

Global Credit Research - 22 Dec 2011

*Belo Horizonte, Brazil***Ratings**

Category	Moody's Rating
Outlook	Negative
Bank Deposits	Ba3/NP
NSR Bank Deposits -Dom Curr	A3.br/BR-2
Bank Financial Strength	D-
Baseline Credit Assessment	(Ba3)
Adjusted Baseline Credit Assessment	(Ba3)
Subordinate	B1

Contacts

Analyst	Phone
Jeanne Del Casino/New York City	1.212.553.1653
Alexandre Albuquerque/Sao Paulo	5511.3043.7356
Ricardo Kovacs/Sao Paulo	55.11.3043.7300
M. Celina Vansetti/New York City	

Key Indicators**Banco Bonsucesso S.A. (Unconsolidated Financials)[1]**

	[2]9-11	[2]12-10	[2]12-09	[2]12-08	[3]12-07	Avg.
Total Assets (BRL billion)	2.6	2.5	1.7	1.0	1.3	[4]17.9
Total Assets (USD billion)	1.4	1.5	1.0	0.4	0.7	[4]16.7
Tangible Common Equity (BRL billion)	0.4	0.4	0.3	0.3	0.3	[4]6.3
Tangible Common Equity (USD billion)	0.2	0.2	0.2	0.1	0.2	[4]5.2
Net Interest Margin (%)	22.5	28.1	41.0	28.0	34.9	[5]30.9
PPI / Avg RWA (%)	4.3	4.6	6.3	3.7	11.2	[6]4.7
Net Income / Avg RWA (%)	1.5	3.3	4.3	1.5	7.8	[6]2.6
(Market Funds - Liquid Assets) / Total Assets (%)	-4.9	-4.7	-15.3	1.6	-8.1	[5]-6.3
Core Deposits / Average Gross Loans (%)	94.2	108.6	139.7	59.2	126.8	[5]105.7
Tier 1 Ratio (%)	11.4	12.4	13.0	16.7	22.0	[6]13.4
Tangible Common Equity / RWA (%)	11.3	12.4	12.9	18.0	21.9	[6]13.6
Cost / Income Ratio (%)	71.8	77.2	74.6	80.1	64.4	[5]73.6
Problem Loans / Gross Loans (%)	3.5	1.1	2.9	2.5	1.3	[5]2.3
Problem Loans / (Equity + Loan Loss Reserves) (%)	11.8	4.4	8.3	4.7	2.9	[5]6.4

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] LOCAL GAAP reporting periods have been used for average calculation [6] Basel II & LOCAL GAAP reporting periods have been used for average calculation

Opinion**SUMMARY RATING RATIONALE**

Moody's Investors Service assigns a Bank Financial Strength Rating (BFSR) of D- to Banco Bonsucesso S.A. (Bonsucesso). The rating is supported by a banking franchise with a long track record in the niche segment of payroll deductible loans, an activity that is responsible for most of the bank's net income. On the other hand, the D- BFSR is constrained by a funding structure that shows an inherently high concentration among the largest borrowers.

Although the bank has posted adequate ratios over the past several years, its bottom line results have benefited from accounting rules that enable the anticipation of future revenues from interest on payroll loans sold to financial institutions. Changes to accounting rules already announced for early 2012 are expected to reduce profitability as revenues from credit sales are no longer to be anticipated.

The rating also benefits from the low delinquency ratios the bank reports, a consequence of management's rigid monitoring of credit risks, which it controls through the proprietary information systems that it has developed over years operating in the segment, as well as of the inherently low risk nature of payroll deductible loans.

Bonsucesso's BFSR of D- translates into a Baseline Credit Assessment of Ba3, which is also Bonsucesso's global local-currency (GLC) deposit rating. This rating incorporates Moody's belief that Bonsucesso would not receive support from the government should a systemic crisis occur because of the bank's small significance in Brazil's deposits and payment system.

