

ISSUER IN-DEPTH

12 December 2019

 Rate this Research

Analyst Contacts

Evan Wohlmann +44.20.7772.5567
 VP-Sr Credit Officer
 evan.wohlmann@moodys.com

Malgorzata Glowacka +49.69.70730.938
 Associate Analyst
 malgorzata.glowacka@moodys.com

Dietmar Hornung +49.69.70730.790
 Associate Managing Director
 dietmar.hornung@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Government of Iceland

FAQ on recent credit developments

[Iceland](#) (A2 stable) has seen notable credit developments in 2019 including the collapse of its second biggest airline, the expiration of wage agreements that cover a large proportion of employment, the removal of the final capital controls and evolving risks posed by Brexit. We answer questions about how the authorities are managing these challenges.

- » **What does the recent sharp decline in tourist arrivals mean for Iceland's economic strength?** Wow Air's collapse and the associated 15% decline in tourist arrivals will weigh on growth this year given tourism's importance to Iceland's economy. However, a prolonged contraction is unlikely as some of the 27 airlines that already fly to Iceland step in to pick up the slack. Moreover, the sector has robust growth potential given the scale of untapped markets and gradual move into higher margin segments. Other sectors of the economy like fishing and aluminum also benefit from robust prospects.
- » **Does Moody's expect wage negotiations to worsen Iceland's competitiveness?** Agreements reached with the private sector in April and five public sector labour unions in October were more moderate than expected. Nevertheless, there remains the risk that wage drift could weigh on competitiveness and stoke inflation given the economy's openness and weak productivity growth, particularly if foreign labour inflows slow.
- » **Did the removal of capital controls have any credit implications?** The government largely concluded the process in March by lifting the remaining restrictions on offshore-krona assets and the central bank reduced the special reserve requirements (SRR) ratio to zero, without triggering disruptive capital flows or exchange rate movements. The central bank's ability to lower the SRR to zero reflects the improvement achieved in monetary policy transmission since the crisis, the economy's narrower current-account surpluses and more market-determined exchange rate.
- » **To what extent is Iceland exposed to Brexit?** A continuity agreement signed earlier this year with the [UK](#) (Aa2 negative) limits the direct exposure, but the effects could be more substantial if marine products exported to the UK but ultimately destined for the EU cannot be readily sold into other markets, or if there were to be a marked slowdown in tourists arriving from the UK. In addition, a no-deal Brexit would very likely weigh on the Icelandic economy indirectly via its European trading partners.
- » **What is most likely to drive further improvements in Iceland's credit profile?** Steps which help to significantly further insulate the credit profile from both domestic shocks and global volatility would be positive. For example, further improvements in the sovereign's external position, the build-up of financial buffers or a further material reduction in the government's contingent liabilities could strengthen its credit profile.

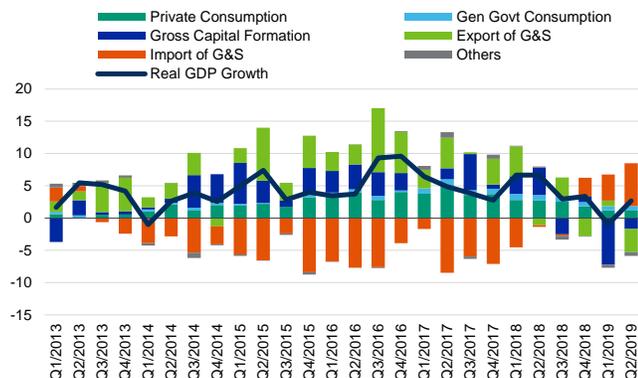
What does the recent sharp decline in tourist arrivals mean for Iceland's economic strength?

We expect the collapse of Iceland's second largest airline, Wow Air, in March will lead to a fall in tourist arrivals of around 15% year-on-year in 2019, bringing it in line with 2017 levels. Moreover, related job losses exceeding 1,000 in Wow Air and Keflavik Airport earlier this year have contributed to the increase in unemployment to 3.8% in October from 2.7% in December last year (see Exhibit 2). Together with a poor capelin fishing season, we expect this weakness in the tourism sector will slow GDP growth to 0.2% in 2019 from 4.8% in 2018.

