

NEW ISSUE REPORT

Raiffeisen-Landesbank Steiermark AG

Mortgage Covered Bonds

Covered Bonds / Austria

First Rating Assignment

October 2012

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Definitive Ratings

Cover Pool	Ordinary Cover Pool Assets	Covered Bonds	Rating
299,730,208	Residential and Commercial Mortgage Loans	8,000,000	Aaa

The ratings address the expected loss posed to investors. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors

Transaction Summary

We have assigned definitive long-term Aaa ratings to the covered bonds issued under the mortgage covered bond programme (*Fundierte Schuldverschreibungen* or covered bonds) of Raiffeisen-Landesbank Steiermark AG (the issuer). The covered bonds are full-recourse to the issuer (A1 stable; C-/baa2, Prime-1, stable).¹ If the issuer becomes insolvent, the covered bondholders will have priority claims over an asset pool (the cover pool), which as of 31 August 2012 amounted to €300 million. The cover pool comprises residential and commercial mortgage loans backed by properties in Austria and Germany.

The covered bonds are governed by the Austrian Covered Bond Act (*Gesetz betreffend Fundierte Schuldverschreibungen*). There are several strengths in the Austrian Covered Bond Act, which include *inter alia* that the issuer is regulated and supervised by the Austrian Financial Supervisory Authority (*Österreichische Finanzmarktaufsicht*; FMA) and that the nominal value of the cover pool assets must at all times be at least equal to the nominal value of all outstanding covered bonds. In addition, the interest income on the cover pool assets must also cover the coupon payments on the outstanding covered bonds at all times.

In summary, amongst other things, the Aaa ratings take into account:

- » The issuer's credit strength;
- » The Austrian legal framework for covered bonds;
- » The cover pool's credit quality, evidenced by the collateral score of 7.9%, which is in line with the average collateral score for mortgage covered bonds that we rate; and
- » The total level of over-collateralisation (OC) currently in the cover pool is higher than 100%² on a nominal basis. The minimum OC level consistent with the Aaa rating target is 11.5%.

We have assigned a TPI of "Probable" to these covered bonds.

As is the case with other covered bonds, we consider that the transaction is linked to the issuer's credit strength, particularly from a default probability perspective. If the issuer's credit strength deteriorates, the rating of the covered bonds could come under pressure, all other variables being equal.

If the issuer's rating or the pool credit quality deteriorates, the issuer would have the ability, but not the obligation, to increase the OC in the cover pool. Failure to increase the level of OC under these circumstances could lead to negative rating actions on the covered bonds.

The principal methodology used in rating the issuer's covered bonds is "[Moody's Rating Approach to Covered Bonds](#)" published in July 2012. Other methodologies and factors that may have been considered in the rating process can also be found on [Moody's website](#). In addition, Moody's publishes a weekly summary of structured finance credit, ratings and methodologies, available to all registered users of our website, at www.moody.com/SFQuickCheck.

Opinion

Strengths of the Transaction

Issuer:

- » The covered bonds are full recourse to Raiffeisen-Landesbank Steiermark (A1 stable; C-/baa2, Prime-1, stable).³

The Austrian legal framework:

The covered bonds are issued in accordance with the Austrian Covered Bond Act, which explicitly protects the status of covered bondholders. The legislation has several strengths, including:

- » Under the Act, the FMA regulates and supervises the issuer.
- » Covered bonds are secured by a separate pool of assets, which are subject to conservative eligibility criteria set out by the Austrian Covered Bond Act. For this issuance, only mortgage loans backed by residential and commercial properties represent eligible assets.
- » A cover pool monitor (*Regierungskommissär*) will monitor the various day-to-day operations with respect to the cover pool.
- » If the issuer is declared insolvent, the cover pool will be segregated from the issuer's general insolvency estate and the covered bondholders will have a priority claim on the cash flows stemming from the cover pool assets.

- » A court-appointed cover pool administrator (*Besonderer Verwalter*) will undertake the necessary administrative measures to satisfy the claims of the covered bondholders.
- » The Austrian Covered Bond Act requires the issuer to maintain a cover pool with a nominal value of at least the nominal value of the outstanding covered bonds.

Credit Quality of the Cover Pool:

- » A cover pool of mortgage loans backs the covered bonds. All of the loans are backed by residential or commercial properties mainly located in Austria.
- » Each borrower's income has been independently verified; the income restricts the amount that can be lent.
- » The collateral quality is reflected in the collateral score, which is currently 7.9%. This is in line with the average collateral score for other mortgage covered bonds that we rate.

Refinancing Risk:

- » The ability of the cover pool administrator to raise funds against the cover pool assets, e.g., bridge loans or the sale of cover pool assets.

Interest-Rate and Currency Risks:

- » The vast majority (around 90.8%) of the cover pool assets have a variable rate.
- » The currency of the cover assets and the outstanding covered bonds are well matched. The vast majority of cover pool assets and all outstanding covered bonds are euro-denominated.

De-Linkage:

- » Following an issuer default,⁴ the covered bondholders will benefit from a cover pool administrator that acts independently from the insolvency administrator of the issuer.

Weaknesses and Mitigants

Issuer:

- » As with most covered bonds, until issuer default the issuer can materially change the nature of the programme. For example, new assets may be added to the cover pool, new covered bonds issued with varying promises and new hedging arrangements entered into. These changes could affect the credit quality of the cover pool and alter the degree of overall market risks. **Mitigants:** (1) The covered bondholders have a direct claim on the issuer; and (2) the Act imposes specific requirements and controls.

