

Credit Opinion: [GarantiBank International N.V.](#)

GarantiBank International N.V.

Amsterdam, Netherlands

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	A3/P-2
Bank Financial Strength	C
Subordinate -Dom Curr	Baa1
Parent: Türkiye Garanti Bankası AS	
Outlook	Stable
Bank Deposits -Fgn Curr	B1/NP
Bank Deposits -Dom Curr	A3/P-2
Bank Financial Strength	C-

Contacts

Analyst	Phone
Virginie Merlin/Paris	33.1.53.30.10.20
Stephane Le Priol/Paris	
Reynold R. Leegerstee/London	44.20.7772.5454

Key Indicators

GarantiBank International N.V.

	[1]2007	2006	2005	2004	2003	Avg.
Total assets (EUR billion)	3.39	2.86	2.28	1.91	1.76	[2]17.43
Total capital (EUR billion)	0.30	0.26	0.21	0.21	0.20	[2]10.67
Return on average assets	1.12	0.92	0.99	1.26	1.06	1.07
Recurring earnings power [3]	1.47	1.44	1.59	1.79	1.67	1.59
Net interest margin	1.46	1.56	1.88	2.01	1.92	1.76
Cost/income ratio (%)	39.85	44.29	45.52	44.44	51.01	45.02
Problem loans % gross loans	0.04	0.26	0.21	0.65	0.77	0.38
Tier 1 ratio (%)	11.00	10.70	14.00	17.39	19.23	14.46

[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 GarantiBank International N.V. (GBI), which translates into a Baseline Credit Assessment (BCA) of A3. The rating reflects GBI's role as a niche player in the competitive segment of international trade and commodity finance, strong financial fundamentals and asset quality, historically low credit losses, reliable funding profile and solid profitability, while also taking into consideration the bank's exposure to emerging markets, particularly the risks associated with the Turkish market and the CIS countries.

GBI's long-term global local currency (GLC) deposit ratings of A3/Prime-2 are at the same level as its BCA and do not incorporate any likelihood of systemic support. The probability of support from the parent, Türkiye Garanti Bankası A.S. (rated A3/P-2/D+ domestic currency and B1/NP foreign currency), is very high, but the GLC deposit ratings to do receive any uplift given the Turkish country ceiling.

Credit Strengths

- An established franchise with a good competitive position, albeit in the relatively narrow niche of trade finance
- Consistent revenue generation and profitability, mainly built on expertise relating to trade finance and commodity finance risk-taking in emerging markets
- Good risk management practices as evidenced by the Dutch central bank's approval of the Basel II internal ratings based approach
- Solid asset quality and capitalisation
- Operational independence from parent bank in Turkey

Credit Challenges

- Limited earnings diversification despite the creation of a new division dedicated to structured finance
- Potential volatility of revenues linked to treasury activities as well as commodity finance
- Significant and increasing exposure to emerging markets, which could adversely affect the bank's earning stability
- Risk concentrations, both geographic and in terms of counterparties

Rating Outlook

The stable outlooks on GBI's ratings reflect Moody's expectation that the bank's business and operating model should continue to deliver reasonable pre-provision profitability, restrained risk costs and problem loans, and thus a high degree of internal capital generation, which also benefits from the non-payment of dividends to its shareholder. The outlook also assumes that the current strategy will prevail - namely, continued growth through GBI's proven core strengths in trade finance and private banking, the gradual establishment of a physical presence in a number of targeted countries (thus, increasing diversification and reducing the proportion of exposure to Turkey) and selective risk appetite.

What Could Change the Rating - Up

A combination of the following factors would be likely to exert upward pressure on the BFSR :

- A clear demonstration of diversification of revenues and increased earnings stability, sufficient to mitigate generalised event risks affecting groups of emerging markets, through the increased contribution of private banking profits and/or the geographic expansion of trade finance activities
- Continued reduction in individual borrower and sector risk, geographic concentrations and related-party exposures
- Internal capital generation sufficient to ensure a high level of Tier 1, driving the surplus above the level demanded by regulatory capital requirements
- Improvements in risk-adjusted profitability ratios

What Could Change the Rating - Down

Factors which would likely exert downward pressure on the BFSR include:

- Significant deterioration in credit underwriting conditions or standards in trade and commodity finance leading to an increased credit risk cost and/or a deterioration in asset quality
- Increases in borrower, sector risk, and geographic concentrations, as well as in related-party lending ratios
- An increased dependence on volatile earnings, especially treasury revenues, and a resulting higher market risk appetite
- A deterioration in the capital surplus regulatory capital requirements

Recent Results and Developments

For full-year 2007, consolidated net profit increased to EUR 35 million from EUR 23.5 million in 2006 with consolidated pre-provision profit rising to EUR 46 million in 2007 from EUR 37 million in 2006. GBI's total consolidated assets increased to EUR 3.395 billion at 31 December 2007 and to EUR 3.463 billion at end-June 2008 from EUR 2.856 billion at 31 December 2006, with shareholders' funds rising to EUR 217 million from EUR 182 million (EUR 235 million at end-June 2008).