Exhibit 1

Wow Air's collapse has weighed on 2019 growth...

Real GDP growth and its contributors

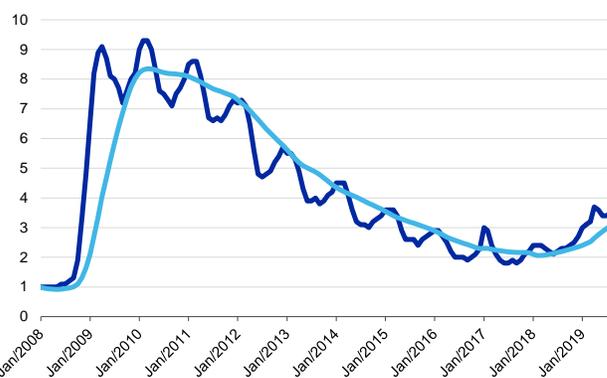


Sources: Eurostat, Moody's Investors Service

Exhibit 2

...and contributed to the recent rise in unemployment

Registered unemployment rate (NSA) and its trend



Sources: Directorate of Labour, Moody's Investor Services

However, a prolonged contraction in the tourism industry is highly unlikely given that the shock was driven by a temporary disruption in supply rather than a fundamental change in Iceland's attractiveness as a tourism destination. Some of the 27 airlines that currently fly to Iceland have already increased seat capacity or redirected routes, and should largely fill the gap over the medium to long term. That said, the speed by which competitors can cover the slack in the coming months remains uncertain, especially given that the main domestic airline, Icelandair, has faced capacity constraints following the grounding of its Boeing 737 MAX aircrafts.

According to the IMF, countries that experienced a tourist boom tend to report durable increases thereafter unless rises were accompanied by political turmoil or crumbling infrastructure, which is not the case in Iceland. Tourism has already been resilient to króna appreciation, especially among British tourists despite sterling's depreciation following Brexit. There is also ample room for growth. Most visitors to Iceland still come from the US and western Europe, meaning it still only captures a fraction of the total market (around 0.5% of total travel and passenger transport among advanced European economies). Asia in particular remains untapped. News that four Chinese airlines are currently considering adding Iceland to their destinations could see a significant boost to numbers from a low base. We expect tourists arrivals will increase around 3 - 4% annually over the long term, which is more in line with global trends.

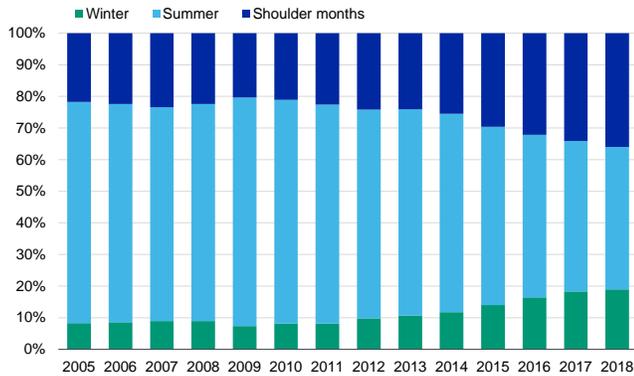
Margins in the sector also continue to improve thanks to a decline in arrival seasonality (see Exhibit 3) and better connectivity to other parts of the island, which helps to increase the revenue created by the sector across the year and reduces vulnerability to idiosyncratic shocks. Efforts by the authorities to establish Iceland as a luxury destination could provide a further boost – in October, the Icelandic Tourist Board announced that two hotels had secured 5-star status as well as plans for more to open in the coming years.