Credit Quality of the Cover Pool:

- » As of 31 August 2012, the cover pool has the following concentrations (1) geographical concentration – almost all mortgage loans are backed by properties in Austria, in particular in Styria; and (2) obligor concentration – the largest obligor accounts for around 2.1%, and the ten largest obligors for 12.7% of the cover pool. These facts increase the probability of significant losses. **Mitigants:** The obligors are generally of high credit quality. Furthermore, our collateral models take into account the effect of concentration on borrower, regional and country levels. In this particular transaction, the obligor concentration is the main driver of the collateral score.
- » As with most covered bonds in Europe, there are few restrictions on the future composition of the cover pool, which means that substitution risk exists. **Mitigants:** The credit quality of the cover pool, over time, will be protected by, among other things, the requirements of the Austrian covered bond legislation, which sets out rules detailing assets that qualify as ordinary cover assets for mortgage covered bonds. In addition, we will monitor the cover pool. If the collateral quality deteriorates below a certain threshold, the issuer would have the ability, but not the obligation, to increase the OC in the cover pool. Failure to increase the level of OC following a deterioration of the cover pool could lead to negative rating actions.

Refinancing Risk:

- » Following an issuer default, to achieve timely principal payment, covered bondholders may need to rely on proceeds being raised through the sale of, or borrowing against, assets in the cover pool. Following an issuer default, the market value of these assets may be subject to high volatility. **Mitigants:** (1) The credit strength of the issuer. The stronger the issuer's credit strength, the lower the chance of being exposed to this risk; (2) the credit quality of the cover pool; and (3) we used stressed refinancing margins in our modelling.

Interest-Rate and Currency Risk:

- » As with most European covered bonds, there is potential for exposure to interest-rate and currency risks. For example, following issuer default, covered bondholders may be exposed to interest-rate risk, which could arise from the different payment promises and durations made on the cover pool and the covered bonds. **Mitigant:** According to the Austrian Covered Bond Act, the cover pool assets must also cover the outstanding covered bonds in terms of interest income, at all times.

Liquidity:

- » The programme does not benefit from any designated source of liquidity if cash flow collections are interrupted. **Mitigants:** (1) The strengths of the Austrian legal framework for covered bonds, which include the alternatives given to the cover pool administrator for raising funds against the cover pool; and (2) the issuer's obligation – by the operation of the Austrian Covered Bond Act – to maintain a sufficient amount of cover pool assets to cover the outstanding liabilities on a nominal basis.

Time Subordination:

- » After issuer default, later-maturing covered bonds are subject to time subordination. Principal cash collections may be used on a first-come-first-serve basis, paying earlier-maturing covered bonds before later-maturing covered bonds. This could lead to OC being eroded before any payments are made to later-paying covered bonds.

Structure Summary

Issuer:	Raiffeisen-Landesbank Steiermark AG (A1; C-/baa2, Prime-1, stable) ⁵
Covered Bond Type:	Covered Bonds (<i>Fundierte Schuldverschreibungen</i>)
Issued under Covered Bonds Law:	Yes
Applicable Covered Bonds Law:	Austrian Covered Bond Act (<i>Gesetz betreffend Fundierte Schuldverschreibungen</i>)
Main Originator(s):	Various Raiffeisenbanken affiliated to the issuer
Main Servicer(s):	Raiffeisen-Landesbank Steiermark AG and affiliated Raiffeisenbanken
Intra group Swap Provider:	No
Monitoring of Cover Pool:	Cover pool monitor (<i>Regierungskommissär</i>), mandatory by operation of the Austrian covered bond legislation
Trustees:	n/a
Timely Payment Indicator (TPI):	Probable
TPI Leeway:	2 notches

Covered Bonds Summary

Total Covered Bonds Outstanding:	EUR 8,000,000
Currency of Covered Bonds:	Euro (100%)
Extended Refinance Period:	No
Principal Payment Type:	Hard bullet (no extension period)
Interest Rate Type:	Fixed rate (37.5%) and floating rate covered bonds (62.5%); both fixed and floating rate covered bonds may be issued in the future

Collateral Summary

Size of Cover Pool:	EUR 299,730,208
Main collateral type in Cover Pool:	Residential (67%), multi-family (18%) and commercial (15%) mortgage loans
Main Asset Location:	Austria (98.7%), Germany (1.3%)
Loans Count:	2,485 residential and 447 commercial mortgage loans
Main Currency:	Euro (99.9%), CHF (0.1%)
Number of Borrowers:	2,194 residential and 346 commercial borrowers
Concentration of 10 biggest borrowers:	The ten largest borrowers make up 12.7% of the cover pool.
WA Current LTV:	60.0% for residential and 60.2% for commercial mortgage loans
WA Seasoning:	29 months for residential and 42 months for commercial mortgage loans
WA Remaining Term:	226 months (residential) and 211 months (commercial)
Interest Rate Type:	Fixed rate assets (9.2%), floating rate assets (90.8%)
"Committed" Over-Collateralisation:	0% (mandatory minimum over-collateralisation on a nominal basis)
Current Over-Collateralisation	3,647% (nominal basis)
Cover Pool Losses:	17.7%
Collateral Score:	7.9%
Further details:	See Appendix 1
Pool Cut-off Date:	31 August 2012

Structural and Legal Aspects

Mortgage Covered Bonds governed by Gesetz betreffend Fundierte Schuldverschreibungen

Raiffeisen-Landesbank Steiermark's mortgage covered bonds are governed by the Austrian Covered Bond Act (*Gesetz betreffend Fundierte Schuldverschreibungen*). Appendix 2 provides a description of the general legal framework.

Pooling Model

All the cover pool assets were originated by co-operative banks (*Raiffeisenbanken*) affiliated to the issuer. The assets remain on the balance sheets of the relevant originators. The issuer (or, after its insolvency, the covered pool administrator) has the right to transfer the assets to the cover pool. This model is prescribed by the Austrian legal framework for covered bonds.

Although the assets remain on the originators' balance sheets, it is the issuer – and not the originator – that is entered into the land registry. All borrowers have consented to this model and have waived their rights to set-off, as required by the Austrian covered bond legislation.