DETAILED RATING CONSIDERATIONS

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

Bank Financial Strength Rating

Moody's assigns a C BFSR to GBI, reflecting the bank's role as a niche player in the competitive segment of international trade and commodity finance, strong financial fundamentals and asset quality, historically low credit losses, reliable funding profile and solid profitability, while also taking into consideration the bank's exposure to emerging markets, particularly the risks associated with the Turkish market and the CIS countries.

As a point of reference, GBI's BFSR of C is one notch lower than the C+ outcome of Moody's bank financial strength scorecard. We believe that the C rating is an appropriate measure of the bank's financial strength given its geographic mix of earnings and assets, and the still high level of credit risk concentration. We also believe the scorecard failed to capture the higher capital requirements applicable to GBI in light of its size and business mix.

QUALITATIVE RATING FACTORS (50% WEIGHTING)

FACTOR 1: FRANCHISE VALUE

Trend: Neutral

GBI is a Netherlands-based niche commercial bank specialising in trade and commodity finance. Apart from its two core customer franchise units, (i) international trade finance and (ii) private banking, in 2008 it created a new division dedicated to structured finance activity in shipping, project finance (activities in which the bank already benefits from a certain level of expertise) and Islamic finance (a new activity for the bank). The activities of these business units are supported and augmented in terms of revenues by a treasury unit and by direct retail banking deposit-taking.

Trade finance accounted for 55% of revenues in H1 2008, while treasury - including the spread from direct retail deposit-taking activities - and private banking accounted for 25% and 15%, respectively. Although treasury activities are mainly designed to serve clients, a stable 20% of the trading gains stem from proprietary trading. The key trade finance business - despite having well-established and efficient processes and a client franchise that is proven to be durable - nevertheless, has a limited (albeit growing) presence outside the relatively narrow niche of trade finance related to Turkey. Despite this, the franchise value score may improve given the potential increased contribution of private banking and greater geographic diversification.

The overall franchise value score of D is in part due to GBI's relatively poor earnings stability/diversification and market share and sustainability, which reflect the bank's narrow niche presence.

FACTOR 2: RISK POSITIONING

Trend: Improving

GBI's related-party exposures have declined dramatically, to 13.2% of shareholders' equity at end-June 2008 from 62.7% in 2006, which is viewed as a very good sign. However, in terms of credit risk concentration, there are still some significant large exposures, with the top 20 corporate loans amounting to over 200% of Tier 1 capital. The largest exposures to emerging markets-based banks also aggregate to a level above this threshold. The Turkish sovereign bond exposure is notable in terms of concentration risk, although this has been falling over time. Additionally, Moody's closely monitors GBI's increasing exposure to Russia, for which Moody's views the credit outlook as negative, reflecting concerns over major structural weaknesses that became particularly apparent during the Russian stock market crisis in September 2008. For more information on this issue, please refer to Moody's latest Banking System Outlook on Russia.

Weak scores for the risk management and financial disclosure sub-factors arise from: (i) the lack of a formal role for the supervisory board in risk appetite-setting; (ii) the fact that reporting on doubtful loans and/or non-performing loans (which are at low levels) to internal governance structures and externally appear not to conform to international standards; and (iii) the absence of a veto for the chief risk officer. However, Moody's positively notes that the bank is one of the five Dutch banks to be ready for the Basel II internal ratings based approach in 2008.

GBI, indeed, has advanced credit monitoring processes and practices and selective credit selection. In general, the control culture appears to be tight. Turkish and other sovereign bond position risks are limited, not only by nominal limits applying to the trading and investment books, but also through tighter currency position risks aimed at minimising outright currency mismatches.

Liquidity risk management appears prudent, with the bank able to use its experience of the banking crisis affecting Turkey in 2000 and 2001, during which the retail deposits from Germany and the Netherlands proved sticky, in order to determine the size of the liquidity reserve and the extent of bilateral facilities. The latter have been diversified and are regularly tested for availability, while the subordinated bond issuance has also added to funding diversification.