As a result of these efforts, the average revenue per available room has seen a continued increase. The collapse of Wow Air may serve to accelerate this trend given its focus on tourists using Iceland as a stop-over between the [US](#) (Aaa stable) and Europe who stayed for shorter periods and spent less than for other airlines. High-frequency data suggests that tourists travelling with the other domestic airline Icelandair spend more per capita and stay in the country longer. As a result, there is some evidence to suggest that the impact

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

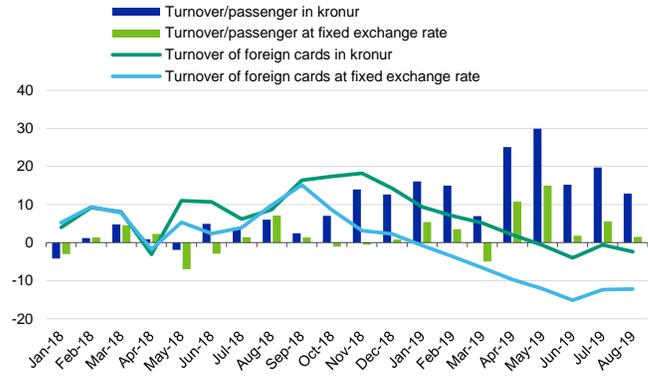
from the sharp decline in tourist arrivals has been offset somewhat by broad stability in spending (see Exhibit 4). Chinese arrivals could significantly boost margins given that they spend the second-most per head globally after South Koreans (see Exhibit 5).

Exhibit 3
Reduced seasonality helps to increase the industry's margin
 Tourist arrivals by season, % of total



Sources: Statistics Iceland, Moody's Investors Service

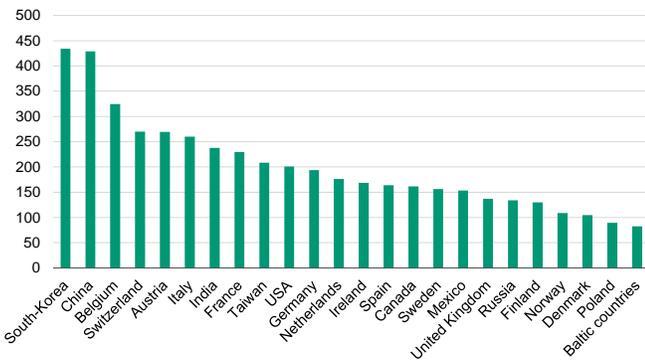
Exhibit 4
Increased spending per tourist cushions decline in tourist arrivals
 % change, year-on-year



Sources: Central Bank of Iceland, Moody's Investors Service

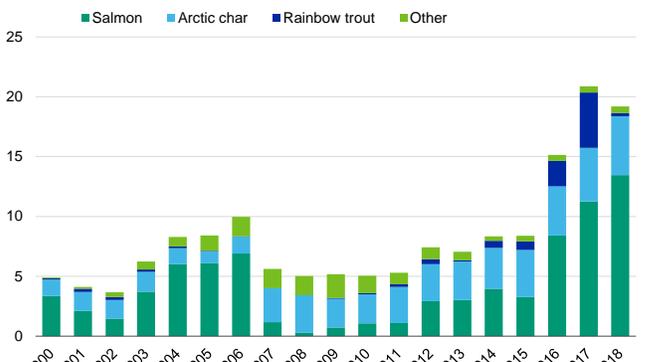
At the same time, other sectors of the economy continue to perform well. The Marine and Freshwater Research Institute's decision not to issue quotas on capelin this year in response to falling stocks will weigh on economic growth this year given the importance of capelin fishing to exports (0.6% on GDP in 2018) and incomes in some parts of Iceland. However, strong stocks of cod – which are the most valuable fish caught in Iceland's waters and account for around 45% of marine exports by value – and the continued growth in aquaculture, benefitting from foreign investments and a more streamlined regulatory process, should mitigate some of the impact on the fishing industry. While disagreements around farmed versus wild fish have held back the sector's growth in the past, exports from farmed-fishing are growing significantly (see Exhibit 6). Concurrently, long-term contracts with the domestic energy provider [Landsvirkjun](#) (Baa1 stable) have reinforced the comparative advantage that the aluminium industry derives from low energy costs.

