

## CREDIT OPINION

14 June 2017

Update

Rate this Research >>

### RATINGS

#### Sparebanken Oest

Domicile	Norway
Long Term Deposit	A3
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

### Contacts

Melina Skouridou, 357-2569-3021  
CFA  
AVP-Analyst  
melina.skouridou@moody's.com

Effie Tsotsani 4420-7772-1712  
Analyst  
effie.tsotsani@moody's.com

Louise Eklund 46-8-5025-6569  
Associate Analyst  
louise eklund@moody's.com

Jean-Francois Tremblay 44-20-7772-5653  
Associate Managing Director  
jean-francois.tremblay@moody's.com

## Sparebanken Oest

### Credit Opinion: Semi Annual Update

#### Summary Rating Rationale

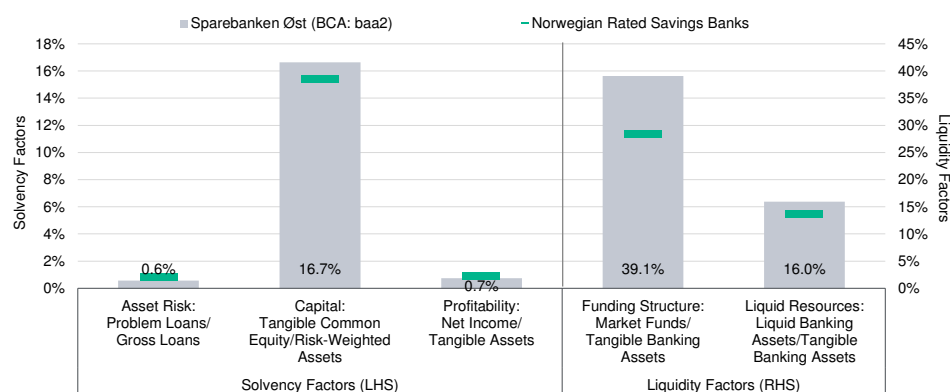
Sparebanken Øst's A3 long-term deposits and issuer ratings are driven by the bank's baa2 baseline credit assessment (BCA) and the application of our Advanced Loss Given Failure (LGF) analysis, which results in two notches of uplift. The uplift is driven by the large volume of deposits, and senior and subordinated debt that is available to absorb losses, reducing the expected loss for the bank's senior creditors.

Sparebanken Øst's baa2 BCA is driven by its improved asset quality, increased coverage of problem loans by its loan loss reserves as well as its better-than peers capital buffers. These rating strengths are balanced against the bank's elevated concentration to the real estate sector, its higher than peers reliance on market funding and the strong competition in its home region, which constrains its profitability.

Because of its small size, Sparebanken Øst's ratings do not benefit from government support uplift.

Exhibit 1

#### Key Financial Indicators - As of March 2017



Note: Figures for Norwegian rated savings banks are based on latest available data  
Source: Moody's Banking Financial Metrics

## Credit Strengths

- » Strengthened capital buffers which compare favorably with those of similarly rated Norwegian savings banks
- » Improving asset quality, though concentration to the commercial real estate sector raises asset risk
- » Large volume of deposits and debt provide uplift to deposit ratings

## Credit Challenges

- » Sparebanken Øst maintains a sizeable reliance to confidence sensitive market funding
- » Core profitability showing signs of improvement but strong competition in its region constrains Øst business growth

## Rating Outlook

The stable outlook assigned to the bank's A3 deposit and issuer ratings reflects our view that the bank's financials will remain broadly resilient over the next 12-18 months.

## Factors that Could Lead to an Upgrade

Upward rating pressure could develop if Sparebanken Øst demonstrates:

- » Continued low levels of problem loans and a decline in sector/single borrower concentration while maintaining adequate cash coverage of problem loans
- » Continued access to the debt markets without significant changes in pricing
- » Resilient earnings generation without an increase in its risk profile or worsening in its business development

## Factors that Could Lead to a Downgrade

Future downward rating pressure would emerge if:

- » Sparebanken Øst's risk profile increases as a result of increased concentration, for example if construction and real-estate concentration or top-20 client concentration as a percent of Core Tier 1 Capital exceeds 150% or if its problem loan ratio increases above our system wide expectation of approximately 2%
- » Financing conditions become more difficult
- » The macroeconomic environment deteriorates, leading to a lower Macro Profile.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

