

# MOODY'S

## INVESTORS SERVICE

### Credit Opinion: Capitec Bank Limited

Global Credit Research - 19 Dec 2013

Stellenbosch, South Africa

#### Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	Baa3/P-3
Bank Financial Strength	D+
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	ba1
NSR Issuer Rating -Dom Curr	A2.za
NSR ST Issuer Rating -Dom Curr	P-1.za

#### Contacts

Analyst	Phone
Christos Theofilou, CFA/Limassol	357.25.586.586
Nondas Nicolaides/Limassol	
Yves Lemay/London	44.20.7772.5454
George Korniliou, CFA/Limassol	357.25.586.586

#### Key Indicators

##### Capitec Bank Limited (Consolidated Financials)[1]

	[2]2-13	[2]2-12	[2]2-11	[2]2-10	[2]2-09	Avg.
Total Assets (ZAR million)	38,338.2	23,583.1	14,498.1	9,506.8	4,959.1	[3]66.7
Total Assets (USD million)	4,272.8	3,165.4	2,089.3	1,240.4	493.7	[3]71.5
Tangible Common Equity (ZAR million)	8,102.9	4,716.3	3,121.5	1,533.2	1,324.0	[3]57.3
Tangible Common Equity (USD million)	903.1	633.0	449.8	200.0	131.8	[3]61.8
Net Interest Margin (%)	16.9	17.0	16.9	17.6	24.2	[4]18.5
PPI / Average RWA (%)	21.8	23.1	21.6	23.5	28.9	[5]23.8
Net Income / Average RWA (%)	6.9	7.5	6.1	7.8	10.0	[5]7.6
(Market Funds - Liquid Assets) / Total Assets (%)	0.6	-1.8	-0.5	-0.2	-17.3	[4]-3.8
Core Deposits / Average Gross Loans (%)	88.5	93.2	94.0	111.5	102.2	[4]97.9
Tier 1 Ratio (%)	28.5	27.8	32.1	26.2	41.5	[5]31.2
Tangible Common Equity / RWA (%)	28.8	29.3	32.1	26.5	41.6	[5]31.7
Cost / Income Ratio (%)	39.2	47.1	55.3	58.7	52.9	[4]50.6
Problem Loans / Gross Loans (%)	5.8	5.1	5.7	6.2	10.1	[4]6.6
Problem Loans / (Equity + Loan Loss Reserves) (%)	16.2	14.7	15.6	18.2	20.7	[4]17.1

Source: Moody's

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

#### Opinion

##### SUMMARY RATING RATIONALE

Capitec Bank's global scale deposit ratings are Baa3/Prime-3. The ratings are underpinned by (1) the bank's overall standalone credit strength (reflected in a baseline credit assessment (BCA) of ba1); and (2) our view that the bank's depositors will likely benefit from government support if necessary, based on its involvement in a market sector that is encouraged by the government to support South Africa's low-income population, and its 4% market share in household deposits as of October 2013 (based on BA900 disclosures).

Capitec's ba1 BCA (mapped from the D+ standalone bank financial strength rating) reflects its growing niche franchise in South Africa's unsecured lending market, supported by a higher transactional banking customer base. In addition, a growing retail deposit base has reduced funding concentrations and broadened the bank's funding profile. The rating also reflects Capitec's strong loss-absorption capacity, which is demonstrated by its robust profitability and solid capitalisation levels.

At the same time, Capitec's ratings also capture its small scale and narrow, undiversified focus on the unsecured lending market, where challenging operating conditions will likely lead to higher loan arrears and provisioning requirements as the loan book seasons, which will, in turn, weigh on profitability metrics. The stable outlook on Capitec's ratings reflects our view that the bank's strong loss-absorption capacity and comprehensive provisioning policy counterbalance the aforementioned asset-quality pressures.

### **Rating Drivers**

- A growing niche franchise in South Africa
- An increasingly diverse funding base and prudent liquidity management
- South Africa's challenging operating environment continues to weigh on asset quality
- A strong loss-absorption capacity, underpinned by robust profitability and solid capitalisation

### **Rating Outlook**

All ratings carry a stable outlook.

### **What Could Change the Rating - Up**

Although we believe there is limited upside potential for Capitec's ratings within the next 12-18 months, the bank's ratings could be upgraded if it is able to (1) maintain its sound financial fundamentals over the next 12-18 months; (2) consolidate and further grow its franchise position; and (3) further broaden and diversify both its funding base and its revenue sources (primarily its transactional banking fee income).