Exhibit 5
Focus on increasing tourists which have higher average spending
 Average spending per tourist, ISK thousand



Sources: Icelandic Tourist Board, Moody's Investors Service

Exhibit 6
Aquaculture is a new, prospective branch of the fishery sector
 Aquaculture production, thousands of tonnes



Sources: Statistics Iceland, Moody's Investors Service

Do recent wage negotiations worsen Iceland's competitiveness?

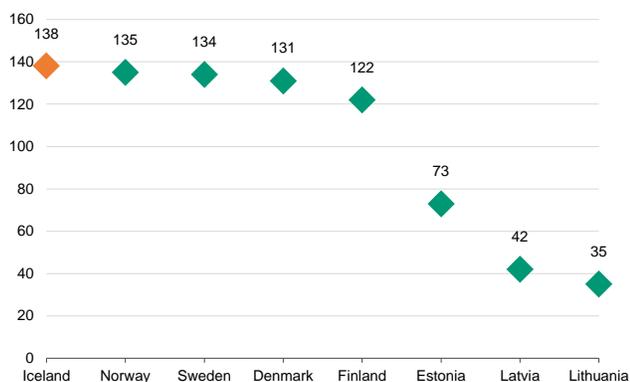
Iceland has undergone a major wage bargaining round across most sectors in 2019, following the expiration of agreements signed in 2015, which poses a key source of uncertainty for inflation and competitiveness, particularly if agreements for multi-year wage increases outstrip productivity growth.

Strong wage growth is a risk to competitiveness because of the economy's openness and weak productivity growth, although wage pressures have been kept in check in recent years by inflows of foreign workers. The tourism sector is particularly exposed to wage increases because of its labour-intensity. According to World Economic Forum, Iceland already ranks third-lowest out of 140 countries in terms of price competitiveness in tourism sector (see Exhibit 7).

However, the agreement concluded with the private sector in April equates to around a 4% annual (net) wage rise until November 2022 (lower than in previous wage rounds) and specifies a set krona increase in wages rather than a percentage, which limits the inflationary impact from wage increases for higher earners. Furthermore, additional wage rises are linked to income growth. The government also concluded negotiations with five public sector labour unions in October that seem broadly in line with those reached earlier this year. Although the agreements only cover around 16% of all public sector employees, it should serve as a benchmark for the remaining negotiations. At the same time, real wage depreciation has helped to boost competitiveness (see Exhibit 8).

Exhibit 7

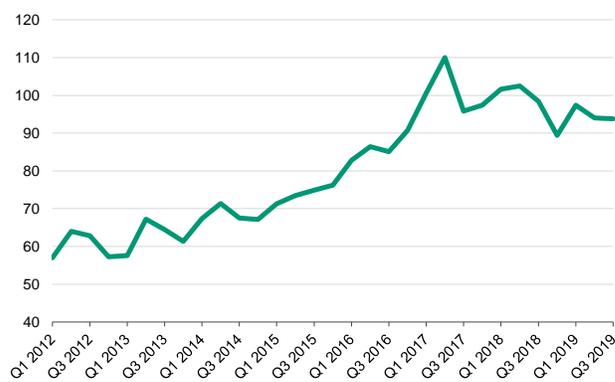
Price competitiveness of Iceland's tourism sector is weak
Price competitiveness of tourism sector (North European peers), rank out of 140



Sources: World Economic Forum, Moody's Investors Service

Exhibit 8

Weakening real exchange rate boosted the price competitiveness
Real exchange rate deflated by unit labour costs, 2005=100