## Key Indicators

Exhibit 2

### Sparebanken Oest (Consolidated Financials) [1]

	3-17 <sup>2</sup>	12-16 <sup>2</sup>	12-15 <sup>2</sup>	12-14 <sup>2</sup>	12-13 <sup>3</sup>	CAGR/Avg <sup>4</sup>
Total Assets (NOK billion)	36	36	34	35	31	5.0 <sup>5</sup>
Total Assets (EUR million)	3,970	3,943	3,589	3,858	3,727	2.0 <sup>5</sup>
Total Assets (USD million)	4,246	4,158	3,899	4,669	5,136	-5.7 <sup>5</sup>
Tangible Common Equity (NOK billion)	3.0	3.0	2.8	2.6	2.3	8.4 <sup>5</sup>
Tangible Common Equity (EUR million)	322	331	288	287	272	5.3 <sup>5</sup>
Tangible Common Equity (USD million)	344	349	313	347	375	-2.6 <sup>5</sup>
Problem Loans / Gross Loans (%)	0.6	0.7	0.9	1.5	1.9	1.1 <sup>6</sup>
Tangible Common Equity / Risk Weighted Assets (%)	16.7	17.0	15.9	14.6	14.7	16.0 <sup>7</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	5.6	6.7	8.4	15.5	20.7	11.4 <sup>6</sup>
Net Interest Margin (%)	1.5	1.6	1.7	1.8	1.9	1.7 <sup>6</sup>
PPI / Average RWA (%)	2.1	2.4	1.9	2.3	2.7	2.2 <sup>7</sup>
Net Income / Tangible Assets (%)	0.7	0.9	0.7	0.9	0.9	0.8 <sup>6</sup>
Cost / Income Ratio (%)	45.5	39.1	46.9	41.7	41.9	43.0 <sup>6</sup>
Market Funds / Tangible Banking Assets (%)	39.1	38.2	39.7	41.0	38.5	39.3 <sup>6</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	15.9	14.7	16.3	14.4	14.6	15.2 <sup>6</sup>
Gross Loans / Due to Customers (%)	220.7	214.6	213.5	215.2	206.5	214.1 <sup>6</sup>

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel III - fully-loaded or transitional phase-in; IFRS [3] Basel II; IFRS [4] May include rounding differences due to scale of reported amounts [5] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime [6] Simple average of periods presented for the latest accounting regime. [7] Simple average of Basel III periods presented

Source: Moody's Financial Metrics

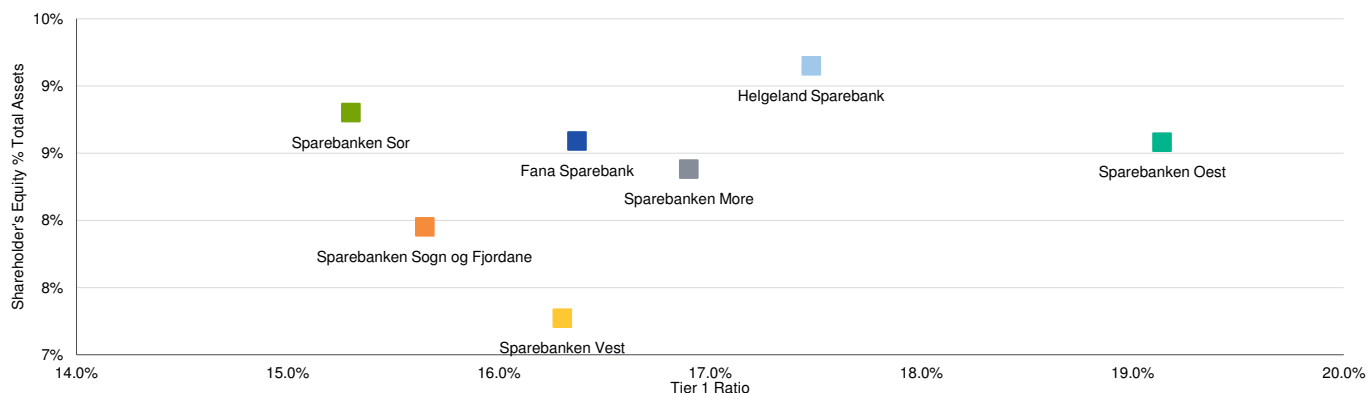
## Detailed Rating Considerations

### Strengthened Capital Buffers, Which Compare Favorably With Similarly Rated Norwegian Savings Banks

Sparebanken Øst's capital buffers have improved over the last years reflecting higher regulatory requirements. As of March 2017, Sparebanken Øst's Common Equity Tier 1 capital (CET1) ratio was 17.2%<sup>1</sup> (March 2016: 16.1%, Dec 2016: 17.21%). The bank's CET1 levels compare favorably with other Norwegian savings banks and exceed both the regulatory requirement of 13.8% (including a Pillar 2 requirement of 2.3% for Sparebanken Øst) and the bank's 14.50% targeted level. Sparebanken Øst also reports a high leverage ratio, which stood at 9.1% as of March 2017<sup>2</sup>.

