

SECTOR IN-DEPTH

21 November 2016

Rate this Research



Contacts

Bernhard Held, CFA 49-69-70730-973
VP-Senior Analyst
bernhard.held@moodys.com

Goetz Thurm 49-69-70730-773
VP-Senior Analyst
goetz.thurm@moodys.com

Alexander Hendricks, CFA 49-69-70730-779
Associate Managing
Director - Banking
alexander.hendricks@moodys.com

Carola Schuler 49-69-70730-766
Managing Director -
Banking
carola.schuler@moodys.com

Banking - Germany

Key Considerations in Our Rating Action Establishing a New Senior Debt Rating Class

Summary

German regulators provided enhanced clarity concerning the revised insolvency hierarchy of bail-in-able senior unsecured debt this summer, effectively drawing a line between two sub-categories within the senior unsecured debt class. This clear-cut separation has triggered today's [rating action](#) on 14 German banks. As part of our rating action, we assigned a new rating class for a section of senior unsecured debt instruments that benefits from stronger protection against losses in an insolvency or bail-in scenario, under the revised German hierarchy, than plain vanilla senior unsecured debt.

We had initially taken a rating action in January 2016, prior to the clarification provided in a joint guidance document of the German regulatory authorities. At the time, our rating action reflected an aspect that had already become evident upon the passage of the revised insolvency order, which was the improved structural protection of wholesale deposits by the subordination of senior unsecured debt instruments. This led to rating upgrades of a range of German bank deposit ratings, accompanied by downgrades of a few senior unsecured ratings.

The additional clarity provided over the summer allows us to draw the line between subordinated and non-subordinated senior unsecured liabilities with greater precision. Our new "senior-senior unsecured bank debt" rating class is unique to the German market and ranks above plain-vanilla senior unsecured debt, and alongside junior (i.e., institutional) deposits in the hierarchy of claims after a bank failure.

The new "senior-senior unsecured bank debt" class will include financial instruments that the German authorities consider to be complex structured notes. These include long-term instruments with embedded derivatives, inflation linkers, floating rate notes with caps, floors (though not 0% floors) and corridors, as well as dual-currency bonds and floaters linked to non-standard rates (e.g., Constant Maturity Swaps). Only a limited number of these are likely to be eligible for a Moody's rating.¹

The remaining plain vanilla senior unsecured debt is now subordinated to "senior-senior" debt, and will include all non-structured bearer bonds, most registered bonds, most promissory notes, and lightly structured notes, including callables, (reverse) floaters linked to Euribor, Eonia or Libor (or multiples thereof), zero bonds, foreign currency, and bonds with step-up/step-down or other bespoke coupons with pre-defined cash flows. All of these are, in principle, eligible for a Moody's rating.

We have established that, among the 14 banks affected by our rating action, several have made numerous issuances of the newly classified senior-senior debt in the past, while others have made very few. It has not been possible as yet to ascertain the overall volume of the new debt class issued by individual banks because much of it is placed in private debt markets. We expect to gain transparency from enhanced bank disclosures over the coming months and plan to update the banks' liability structures accordingly.

In the coming weeks, we also expect the European Commission to present a proposal aimed at harmonising national insolvency rankings of bank debt across the 28 EU member states. However, with Germany's updated insolvency ranking set to take effect on 1 January 2017, we do not expect the harmonisation efforts to change the German claims hierarchy in the short term.

The subordination of plain vanilla debt, as set out in the rules published in summer, underscores the authorities' intent to create an insolvency ranking that enhances the operability of a bail-in by limiting the scope for legal challenges. Such challenges could follow decisions to exempt some categories of equally ranked senior unsecured debt from haircuts in a bail-in if it is hard to value them quickly. The insolvency hierarchy establishes the liability order for bank insolvency proceedings. In addition, it represents the binding starting point for bail-in procedures pursuant to the EU's Bank Recovery and Resolution Directive (BRRD) to avert outright insolvency.