Sources: Central Bank of Iceland, Moody's Investors Service

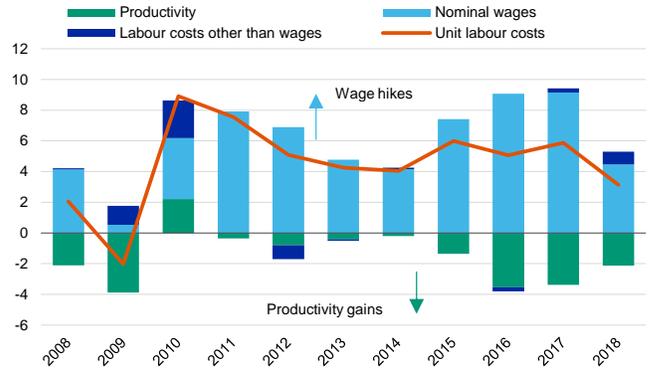
Nevertheless, despite a more moderate than expected outcome from these wage negotiations, there remains the risk that wage drift could still weigh on inflation and competitiveness, particularly if not accompanied by significant inflows of foreign labour. In nominal terms, wages in Iceland have already increased by around 45% over the last five years, according to the wage index published by Statistics Iceland (see Exhibit 9). This pace is much faster than Iceland's main trading partners. The central bank expects unit labour costs to grow 6% this year as productivity gains weaken.

Exhibit 9
Wage growth accelerated in recent years
 % change



Sources: Statistics Iceland, Moody's Investors Service

Exhibit 10
Unit labour costs are set to accelerate given weakening productivity gains
 % change, year-on-year



Sources: Central Bank of Iceland, Moody's Investors Service

What are the implications of the removal of capital controls on the sovereign's credit profile?

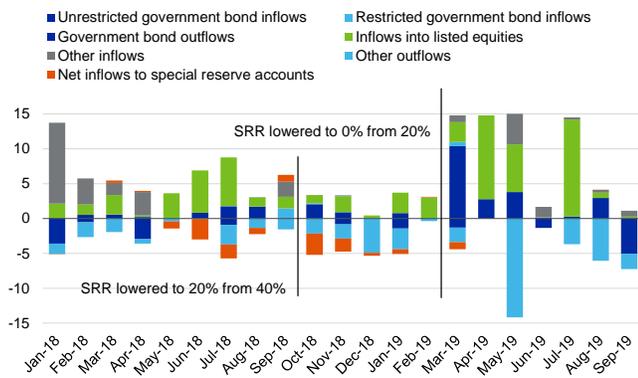
The government largely concluded the process in March when it lifted the remaining restrictions on offshore-krona assets and the central bank reduced the special reserve requirements (SRR) ratio (which had been used to discourage speculative capital inflows and protect the exchange rate) to zero, without material disruption.

The central bank's ability to lower the SRR to zero reflects the improvement achieved in monetary policy transmission since the crisis, the economy's narrower current-account surpluses and more market-determined exchange rate.

Although it is difficult to disentangle any impact from the news around the same time of the more moderate than expected wage agreements and the collapse of Wow Air, the lifting of the controls has not resulted in any sustained material or destabilizing outflows or abrupt exchange rate movements (see Exhibits 11 & 12).

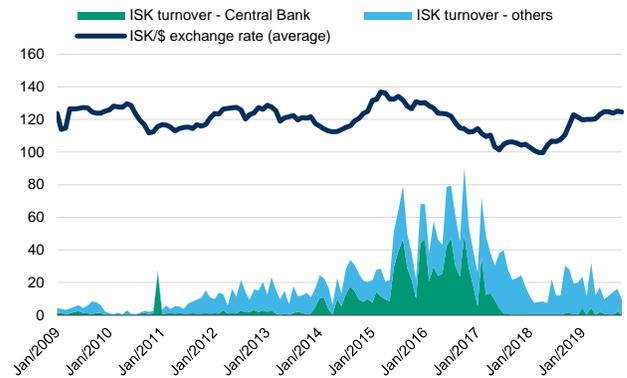
Furthermore, the removal of capital controls should make it easier for the investors to buy króna-denominated eurobonds, which should lower the cost of financing for the Icelandic government and private sector.