The issuer – and, after its insolvency, the cover pool administrator – has the option to purchase the cover pool at a pre-agreed price. If this transfer occurs after the insolvency of the issuer, the purchase price is not paid in cash. Instead, the originator receives senior unsecured claims against the borrower's insolvency estate. We have received a legal opinion that confirms that the originator, or its insolvency administrator, cannot rescind the contract or otherwise challenge the transfer.

The originator must replace non-performing assets with comparable assets of good quality. However, we do not rate the originators and their credit strength is significantly correlated with that of the issuer. We have thus given very limited value to the inclusion of asset substitution conducted by the originators.

To operate the pooling model, both the issuer and the originators rely on an integrated software solution, which in our view allows an efficient transfer of the assets. However, a degree of co-mingling risk remains, resulting from the fact that the transfer is not automatic and must be requested. However, in our view, the degree of co-mingling risk is comparable to the same risk in other covered bond transactions in Austria.

Moody's Rating Methodology

The approach used by Moody's for rating covered bond transactions is detailed in our Rating Methodology.⁶ The

effect of the credit strength of the issuer, quality of the collateral and market risks are considered below.

Credit Strength of the Issuer

The covered bondholders have full recourse to Raiffeisen-Landesbank Steiermark. The ratings reflect the bank's role as the central provider of products and services for Raiffeisenbanken in Styria, where the cooperative sector has a leading market share in retail banking, including small and medium-sized companies. The bank's franchise is further supported by its majority ownership (75%) of Landes-Hypothekbank Steiermark (Hypo Steiermark, not rated), a retail and commercial mortgage lender, which is fully integrated into the bank's risk-management and reporting framework. We note that the bank's strong sector cohesion provides a well-established regional franchise.

The rating also reflects our view that the bank benefits from the existing support mechanisms available to members of the Raiffeisen cooperative banking sector (*Kundengarantiegemeinschaft*) and a high probability of systemic support due to its prominent position in the regional market, which is underpinned by high levels of retail funding from the cooperative sector. Together, these factors provide four notches of rating uplift to the bank's long-term debt and deposit ratings to A1 from its baa2 standalone credit strength. We consider Austria to be a medium-support country. For more information on the issuer, see "Related Research".

The Credit Quality of the Cover Pool

As of 31 August 2012, the cover pool comprises mortgage loans backed by residential (67%) and commercial (33%) properties in Austria.

All loans are performing and no claim is in arrears by more than two months. The cover pool assets total €300 million, backing €8 million covered bonds (both numbers on a nominal basis). The OC is higher than 100% on a nominal basis. For further information on the cover pool, see Appendix 1.

Residential Mortgages

We view the following characteristics of the residential mortgages loans as credit positive:

- » More than 98.8% of the loans are secured by owner-occupied properties.
- » The loans have an average seasoning of 29 months.
- » 92.0% of the residential loans are amortizing.
- » No loan is in arrears by more than 2 months.

We regard the following portfolio characteristics of the residential mortgage loans as credit negative:

- » There are significant regional concentrations: 89.3% of the properties are in Styria.
- » The pool contains 2,485 loans to 2,194 borrowers. The 10 largest residential borrowers represent about 4.7% of the aggregate amount of the residential loans.
- » Certain characteristics of the pool could not be provided electronically, so we had to use assumptions for the modelling.

Commercial Mortgages

Our analysis of commercial mortgages includes multifamily loans. We view the following characteristics of the commercial mortgage loans as credit positive:

- » About 94% of the commercial mortgages are annuity or amortising loans.
- » More than half of the commercial loans are backed by multifamily properties.
- » All loans are current, and no loan is in arrears by more than 2 months.

We regard the following portfolio characteristics of the commercial mortgage loans as credit negative:

- » There are significant borrower concentrations, as only 447 loans to 346 borrowers are included in the cover pool. The largest borrower represents 6.3% and the ten largest borrowers represent about 39% of the aggregate amount of the commercial loans.
- » Regional concentration: 96% of the properties backing the commercial loans are in Austria. Within Austria, the main location of the properties is Styria; around 88% of the commercial loans are backed by these properties.
- » The properties backing the commercial loans include hotels (10.4%) and industrial properties (4.7%). For 16.9% of the loans the property type is not specified.

Summary Collateral Analysis: Collateral Score

We have incorporated into our analysis the factors discussed in sections above. We calculate a collateral score⁷ based on the credit quality of the cover pool assets as described above. In addition, the collateral score published in this report reflects all adjustments made; this number therefore includes the cushion built in to address these factors. For this transaction, the collateral score of the current pool is 7.9%, which is in line with the average collateral score for mortgage covered bonds that we rate (see Related Research: "[Moody's EMEA Covered Bond Monitoring Overview: Q2 2012 \(SF299313\)](#)", published in October 2012).

Other Credit Considerations

Legal risks for assets located outside Austria

If the issuer becomes insolvent, we believe that any cover pool assets located outside Austria are less protected against the claims of other creditors of the issuer than assets located in Austria. In particular, we identified and analysed the following scenarios:

- » **Claims against borrowers located outside Austria, or loans not governed by Austrian law:** For loans not governed by Austrian law, the borrower may be allowed to exercise set-off, thereby reducing the amount payable by that borrower. No claim against a borrower outside Austria forms part of the cover pool; furthermore, we understand that the origination is currently focused on Austrian borrowers.
- » **Loans to borrowers located outside the EEA:** In addition to the above risk, we understand that these cover pool assets may not be available to the covered bondholders on a priority basis because other (unsecured) creditors of the issuer may successfully access the assets in the cover pool. This may – due to secondary proceedings being commenced under the respective domestic law, for example – result in lower recoveries on the assets.⁸ Currently, no claim against a borrower outside the EEA forms part of the cover pool.

Substitution risks are mitigated by the Act

As with most covered bonds in Europe, there are few restrictions or limitations on the future composition of the cover pool. This may have the effect of creating substitution risk. **Mitigants** to substitution risk, which should protect the quality of the cover pool over time, include:

- » The requirements of the Austrian Covered Bond Act; and
- » The cover pool composition will be monitored.

