

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	A3/P-2
Bank Financial Strength	C-

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Key Indicators

Bausparkasse Mainz AG (Unconsolidated Financials)[1]

	[2]6-10	[2]12-09	[2]12-08	[3]12-07	[3]12-06	Avg.
Total Assets (EUR million)	2,559.46	2,477.66	2,492.74	2,430.29	2,469.75	[4]0.90
Tangible Common Equity (EUR million)	112.69	112.09	100.81	97.65	99.20	[4]3.24
Total Assets (USD million)	3,135.10	3,554.80	3,465.02	3,553.22	3,256.74	[4]-0.95
Tangible Common Equity (USD million)	138.04	160.82	140.12	142.77	130.81	[4]1.35
PPI / Avg RWA	--	0.75%	0.84%	0.23%	0.41%	[5]0.80%
Net Income / Avg RWA	--	0.14%	0.25%	-0.10%	0.39%	[5]0.19%
(Market Funds - Liquid Assets) / Total Assets	24.27%	26.30%	34.18%	49.00%	51.98%	[6]37.15%
Core Deposits / Average Gross Loans	82.27%	72.03%	57.99%	44.62%	42.96%	[6]59.97%
Tier 1 Ratio	--	8.33%	7.40%	6.50%	--	[5]7.86%
Tangible Common Equity / RWA	--	8.99%	7.91%	6.83%	6.80%	[5]8.45%
Cost / Income Ratio	74.53%	76.54%	74.46%	92.44%	87.24%	[6]81.04%
Problem Loans / Gross Loans	--	2.20%	1.82%	1.43%	2.04%	[6]1.87%
Problem Loans / (Equity + Loan Loss Reserves)	--	35.99%	36.39%	31.28%	41.35%	[6]36.25%

Source: Moody's

[1] All ratios are adjusted using Moody's standard adjustments [2] Basel II; LOCAL GAAP [3] Basel I; LOCAL GAAP [4] Compound Annual Growth Rate based on LOCAL GAAP reporting periods [5] Basel II & LOCAL GAAP reporting periods have been used for average calculation [6] LOCAL GAAP reporting periods have been used for average calculation

Opinion

SUMMARY RATING RATIONALE

Moody's assigns a bank financial strength rating (BFSR) of C- to Bausparkasse Mainz (BKM), which translates into a Baseline Credit Assessment (BCA) of Baa1. The rating reflects BKM's: (i) defensible franchise in its niche market; (ii) good credit and liquidity management framework; (iii) acceptable capitalisation; and (iv) low credit risk. The rating is constrained by: (i) BKM's poor profitability, resulting in a lack of internal capital-generation capacity; (ii) the possibility of a rise in risk charges, which could exert more pressure on its capital adequacy; and (iii) BKM's comparatively marginal operating efficiency.

BKM's long-term global local-currency (GLC) deposit ratings are A3/P-2, based on its intrinsic credit strength. This is reflected in its Baa1 BCA and Moody's assessment of a low probability of systemic support, in the event of need.

Under Moody's joint default analysis (JDA) methodology, our support assessment grants BKM's GLC deposit rating a one-notch uplift to A3 from its Baa1 BCA.

BKM's debt rating is A3.

Credit Strengths

- BKM has a defensible franchise in Germany's niche market of residential mortgage savings and loan contracts ("Bausparvertrag")
- Its risk-management framework is adequate credit risk is low overall, due to strict regulations and BKM's focus on residential real-estate lending
- BKM has a good franchise and brand recognition for attracting retail deposits via the internet

Credit Challenges

- Poor profitability curtails BKM's ability to earn its cost of capital and/or to pay dividends, as well as impairing its internal capital-generation capacity
- BKM seeks to maintain a funding profile that is less reliant on price-sensitive market funds
- Adverse macroeconomic developments could put more pressure on BKM's profitability and asset quality

Rating Outlook

The outlook on the BFSR is stable, reflecting BKM's defensible franchise in its niche market.