As of December 14, 2011, Moody's downgraded Bonsucesso's ratings and maintained the negative outlook on all ratings. The negative outlook reflects (a) the challenging scenario for funding next year, in view of the decline in the limit available to banks to issue special time deposits (DPGE), an event likely to

require Bonsucesso to pursue alternative sources of funding; (b) the persistence of unfavorable conditions in the market for loan sales, which represents a challenge to the bank's business model; and (c) the announced changes in the accounting method through which banks recognize revenues from loan sales. Potential effects of these measures include adjustments in loan origination dynamics within this niche market, which could compress profitability and capital indicators.

Rating Drivers

- Long track record in the market segment of payroll-deductible lending
- Monoline institution, considering that the majority of the bank's results derive from payroll lending
- Operates in a niche business that has modest growth prospects and is highly competitive
- Experienced management, with advanced operational procedures and IT resources, largely developed in-house, that form an important tool for managing efficiency
- Low delinquency ratios reflect low-risk nature of payroll loans and high collateral levels in the middle corporate loan book.
- Adequate profitability ratios, although profits are largely composed of anticipated earnings from credit sales
- New accounting procedures for asset sales expect to pressure capital and profitability indicators
- Relatively high operating expenses exert pressure on profitability

Rating Outlook

All ratings assigned to Bonsucesso currently have a negative outlook.

What Could Change the Rating - Up

Most of the positive pressure on the ratings is associated to the fact management has been able to maintain profitability at adequate levels without jeopardizing asset quality. Keeping an ample capital cushion would also be crucial to the bank, mainly in view of the incoming challenges in terms of capital requirements for payroll loans sold with recourse to third parties. Management's ability to maintain its market position in a period of increased competition and rising funding costs would also be important to creating positive rating pressure.

What Could Change the Rating - Down

Adverse funding conditions remain as the main challenge facing the bank. A limited ability to sell loans in the market and an increase in the overall funding costs in the system are important obstacles the bank needs to overcome. The slowdown in credit origination from market conditions represents a challenge for the bank's business model, and, therefore, is an important source of negative pressure on ratings. A shift to a credit portfolio with a riskier profile could increase loan concentration. Along with less prudent lending criteria, such concentration could lead to a downgrade. The BFSR would come down if the bank's recurring earnings and financial profile were to deteriorate significantly.

Recent Results and Developments

Bonsucesso reported net income of R\$37.2 million as of September 2011, which represented an annual decline of 50.8%. Most of the drop in bottom-line results is explained by the increase in funding expenses as shown by interest expenses 64.3% higher than in September 2010, and higher provisions for loan losses (96.9% more than in September 2010), as the bank increased its on-balance loan book. In 2011, management continued to focus on operating with those bank correspondents that had the best performance in terms of productivity and asset quality. In September 2011, Bonsucesso had a ratio of return on average assets of 1.99%, and a ratio of pre-provision income to average risk-weighted assets of 4.33%, both on an unconsolidated basis. The bank's net interest margins stood at 22.53%.

The bank's total assets expanded 20.4% to R\$2.57 billion compared to September 2010, reflecting an increase both in credit operations, which amounted to R\$1.62 billion in September 2011, and in the securities portfolio, which saw a 91% hike to R\$463.3 million compared to the previous year. The bank's loan book was mostly comprised of payroll lending operations, both direct loans to public employees and retirees and also credit card operations; these payroll lending operations represented roughly 78% of the on-balance portfolio. Nevertheless, Bonsucesso has also expanded its presence in the segment of small- and medium-sized companies (SME). The SME operation has shown good performance based on the short-term nature of its credit and guaranteed its exposure, which also eases pressure on the funding side and brings diversification to the bank's specialized operation. Nevertheless, SME lending remains challenged by fierce competition from large players and traditional niche banks.