### **What Could Change the Rating - Down**

Capitec's ratings could be downgraded if (1) its business model and aggressive balance sheet growth induces credit and liquidity management risks; or (2) its asset quality, capital base and earnings power are materially adversely affected by the current challenging operating conditions.

## **DETAILED RATING CONSIDERATIONS**

### **A GROWING NICHE FRANCHISE IN SOUTH AFRICA**

Capitec has a successful, rapidly growing, niche franchise in South Africa's unsecured lending market, with further growth and revenue diversification supported by its expanding transactional banking customer base. The bank's simplified, low-cost, single-banking solution has been gaining appeal with South Africa's consumers, while its paperless, straightforward, technology-driven business model (which has been enhanced through its recent service platform re-engineering) enables it to provide a low-cost and efficient service, with rapid application processes and an improved service level. The bank's client base is a reflection of South Africa's population demographics and we estimate that its market share in unsecured personal loans (including cards and overdrafts) increased to around 12% as of October 2013, from around 4% in December 2009 (based on bank BA900 disclosures).

We also view positively Capitec's increasing customer numbers (over 5 million active clients as of August 2013, compared to 350,000 in February 2005) and its transactional banking offering (through which salaries are deposited and payments are made), which have strengthened its franchise position and growth potential (through cross-selling opportunities) and have led to revenue diversification, rendering earnings less dependent on future

loan income trends. Net transactional, fee-based income covered around 55% of operating expenses during the six months to August 2013.

Nevertheless, Capitec's franchise value continues to be constrained by its (1) narrow, undiversified focus on the unsecured lending market amid challenging operating conditions; and (2) small scale in terms of total assets, despite significant growth over the past few years, with 1.3% of total banking system assets as of October 2013 (based on bank BA900 disclosures).

#### AN INCREASINGLY DIVERSE FUNDING BASE AND PRUDENT LIQUIDITY MANAGEMENT

Capitec's funding base has become more diverse since 2009 after it successfully introduced new retail products and gained access to domestic capital markets. As of August 2013, retail deposits accounted for ZAR20.2 billion, or around 61% of non-equity funding (one of the highest levels in South Africa). Meanwhile, funding concentrations have been gradually diminishing, with the top 20 depositors and funders accounting for approximately 35% of the total, down from 50% a few years ago. The bank is also an active issuer in the local capital market via its ZAR8 billion Domestic Medium-Term Note (DMTN) programme.

Capitec adopts a prudent approach to liquidity management. It already complies with the Basel III liquidity ratios as it does not rely on short-term wholesale deposits thanks to the relatively high proportion of retail deposits and equity financing within its funding structure. The bank also maintains liquid assets (cash and fair value investments, primarily with South Africa's National Treasury, large local banks and money market funds) of around 28% of total assets (as at August 2013).

The bank does have some maturity mismatches in its asset and liability profile, which have been increasing as the maturity profile of its loan portfolio lengthens. However, these mismatches remain manageable given (1) the relatively short-term nature of its assets; (2) its ability to source term funding; and (3) its ample capital cushion.

#### SOUTH AFRICA'S CHALLENGING OPERATING ENVIRONMENT CONTINUES TO WEIGH ON ASSET QUALITY

We expect that the challenging operating environment in South Africa's unsecured lending market, amid subdued domestic economic growth and labour unrest in certain sectors, and the seasoning of Capitec's loan book, following very high loan growth over the past three years, will continue to weigh on the bank's asset quality and profitability metrics.

The bank's historically high credit costs (in line with its high-risk product range of unsecured personal loans to lower- and middle-income earners) were higher during the first half of the fiscal year ending February 2014. The loan loss provisioning expenses accounted for an annualised 12.4% of average gross loans during H1, compared to 10.8% during fiscal 2013 and around 1.5% for conventional banks in South Africa. Loans in arrears (between one and 89 days) accounted for 5.5% of gross loans as of August 2013, compared with 4.4% as of August 2012 (fiscal 2013: 5.8%). While the first half of the fiscal year has historically been better due to seasonal factors, the bank has only seen a marginal improvement in H1 fiscal 2014, which leads us to expect weaker asset quality for the full fiscal year. This takes place amid challenging operating conditions and as loan growth is curtailed as a consequence of tighter underwriting criteria implemented by the bank to address asset-quality concerns.