Overview on the rating actions taken

We have introduced a new rating class to reflect a clarification to the hierarchy of bail-in-able senior unsecured debt in an insolvency that was published in Germany this summer. The German regulatory authorities - Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin), Deutsche Bundesbank and Bundesanstalt fuer Finanzmarktstabilitaet (FMSA) - jointly established a set of factors considered to give rise to a degree of individual bonds' cash flow uncertainty that is incompatible with quick and effective bail-in measure applicability. These factors are centered around coupon and principal repayment characteristics of the instruments and are summarised in Exhibit 2. The "senior-senior unsecured debt" class speaks to those instruments that exhibit cash flow uncertainty from the authorities' perspective, but which still qualify for a rating based on clearly defined repayment promises. Following the reclassification of such bonds, we have upgraded selected senior debt instruments of 13 banks and affirmed the debt instruments of one bank. In total, this led to upgrades of 350 bonds between one and two notches. None of the rating changes or affirmations shown in Exhibit 1 were based on a reassessment of the standalone credit strength of the respective issuers. Rather, the upgrades exclusively reflect the more beneficial outcome for senior-senior unsecured debt instruments under our Advanced Loss Given Failure analysis.

Exhibit 1

Rating Actions on Bond Instruments Classified as Senior-Senior Unsecured

Issuer	NEW Senior-Senior Rating and outlook	OLD Rating and outlook	Number of Bonds Affected
Bayerische Landesbank	A1 stable	A2 stable	78
Berlin Hyp AG	A1 positive	A2 positive	1
Commerzbank AG	A2 stable	Baa1 stable	49
DekaBank Deutsche Girozentrale	Aa2 stable	Aa3 stable	7
Deutsche Apotheker- und Aerztebank eG	Aa1 stable	Aa3 stable	3
Deutsche Bank AG	A3 stable	Baa2 stable	29
Deutsche Hypothekenbank (Actien-Gesellschaft)	A3 negative	Baa1 negative	1
DZ Bank AG	Aa1 stable	Aa3 positive	60
HSH Nordbank AG	Baa3 developing	Baa3 developing	59
Landesbank Baden-Wuerttemberg	Aa3 stable	A1 stable	18
Landesbank Hessen-Thueringen GZ	Aa3 stable	A1 stable	58
Muenchener Hypothekenbank eG	Aa3 stable	A1 stable	13
Norddeutsche Landesbank GZ	A3 negative	Baa1 negative	26
UniCredit Bank AG	A2 stable	Baa1 stable	7

Source: Moody's Investors Service

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 for the most updated credit rating action information and rating history.

Update of our German bank debt waterfall

The separation of the senior unsecured debt class into two sub-sections in Germany has affected the order in which creditors take losses in our Loss Given Failure (LGF) waterfall. LGF is part of Moody's bank rating methodology and assesses the extent of losses each class of creditor can expect in resolution or insolvency. In Exhibit 2, we provide an overview on the new waterfall structure and the applicability of the different rating layers to individual liability types:

Exhibit 2

Classification of Selected Debt Types in Moody's German Loss Given Failure Waterfall

Liability Type	Scope / Definition	Accounting Category	Regulatory Source
Other Liabilities			
Covered bonds	All covered bonds	Liabilities to banks, liabilities to customers, securitised liabilities, fair value liabilities	SAG § 91(2)2
Liabilities to banks	Including repo, central bank and bank deposits; excluding unsecured registered bonds and promissory notes	Liabilities to banks	–
Derivative liabilities	All derivative liabilities	Fair value liabilities, trading liabilities	SAG § 92(1); KWG § 46f(5) within AbwMechG
Preferred deposits			
Retail client deposits	All deposits	Liabilities to customers	KWG § 46f(4); BRRD Art. 108
Micro, small and medium-sized enterprise (SME) deposits	All deposits	Liabilities to customers	KWG § 46f(4); BRRD Art. 108
Large corporate deposits (non-SME)	Deposits <= EUR 100,000	Liabilities to customers	EinSiG § 6; DGSD
Unsecured registered bonds and promissory notes	Issued to retail investors prior to 2 July 2014 (eligible for DGS* coverage)	Liabilities to customers	EinSiG § 2(3)1
Junior deposits			
Large corporate deposits (non-SME)	Deposits > EUR 100,000	Liabilities to customers	KWG § 46f(4); BRRD Art. 108
Institutional investor deposits (insurance companies, public sector, pension funds, etc.)	All deposits	Liabilities to customers	EinSiG § 6; DGSD
Senior-senior unsecured bank debt			
Money market instruments (including commercial paper, certificates of deposit)	Initial maturity of maximum 1 year	Securitised liabilities, fair value liabilities	KWG § 46f(6) within AbwMechG; Bafin Guidance Circular Art. 3b
Complex structured notes	<p>Bonds with embedded cash flow uncertainty and valuation complexities:</p> <ul style="list-style-type: none"> » Floating rate notes based on "non-standard" reference rate (e.g. swaps, CMS), or with "standard" (Euribor, Libor or Eonia) coupon, but caps, floors (unless floor is equal to 0%) or combinations thereof (collar) » Bonds with embedded options affecting principal or coupon payment amounts (including issuer switch options between fixed/floating rate coupons) » Indexed bonds, including inflation-linkers » Dual-currency bonds with payments based on a future foreign currency exchange rate 	Securitised liabilities, fair value liabilities	KWG § 46f(6/7) within AbwMechG; Bafin Guidance Circular Art. 4b