What Could Change the Rating - Up

We see limited upside potential for BKM's ratings at this time. However, a stronger financial profile, reflected in recurring earnings power above 1%, might, if the current risk profile is maintained, have positive implications for the C- BFSR. Nevertheless, we do not expect any upward pressure on BKM's long-term debt and deposit ratings for the time being.

What Could Change the Rating - Down

BKM's C- BFSR, or the mapping to the Baa1 BCA, could come under downward pressure if its financial profile weakens, in particular if increased loan losses exert undue strain on capital. The BFSR rating would also come under pressure if BKM's ability to earn its cost of capital remains constrained.

Any adverse change in the C- BFSR or the mapping to the Baa1 BCA could exert immediate downward pressure on BKM's long-term debt and deposit rating.

Recent Results and Company Events

For H1 2010, BKM reported a moderate 3.3% increase in total assets to EUR 2.55 billion, compared with year-end 2009. BKM's mortgage savings and loan-contract offerings traditionally suffer low demand during periods of low interest rates. Thus, on the back of a surge in customer deposits to EUR 1.7 billion (customer deposits almost doubled since 2006) and a moderate decline in loans to EUR 2 billion (-8.3% H1 2010 vs year-end 2008) BKM built up a securities portfolio that peaked at almost EUR 420 million, as at H1 2010.

BKM is not allowed to invest in structured credit products and was not active in sub-prime assets, showing a prudent investment style that is supported by tight regulation. Therefore, its excess liquidity was predominantly invested in repo-eligible securities, rated single-A or higher.

As of H1 2010, BKM reported moderate earnings of EUR 0.5 million, while expensing EUR 3.8 million for credit-risk charges. In 2009, its net income decreased to EUR 0.01 million, while catering for high risk charges of about EUR 9 million. However, BKM's 2009 net profits understated its financial strength, as it took advantage of building up an additional EUR 1.7 million fully-taxed reserve under §340f HGB, taking its entire reserve to EUR 8.1 million.

As a member of the German association of private building societies, in 2009 BKM together with 13 other members, took over Quelle Bausparkasse (unrated). The takeover followed the insolvency of the mail-order company Quelle AG (unrated). Although the two companies were not affiliated, the name identification led to a complete shut-off of Quelle Bausparkasse from funding and debt refinancing and could have caused a liquidity crisis for it. As a result, BKM now owns 5% of Quelle Bausparkasse. Given the small size of Quelle Bausparkasse with total assets of EUR 1.4 billion as of year-end 2009, BKM's exposure to Quelle Bausparkasse is very limited and in our view manageable in the context of BKM's overall financial profile.

At year-end 2009, BKM's Tier 1 ratio increased to 8.3% (7.4% in 2008), reflecting a EUR 10 million capital increase via a rights issue. INTER-Versicherungsgruppe (unrated), which provides insurance products mainly in the health sector, bought all rights not executed by other shareholders, thus increasing its stake in BKM to 81%.

DETAILED RATING CONSIDERATIONS

Our detailed rating considerations for BKM's currently assigned ratings are as follows.

Bank Financial Strength Rating

BKM's C- BFSR is in line with the outcome generated by Moody's BSFR scorecard. Moody's believes the C- rating is an appropriate measure of BKM's intrinsic financial strength, given its defensible franchise in its select niche market, its good risk-management capability and low credit risk.

The rating is constrained by: (i) poor profitability, which curtails internal capital-generation capacity; (ii) the possibility of a rise in risk charges, which could put more pressure on capital adequacy; and (iii) BKM's comparatively low operating efficiency.

