

Rating Action: Moody's places ratings of Berlin Hyp AG and Landesbank Berlin AG on review

03 Feb 2022

Frankfurt am Main, February 03, 2022 -- Moody's Investors Service (Moody's) has today placed Berlin Hyp AG's (Berlin Hyp) and Landesbank Berlin AG's (LBB) Aa2 long-term deposit and issuer ratings as well as Berlin Hyp's senior unsecured debt ratings on review for downgrade.

Concurrently, Moody's has placed on review for upgrade the baa2 Baseline Credit Assessment (BCA) and the a3 Adjusted BCA of LBB. Further, the rating agency affirmed the ba1 BCA of Berlin Hyp and placed its a3 Adjusted BCA on review for downgrade.

Today's rating actions were triggered by Landesbank Baden-Wuerttemberg's (LBBW, deposits Aa3 stable/senior unsecured Aa3 stable, BCA baa2) acquisition of Berlin Hyp [1], which remains subject to regulatory and owner approvals; the transaction is expected to close in summer 2022. Up to now, commercial real estate lender Berlin Hyp and savings bank LBB are both subsidiaries of Erwerbsgesellschaft der S-Finanzgruppe mbH (S-Erwerbsgesellschaft) and are rated under the assumption of a joint resolution approach.

The acquisition of Berlin Hyp by LBBW leads to the breakup of the banking group within S-Erwerbsgesellschaft, which remains the owner of LBB. The transaction follows an industrial logic of consolidating commercial real estate lending activities under the roof of LBBW while preserving LBB as regional savings bank under the ultimate ownership of the German savings bank sector.

The transaction results in diluting credit benefits for both banks, leading to a review for downgrade of some of both banks' ratings. For Berlin Hyp, the acquisition by a lower rated entity exerts potential downwards rating pressure. For LBB, changes in the liability structures after the break-up of S-Erwerbsgesellschaft could pressure the bank's deposit and issuer ratings as investor protection from loss-absorbing instruments is expected to decline.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

RATINGS RATIONALE -- BERLIN HYP

BERLIN HYP'S BCA AFFIRMATION REFLECTS EXPECTATION OF AN UNCHANGED CREDIT PROFILE

The affirmation of Berlin Hyp's ba1 standalone BCA reflects that it will operate as a self-contained subsidiary of LBBW and under its existing brand. Berlin Hyp's ba1 BCA continues to consider the bank's exceptionally high concentration risks in commercial real estate (CRE) lending given its highly focused business model, but also its good asset quality and capitalisation and a profitability that exceeds the level of domestic peers. This sound solvency is somewhat offset by the bank's weaker liquidity, due to a high reliance on confidence-sensitive market funding and substantial asset encumbrance.

REVIEW FOR DOWNGRADE OF ADJUSTED BCA, LONG-TERM DEPOSIT, ISSUER AND SENIOR UNSECURED DEBT RATINGS

The review for downgrade on Berlin Hyp's long-term deposit, issuer and senior unsecured debt ratings as well as on its Adjusted BCA reflects that Berlin Hyp's ratings will likely be aligned with LBBW's, which are one notch lower. The rating agency expects that Berlin Hyp will be considered a joint resolution group with LBBW by the respective authority, thereby essentially aligning the risks for investors.

AFFIRMATION OF JUNIOR SENIOR UNSECURED DEBT RATINGS AND SHORT-TERM RATINGS

Berlin Hyp's junior senior unsecured debt ratings and its short-term ratings are at the same level as LBBW's. Consequently, Moody's affirmed the ratings, driven by the same factors as outlined above, namely the joint resolution perimeter assumption.

FOCUS OF THE REVIEW

During the review period, Moody's will assess how the change in ownership at Berlin Hyp will affect the current rating uplift from affiliate support, which presently benefits from its financially stronger sister company LBB and a profit and loss transfer agreement with their joint parent as well as its full indirect ownership of Sparkassen-Finanzgruppe (Corporate Family Rating Aa2 stable, BCA a2), and the new resolution group that it is expected to form with LBBW. The rating agency will also monitor the progress in achieving required shareholder and authority approvals.