At the same time, we believe that Capitec's comprehensive provisioning policy mitigates some of its asset-quality risks. The bank fully provides for and subsequently writes off all loans over 90 days past due (subsequent recoveries are recognised on a cash received basis) and actively applies conservative provisioning policies for unseasoned longer-term loans (to account for the lack of any reliable historical loss rates). As a consequence, Capitec maintains a relatively high general provision with loan loss reserves at 9.8% of gross loans as of August 2013, equivalent to 177% of all loans in arrears.

We also acknowledge Capitec's good collections capabilities and adequate risk management practices. Its credit assessment process is based on a regression model that includes (1) the client's historic credit behaviour; (2) an affordability assessment; (3) an analysis of recent cash flow trends; (4) Capitec's employer grading system, which is indicative of employment stability and hence the client's financial stability; and (5) a forecast of which clients may have an unrestrained appetite for credit. Other factors mitigating Capitec's risks include third-party credit life and retrenchment insurance.

#### A STRONG LOSS-ABSORPTION CAPACITY, UNDERPINNED BY ROBUST PROFITABILITY AND SOLID CAPITALISATION

While we note the negative profitability pressure stemming from a slowdown in business growth and higher

provisioning expenses, we expect Capitec to maintain its historically strong overall profitability thanks to the high margins earned in the high-risk, high-return unsecured lending market, and its good operational efficiency. The bank's net income-to-average assets ratio stood at an annualised 4.7% during H1 fiscal 2014 compared to 4.9% during fiscal 2013, due to higher provisioning expenses. Capitec's pre-provision income (PPI)-to-average assets ratio stood at 16.2% during H1 fiscal 2014 compared to 15.6% during fiscal 2013, as higher transaction fee income offset the deceleration in loan book growth.

Capitec has publicly stated its commitment to run its business efficiently, remain cost conscious, and streamline and improve its branch processes. We therefore expect the bank to make sustained improvement in efficiency metrics as it leverages on its existing infrastructure. During H1 fiscal 2014, the bank's cost-to-income ratio improved to 33% from 39% in fiscal 2013. According to management, Capitec's branch network costs are estimated to be a fraction of the industry average, while its developed infrastructure should enable it to absorb higher business volumes, specifically in terms of transactional banking services and attracting retail deposits.

Based on the results of our scenario analysis, we conclude that Capitec has solid capitalisation metrics. As of August 2013, the bank reported a shareholders' funds-to-total assets ratio of 21%, supported by its ZAR2.25 billion rights issue last year. As of November 2013, the Capitec group has a consolidated capital position that includes a common equity Tier 1 ratio of 29.7%, a Tier 1 ratio of 30.5%, and an overall capital adequacy ratio of 39.8%. The higher-risk nature of Capitec's business profile and target market, and its potentially higher loan growth potential, warrant a more ample capital cushion than other commercial banks.

#### SOURCE OF FACTS AND FIGURES CITED IN THIS REPORT

Unless noted otherwise, data related to system-wide trends is sourced from South Africa's National Credit Regulator and the central bank. Bank-specific figures originate from the bank's reports, BA900 submissions, quarterly capital adequacy disclosures, and Moody's Banking Financial Metrics. All figures are based on our own chart of account and may be adjusted for analytical purposes. Please refer to the documents entitled "Moody's Approach to Global Standard Adjustments in the Analysis of the Financial Statements of Banks, Securities Firms and Finance Companies" and "Frequently Asked Questions: Moody's Approach to Global Standard Adjustments in the Analysis of the Financial Statements of Banks, Securities Firms and Finance Companies", both published on 19 July 2012.

#### **Global Local Currency Deposit Rating (Joint Default Analysis)**

We assign a global local-currency (GLC) deposit rating of Baa3 to Capitec, which is one-notch higher than its BCA of ba1. The uplift is based on (1) our assessment of a moderate probability of systemic support if necessary; and (2) the government's capacity to support the bank, reflected in South Africa's systemic support indicator of A3.

We believe there is a moderate likelihood that systemic (government) support will be extended to Capitec in the event of a stress situation. This is based on (1) Capitec's involvement in a market sector that is encouraged by the government to support the low-income population of South Africa; and (2) the bank's 4% market share in household deposits as of October 2013 (based on BA900 disclosures).

#### **National Scale Rating**

Capitec's A2.za/P-1.za national scale ratings reflect the bank's strong creditworthiness within the South African credit environment. These ratings also take into account its intrinsic financial strength and the moderate probability of systemic support if necessary.

#### **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. Bank Financial Strength Ratings 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 Bank Financial Strength Ratings include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although Bank Financial Strength Ratings 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.