Exhibit 11
Capital flows following the lifting of the final controls were limited
 ISK billion



Sources: Central Bank of Iceland, Moody's Investors Service

Exhibit 12
Foreign exchange interventions slowed following the removal of most capital controls in March 2017
 ISK/\$ exchange rate, ISK turnover



Sources: Central Bank of Iceland, Moody's Investors Service

Net inflows of foreign capital over the first nine months of 2019 have been broadly in line with 2018. Inflows into bonds and equities rose after the relaxation in March but had largely abated by the summer months. This likely reflects a smaller interest-rate differential compared to foreign assets than in the past – the spread between interest rates on 10-year Icelandic and US Treasury bonds narrowed by 1 percentage point in Q1/2019 and has hovered around 2% recently.

Inflows into the domestic equity market have been reasonably brisk thus far in 2019, although the figures are strongly affected by transactions with shares in Arion Bank (in July, another Icelandic bank Kaupthing sold its 20% stake in Arion Bank, the buyers were domestic and foreign investors). Excluding Arion Bank, new investment in equities totalled around ISK 25 billion over the first nine months of the year, about the same as in all of 2018 (also excluding Arion).

Furthermore, the steps taken have now largely removed the risks posed by the stock of offshore krónur. After the capital controls on holders of offshore krónur were lifted in March, the stock of offshore krónur shrank by ISK 11 billion. Most of this capital was converted to foreign currency and exported from Iceland. Since then, the offshore stock has shrunk by another ISK 10 billion, to around ISK 62 billion as of end-September. At the end of May, interest rates on the Central Bank's CBI2016 certificates of deposit were lowered from 0.5% to 0%; therefore, the vast majority of remaining offshore krónur now bears no interest.

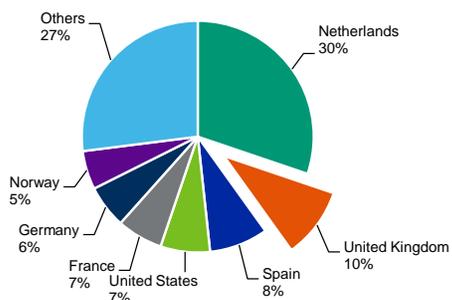
These developments further demonstrate Iceland's progress in restoring macroeconomic and external normalcy following the crisis. If poorly handled, the capital account liberalization process could have led to renewed financial volatility and had negative repercussions for the government's credit metrics.

To what extent is Iceland exposed to Brexit-related risks?

The [UK](#) (Aa2 negative) is Iceland's second-largest trading partner (10% of its goods exports in 2018, see Exhibit 13), accounting for a significant share of marine exports. That said, a continuity agreement signed between the two countries earlier this year, that broadly preserves their current trading arrangements if the UK fails to reach an agreement with the EU, helps to limit the direct risks from a no-deal Brexit. However, the effects could be more substantial if marine products exported to the UK but ultimately destined for the EU cannot be readily sold into other markets. Also, tourism from the UK could also slow if Brexit leads to a sharper than expected downturn in the UK economy (13% of all visitors to Iceland in 2018 were from the UK).

Exhibit 13

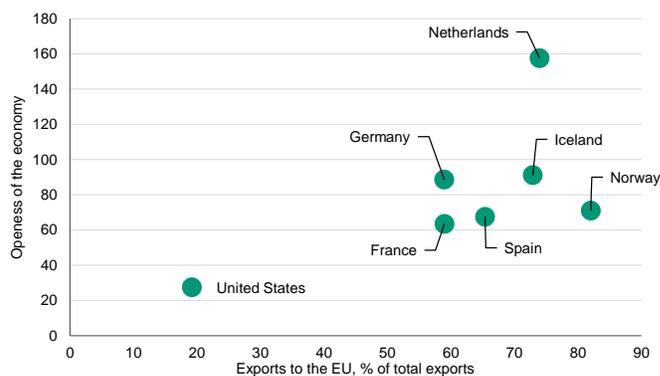
The UK is an important trade partner for Iceland Merchandise exports, % of total, 2018