Exhibit 3

### Improved capital levels driven by higher regulatory targets compare favorably with peers



Note: Figures as of March 2017 apart from figures for Fana Sparebank, which are as of December 2016

Source: Moody's Banking Financial Metrics

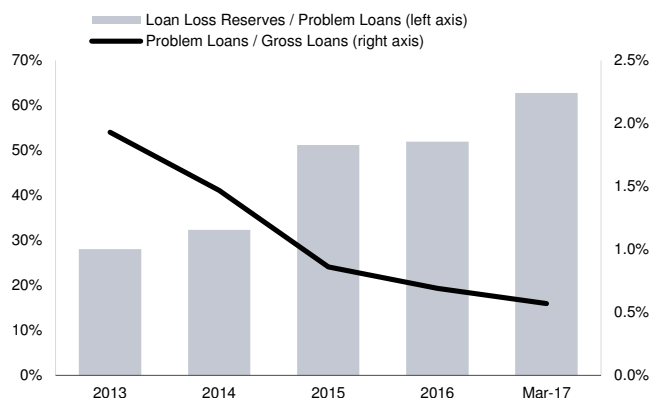
### Improving Asset Quality Though Concentration To The Commercial Real Estate Sector Raises Asset Risk

We expect Sparebanken Øst's asset quality metrics to remain strong reflecting its focus on mortgage lending and limited lending to business customers. The twelve month growth rate in net lending to retail customers was 7.3% at end-March 2017 whilst the net lending to corporate customers decreased by 5.2% over the same period as the bank became more selective in loans.

As of March 2017, the bank's problem loan ratio (measured as impaired loans as a percentage of total loans) declined to 0.57% of gross loans, from 0.69% as of December 2016 and 0.86% as of December 2015 and compares favourably to rated domestic peers. The bank's cash coverage of problem loans improved to 63% as of March 2017 from a low 44.5% as of March 2016.

Exhibit 4

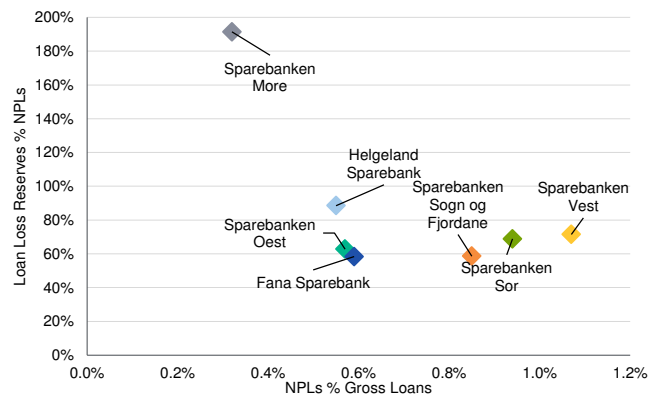
#### Sparebanken Øst's asset quality is improving...



Source: Moody's Banking Financial Metrics

Exhibit 5

#### ... and compares well with Norwegian peers



Note: Figures as of March 2017 apart from figures for Fana Sparebank, which are as of December 2016

Source: Moody's Banking Financial Metrics

The bulk of Sparebanken Øst's lending is in retail loans, mostly in the form of mortgages, accounting for around 86.5% of total loans as of March 2017. Historically Sparebanken Øst, and the banking sector in Norway in general, experienced very low losses in mortgages. Nevertheless, we note that the segment's performance could worsen significantly in a scenario whereby unemployment rises significantly, or house prices, which doubled in the last eight years, decline rapidly.

Although Sparebanken Øst's concentration level to the Commercial Real Estate sector has declined it remains significant. Loans in the real estate and construction sector accounted for around 9.3% of gross loans as of March 2017, down from 10% in December 2015. This exposure makes its asset quality vulnerable in the case the sector faces difficulties, particularly given that almost all of the bank's largest customers are active in this sector. After years of deleveraging (corporate loans declined from 24% of gross loans in December 2011 to 13.5% in March 2017), Sparebanken Øst's business loan balances have been broadly stable in the last few quarters as loan disbursements matched repayments.

