

MOODY'S

INVESTORS SERVICE

Credit Opinion: Sparebanken Oest

Global Credit Research - 14 Dec 2015

Drammen, Norway

Ratings

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

Contacts

Analyst	Phone
Efthymia Tsotsani/London	44.20.7772.5454
Sean Marion/London	
Maria del Mar Asensio/London	

Key Indicators

Sparebanken Oest (Consolidated Financials)[1]

	[2]9-15	[2]12-14	[3]12-13	[3]12-12	[3]12-11	Avg.
Total Assets (NOK billion)	33.4	35.0	31.2	29.6	28.5	[4]4.1
Total Assets (EUR million)	3,509.2	3,858.5	3,727.2	4,039.4	3,678.3	[4]-1.2
Total Assets (USD million)	3,917.1	4,669.0	5,135.9	5,325.5	4,775.0	[4]-4.8
Tangible Common Equity (NOK billion)	2.7	2.6	2.3	2.1	1.7	[4]12.3
Tangible Common Equity (EUR million)	282.8	286.9	272.2	280.6	218.4	[4]6.7
Tangible Common Equity (USD million)	315.7	347.2	375.0	369.9	283.5	[4]2.7
Problem Loans / Gross Loans (%)	1.0	1.5	1.9	1.9	1.8	[5]1.6
Tangible Common Equity / Risk Weighted Assets (%)	15.6	14.6	14.7	14.0	12.1	[6]15.1
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	10.0	15.5	20.7	19.3	21.6	[5]17.4
Net Interest Margin (%)	1.7	1.8	1.9	1.8	1.7	[5]1.8
PPI / Average RWA (%)	1.9	2.3	2.7	2.7	1.8	[6]2.1
Net Income / Tangible Assets (%)	0.7	0.9	0.9	0.9	0.6	[5]0.8
Cost / Income Ratio (%)	46.8	41.7	41.9	43.0	55.3	[5]45.7
Market Funds / Tangible Banking Assets (%)	38.8	41.0	38.5	43.2	58.8	[5]44.1
Liquid Banking Assets / Tangible Banking Assets (%)	14.2	14.4	14.6	20.7	19.3	[5]16.6
Gross loans / Due to customers (%)	210.8	215.2	206.5	194.3	249.9	[5]215.4

Source: Moody's

[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] Compound Annual Growth Rate based on IFRS reporting periods [5] IFRS reporting periods have been used for average calculation [6] Basel III - fully-loaded or transitional phase-in & IFRS reporting periods have been used for average calculation

Opinion

SUMMARY RATING RATIONALE

Moody's assigns Sparebanken Øst a baseline credit assessment (BCA) of baa2, a long-term deposit rating of A3, and a short term obligation rating Prime-2. We also assign a Counterparty Risk Assessment (CRA) of A2 (cr) long-term and Prime-1 (cr) short-term.

Sparebanken Øst's BCA of baa2 primarily reflects the bank's success in restoring profitability as well as its changed focus to the retail mortgage sector from corporate lending, which we consider a positive for its asset quality profile. Nevertheless, despite these improvements, credit risk concentrations, low problem-loan coverage compared to peers and strong competition in its home region continue to constrain the BCA to the current level.

The bank's A3 deposit rating takes into account our Loss Given Failure (LGF) analysis of the bank's volume of deposits and debt as well as the volume of securities subordinated to them, which offsets the decrease in government support assumptions. Sparebanken Øst benefits from a large volume of deposits and substantial layers of subordination, resulting in very low loss-given-failure.

Rating Drivers

- Sparebanken Øst's BCA is supported by its Very Strong- Macro Profile
- Improved capital ratios compare well with those of similarly rated Norwegian savings banks
- Asset quality is underpinned by retail focus and supportive macroeconomic environment
- Intense competition in local market is likely to pressure margins and profitability
- Deposit increases continue although wholesale funding reliance remains
- Large volume of deposits and junior debt resulting in deposit ratings benefiting from a very low loss-given-failure rate

Rating Outlook

The stable outlooks on the bank's long-term senior debt and deposit ratings reflect our view that the bank's financials will remain broadly resilient in the face of a modest slowdown in Norway's still strong economic performance.

What Could Change the Rating - Up

Upward rating momentum could develop if Sparebanken Øst demonstrates (1) good asset quality in its retail and corporate books, including in the more volatile segments; (2) continued good access to capital markets and improved liquidity; (3) stronger earnings generation without an increase in its risk profile; and/or (4) a more stable macroeconomic environment.