Sources: International Trade Centre, Moody's Investors Service

Exhibit 14

Iceland's main trading partners are highly open economies with high exposure to the EU Merchandise exports to the EU (% of total merchandise exports), openness of the economy^[1]



Openness of the economy is defined as sum of exports and imports of goods and services divided by the nominal GDP

Sources: IMF, Moody's Investors Service

In addition, a no-deal Brexit would very likely weigh on the Icelandic economy indirectly via its European trading partners (73% of Icelandic merchandise exports are directed to the European Union). According to the central bank's estimates, the adverse trade effects of a no-deal Brexit would lower GDP growth in Iceland by 0.4 percentage points in 2020. We believe Iceland's open economy will

realize these spillover effects more greatly, particularly as Iceland's largest trading partners – the [Netherlands](#) (Aaa stable), [Spain](#) (Baa1 stable), [France](#) (Aa2 positive), [Germany](#) (Aaa stable) and [Norway](#) (Aaa stable) – are also very open and concentrated within Europe (see Exhibit 14).

UK's exit from the EU could further complicate negotiations between coastal countries on fishing quotas

Brexit also poses some additional uncertainty to Iceland's fishery sector. Following the UK's exit from the EU and its departure from the common fisheries policy, negotiations on the international fishing agreement between the coastal countries in the north Atlantic are likely to become more complicated with the addition of the UK as a potential stand-alone negotiating partner. These negotiations are already complex, which a recent dispute with the EU and Norway on mackerel quotas demonstrates.¹ Changes to volume of the fish catch in the post-Brexit era could also spark tensions between the members of North East Atlantic Fisheries Commission (NEAFC) – the [European Union](#) (EU, Aaa stable), [Norway](#) (Aaa stable), [Russia](#) (Baa3 stable), Greenland and Faroe Islands – which are responsible for management and enforcement of the limits set by the International Council for the Exploration of the Seas.

What is most likely to drive further improvements in Iceland's credit profile?

The improved resilience of Iceland's economy together with the sharp reduction in government debt has helped reduced vulnerability to shocks. For example, the increased (albeit still limited) economic diversification, strong wealth levels and ongoing refinements to its institutional framework and strong external position will support the credit profile. With a maturing tourism sector, economic growth is set to moderate. Government debt is markedly reduced, at 36% of GDP in 2018, while further material declines in indebtedness are now less likely, particularly given the Ministry of Finance's intention to remain a benchmark issuer for domestic corporates.

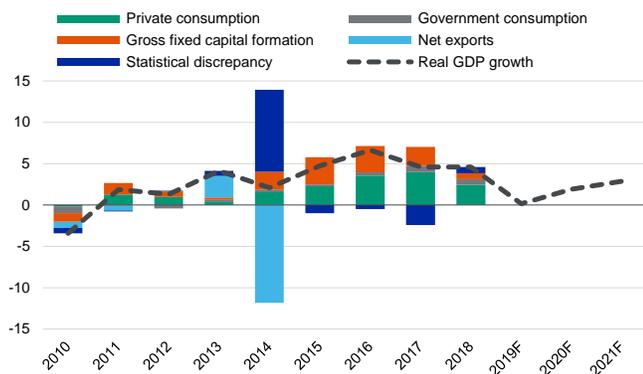
That said, Iceland's inherent structural credit constraint arising from its small size and still sizeable economic concentration means that its credit profile will continue to be structurally more exposed to shocks than for many peers.

As such, steps which help to significantly further insulate the credit profile from both domestic shocks and global volatility would be positive. For example, a further marked improvement in the sovereign's external position, or the build-up of financial buffers could strengthen its credit profile.

Exhibit 15

Growth is set to moderate, following years of tourism-led economic boom...

