relied on to cover debt payments. (specify if income is pre or post tax) Expenses are taken into account in the DTI percentages. Exception to the DTI rules will not be made on the basis of decreased living expenses in general, but rather on the basis of the specific profile of the applicant.
- Other comments NA

2. VALUATION

2.1. Are valuations based on market or lending values?	The valuations are based on the purchase price.
2.2. Are all or the majority of valuations carried out by external (with no direct ownership link to any company in the Sponsor Bank group) valuers?	NA
2.3. How are valuations carried out where an external valuer is not used?	NA
2.4. What qualifications fo external valuers require?	NA
2.5. What qualifications do internal valuers require?	NA
2.6. Do all external valuations include an internal inspection of a property?	NA
2.7. What exceptions if any?	No exceptions
2.8. Do all internal valuations include an internal inspection of a property?	NA
2.9. What exceptions if any?	NA
Other comments	NA

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