Qualitative Rating Factors (50%)

Factor 1: Franchise Value

Trend: Neutral

BKM is a "Bausparkasse", a specialist financial institution providing residential housing-related savings and loan products. Its traditional loan product is the "Bauspardarlehen", on which depositors acquire a call option if they have saved a specific amount over a certain period of time. BKM is subject to the conservative provisions of the "Bausparkassengesetz", a special banking act for German home savings and loan institutions, under which: (i) commercial real-estate financing is limited to 3% of aggregate loans; and (ii) maximum loan exposure to un-allotted large contracts (contracts exceeding EUR 300,000) is limited to 15% of the total un-allotted credit volume. Moody's recognises that BKM is not active in CRE financing.

BKM has a very modest national market share of around 1%, but a sustainable share in its core operating niche. It is positioned as a provider of housing-related financial services and affordable housing (pre-fabricated houses in differing stages of completion) to a lower/middle-income target group. Moody's notes that BKM has a particularly strong foothold among its Turkish/Italian/Spanish/Portuguese clientele, with a dominant 40-50% market share in Germany.

Notwithstanding its very modest national market share, BKM is active throughout Germany mainly via independent sales representatives (with a predominant focus in the Western German regions). It has no activities outside Germany. BKM contends with intense competition from other Bausparkassen and deposit-taking retail banks, and although it has historically derived much of its franchise strength from its ability to provide housing finance at low and stable interest rates, the current low interest-rate environment has intensified competition between mortgage providers overall. BKM also offers insurance products on behalf of its main shareholder, INTER-Versicherungsgruppe.

Over the past four to five years, BKM was successful in building up a retail-funding franchise by offering money-market and term-deposits to private customers at competitive rates via the internet. Although we regard these deposits as less sticky (stable) compared with deposits at retail-branch banks, we regard this measure as an important diversification to BKM's traditionally whole-sale-dominated funding profile.

Although BKM has the benefit of a very granular retail-customer base, we view its earnings stability as modest, given its low earnings-generation capacity, which is driven by poor profitability and a possible increase in risk charges due to the deteriorating macroeconomic environment in Germany.

Overall, BKM's franchise value scores a C-, with a neutral trend.

Factor 2: Risk Positioning

Trend: Neutral

In our view, BKM has an adequate risk-management framework with which it identifies, monitors, limits and manages the various risks in its core residential real-estate lending operations. Risks arising from its operations are summarised in a monthly risk report, which identifies the areas that need corrective action. The bank also analyses the business risks inherent in sales, the development of contractual savings and loans, its profitability, liquidity and interest-rate risk, the credit risk and other business/operational risks. Moody's believes these reports provide a sufficiently sophisticated tool to manage and monitor risk (i.e., liquidity risk or credit risk in the core residential real-estate activities).

The credit-risk concentration (borrower and industry concentration) of BKM's loan book is low, as reflected by the institution's focus on residential real-estate lending (accounting for 80% of total assets) and portfolio granularity. However, the securities portfolio increased by 68% to EUR 420 million or 16% of total assets as of H1 2010 compared with year-end 2009. The portfolio mostly comprises sovereigns and highly rated financial institutions with adequate credit-limit management. The inherent risk of the financial portfolio is further mitigated by the fact that the securities are predominantly rated single-A or higher. The borrower concentration is best reflected by a D score as TOP 20 exposures account for 192% of Tier 1 capital.

Industry concentration is also mainly to financial institutions, and we take comfort from BKM's securities portfolio very conservative investment guidelines.

BKM's market risk is below 20% of Tier 1 capital and is predominantly driven by interest-rate risk. Its strategy is to keep market-risk low, using hedging if necessary. BKM is a non-trading institution, according to German regulations, and cannot invest in equity or hybrid capital, according to the Bausparkassengesetz (the special banking act for the Bausparkassen).

Financial transparency is low. Although BKM publishes interim reports, these disclosures do not contain notes and management discussion or further analysis sections. According to Moody's definitions, the non-reporting of ratios that give a fair picture of its risk profile - such as the number of problem loans and loan loss provisions - results in a weak score for financial reporting quality, though these disclosures are not mandatory in the disclosure report according to Basel 2.

Overall, BKM's risk positioning scores a D+, with a neutral trend.