If the collateral quality deteriorates below a certain threshold, the issuer has the option of increasing the OC in the cover pool to support the current rating. If additional OC is not added following the deterioration of the collateral, this could lead to negative rating actions on the covered bonds.

Refinancing Risk

Following an issuer default, when the “natural” amortisation of the cover pool assets alone cannot be relied on to repay principal, we assume that funds must be raised against the cover pool at a discount if covered bondholders are to receive timely principal payment. Where the portion of the cover pool that is potentially exposed to refinancing risk is not contractually limited, our expected loss analysis typically assumes that this amount exceeds 50% of the cover pool. After an issuer default, the market value of these assets may be volatile.

Aspects of this covered bond programme that are refinancing-positive include:

- » The Act: Upon issuer default, the cover pool administrator has, *inter alia*, the ability to (1) transfer the cover pool together with the covered bonds to another suitable bank, which will assume the liabilities under the transferred covered bonds; or (2) sell the cover pool assets to raise liquidity, if cash is needed for due payments on the outstanding covered bonds. The cover pool administrator may also raise funds against the cover pool assets through bridge loans.

Aspects of this covered bond programme that are refinancing-negative include:

- » The programme does not benefit from any contractual provisions to allow for an extension of a principal refinancing period.
- » All covered bonds issued under this programme have a hard-bullet repayment, with no extension period.

Interest-Rate and Currency Risk

Following issuer default, covered bondholders may be exposed to interest-rate risk, which could arise from the different payment promises and durations made on the cover pool and the covered bonds.

TABLE 1

Overview Assets and Liabilities

	Assets (%)	Liabilities (%)	WAL Assets (Years)	WAL Liabilities (Years)
Fixed rate	9.2%	37.5%	19.0	19.8
Variable rate	90.8%	62.5%	19.0	0.8

WAL = weighted-average life

Aspects specific to this covered bond programme that are positive include:

- » The portion of variable-rate assets in the cover pool is 90.8%.
- » According to the Austrian Covered Bond Act, the cover pool assets must also cover the outstanding bonds in terms of interest income at all times.
- » The currency of the cover assets and the outstanding covered bonds are well matched. There is only a small currency exposure (99.6% of the loans are in Euro, the balance in CHF). All outstanding covered bonds are euro-denominated.

Aspects specific to this covered bond programme that are negative include:

- » The weighted-average life of the covered bonds is expected to remain shorter than the weighted-average life of the cover pool assets. A potential sale of the fixed-rate assets to meet due payments on covered bonds following issuer's default – 9.2% of the cover pool assets are fixed rate – could lead to a crystallisation of mark-to-market losses caused by interest-rate movements.

If the issuer becomes insolvent, we do currently not assume that the cover pool administrator will always be able to manage efficiently any natural hedge between the cover pool and the covered bonds.

Following issuer default, our Covered Bond Model looks separately at the effect of increasing and decreasing interest rates on the expected loss of the covered bonds, taking the path of interest rates that leads to the worst result. The interest and currency stressed rates used over different time horizons are published in our Rating Methodology.

As of the date of this report, the issuer has not registered any swaps or derivatives in the cover pool register of its mortgage covered bond programme, and we understand that this is not planned for the near future.

Linkage

All covered bonds are linked to the underlying issuer rating. The covered bonds will therefore come under rating stress if the issuer's credit strength deteriorates. Reasons for this include:

- » **Refinancing risk:** Following issuer default, if principal receipts from collections of the cover pool are not sufficient to meet the principal payment on a covered bond, funds may need to be raised against the cover pool. However, the fact that the issuer has defaulted may negatively affect the ability to raise funds against the cover pool.
- » **The exposure to decisions made by the issuer in its discretion as manager of the covered bond programme:** For example, before an issuer default, the issuer may add new assets to the cover pool, issue further bonds and enter into new hedging arrangements. These actions could negatively affect the value of the cover pool.
- » More generally, by the incorporation of the strength of the issuer in accordance with our rating methodology.

Because of this linkage, the probability of default of the covered bonds may be higher than expected for a senior unsecured debt with the same rating. However, our primary rating target is the expected loss, which also takes severity of loss into account, which in this case is consistent with the covered bond rating.

Our Timely Payment Indicator (TPI) assesses the likelihood that timely payments will be made to covered bondholders following an issuer default, and thus determines the maximum rating a covered bond programme can achieve with its current structure while allowing for the addition of a reasonable amount of OC.

Aspects to this covered bond programme that are TPI positive include:

- » The level of support expected for covered bonds in Austria.
- » The Austrian Covered Bond Act, including:
 - At the time of the declaration of issuer's bankruptcy, a cover pool administrator will take over management responsibility of the covered bond programme. The cover pool administrator will act independently from the issuer's bankruptcy receiver. Having an independent administrator may reduce potential conflicts of interest between the covered bondholders and other creditors.

- Set-off: We understand that setting-off against claims registered in the cover pool is not permitted in context of cover pool assets that are located in Austria and governed by Austrian law.
 - Ability of the cover pool administrator to raise funds against the cover pool assets.
 - 0% minimum OC on a nominal value basis as well as the requirement that interest income from the cover pool assets must be sufficient to cover the interest due on the covered bonds.
- » Credit quality of the cover pool assets, which is reflected by the collateral score of 7.9%.

Aspects to this covered bond programme that are TPI negative include:

- » All covered bonds outstanding have a bullet repayment at maturity, without any extension period for the repayment of the bonds.
- » The covered bond programme does not benefit from any designated source of liquidity if cash flow collections are interrupted.
- » Commingling risk: We understand that, upon the appointment of the cover pool administrator, the cover pool administrator has a priority claim on all cash flows stemming from the cover pool assets. However, the cover pool administrator must separate these cash flows from other cash flows to the issuer, before this cash can be used to make payments to covered bondholders.

We have assigned a TPI of "Probable" to this transaction. This TPI is in line with the TPI of other Austrian mortgage covered bond programmes we rate.