Real GDP growth and its components



Sources: Statistics Iceland, Moody's Investors Service

Exhibit 16

... as will the reduction in debt

General government debt, % of GDP



Sources: National authorities, IMF, Moody's Investors Service

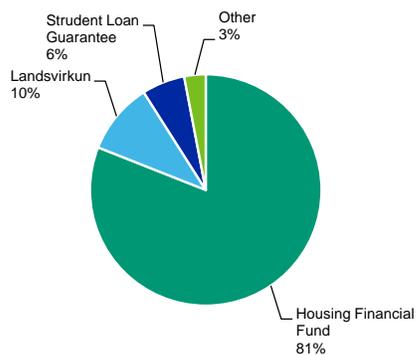
Given that we expect the pace of debt reduction will slow, a strengthening of the sovereign's balance sheet through the build-up of a sovereign wealth fund (SWF) would be credit positive. The government hopes to implement legislation for the SWF before the end of 2019, with sizeable dividend inflows, including from the large domestic energy company, forecast to build the fund. Furthermore,

the sale of public stakes in the banking system, to be used to reduce government debt or pension liabilities, could also lead to sizeable improvements in the government's balance sheet.

Iceland's rating could also come under positive pressure from a further material reduction in the government's contingent liabilities. Although the government's contingent liabilities have roughly halved in both nominal and relative terms since the peak of the crisis, they are still very large and concentrated. Most of the guarantees are for the [Housing Financing Fund](#) (HFF, A3 stable) and [Landsvirkjun](#) (LV, Baa1 stable), which account for around 81% and 10% of all outstanding guarantees, respectively. Both companies are of strategic importance for the Icelandic economy, for example, as mentioned above, the dividends from the national power company have been identified as a potential revenue source for a future SWF.

Exhibit 17

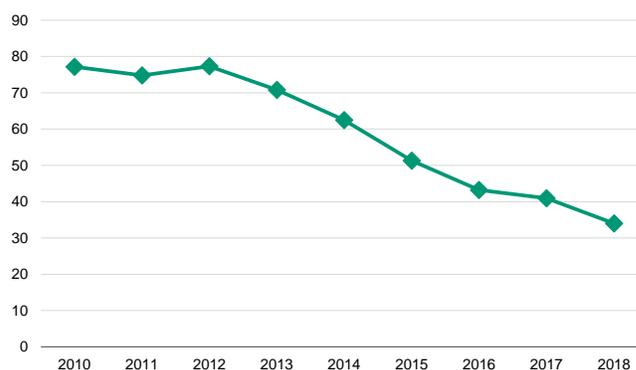
Large and concentrated government guarantees % of total guarantees, as of 2018



Sources: Ministry of Finance and Economic Affairs, Moody's Investors Service

Exhibit 18

Although total government guarantees have been declining Stock of outstanding guarantees, % of GDP



Sources: Ministry of Finance and Economic Affairs, Moody's Investors Service

At the same time, a sharp increase in government debt would weigh on the credit profile given the economy's structural vulnerability to shifts in the global economy and risks posed by its concentrated economic model.

Moody's related publications

- » **Credit Opinion:** [Government of Iceland - A2 stable: Update following upgrade and outlook change](#), 11 November 2019
- » **Rating Action:** [Moody's upgrades Iceland's government ratings to A2; outlook stable](#), 8 November 2019
- » **Issuer In-Depth:** [Government of Iceland – A3 positive: Annual credit analysis](#), 29 July 2019
- » **Methodology:** [Sovereign Ratings Methodology](#), 25 November 2019

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Endnotes

- 1 The EU, Norway (Aaa stable) and Faroe Islands have argued that Iceland's decision to increase mackerel quotas by 30% in excess of its previous claims undermined their efforts to promote the long-term sustainability of the stock. The total mackerel catch in the north Atlantic already exceeds the International Council for the Exploration of the Sea's (ICES) advice by around 70%.

© 2019 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND 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 OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S 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 the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody's.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 rating, agreed to pay to MJKK or MSFJ (as applicable) for ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

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

REPORT NUMBER

1204067