Factor 3: Regulatory Environment

All German banks are subject to the same score for the regulatory environment. This factor does not address bank-specific issues; instead, it evaluates whether or not regulatory bodies are independent and credible, whether they demonstrate enforcement power and whether they adhere to global standards of best practice for risk control. Please refer to Moody's Banking System Outlook for Germany, published in October 2010, for a detailed discussion about the regulatory environment.

Factor 4: Operating Environment

Trend: Neutral

This factor is also common to all German banks. Moody's assigns a B score for the overall German operating environment. Please refer to Moody's Banking System Outlook for Germany, published in October 2010, for a detailed discussion about the operating environment.

Quantitative Rating Factors (50%)

Factor 5: Profitability

Trend: Weakening

In Moody's opinion, BKM's earnings are poor, but stable, reflecting its low-risk profile and low event risk. However, its very modest earnings-generation capacity also reduces its capacity to strengthen its existing franchise, and to withstand the negative impact of competitive challenges and the risks intrinsic to its business model. Moody's notes positively that, starting 2008, BKM benefited from the positive effects of its restructuring and cost-saving program, initiated in 2007. Driven by a considerable reduction in personnel expenses, total operating expenses declined to EUR 31 million in 2009 and 2008 compared with EUR 41 million in 2007. While this led to a boost in pre-provision income, the improvement was, by-and-large, offset by an increase in risk charges to EUR 9 million in 2009 and 2008; as a result net income was duly unchanged.

In 2010, we expect that the low interest-rate environment will continue to hamper BKM's credit volume and hence its profitability prospects, given that the mortgage products from Bausparkassen are designed to work best in a higher-interest-rate environment. In a low-interest-rate environment, the comparative advantage for a mortgage provider diminishes and leads to intensified competition. A deteriorating macroeconomic environment could also put more pressure on new business, as fewer customers will be prepared to invest in residential real estate. Despite the ongoing pressure on profitability, we expect BKM to remain profitable in the short-term due to the benefits of the previous cost-reduction program. Longer-term, we believe that further cost-and-efficiency efforts will be required unless interest rates rise.

The assessment above is reflected by an E+ score for profitability, with a weakening trend.

Factor 6: Liquidity

Trend: Neutral

In general, BKM relies on price-sensitive customer deposits, which account for EUR 2 billion or 62% of total funding, and on inter-bank financing (German development banks followed by German cooperative banks and insurance companies), which currently accounts for EUR 628 million or 38%. Moody's notes positively that BKM has been successful in moving away from a whole-sale-dominated funding structure by attracting deposit-based funding, particularly via the internet.

There is some concentration within interbank funding, as 46% relates to five counterparts only. Nevertheless, although interbank funding is more credit-sensitive, particularly as it is largely sourced via brokers, we take comfort from the fact that it is largely long-term and relates to promissory notes (Schuldscheindarlehen).

Overall, we consider BKM's liquidity as adequate, because it has successfully diversified its funding sources with a majority meanwhile provided via rather stable funding sources.

BKM scores C for liquidity.

Factor 7: Capital Adequacy

Trend: Neutral

Capitalisation levels are moderate, as reflected by the institution's total capital ratio of 11% (2008: 10.1%) and Tier 1 ratio of 8.3% at year-end (2008: 7.4%). The increase in the Tier 1 ratio mainly results from a capital increase of EUR 10 million via a rights issue in which BKM's ultimate parent bought all rights not executed by other shareholders. Internal capital generation is constrained by poor profitability. Nevertheless, modest capitalisation levels are mitigated by the institution's low-risk profile and defensible niche market position. Additionally, we acknowledge the high quality of BKM's Tier 1 capital, given that it has no hybrid capital.

The B score with a neutral trend reflects BKM's satisfactory capital adequacy.