RATINGS RATIONALE - LBB

REVIEW FOR UPGRADE OF BCA, ADJUSTED BCA AND SUBORDINATED DEBT RATINGS

The review for upgrade on LBB's baa2 BCA relates to the potential removal of the current cap on its BCA, which reflects the strong contractual interlinkages as represented by the profit and loss transfer agreements between the joint parent and its two core subsidiaries and which presently ties LBB and Berlin Hyp from a creditworthiness perspective.

LBB's standalone credit profile continues to reflect the bank's strong deposit franchise and strong capital ratios, while it is restrained by heightened asset risk, because of substantial CRE lending exposures and a weak profitability.

A higher BCA is likely to lead to a higher Adjusted BCA, based on the very high support available from Sparkassen-Finanzgruppe; as such the review for upgrade on LBB's BCA drives the review for upgrade on its Adjusted BCA.

The review for upgrade on the Baa1 subordinated debt rating, the long-term Aa2(cr) Counterparty Risk Assessment and the bank's long-term Aa2 Counterparty Risk Ratings then follow the review for upgrade on LBB's Adjusted BCA.

REVIEW FOR DOWNGRADE OF LONG-TERM DEPOSIT, ISSUER AND JUNIOR SENIOR UNSECURED DEBT RATINGS

The review for downgrade on LBB's Aa2 long-term deposit, issuer and junior senior unsecured debt ratings reflects the potential for lower ratings uplift for these liabilities from Moody's Advanced LGF analysis, given the expected changes in the liability structure.

At the current stage, LBB's liability perimeter is based on group numbers, including Berlin Hyp's significant senior unsecured and junior senior unsecured liabilities. As LBB's stand-alone liability structure is typical for a savings bank, with little market funding and a strong deposit base, investor protection will potentially decline for deposits, senior unsecured as well as junior senior unsecured liabilities, given significantly lower levels of bail-in-able liabilities available, following a closing of the announced transaction.

FOCUS OF THE REVIEW

For LBB, the review will focus on the implications of the break-up of S-Erwerbsgesellschaft, because the termination of LBB's status as a sister company to Berlin Hyp under the roof of their joint parent, which currently result in a significant risk correlation imply an revision of the implemented cap for LBB's intrinsic strength, and on the implications of the new standalone resolution entity, that LBB forms after the sale of Berlin Hyp. While the end of the contractual links is likely to be positive, this could be more than offset by a material change in the composition of the resolution balance sheet, with less bail-in-able instruments outstanding resulting in a higher loss severity. The rating agency will also monitor the progress in achieving required shareholder and authority approvals.

AFFIRMATION OF SHORT-TERM RATINGS

The affirmation of the short-term deposit ratings at P-1 reflects Moody's expectation, that the respective long-term ratings will not fall to a level not in line with a P-1.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Given the review for downgrade on some of the banks' ratings there is limited upside pressure to these.

Berlin Hyp

Berlin Hyp's long-term deposit, issuer and senior unsecured debt ratings could be confirmed at current levels if LBBW's fundamental credit profile improves in the meantime, higher sector support becomes available; or in the unlikely event of the transaction not closing.

Berlin Hyp's long-term deposit, issuer and senior unsecured debt ratings could be downgraded following conclusion of the transaction. Further, ratings downward pressure could develop in case of a change in the joint liability structure with LBBW, resulting in higher loss given failure in resolution and, therefore, fewer notches of rating uplift derived from Moody's Advanced LGF analysis.

LBB

LBB's long-term deposit and issuer ratings could be confirmed at current levels if the agency assesses that despite the structural changes the bank's liability structure remains in line with the currently assigned uplift in its liability analysis; a significantly stronger BCA balances the impact beyond current expectations; or in the unlikely event of the planned transaction not closing.

LBB's BCA and Adjusted BCA could be upgraded following the conclusion of the transaction that imply an end to the significant risk correlations with Berlin Hyp and Moody's assessment of an unchanged financial profile of baa1. As a result, upward rating pressure would extend to the bank's subordinated debt ratings as well as the Counterparty Risk Ratings and Counterparty Risk Assessment.

LBB's long-term deposit and issuer ratings could be downgraded following conclusion of the transaction and Moody's assessment of a lower uplift from its Advanced LGF analysis incorporated into the ratings, exceeding the positive impact on ratings from a higher BCA and Adjusted BCA for these liability classes.