Exhibit 2

Classification of Selected Debt Types in Moody's German Loss Given Failure Waterfall (cont.)

Liability Type	Scope / Definition	Accounting Category	Regulatory Source
Senior unsecured bank debt			
Unsecured bearer bonds	All unsecured bearer bonds	Securitised liabilities, fair value liabilities	KWG § 46f(6) within AbwMechG
Unsecured registered bonds and promissory notes	Issued to institutional investors or post 2 July 2014 to retail investors (non-eligible for DGS* coverage)	Liabilities to customers, liabilities to banks	KWG § 46f(6) within AbwMechG
Lightly structured notes	<p>Bonds with known cash flow profile that exhibit none of the features triggering classification as "complex", e.g.:</p> <ul style="list-style-type: none"> » Fixed rate notes » Floating rate notes based on "standard" reference rate (including multiples or inverse thereof) » Floating rate notes with a floor at 0% to avoid negative rates » Fix-floating notes » Zero-coupon notes » Step-up/step-down notes » Bespoke coupon notes with fully pre-defined payment profile » Bonds issued and repaid in foreign currency » Putable and callable bonds, incl. tax call provisions 	Liabilities to banks, liabilities to customers, securitised liabilities	KWG § 46f(6/7) within AbwMechG; Bafin Guidance Circular Art. 4a
Dated subordinated bank debt			
Subordinated debt	Subordinated instruments with a defined repayment date	Subordinated debt	InsO § 39
Junior subordinated bank debt			
Participation certificates ("Genussscheine")	Perpetual profit-participating certificates	Subordinated debt	InsO § 39
Preferred bank stock			
Preferred shares	Perpetual instruments eligible as AT1 capital on a transitional or fully-phased basis	Subordinated debt	InsO § 39
Silent participations	All silent participations	Subordinated debt	InsO § 39

* Note: AbwMechG = Abwicklungsmechanismusgesetz; DGS(D) = Deposit Guarantee Scheme (Directive); EinSiG = Einlagensicherungsgesetz; InsO = Insolvenzordnung; KWG = Kreditwesengesetz; SAG = Sanierungs- und Abwicklungsgesetz;

Source: Moody's Investors Service

Unique characteristics of the German insolvency hierarchy

Besides Germany, a few other European countries have actively made changes to their insolvency regimes to facilitate an easier implementation of bail-in measures. Examples include Italy, which opted for full depositor preference over other senior liabilities starting in 2019, and France, where the legislative process towards the introduction of a non-preferred senior unsecured debt class is well-advanced.²

The French proposal will only subordinate part of the banks' new senior unsecured debt issuance to outstanding senior unsecured bonds on a contractual basis. In contrast, the German law is retroactive and requires a case-by-case distinction of outstanding debt to determine the correct seniority level.