Factor 8: Efficiency

Trend: Improving

BKM has a relatively high cost base given its small size and lack of economies of scale. It is less efficient than some of its German peers, but a comparison is difficult as many of them are part of a larger group, where most general expenses (e.g. marketing, or head-office costs) are borne by the parent. In 2009 and 2008, the cost/income ratio was around 75%, down from 92% in 2007 reflecting the benefits of a cost-cutting programme.

The E score for efficiency reflects the average cost-to-income ratio of the past three years.

Factor 9: Asset Quality

Trend: Weakening

BKM's loan book consists of Bauspardarlehen (10%), early draw-downs (63%) ("Vor- und Zwischenfinanzierungen") and other residential real-estate loans (27%). Its securities portfolio mostly comprises financial institution assets and sovereign risk. Therefore, we view its credit risk as low, given the highly-rated portfolio. The credit risk of BKM's loan book is also low, as reflected by the institution's focus on residential mortgage lending (accounting for close to 80% of total assets) and portfolio granularity.

For loans subject to the Bausparkassengesetz, the loan-to-value (LTV) ratio is at 60-80% and BKM has a subordinated claim on around two thirds of the residential mortgage portfolio (second lien). For loans not falling under the Bausparkassengesetz, BKM targets substantially lower LTV buckets. The inherent risks, however, are mitigated by the fact that Bausparkassen have historically demonstrated low credit risk, as borrowers normally have to prove their payment discipline by first building a deposit base.

Problem loans accounted for 2.2% of customer loans as of year-end 2009 while the three-year average was 1.8%, which is low compared with banking peers in Germany. In line with the expected macroeconomic developments in Germany, BKM increased its provisioning requirements to roughly EUR 9 million per year in 2009 and 2008.

The average ratios of the three years to 2009 give a C score for asset quality, with a slightly weakening trend.

Global Local Currency Deposit Rating (Joint Default Analysis)

Moody's assigns an A3 GLC deposit rating to BKM. The rating is supported by two main elements:

- (i) BKM's BCA of Baa1; and
- (ii) The low probability of systemic support from Germany

Moody's assessment of a low level of systemic support is based on BKM's role as a small player in a niche market, and its limited importance for the national banking system. This results in a one-notch uplift for BKM.

Germany is considered a medium support country. The German banking market is highly fragmented, but Moody's acknowledges the country's favourable track record of systemic support for financial institutions in times of financial distress.

Foreign Currency Deposit Rating

BKM's foreign-currency deposit rating is A3.

Foreign Currency Debt Rating

BKM's senior unsecured foreign-currency debt rating is A3.

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 honor 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 Risk 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. AAaa 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

Bausparkasse Mainz AG

Rating Factors [1]	A	B	C	D	E	Total Score	Trend
Qualitative Factors (50%)						C-	
Factor: Franchise Value						C-	Neutral
Market Share and Sustainability				x			
Geographical Diversification		x					
Earnings Stability				x			
Earnings Diversification [2]							
Factor: Risk Positioning						D+	Neutral
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				x			
- Borrower Concentration				x			
- Industry Concentration		x					
Liquidity Management		x					
Market Risk Appetite		x					
Factor: Operating Environment						B	Neutral
Economic Stability			x				
Integrity and Corruption		x					
Legal System	x						
Financial Factors (50%)						D+	
Factor: Profitability						E+	Neutral
PPI / Average RWA- Basel II				0.80%			
Net Income / Average RWA- Basel II					0.19%		
Factor: Liquidity						C	Neutral
(Mkt funds-Liquid Assets) / Total Assets					36.50%		
Liquidity Management		x					
Factor: Capital Adequacy						B	Neutral
Tier 1 Ratio - Basel II			7.87%				
Tangible Common Equity / RWA- Basel II	7.87%						
Factor: Efficiency						E	Improving
Cost / Income Ratio					81.15%		
Factor: Asset Quality						C	Weakening
Problem Loans / Gross Loans		1.82%					
Problem Loans / (Equity + LLR)				34.55%			
Lowest Combined Score (15%)						E+	
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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