Given the review for upgrade on the BCA and Adjusted BCA, downwards pressure on these as well as on the subordinated debt, the long-term Counterparty Risk Ratings as well as the long-term Counterparty Risk Assessment is limited. However, the ratings and rating inputs could be confirmed if Moody's assesses that the fundamental credit profile of the bank is more in line with the currently assigned level.

LIST OF AFFECTED RATINGS

Issuer: Berlin Hyp AG

..Placed on Review for Downgrade:

...Long-term Counterparty Risk Ratings, currently Aa2

...Long-term Bank Deposits, currently Aa2, outlook changed to Ratings under Review from Stable

...Long-term Counterparty Risk Assessment, currently Aa2(cr)

...Long-term Issuer Ratings, currently Aa2, outlook changed to Ratings under Review from Stable

...Adjusted Baseline Credit Assessment, currently a3

...Senior Unsecured Regular Bond/Debenture, currently Aa2, outlook changed to Ratings under Review from Stable

...Senior Unsecured Medium-Term Note Program, currently (P)Aa2

...Subordinate Medium-Term Note Program, currently (P)Baa1

..Affirmations:

...Short-term Counterparty Risk Ratings, affirmed P-1

...Short-term Bank Deposits, affirmed P-1

...Short-term Counterparty Risk Assessment, affirmed P-1(cr)

...Short-term Issuer Ratings, affirmed P-1

...Baseline Credit Assessment, affirmed ba1

....Junior Senior Unsecured Regular Bond/Debenture, affirmed A2
....Junior Senior Unsecured Medium-Term Note Program, affirmed (P)A2
...Commercial Paper, affirmed P-1

..Outlook Action:

....Outlook changed to Ratings under Review from Stable

Issuer: Landesbank Berlin AG

..Placed on Review for Downgrade:

....Long-term Bank Deposits, currently Aa2, outlook changed to Ratings under Review from Stable

....Long-term Issuer Rating, currently Aa2, outlook changed to Ratings under Review from Stable

....Junior Senior Unsecured Regular Bond/Debenture, currently A2

..Placed on Review for Upgrade:

....Long-term Counterparty Risk Ratings, currently Aa2

....Long-term Counterparty Risk Assessment, currently Aa2(cr)

....Baseline Credit Assessment, currently baa2

....Adjusted Baseline Credit Assessment, currently a3

....Subordinate Regular Bond/Debenture, currently Baa1

..Affirmations:

....Short-term Counterparty Risk Ratings, affirmed P-1

....Short-term Bank Deposits, affirmed P-1

....Short-term Counterparty Risk Assessment, affirmed P-1(cr)

..Outlook Action:

....Outlook changed to Ratings under Review from Stable

Issuer: Berliner Sparkasse

..Placed on Review for Downgrade:

....Long-term Bank Deposits, currently Aa2, outlook changed to Ratings under Review from Stable

....Long-term Issuer Rating, currently Aa2, outlook changed to Ratings under Review from Stable

..Placed on Review for Upgrade:

....Long-term Counterparty Risk Ratings, currently Aa2

....Long-term Counterparty Risk Assessment, currently Aa2(cr)

..Affirmations:

....Short-term Counterparty Risk Ratings, affirmed P-1

....Short-term Bank Deposits, affirmed P-1

....Short-term Counterparty Risk Assessment, affirmed P-1(cr)

..Outlook Action:

....Outlook changed to Ratings under Review from Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1269625 . Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moody.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moody.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1288235 .

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on www.moody.com.

REFERENCES/CITATIONS

[1] Landesbank Baden-Württemberg press release 26 January 2022

Please see www.moody.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moody.com for additional regulatory disclosures for each credit rating.

Andrea Wehmeier

Vice President - Senior Analyst
Financial Institutions Group
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Alexander Hendricks, CFA
Associate Managing Director
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

MOODY'S
INVESTORS SERVICE

© 2022 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 CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. 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 OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER 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. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS 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, ASSESSMENTS, OTHER OPINIONS, AND 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, ASSESSMENTS, OTHER OPINIONS OR

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.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

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 its 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 CREDIT RATING, ASSESSMENT, 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 credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.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 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 investors.

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 credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.