The bank's management maintains a cautious approach given the strong competition in its operating region by more sophisticated larger players with more advanced risk pricing tools. Nevertheless, despite the contraction in business lending in the first three months of 2017, Sparebanken Øst targets moderate growth of loans to businesses in 2017.

### Core Profitability Showing Signs Of Improvement But Strong Competition In Its Region Constrains Øst's Business Growth

Sparebanken Øst's core profitability is showing signs of improvement with net interest income rising, on a quarterly basis, in the first quarter of 2017 following consecutive declining quarters in 2016<sup>3</sup>. However, the strong competition the bank faces in the greater Oslo and Akershus areas it also operates, may negatively affect its business prospects constraining its profitability.

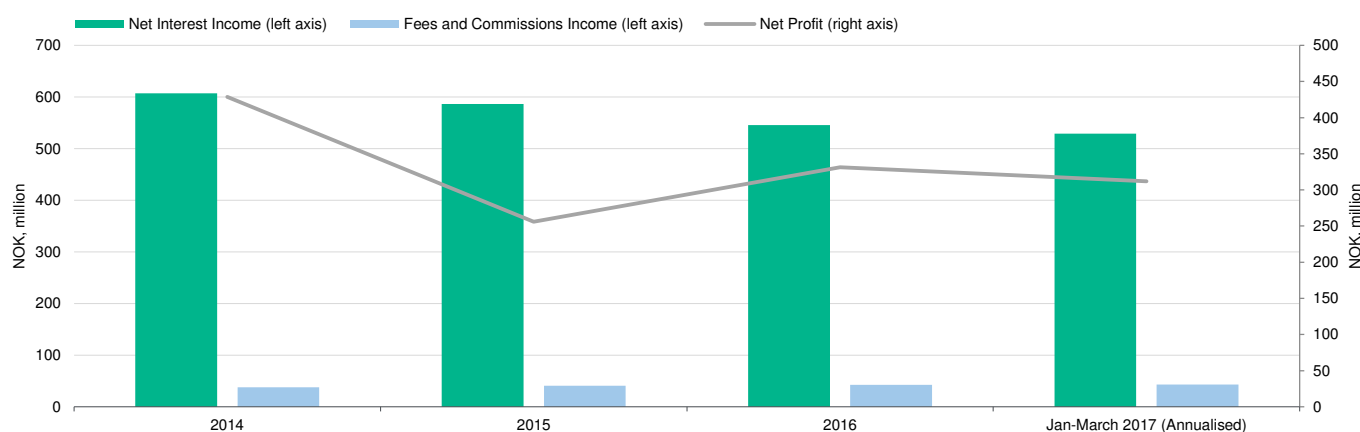
Sparebanken Øst's main income line is net interest income from its lending operations, which are predominantly retail, a more stable income source. Net interest income represented over 73% of net revenue in the first three months of 2017 and around 76% in 2016.

The bank's annualised return on assets as of March 2017 was at 0.74%. Reported profit for the three first months of 2017 grew by 16% to NOK 78 million from NOK 67.2 million in the first three months of 2016, reflecting modest growth in fees and commissions,

market related income and other operating income. However, on an annual basis the bank's net interest income declined by 3.4% to NOK 132.2 million in the first quarter of 2017. In the first quarter of 2017, Sparebanken Øst's net profit included NOK 2.4 million gains related to the group's sale of its shares in Eiendoms kreditt, NOK 13.4 million proceeds from the sale of a property and NOK 3 million in tenant's compensation. Operational efficiency is sound and compares well with peers, with a cost-to-income ratio of 45.5% as of March 2017.

Sparebanken Øst followed the moves made by competitor banks and increased interest rates on mortgages during the first quarter of 2017, while lowering deposit costs. These rate rises combined with an increase in higher yielding business loans would support the bank's top line.