Bonsucesso's asset quality indicators remain adequate, as total overdue loans accounted for 3.5% of the entire loan book as of September 2011. Despite the recent increase of Bonsucesso's on-balance loan book, non-performing ratios have remained relatively low due to monitoring systems that control credit risk and identify potential frauds during the origination process of the payroll loans. The bank reported an adequate capital cushion to support further growth, as evidenced by a BIS ratio of 17.2%. Securitization remains an important tool for managing liquidity, but one whose use will become more restricted when changes in the accounting rules come into effect and increase capital requirements on asset sales. Cash liquidity covered 27% of total deposits in September 2011, or 109.3% of the bank's equity base.

DETAILED RATING CONSIDERATIONS

Detailed considerations for Banco Bonsucesso's currently assigned ratings are as follows.

Bank Financial Strength Rating

Moody's assigns a D- BFSR for Bonsucesso, three notches below the scorecard outcome of C-. The rating is constrained by the bank's concentrated funding structure and monoline operation. According to Moody's methodology, the bank is considered a monoline operation because the majority of its results are still originated in the payroll lending segment, despite the bank's small portfolio of loans to small- and medium-sized companies.

The rating is also limited by a performance that primarily relies on revenues from credit sales. The bank's loan-origination ability is far superior to its fund-

raising capability, thus prompting Bonsucesso to rely on securitizations and loan sales. The already heralded regulatory changes for assets sold with recourse could reduce the bank's earnings origination capability given the revised risk-weighting requirement for off-balance loans. Furthermore, they may also compress profitability as revenues from credit sales are accrued over a loan's life. These vulnerabilities may limit business growth in times of fierce competition and tight liquidity.

The rating also considers challenges related to the fierce competition on Bonsucesso's franchise and particularly the negative effect regulated spreads have on payroll loans in an environment of increasing interest rates. Competitive forces are also present in the SME lending segment, a market niche in which management has been also pursuing growth in order to diversify operations. Tensions from the side of higher funding costs may also pressure earnings in periods ahead.

On the positive side, the BFSR rating is supported by adequate capitalization in recent years, though boosted by the issuance of a tier 2 subordinate debt in 2010. Moody's welcomes Bonsucesso's advanced operational architecture and IT systems, an important managerial tool to control efficiency, as the bank prioritizes margins and quality over volume.

The three-notch difference between the scorecard outcome of C- and the assigned BFSR of D- is because of the high scores for Profitability and Capital, which benefit from the revenues associated with loan sales. Still an important source of earnings for the bank (roughly 51% of loan revenues in the nine months of 2011), loan sales are likely to be less profitable for the bank in 2012, leading to more modest profitable levels, as new accounting method for the recognition of revenues from loan sales become effective.

Liquidity

A significant part of Bonsucesso's funding structure is comprised of loans sold with recourse to other financial institutions, a characteristic shared by niche banks operating in the payroll deductible loan segment. As of June 2011, loan sales made up approximately 42.8% of all funding sources, both on- and off-balance instruments, a small change from the 43.5% reported in the previous year. Due to the low-risk nature of its credit portfolio and its privileged position in the payroll lending segment, Bonsucesso benefits from credit sales to manage liquidity.

Nonetheless, time deposits form the majority of the bank's funding base, including the special time deposit guaranteed by the insurance deposit fund, the so-called DPGE. Most of the bank's deposits were held by asset management companies in September 2011 (49%), followed by corporate clients (22%), institutional investors (13%) and individuals (8%).

Bonsucesso's first issuances of DPGE occurred back in April 2009. As of September 2011, DPGEs accounted for 54.3% of total deposits and 22.2% of all funding sources. The DPGE is an instrument more expensive than regular time deposits because of its insurance component, nonetheless, it has a longer tenure and depositors are required to maintain their positions until the instrument matures.

Since the first quarter of 2011, a gradual increase in funding costs has pressured the bank's profitability, an event derived in part from the government's increase of the benchmark interest rate and therefore affecting all medium- and small-sized banks equally. Another factor behind the hike in funding costs is that the government's December 2010 increase in reserve requirements pushed up the cost of domestic deposits for all banks in the system; the negative effects of this measure were worse for small- and mid-sized banks because they have lowered funding diversification and greater reliance on wholesale time deposits.