GBI's overall score of D- for risk positioning is in part a result of Moody's assessment of its borrower concentration and risk governance structures, despite the significant decline in related-party exposures that leads to an improving trend.

FACTOR 3: REGULATORY ENVIRONMENT

All Netherlands-based banks are subject to the same score for the regulatory environment. This factor does not address bank-specific issues; instead, it evaluates whether regulatory bodies are independent and credible, demonstrate enforcement powers and adhere to global standards of best practices for risk control. For more information on the regulatory environment, refer to Moody's latest Banking System Outlook on the Netherlands.

FACTOR 4: OPERATING ENVIRONMENT

Trend: Neutral

This factor applies to all Netherlands-based banks. However, in this case, the operating environment is based on the estimated weighted average of the scores for the countries that account for GBI's assets and revenues. As such, the importance of Turkey as well as the growing weight of the CIS in GBI's activities (especially Russia, where the outlook assigned by Moody's to the banking system is negative), is a key element in weakening this score from A to D. For more information on the operating environment, refer to Moody's latest Banking System Outlook on the Netherlands.

QUANTITATIVE RATING FACTORS (50% WEIGHTING)

FACTOR 5: PROFITABILITY

Trend: Neutral

With a risk-weighted recurring earnings power ratio of 2.97% in 2007, GBI's risk-adjusted pre-provisions profitability is excellent, reflecting the relatively high margin of structured and trade finance businesses and the spreads on Turkish government bonds. In accounting terms, the revenue mix in 2007 was broadly similar to that prevailing in full years 2006 and 2005, with interest income representing around 53% of operating income, fee and commission income 29% (mostly from non-volatile activities) and trading profit 18%. Risk-weighted assets (RWAs) have been rising at a fast rate, (up to EUR 1.966 billion at end-June 2008 from EUR 1.668 billion at year-end 2007 under Basel II) as a result of the implementation of the Basel II-based regulatory regime.

The ratio for net income on risk-weighted profitability has risen to 2.10% in 2007 from 1.68% in 2006 due partly to the decrease in RWAs in 2006 and 2007. However, as previously stated, RWAs are not expected to decrease further.

In Moody's view, the score of B is an appropriate measure of GBI's risk-weighted profitability.

FACTOR 6: LIQUIDITY

Trend: Neutral

GBI has an very strong liquidity ratio, arising mainly from the weight of deposits gathered through the resilient direct retail deposit base. The ratio has, however, weakened to around -30% in 2006 and 2007 from -48% in 2004 as a result of the bank choosing to no longer have deposit rates at the top end of "best buy" tables for direct deposits, given (i) excess liquidity and (ii) less attractive reinvestment yields in relation to the top rates. Therefore, although the amount of deposits has increased, its relative weight compared to the balance sheet size has decreased, the loans to deposit ratio increasing from 39% in 2004 to 55% in 2007.

The decline of the ratio is also a result of the fact that interest-bearing securities have risen on the balance sheet, to EUR 664 million at end-June 2008 from EUR 424 million at year-end 2006 and EUR 568 million at year-end 2007. Moody's also cautions that the portfolio mainly comprises securities from emerging countries (chiefly Turkey and Russia), which may prove less liquid than expected in a stress situation.

The overall liquidity score is B-.

FACTOR 7: CAPITAL ADEQUACY

Trend: Neutral

GBI's extremely strong capital adequacy ratios stabilised in 2007, after a significant decline in 2005 and 2006. However, the capital adequacy ratios remain within the A range: Tier 1 was 17.4% in 2004, 14.0% in 2005, 10.7% in 2006 and 11% in 2007, while the tangible common equity-to-RWAs ratio was at 17.4%, 16.1%, 12.75% and 13.19% in those years, respectively.

However, Moody's considers a downward adjustment of the scorecard outcome for this factor to be more appropriate, reflecting the following considerations:

- (i) the higher minimum capital ratios requirements of the Dutch regulator applicable to GBI and similar banks, meaning that the "headroom" over the regulatory requirement is lower than might appear;
- (ii) the increase in RWAs as calculated under Basel II, arising from the fact that Turkish interbank and sovereign exposures no longer benefit from the current favourable treatment of Turkey (20% for interbank, 0% for sovereign) on the grounds that it is an Organisation for Economic Cooperation and Development country;
- (iii) rapid growth in RWAs under the current basis of calculation, which weighs on the capital adequacy score; and
- (iv) the forthcoming operational risk charge and risk concentrations under the second pillar of Basel II.