Exhibit 6

**Sparebanken Øst Profitability Evolution**

Source: Moody's Banking Financial Metrics

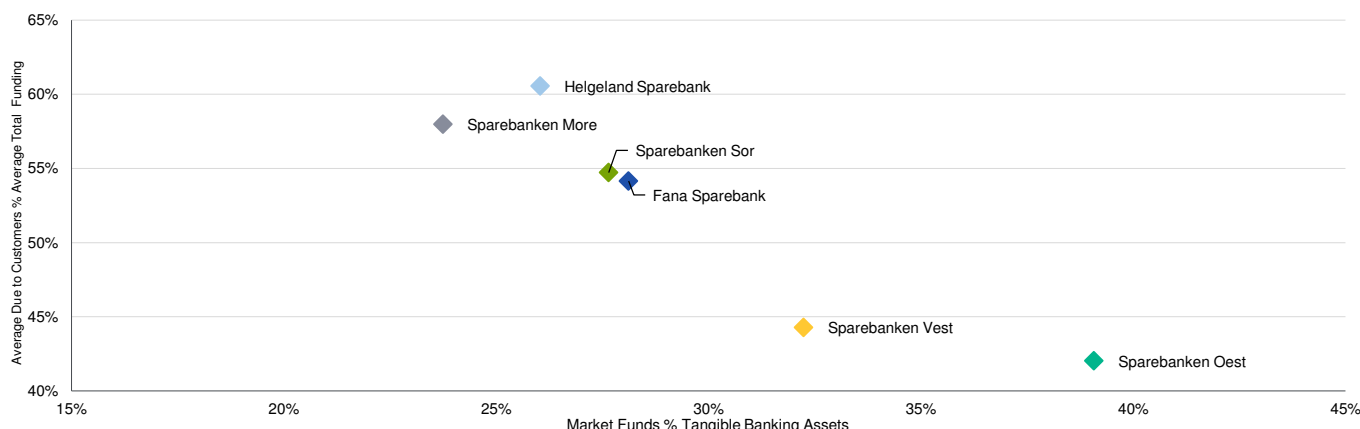
**Sparebanken Øst maintains a sizeable reliance to confidence sensitive market funding**

Sparebanken Øst remains to a greater extent than domestic peers reliant on market funds, which constituted around 38% of the bank's tangible banking assets as of December 2016. As such, the bank is therefore sensitive to fluctuations in investor sentiment, a credit weakness.

Deposits accounted for about 41% of Sparebanken Øst's total funding as of March 2017 (43% at December 2016), at the lower end of the range of similarly rated Norwegian savings banks. For the 12 months to March 2017 total deposits increased by 1.3% mainly due to an increase in the corporate sector while retail deposits in contrast decreased by 3.3%. Over the past years retail deposits grew significantly driven by the bank's alternative delivery channels, especially its website Topprente.no, which offers competitive savings rates to retail customers. Although that was a positive development, also note that such deposits as more price-sensitive and therefore less sticky.

A relatively large part of Sparebanken Øst's market funding consists of covered bonds issued via Sparebanken Øst Boligkreditt, with this source of funding representing around 46% of Sparebanken Øst's market funds as of December 2016. According to our methodology, we reflect the stability of covered bonds relative to unsecured market funding through a standard adjustment in our market funds calculations. However, because we do not expect that Sparebanken Øst will have the capacity to make larger benchmark issuances given its smaller size and as a result will not benefit from a more stable and diversified investor base, in our assigned funding score for Sparebanken Øst we reverse our methodology's positive treatment of covered bonds from the bank's market funds ratio.

Exhibit 7

**A relatively large part of Sparebanken Øst's market funding consists of covered bonds**

Note: Figures as of March 2017 apart from figures for Fana Sparebank, which are as of December 2016

Source: Moody's Banking Financial Metrics

Mitigating its high reliance on market funds, Sparebanken Øst holds a relatively large liquidity buffer. As of December 2016, liquid assets stood at NOK 5.3 billion or 14.7% of total assets (in line with the Norwegian average) and consisted of cash as well as government and government-related bonds and covered bonds. Furthermore, according to the bank, liquid assets cover its funding needs for the next 12 months.

## Notching Considerations

### Loss Given Failure

Norway is in the process of introducing legislation to implement the EU Bank Recovery and Resolution Directive (BRRD). In our LGF analysis we assume junior deposits account for 26% of total, residual tangible common equity of 3%, losses post-failure of 8% of tangible banking assets, a 25% run-off in "junior" wholesale deposits, as well as a 5% run-off in preferred deposits. We assign a 25% probability to deposits being preferred to senior unsecured debt. These are in line with our standard assumptions.

For Sparebanken Øst's long-term deposit ratings, our ratings have considered the likely impact on loss-given-failure of the volume of deposits and the amount of debt subordinated to them. This has resulted in a Preliminary Rating Assessment of two notches above the BCA, reflecting very low loss-given-failure.