The absence of demand deposits in the bank's funding structure is a result of its wholesale-based nature and it contributes to the high deposit concentration. Therefore, concentration risk is also present, a trait it shares with other mid-sized banks operating in Brazil. As of September 2011, 20.67% of total deposits were held by the 10 largest clients while 31.24% belonged to the 20 largest. The high concentration of deposits is a characteristic inherent to the bank, and has been consistent over time: in June 2011, the 10 largest accounted for 21.19% of total deposits (or 85% of the bank's tier 1 capital, or 204% of pre-provision profits); it was 21.3% in December 2010 and 20.97% in June 2010.

In October 2010, the bank increased funding diversification by tapping international markets and issuing a 10-year US\$125 million subordinated bond, which was later classified as tier 2 equity by the Central Bank.

Profitability

The recent decline in Bonsucesso's profitability metrics mainly reflects the reduction in loan origination registered during the first half of 2011. The decline in loan origination is mostly explained by: (a) increased competition from large retail banks, which expanded their presence in the segment and reduced the acquisition of payroll loans originated by niche banks; (b) government's measure to increase risk-weighting for long-term consumer finance operations, including payroll loans, in the calculation of capital ratios. The measure became effective as of June 2011 only; however, the government announced in November 2011 that capital requirements for loan operations shorter than 60 months were being changed back to their former levels (nonetheless, capital levels for operations longer than 60 months were doubled).

During this period, management focused on maintaining codes (contracts established with government entities and the federal pension system for servicing payroll loans) that yielded a high volume of origination as well as loans with better quality. Despite of this effort, profitability ratios are likely to remain lower than those reported in early 2009 (PPP/RWA of 13.4% and NI/RWA of 6.3%) or 2006 (12% and 10.4%, respectively), given that: (a) large banks are likely to continue pursuing growth in the segment; and (b) changes in accounting rules will cause revenues from loan sales to be accrued over time, instead of all accounted for at once as under the current method.

The origination and sale of payroll loans remain the principal activities that support Bonsucesso's bottom-line results, notwithstanding the recent decline in profitability ratios. As of June 2011, revenues from loan sales accounted for 54% of the income from credit operations and 44.7% of all revenues. Up to 2009, Bonsucesso's profitability ratios benefited from the growth it experienced in the payroll lending segment and the bank's good penetration in the retirees' market (INSS). Furthermore, profits also benefited from management's disciplined approach to prioritizing margins over volume.

The new accounting rules that will come into effect in early 2012 are expected to change revenue recognition as they will require banks to accrue revenues from the sale of assets according to loan maturity (i.e., the pro-rata temporis method). Therefore, they are likely to cause profitability indicators to fall. At the same time, they tend to produce lower volatility in earnings and higher recurrence as long as banks maintain strong credit origination and sale agreements.

A well-structured operation and management's long-term expertise in the segment sustain the earnings recurrence in payroll loans. The bank's loan origination process is focused on those correspondents that show the best performance in terms of productivity, asset quality, and commissions. Management enhanced internal monitoring systems in 2009, thus allowing for a reduction of correspondents. Furthermore, it developed proprietary IT systems and monitoring procedures that identify potential frauds in loan origination. The organization of the back-office into different segments allows for more agility in processing credit requests and monitoring the quality of the loan portfolio.

Bonsucesso's growing SME platform should help mitigate the bank's existing challenges in the payroll lending arena, even taking into consideration that the platform is a lower spread product.

Capital Adequacy

The bank's BIS ratio went up to 17.6% in June 2011 from 12.5% in December 2010, boosted by the issuance of the subordinated debt. Despite the additional tier 2 capital, the bank's overall capital position is likely to decline, affected by the new regulation that will require banks to allocate capital for those loans sold without recourse, and registered off-balance. On a positive note, the government's recent decision to revert to additional capital allocation for consumer loans maturing between 36 and 60 months should provide some relief to the bank's capital base.