What Could Change the Rating - Down

Future downward rating pressure would emerge if (1) Sparebanken Øst's problem loan ratio increases above our system wide expectation of approximately 2%; (2) financing conditions become more difficult; (3) its risk profile increases as a result of increased exposures to more volatile sectors, for example if construction and real-estate concentration or top-20 client concentration as a percent of Core Tier 1 Capital exceeds 150%; and/or (4) the macroeconomic environment deteriorates more than currently anticipated, leading to a lower Macro Profile.

DETAILED RATING CONSIDERATIONS

SPAREBANKEN ØST'S BCA IS SUPPORTED BY ITS VERY STRONG- MACRO PROFILE

Sparebanken Øst's operating environment is purely domestic, and its Macro Profile is thus aligned with that of Norway at Very Strong-. Norwegian banks benefit from operating in a wealthy and developed country with very high economic, institutional and government financial strength as well as low susceptibility to event risk. The main risks to the system stem from the high level of household indebtedness and domestic banks' reliance on market funding. However, these risks are offset by the strength of households' ability to service debt, banks' adequate capitalisation and the small size of the banking system relative to GDP.

IMPROVED CAPITAL RATIOS COMPARE WELL WITH THOSE OF SIMILARLY RATED NORWEGIAN

SAVINGS BANKS

Sparebanken Øst benefits from a strong capital base that has been improving over the years and is a relative strength for the bank. At end-September 2015, Sparebanken Øst had a tangible common equity (TCE) ratio of 15.6% (almost 15% at end-December) under Basel III. These levels are above the average of Moody's-rated Norwegian banks and show an improvement in the bank's risk profile from previous years, in accordance with the increasing regulatory capital requirements. Our assigned Capital Score reflects this strength as well as the bank's TCE/tangible banking assets ratio of almost 8%, which meets international standards comfortably.

ASSET QUALITY IS UNDERPINNED BY RETAIL FOCUS AND SUPPORTIVE MACROECONOMIC ENVIRONMENT

Our assigned Asset Risk score indicates that asset risk is a relative strength for Sparebanken Øst. Sparebanken Øst's loan book is characterised by a large and increasing proportion of retail loans, mostly in the form of mortgages, accounting for around 85% of total loans at end-December 2014 (of which 40% are part of its wholly owned covered bond company, Sparebanken Øst Boligkredit's cover pool). This asset class has been more resilient historically, but we believe that its performance could be undermined by less favourable house price levels, especially given households' high indebtedness. At end-September 2015, the bank's problem loan ratio (impaired loans as a percentage of total loans) accounted for around 1.0% of gross loans, down from 1.5% at end-December 2014, which is in line with levels reported by most other Moody's rated Norwegian savings banks, and reflects the generally supportive macroeconomic environment in Norway.

Risks to the bank's asset quality arise from significant industry concentration towards the property management and construction sectors, which accounted for around 10% of total loans at end-December 2014 compared to 16% in 2011; we view positively the reduction in these sectors. Additionally, the bank's corporate loan book exhibits high borrower concentration, which could accelerate the extent and pace of any asset quality deterioration.

Sparebanken Øst's lending has increased at a varying pace in the aftermath of the global financial crisis, but the bank is consistently focusing on the retail mortgage sector at the expense of corporate lending, which we consider positive for its asset risk profile. After brisk retail driven loan growth in 2010-11 (2011: 14%; 2010: 17%), growth in 2012 was much lower at 2% (including a 7% reduction in real estate exposure), whilst in 2013, lending to the corporate segment decreased further by 12% while retail loans grew by as much as 21%. In 2014, corporate lending decreased by 6.3%, while the retail portfolio increased by 15.0%. In the meantime, problem loans coverage has been declining over the years, and we view current levels as weak, especially when compared with those of peers.

While Sparebanken Øst's risk management practices lack the sophistication of many larger players in the Nordic region, the bank has made efforts to strengthen risk management, particularly in relation to investments, which we view positively.

INTENSE COMPETITION IN LOCAL MARKET IS LIKELY TO PRESSURE MARGINS AND PROFITABILITY

Our assigned Profitability score reflects our expectations that the keen competition in Sparebanken Øst's main area of operation and low interest levels will add further pressure on margins and profitability in 2015. In the first half of 2015, we saw signs of renewed margin pressure across the Norwegian banking market, with most banks reducing mortgage rates, following a margin expansion over the recent years. Sparebanken Øst's main source of income is net interest income, which, together with its increased retail focus adds to the stability and predictability of income and represented over 80% of its 2014 operating income.

At end September 2015, the bank's profitability was strong, with net income as a share of tangible assets standing at 0.70% (adjusted for non-recurring gains) in line with its three-year average but lower to 2014 (return on tangible assets was 0.92%). In 2014, the bank realised a gain in ordinary profit on the sale of Nets Holding AS (NOK134.7 million) and Frende Holding AS (NOK11.7 million), so far this year gains from sale of properties have had a positive one-off contribution of NOK34.5 million. Net profit at end September 2015 has been adversely affected by a substantial negative charge in the value of the bank's securities portfolio and reduced net interest income. We expect profits to remain under pressure due to lower margins in the retail sector and higher market funding costs leading to further losses in the bank's liquidity portfolio.