Identifying the volume of German outstanding "senior-senior" unsecured bank debt is fraught with uncertainty. First, a meaningful part of Germany's outstanding senior unsecured debt volume has been privately placed in the form of registered bonds (Namensschuldverschreibungen) or promissory notes (Schuldscheindarlehen). This means that available public disclosure on the terms of these instruments is limited. Second, German banks have not yet separated outstanding "senior-senior" unsecured debt from regular senior unsecured debt in their regulatory reporting, since the clarification document of the German regulators was only published in August.

Our assessment is that the reclassification of some senior unsecured debt as senior-senior unsecured does not materially change the results of the loss-given failure analysis on the debt and deposit ratings of German banks. This is because the largest part of the German banking system's outstanding senior unsecured debt volumes have been issued as fixed-rate, non-structured instruments under medium-term notes and debt issuance programs - in other words - plain-vanilla senior unsecured debt.

Once we have sufficiently detailed information available for individual banks, we plan to publish updated liability structures for them.

German development banks continue to bear only one type of senior unsecured ratings

Germany's state-controlled development banks, including Landwirtschaftliche Rentenbank (Aaa stable), LfA Foerderbank Bayern (Aaa stable), NRW.BANK (Aa1 stable) and L-Bank (Aaa stable)³ are bankruptcy-remote and, as such, are explicitly exempt from adopting the revised hierarchy. Bond issuances of these entities continue to carry senior unsecured debt ratings that do not distinguish between the features of these instruments. The same principle also applies for KfW (Aaa stable), Germany's largest development bank, which is also explicitly exempt from the EU BRRD.

Reference points for issuer and short-term debt ratings remain unchanged

Following the introduction of our new approach to rating German senior unsecured debt, the issuer ratings assigned to German banks remain at the level of regular senior unsecured debt ratings, as they do globally. Since issuer ratings are opinions of an entity's ability to honor senior unsecured debt and debt-like obligations, these ratings need to reflect the risk of below-par payments on the riskier senior unsecured instruments. The risk is higher for regular senior unsecured bonds, and this informs the rating level assigned to the issuer.

Instruments issued with the original intent of fulfilling the bank's short-term funding needs through the money markets effectively benefit from a higher insolvency rank than bonds originally issued for medium- and long-term funding purposes that are close to maturity. Our short-term debt ratings only speak to instruments originally issued for short-term funding purposes, which legally rank pari passu to deposits and "senior-senior" unsecured debt.

Moody's Related Research

RATING METHODOLOGY

» [Banks, January 2016](#) (186998)

SPECIAL COMMENTS

» [Germany's Bail-in Guidance on Bank Debt Removes Uncertainty, but Contrasts with the Rest of Europe, August 2016](#) (191651)

» [Banking - European Union: Reconciling Bail-In With Financial Stability, July 2016](#) (1034573)

» [Changes in Bank Creditor Hierarchies Reflect Evolving Resolution Regimes, May 2016](#) (1022792)

» [Banks Germany: FAQ: Which German Senior Bank Debt Will Become Subordinated in 2017?, February 2016](#) (1015075)

» [Change in Insolvency Legislation Drives German And Italian Bank Rating Actions, January 2016](#) (1013718)

RATING ACTIONS

» [Moody's upgrades German banks' deposit ratings and downgrades senior debt ratings, January 2016](#) (342472)

» [Moody's assigns senior-senior unsecured bank debt ratings to 14 German banks and upgrades 350 bonds to the new rating level](#) (358068)

BANKING SYSTEM OUTLOOK

» [Banking System Outlook - Germany: Outlook Stable as Germany's Economic Resilience Balances Low-Yield Environment , October 2016](#) (1038523)

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.

Endnotes

- ¹ We do not rate non-credit-linked bonds, notes, preferred stock obligations, bank/deposit notes, and various short-term programs where the amount of promised principal is contractually dependent on the occurrence of a non-credit-linked event or is subject to a non-standard source of variation.
- ² See [Banking System Outlook - France](#) (p.11), July 2016 (1030824).
- ³ The ratings shown are the development banks' senior unsecured ratings and outlooks.

© 2016 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 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 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

1047267

Contacts

Carolyn F Henson 44-20-7772-5600
AVP-Research Writer
carolyn.henson@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