Despite of the likely decline, Bonsucesso has a long track record of high capital metrics when compared to peers'. Historically, a conservative earnings retention policy has been supporting the bank's capital ratios.

Part of management's strategy to ease pressure on capital involves expanding payroll lending through credit cards, and commercial lending to small- and medium-sized companies. However, these operations still represent a small share of the bank's loan book: 15.2% and 21%, respectively, in June 2011 (7.3% and 10.1%, considering off-balance loans).

Asset Quality

The bank's core business line - payroll-deductible loans to public servants and retirees - carries low credit risk by nature; as a consequence, asset quality indicators are well-placed among peers'. The bank could experience an increase in concentration risk as it increases commercial lending operations; however, such a move should be mitigated by the current short-term nature of its loans. If management were to take a defensive approach to competition, the commercial lending operation could add negative pressure to asset quality indicators. That would happen should management adopt more aggressive guidance in its lending, such as easing collateralization or requiring less documentation, and the extension of tenor beyond funding capacity.

Global Local Currency Deposit Rating (Joint Default Analysis)

Moody's global local currency rating of Ba3 for Bonsucesso derives directly from its Baseline Credit Assessment of Ba3. Moody's assigns no probability of systemic support to the bank's deposit ratings in local currency because of its small share of deposits and assets in the system. The local currency rating, therefore, is a direct mapping of Bonsucesso's bank financial strength rating.

National Scale Rating

Moody's assigns Brazilian National Scale deposit ratings of A3.br and BR-2 to Bonsucesso. The rating reflects the bank's creditworthiness in the domestic market and derives from the bank's global local currency rating.

Foreign Currency Deposit Rating

Moody's assigns a Ba3 foreign currency deposit rating for Banco Bonsucesso, in line with its local currency deposit rating.

Foreign Currency Debt Rating

Following the refined JDA rating methodology for banks and notching guidelines released in April 2007, Moody's assigns a B1 foreign currency debt rating to Bonsucesso's US\$125 million 10-year subordinated notes issued in October 2010, notching down by one level from local-currency deposit rating.

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 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. A Aaa 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.

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 ".mx" for Mexico. For further information on Moody's approach to national scale ratings, please refer to Moody's Rating Implementation Guidance published in August 2010 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 a 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 obligations 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

Banco Bonsucesso S.A.

Rating Factors [1]	A	B	C	D	E	Total Score	Trend
Qualitative Factors (70%)						D+	
Factor: Franchise Value						E+	Neutral
Market Share and Sustainability				x			
Geographical Diversification					x		
Earnings Stability					x		
Earnings Diversification [2]					x		
Factor: Risk Positioning						E	Neutral
Corporate Governance [2]					x		
- Ownership and Organizational Complexity				x			
- Key Man Risk				x			
- Insider and Related-Party Risks					x		
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						D	Neutral
Economic Stability					x		
Integrity and Corruption				x			
Legal System			x				
Financial Factors (30%)						B-	
Factor: Profitability						A	Weakening
PPI / Average RWA - Basel II	4.16%						
Net Income / Average RWA - Basel II	2.55%						

Factor: Liquidity (Mkt funds-Liquid Assets) / Total Assets Liquidity Management		-6.14%				C	Neutral
Factor: Capital Adequacy Tier 1 Ratio - Basel II Tangible Common Equity / RWA - Basel II	14.06%				x	A	Weakening
Factor: Efficiency Cost / Income Ratio					77.32%	D	Weakening
Factor: Asset Quality Problem Loans / Gross Loans Problem Loans / (Equity + LLR)			2.19%			B	Neutral
Lowest Combined Score (9%)						C	
Economic Insolvency Override						Neutral	
Aggregate Score						C-	
Assigned BFSR						D-	

[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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