Based on the current TPI of Probable, the TPI Leeway for this programme is two notches, meaning that the issuer rating would need to be downgraded to Baa1 before the covered bonds are downgraded, all other variables being equal.

Monitoring

The issuer is expected to deliver certain performance data to us on an ongoing basis. If this data is not made available to us, our ability to monitor the ratings may be impaired. This could negatively affect the ratings or, in some cases, our ability to continue to rate the covered bonds.

Appendix 1: Cover Pool Information

Residential Mortgage Loans

Overview	
Asset Type	Residential
Asset balance:	201,408,601.57
Average loan balance:	81,049.74
Number of loans:	2,485
Number of borrowers:	2,194
Number of properties:	2,271
WA Remaining Term (in months):	226
WA Seasoning (in months):	29
Details on LTV	
WA current LTV (*):	60.0%
WA Indexed LTV:	n/d
Valuation type:	Market Value
LTV threshold:	60%
Junior ranks:	n/d
Prior ranks:	n/d

Specific Loan and Borrower characteristics	
Loans benefiting from a guarantee:	n/a
Interest Only Loans:	0.0%
Loans for second homes / Vacation:	0.0%
Buy to Let loans / Non owner occupied properties:	1.2%
Limited income verified	0.0%
Adverse Credit Characteristics(**):	n/d
Performance	
Loans in arrears (≥ 2months - < 6months):	0.0%
Loans in arrears (≥ 6months - < 12months):	0.0%
Loans in arrears (> 12months):	0.0%
Loans in a foreclosure procedure:	0.0%
Multi-Family Properties	
Loans to tenants of tenant-owned Housing Cooperatives:	n/a
Other type of Multi-Family loans	n/a

(*) Based on most recent property valuation (property valuations are regularly updated by issuer during the term of the loan, initial valuations were not reported)

(**) Refers to borrowers with previous missed payments, borrowers with a previous personal bankruptcy or borrowers with record of court claims against them at time of origination

CHART A

Balance per LTV-band

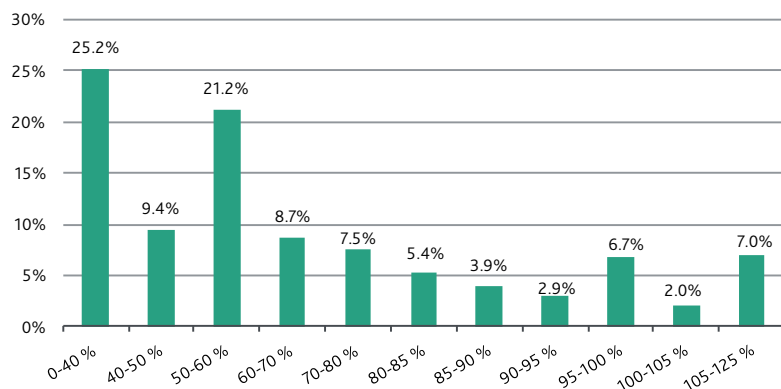


CHART B

Percentage of Residential Assets

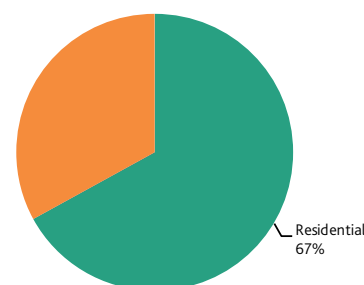


CHART C

Seasoning

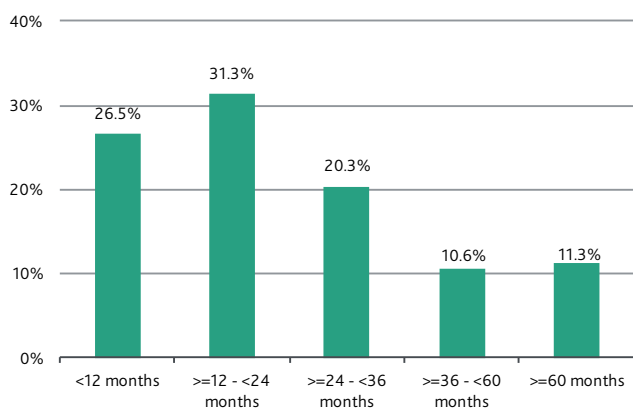


CHART D

Interest Rate Type

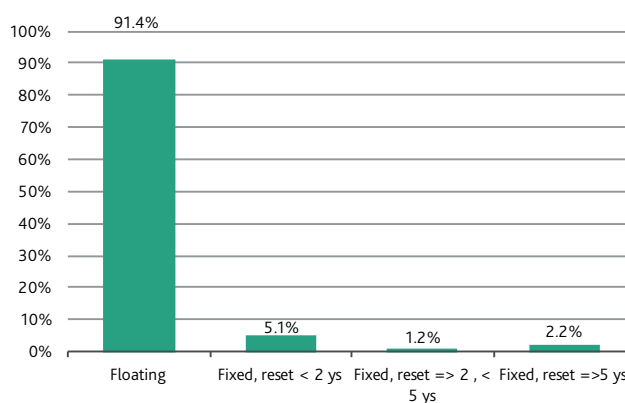
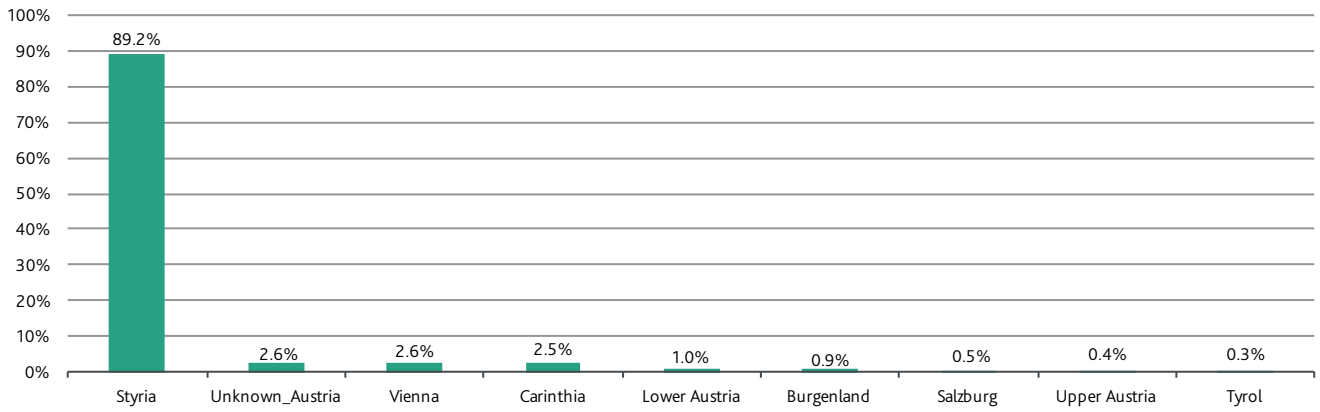