Moody's uses the Baseline Credit Assessment (BCA) to map BFSRs onto the 21-point aaa-c rating scale and like the BFSR, it reflects a bank stand-alone default risk. Each point on the aaa-c scale represents a specific probability of default and therefore allows Moody's to use the BCA as an input to Moody's Joint Default Analysis (JDA), described below. The baseline credit assessment reflects what the local currency deposit rating of the bank with the given BFSR would be without any assumed external support from a government or third party

#### Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the Bank Financial Strength Rating 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, Moody's Bank Deposit Ratings are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, and 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 any external elements of support into the bank's Baseline Credit Assessment. In assigning the local currency deposit rating to a bank, the JDA methodology also factors in the rating of the various potential support providers (parent company, cooperative group, regional or national governments), as well as the degree of dependence that may exist between each one of them and the bank. Moody's assessment of the probability of systemic support (by a national government) is derived from the analysis of the capacity of a government and its central bank to provide support on a system-wide basis. The systemic support indicator is determined for a particular country and serves as an input for all bank ratings in that country. The support indicator can be set at, above or, in rare cases, below the government's local currency bond rating for that country.

#### National Scale Ratings

Moody's National Scale Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".za" for South Africa. For further information on Moody's approach to national scale ratings, please refer to Moody's Rating Implementation Guidance published in October 2012 entitled "Mapping Moody's National Scale Ratings to Global Scale Ratings."

#### 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

### Capitec Bank Limited

Rating Factors [1]	A	B	C	D	E	Total Score	Trend
<b>Qualitative Factors (70%)</b>						<b>C</b>	
<b>Factor: Franchise Value</b>						<b>D+</b>	<b>Improving</b>
Market share and sustainability				x			
Geographical diversification				x			
Earnings stability	x						
Earnings Diversification [2]					x		
<b>Factor: Risk Positioning</b>						<b>C-</b>	<b>Neutral</b>
<b>Corporate Governance [2]</b>				x			
- Ownership and Organizational Complexity				x			
- Key Man Risk							
- Insider and Related-Party Risks							
<b>Controls and Risk Management</b>			x				
- Risk Management				x			
- Controls		x					
<b>Financial Reporting Transparency</b>			x				
- Global Comparability	x						
- Frequency and Timeliness				x			
- Quality of Financial Information				x			
<b>Credit Risk Concentration</b>			x				
- Borrower Concentration			x				
- Industry Concentration		x					
<b>Liquidity Management</b>			x				
<b>Market Risk Appetite</b>		x					
<b>Factor: Operating Environment</b>						<b>C-</b>	<b>Neutral</b>
<b>Economic Stability</b>				x			
<b>Integrity and Corruption</b>				x			
<b>Legal System</b>		x					
<b>Financial Factors (30%)</b>						<b>B-</b>	
<b>Factor: Profitability</b>						<b>A</b>	<b>Neutral</b>
PPI % Average RWA (Basel II)	22.16%						
Net Income % Average RWA (Basel II)	6.80%						
<b>Factor: Liquidity</b>						<b>C+</b>	<b>Neutral</b>
(Market Funds - Liquid Assets) % Total Assets		-0.56%					
<b>Liquidity Management</b>			x				
<b>Factor: Capital Adequacy</b>						<b>A</b>	<b>Neutral</b>
Tier 1 Ratio (%) (Basel II)	29.46%						
Tangible Common Equity % RWA (Basel II)	30.07%						
<b>Factor: Efficiency</b>						<b>B</b>	<b>Neutral</b>
Cost / Income Ratio		47.18%					
<b>Factor: Asset Quality</b>						<b>C</b>	<b>Neutral</b>
Problem Loans % Gross Loans				5.53%			
Problem Loans % (Equity + LLR)		15.53%					
<b>Lowest Combined Financial Factor Score (9%)</b>						<b>C</b>	
<b>Economic Insolvency Override</b>						<b>Neutral</b>	
<b>Aggregate BFSR Score</b>						<b>C+</b>	

Aggregate BCA Score		a2	
Assigned BFSR		D+	
Assigned BCA		baa3	

[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.



© 2013 Moody's Investors Service, Inc. and/or its licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

**CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. ("MIS") AND ITS AFFILIATES 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. 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 MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.**

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. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special,

consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. 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.

MIS, 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 MIS have, prior to assignment of any rating, agreed to pay to MIS 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.moodys.com](http://www.moodys.com) under the heading "Shareholder 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.