### Government Support

The expected implementation of resolution legislation has caused us to reconsider the probability that government support would benefit certain creditors. Sparebanken Øst benefits from a well-established market position in the lower Buskerud County of south-eastern Norway. Whilst its market share in this county is material (we estimate it at around 6% by loans), it falls to around 1.7% if we include the greater Oslo and Akershus areas, in which Sparebanken Øst also operates. We also note that the close proximity of the bank's home region to Oslo means that a number of other Norwegian banks are operational in the area. Therefore we consider the probability of government support for debt and deposits as low, resulting in no rating uplift. Sparebanken Øst's market share in loans on a national basis is around 0.6%.

### Counterparty Risk Assessment

We assign a long-term and short-term CR assessment of A2(cr) and P-1(cr) respectively to the bank. CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than the likelihood of default and the expected financial loss suffered in the event of default and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

## Rating Methodology and Scorecard Factors

Exhibit 8

### Sparebanken Oest

#### Macro Factors

**Weighted Macro Profile**      **Very Strong -**      **100%**

Factor	Historic Ratio	Macro Adjusted Score	Credit Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	0.9%	aa2	↓	a3	Geographical concentration	Sector concentration
Capital						
TCE / RWA	16.7%	aa2	← →	aa2	Risk-weighted capitalisation	
Profitability						
Net Income / Tangible Assets	0.7%	baa2	← →	baa2	Expected trend	
Combined Solvency Score		aa3		a2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	38.2%	ba2	← →	ba3	Market funding quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	14.7%	baa3	← →	baa3	Stock of liquid assets	
Combined Liquidity Score		ba1		ba2		
Financial Profile				baa1		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint:				Aaa		
Scorecard Calculated BCA range				a3-baa2		
Assigned BCA				baa2		
Affiliate Support notching				0		
Adjusted BCA				baa2		

Balance Sheet	in-scope (NOK million)	% in-scope	at-failure (NOK million)	% at-failure
Other liabilities	11,445	31.4%	12,825	35.2%
Deposits	13,527	37.1%	12,147	33.3%
Preferred deposits	10,010	27.5%	9,510	26.1%
Junior Deposits	3,517	9.6%	2,638	7.2%
Senior unsecured bank debt	9,696	26.6%	9,696	26.6%
Dated subordinated bank debt	703	1.9%	703	1.9%
Equity	1,094	3.0%	1,094	3.0%
Total Tangible Banking Assets	36,465	100%	36,465	100%

Debt class	De jure waterfall		De facto waterfall		Notching		LGF notching guidance versus BCA	Assigned LGF notching	Additional notching	Preliminary Rating Assessment
	Instrument volume + Subordination	Sub-ordination	Instrument volume + Subordination	Sub-ordination	De jure	De facto				
Counterparty Risk Assessment	38.8%	38.8%	38.8%	38.8%	3	3	3	3	0	a2 (cr)
Deposits	38.8%	4.9%	38.8%	31.5%	2	3	2	2	0	a3
Senior unsecured bank debt	38.8%	4.9%	31.5%	4.9%	2	2	2	2	0	a3

Instrument class	Loss Given		Additional Notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
	Failure	notching					
Counterparty Risk Assessment	3		0	a2 (cr)	0	A2 (cr)	--
Deposits	2		0	a3	0	A3	A3
Senior unsecured bank debt	2		0	a3	0	A3	A3

Source: Moody's Financial Metrics

## Ratings

Exhibit 9

Category	Moody's Rating
<b>SPAREBANKEN OEST</b>	
Outlook	Stable
Bank Deposits	A3/P-2
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A2(cr)/P-1(cr)
Issuer Rating	A3

Source: Moody's Investors Service

## Endnotes

- 1 The ratio increases to 17.4% when we include 50% of interim profit.
- 2 9.2% when we include 50% of interim profit.
- 3 When we adjust to exclude the impact of taking the full levy for the deposit guarantee funds of Nok11.7 million in the first quarter of 2016.



© 2017 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody.com](http://www.moody.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER

1072655

## Contacts

Melina Skouridou, CFA      357-2569-3021  
AVP-Analyst  
melina.skouridou@moody's.com

Louise Eklund      46-8-5025-6569  
Associate Analyst  
louise eklund@moody's.com

Effie Tsotsani      4420-7772-1712  
Analyst  
effie.tsotsani@moody's.com

Jean-Francois Tremblay      44-20-7772-5653  
Associate Managing  
Director  
jean-francois.tremblay@moody's.com

## CLIENT SERVICES

Americas      1-212-553-1653

Asia Pacific      852-3551-3077

Japan      81-3-5408-4100

EMEA      44-20-7772-5454