CHART E

Main Country Regional Distribution

Commercial Mortgage Loans

Overview	
Asset Type	Commercial
Asset balance:	98,321,606.67
Average loan balance:	219,958.85
Number of loans:	447
Number of borrowers:	346
Number of properties:	435
Largest 10 loans:	21.9%
Largest 10 borrowers:	38.6 %
WA Remaining Term (in months):	211
WA Seasoning (in months):	42
Main Countries:	Austria
	Germany

Specific Loan and Borrower characteristics	
Bullet loans:	6.0%
Loans in non-domestic currency:	0.1%
Percentage of fixed rate loans:	1.1%
Performance	
Loans in arrears (≥ 2months):	0.0%
Loans in a foreclosure procedure:	0.0%
Details on LTV	
WA current LTV (*):	60.2%
WA Indexed LTV:	n/d
Valuation type:	Market Value
LTV Threshold:	60.0%
Junior ranks:	n/d
Prior ranks:	n/d

(*)Based on most recent property valuation (property valuations are regularly updated by originator during the term of the loan, initial valuations were not reported)

n/d : information not disclosed by issuer

CHART A

Balance per LTV-band

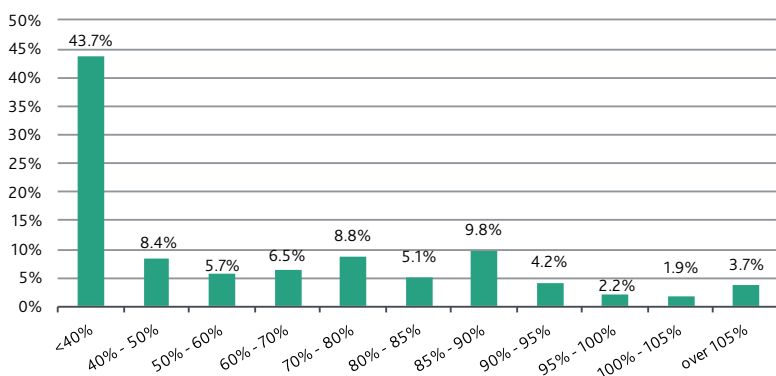


CHART B

Percentage of Commercial Assets

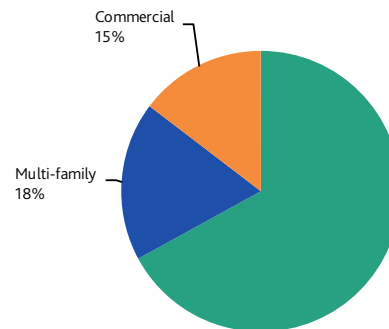


CHART C

Borrower Concentration

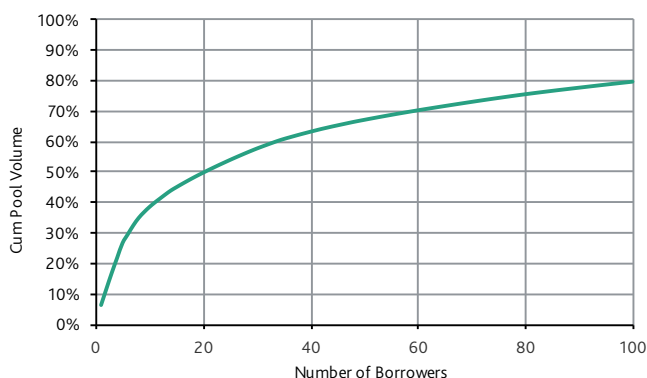


CHART D

Property Type

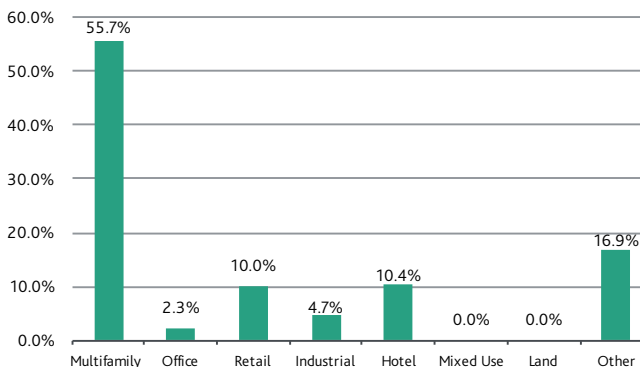
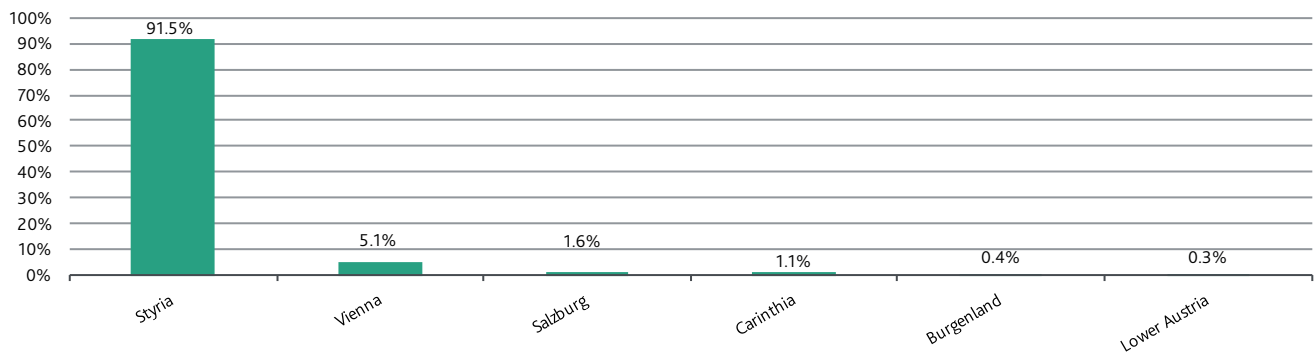