However, Moody's views positively the fact that GBI has made significant efforts in terms of Basel II implementation as well as its adoption of the internal ratings based approach to the credit risk calculation. GBI also opted for the standardised approach to market risk and for the basic indicator approach to operational risk.

Additionally, we note that GBI has been taking measures to bolster capital adequacy, in particular by forgoing the payment of a dividend to the parent in 2008 financial year 2007 account, an action that was repeated from the year before. That said, Moody's will continue to monitor the development of capital adequacy ratios closely, especially in view of the recent market conditions.

The overall capital adequacy score is A.

FACTOR 8: EFFICIENCY

Trend: Neutral

GBI has benefited from scale efficiencies in processing trade finance, while, at the same time, management has maintained strict control over expenses in recent years, resulting in a significant improvement in efficiency ratios. This trend was confirmed in 2007 with the cost-to-income ratio at 39.85%, down from 44.29% in 2006.

The score for efficiency is A.

FACTOR 9: ASSET QUALITY

Trend: Neutral

GBI's extremely tight credit selection, based in particular on a dual counterparty risk and transaction risk scoring system and "intelligent" systems driving this process, has contributed to extremely low credit losses. The ratios have improved partly as a result of the bank's withdrawal from consumer finance in 2004. Asset quality ratios continued to be low in 2007.

The score for asset quality is A.

Global Local Currency Deposit Rating (Joint Default Analysis)

GBI's GLC deposit ratings of A3/Prime-2 are in line with its BCA. GBI is a 100% owned subsidiary of Türkiye Garanti Bankası A.S. (Garanti, rated A3/P-2/D+ domestic currency and B1/NP foreign currency). GE Consumer Finance, a subsidiary of GE Capital Corporation (Aaa/P-1), is a key strategic shareholder in Garanti through a 25.5% interest it has pooled in a voting block with a 25.9% interest held by the Dogus Group of Turkey. Despite Moody's assessment of the very high probability of parental support, GBI's ratings cannot enjoy any uplift from Garanti's B1 foreign currency rating of, which is constrained by Turkey's country ceiling. Moody's views the probability of systemic support for GBI and similar Netherlands-based banks as zero.

Notching Considerations

In line with Moody's notching guidelines published in April 2007, GBI's dated and perpetual subordinated debt is rated at Baa1, i.e. one notch below the bank's senior debt rating.

Foreign Currency Deposit Rating

GBI's foreign currency deposit ratings of A3/Prime-2 are not constrained by the Dutch country ceiling for foreign currency deposits.

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 honour 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

GarantiBank International N.V.

Rating Factors [1]	A	B	C	D	E	Total Score	Trend
Qualitative Factors (50%)						D+	
Factor: Franchise Value						D	Neutral
Market Share and Sustainability				x			
Geographical Diversification			x				
Earnings Stability					x		
Earnings Diversification [2]							
Factor: Risk Positioning						D-	Improving
Corporate Governance [2]							
- Ownership and Organizational Complexity	--	--	--	--	--		
- Key Man Risk	--	--	--	--	--		
- Insider and Related-Party Risks	--	--	--	--	--		
Controls and Risk Management		x					
- Risk Management			x				
- Controls	x						
Financial Reporting Transparency				x			
- Global Comparability	x						
- Frequency and Timeliness				x			
- Quality of Financial Information					x		
Credit Risk Concentration	--	--	--	--	--		
- Borrower Concentration	--	--	--	--	--		
- Industry Concentration	--	--	--	--	--		
Liquidity Management			x				
Market Risk Appetite			x				
Factor: Operating Environment						A	Neutral
Economic Stability	x						
Integrity and Corruption	x						
Legal System	x						
Financial Factors (50%)						B+	
Factor: Profitability						B	Neutral
PPP % Avg RWA		2.93%					
Net Income % Avg RWA		1.96%					
Factor: Liquidity						B-	Neutral
(Mkt funds-Liquid Assets) % Total Assets	-32.50%						
Liquidity Management			x				
Factor: Capital Adequacy						A	Neutral
Tier 1 ratio (%)	11.90%						

Tangible Common Equity % RWA	13.19%						
Factor: Efficiency						A	Neutral
Cost/income ratio	43.22%						
Factor: Asset Quality						A	Neutral
Problem Loans % Gross Loans	0.17%						
Problem Loans % (Equity + LLR)	0.78%						
Lowest Combined Score (15%)						B-	
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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