The bank contained loan loss provisions at NOK23.6 million in 2014 (2013: NOK16.0 million), but problem loan coverage is low at 32.4%. Going forward we expect loan loss provisions to increase in order to improve problem loan coverage as macroeconomic growth weakens in the low oil price environment. Nevertheless, we do not foresee the bank's provisioning to return to the elevated levels it booked in 2008 (NOK245 million), especially as

the bank has run off its portfolio of loans to Icelandic and Eastern European financial institutions. The bank's efficiency compares well with Norwegian rated peers, with its cost-to-income ratio of 42% in 2014, which has been stable over the last two years.

DEPOSIT INCREASES CONTINUE ALTHOUGH WHOLESAL FUNDING RELIANCE REMAINS

Sparebanken Øst remains reliant on market funds, which constituted just over 50% of the bank's tangible assets at end-December 2014. As such, the bank is therefore sensitive to fluctuations in investor sentiment.

Deposits accounted for about 42% of Sparebanken Øst's total funding at end-December 2014, a significant improvement from the end-2011 figure of 34%, but still at the lower end of levels among similarly rated Norwegian savings banks. The 30% deposit growth rate seen in 2012 was not repeated during 2013, but 6.8% growth in 2014 was still meaningful. This was partly attributable to Sparebanken Øst's Internet website Topprente.no, which offers competitive savings rates to retail customers. While we view positively the increased deposit base, we also note that such deposits can be 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 40% of market funding at end-December 2014. Under our methodology, we reflect globally the stability of covered bonds relative to unsecured market funding through a standard adjustment in our scorecard. However, we do not expect that, in terms of size, Sparebanken Øst will have the capacity to make larger benchmark issuance, which ultimately restricts its investor base. The bank's Funding score reflects that its overall funding profile remains a fundamental weakness. In addition, extensive use of covered bond funding causes structural subordination of Sparebanken Øst's unsecured creditors, including depositors.

Mitigating its high reliance on market funds, Sparebanken Øst holds a relatively large liquidity buffer. At end-December 2014, liquid assets increased to NOK4.9 billion or around 14% of tangible banking 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 AND ADDITIONAL NOTCHING

We expect that Norway will seek to introduce legislation to implement the EU Bank Resolution and Recovery Directive. In our LGF analysis we assume 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.

We consider the probability of government support for debt and deposits as low, resulting in zero notches of uplift, as the bank's market share on a national basis is small at around 0.6% by loans.

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.

COUNTERPARTY RISK ASSESSMENT

We also assigned a long-term and short term CR assessment of A2(cr) and P-1(cr) respectively.

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.

Foreign Currency Deposit Rating

The A3 foreign-currency deposit rating is not constrained given that Norway has a country ceiling of Aaa.

About Moody's Bank Scorecard

Our Scorecard is designed to capture, express and explain in summary form our rating committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our Scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The Scorecard 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

Sparebanken Oest

Macro Factors	
Weighted Macro Profile	Very Strong -

Financial Profile						
Factor	Historic Ratio	Macro Adjusted Score	Credit Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
<i>Problem Loans / Gross Loans</i>	1.6%	aa3	← →	baa1	Geographical concentration	Sector concentration
Capital						
<i>TCE / RWA</i>	15.6%	aa2	← →	aa2	Risk-weighted capitalisation	
Profitability						
<i>Net Income / Tangible Assets</i>	0.7%	baa2	← →	baa2	Expected trend	
Combined Solvency Score		a1		a2		
Liquidity						
Funding Structure						
<i>Market Funds / Tangible Banking Assets</i>	41.0%	b1	← →	b2	Market funding quality	
Liquid Resources						
<i>Liquid Banking Assets / Tangible Banking Assets</i>	14.4%	baa3	← →	baa3	Stock of liquid assets	
Combined Liquidity Score		ba2		ba3		

Financial Profile

baa1

Qualitative Adjustments

Adjustment

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
---------------------	-------------

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency rating	Foreign Currency rating
Deposits	2	0	a3	0	A3	A3

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 <http://www.moodys.com> for the most updated credit rating action information and rating history.



© 2015 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 CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("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 FOR RETAIL INVESTORS TO CONSIDER MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS IN MAKING ANY 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 under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

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 657AFSL 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 clients. It would be dangerous for “retail clients” to make any investment decision based on MOODY’S credit rating. If in doubt you should contact your financial or other professional adviser.

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.