CHART E

Regional Distribution for Main Country (Austria)**Qualitative Collateral Information**

All cover pool characteristics are actual levels (rather than assumed levels) based on reports from Raiffeisen-Landesbank Steiermark AG.

Appendix 2: Income Underwriting and Valuation

A. Residential Income Underwriting		
1	Is income always checked?	Yes
2	Does this check ever rely on income stated by borrower ("limited income verification") income stated by the borrower?	No
3	Percentage of loans in Cover Pool that have limited income verification	None
4	If limited income verification loans are in the Cover Pool, describe what requirements lender has in place for these loans.	Not applicable
5	Does income in all cases constrain the amount lent (for example through some form of Income Sufficiency Test ("IST").	Yes
6	If not, what percentage of cases are exceptions.	No exceptions
<i>For the purposes of any IST</i>		
7	Is it confirmed income after tax is sufficient to cover both interest and principal.	Yes
8	If so over what period is it assumed principal will be paid (typically on an annuity basis)? Any exceptions?	Payment of interest and principal on an annuity basis over 20 – 25 years. If loans are exceptionally granted with a residual value, at the due date this amount is at least covered by the land value alone (ignoring the value of any buildings).
9	Does the age of the borrower constrain the period over which principal can be amortised?	No
10	Are any stresses made to interest rates when carrying out the IST? If so when and for what type of products?	In cases of variable rate loans the current interest rate is taken into consideration.
11	Are all other debts of the borrower taken into account at point loan made?	Yes
12	How are living expenses of the borrower calculated? And what is the stated maximum percentage of income (or income multiple if relevant) that will be relied on to cover debt payments. (specify if income is pre or post tax)	The household income is calculated post tax. The living expenses taken into account - among other factors - the number of persons living in the household.
	Other comments	None
B. Residential Property Valuation		
1	Are valuations based on market or lending values?	Market Value (Verkehrswert). In general the Market Value shall be based on the long-term capability of the property to generate rent income (Income Method or Ertragswertverfahren) or the long-term real value of the property (Cost Method or Sachwertverfahren). The results of this exercise may not exceed the Market Value based on comparable properties (Vergleichswert).
2	Are all or the majority of valuations carried out by external (with no direct ownership link to any company in the Sponsor Bank group) valuers?	The valuations of owner occupied houses and flats are normally carried out by internal valuers. External valuers, authorised appraisers who have to meet defined criteria, are used for a lending volume exceeding 350.000 Euros.
3	How are valuations carried out where external valuer not used?	Regardless of whether internal or external valuers are used, the same valuation guideline is applied.
4	What qualifications are required for external valuers?	The guidelines for evaluation define the appraisers as sworn and certified court appraisers.
5	What qualifications are required for internal valuers?	Internal valuers typically have a professional background as real estate appraisers or comparable experience/qualification.
6	Do all external valuations include an internal inspection of a property?	Yes
7	What exceptions if any?	None
8	Do all internal valuations include an internal inspection of a property?	Generally yes.
9	What exceptions if any?	Exceptions are marginally made in case of sufficient data / information (detailed description, photos, etc.)
	Other comments	None

C. Commercial Lending	
1 Business Focus	
1.1 What kind of CRE loans will form part of the cover pool?	About two thirds can be expected to relate to financing of not-for-profit building societies (around two thirds). The vast majority of the rest developers, and a small share of investment finance .
1.2 What CRE property types do you finance?	Office, shopping centre, other retail, industrial, hotels, care homes, multi-family, other
1.3 What kind of restrictions do you have in terms of property location and quality	Only properties located in Austria and Germany.
1.4 Does the cover-pool only contain self-originated loans or loan participations (e.g. syndicated loans, mezzanine loans)?	The cover-pool contain self-originated and Raiffeisenbanken Steiermark originated loans or loan participations between those originators.
2. Loan underwriting policy	
2.1 Do you accept loans with refinancing risk? If yes, do you have a maximum Exit-LTV limit at loan maturity?	Usually not. Within the useful life of the property the loan has to be repaid. In exceptional cases the residual loan at the due date at least covered by the land value alone.
2.2 Do you have a maximum LTV ratio that is covenanted in the loan agreement? Do max. LTV ratio vary by property type? Please specify.	There is no LTV ratio covenanted in the loan agreement. According to internal guideline a min. LTV 0,8 is targeted.
2.3 Do you have a minimum DSCR ratio that is covenanted in the loan agreement? Do min. DSCR ratio vary by property type? Please specify.	There is no DSCR covenanted in the loan agreement.
2.4 Do you always require full hedging in terms of interest rate and currency risk? If not, which stresses are used to calculate the DSCR ratios?	Not always. The DSCR are always calculated with long term interest rates (e.g. 10y-swapsatz).
2.5 Do you require a minimum exit debt yield? Please specify	No
2.6 Do you allow exceptions to and what reasons would justify exceptions?	No
3. Cash flow analysis	
3.1 Is a cash-flow assessment always carried out?	Yes.
3.2 Do you consider in the DSCR calculation (cash-flow assessment) possible reduction in property cash flow (e.g. due to lease roll-over, changing market rents, capex requirements)?	Yes, usually a 10 % loss of rent is calculated in the realistic case calculation and in the pessimistic case further reductions are made individually.
3.3 Do you rely in the DSCR calculation (cash-flow assessment) on possible increases in property cash flow (e.g. due to expected reduction in property vacancy, rent increase, property disposal income, or sponsor support)?	Yes, based on an expert opinion.
3.4 Do you consider in the cash flow assessment the quality (tenant) and diversity of cash flows? How do you assess tenant quality?	Analysis of balance sheets, cash flow-Statements, credit agencies: KSV, Dun & Bradstreet
3.5 How often is the property cash flow and loan DSCR assessment updated?	At least once a year.
4. Borrower	
4.1 Do you accept SPVs as a borrower?	Yes
4.2 Do you always require direct recourse to the borrower and sponsor (natural person) holding the equity stake? If not, please provide details/limits on non-recourse business.	Usually yes. Exceptions f.e. large own funds.
4.3 Do you have minimum requirements as for the borrower's quality? Please detail.	Each borrower's income is verified independently; the income restricts the amount that can be lent New borrowers must have the ability to pay back their obligations within the contract-period. The required amount of collateral depends on the rating.
4.4 How do you assess borrower's quality?	Analysis of balance sheets, cash flow-statements, credit agencies: KSV, Dun & Bradstreet. Softfacts analysis according to the "Projektrating"-tool.
4.5 Do you allow exceptions to 4.3? What reasons would justify exceptions?	Exceptions have to be authorized by the Managementboard Finanzierung.

D. Commercial Property Valuation

1	Are valuations based on market or lending values?	Market Values
2	Do you consider vacant possession values for single-tenanted properties?	No.
3	Do valuations always comply with standards of the RICS Red Book?	Valuations comply with Austrian laws.
4	Do you always require that valuations include a review of the lease contracts, a technical report and environment report?	Yes
5	Do you always require that valuations provide reference to comparable recent property transactions?	No
6	Could the value of a property portfolio exceed the value of the individual properties?	No
7	How often is the property value updated and how often is checked that the LTV covenant is not breached? (annually, ad-hoc, depending on general market movement)?	At least once a year.
	Other comments	None

Source: Raiffeisenlandesbank Steiermark AG

Appendix 3: Legal Framework for Austrian Covered Bonds

General Provisions in the Austrian Covered Bond Act

In Austria, there are three different covered bond acts, under which Austrian covered bond issuers can issue covered bonds. The three acts are:

- (i) Mortgage Bank Act (*Hypothekbankgesetz*);
- (ii) Austrian *Pfandbrief* Act (*Pfandbriefgesetz* or *PfandbriefG*); and
- (iii) Austrian Covered Bond Act (*Gesetz betreffend fundierte Bankschuldverschreibungen* or *FBSchVG*), see chart 1 below.

For the purposes of this report, our references to Austrian covered bond legislation relates to all these three types of act and other relevant regulation, if not stated otherwise.

This covered bond transaction is governed by the Austrian Covered Bond Act, under which covered bonds will be issued from time to time, in each case constituting direct, unconditional and senior obligations of the issuer. The issuer is a regulated bank and supervised by the Financial Supervisory Authority of Austria (*Österreichische Finanzmarktaufsicht* or FMA).

Public-sector covered bonds are secured by a pool of assets (cover pool). The covered bond issuer has to establish a cover register for its covered bonds, which secures covered bondholder's claims upon insolvency of the covered bond issuer. Upon insolvency of the covered bond issuer, all cover assets, including, in our understanding, the actual OC at that point in time, would be available for the covered bondholder on a priority basis. If a covered bond issuer issues more than one type of covered bond, the Austrian covered bond legislation requires the covered bond issuer to maintain a separate cover register for each covered bond type.

The Austrian Covered Bond Act sets out rules detailing which assets qualify as cover assets for public-sector covered bonds. Eligible assets for a public-sector cover pool are (i) direct claims against public-sector entities located in Austria and member states of the EEA, or Switzerland or local and regional governments located in these countries; or (ii) debt guaranteed by the aforementioned public-sector entities.

In the event of the issuer's insolvency, it is possible that assets located outside Austria (i.e., public-sector borrowers located outside Austria) will be less protected against claims of other creditors of the issuer compared with assets located in Austria. For claims against borrowers located outside Austria and for loans governed by non-Austrian law, the amount due by the borrowers could be determined based

on foreign law. This law may allow the borrower to exercise set-off, hence, the amount payable by such borrower may be reduced accordingly.

In case of Swiss cover assets, we understand that, in the event of an issuer default, a Swiss court might open a secondary insolvency proceeding against the issuer in Switzerland. From an expected loss point of view, we do not consider this as a significant concern, because we understand that only a small group of Swiss creditors of the issuer – for example Swiss employees of the issuer – would be able to make their claims within these proceedings. However, we also understand that payments on the cover pool assets in Switzerland might not be available for the cover pool administrator for as long as the secondary insolvency proceedings continue in Switzerland.

Under the Act, the covered bond issuer must comply with a nominal cover test. This test requires a minimum OC of 0% which means the nominal value of the cover pool must be at least as high as the nominal value of the covered bonds. In addition, the interest income on the cover pool assets must also cover the coupon payments on the outstanding covered bonds at all times.

The Austrian Covered Bond Act allows issuers to commit themselves to a present value test (PV test). We understand that the issuer becomes legally obliged to maintain this PV test by operation of the Austrian covered bond legislation if this has been included in the articles of association of the issuer.

The covered bond issuer may include derivatives in the cover pool. We understand that claims of hedge counterparties rank equally with those of covered bondholders.

FMA has established a reporting mechanism, whereby the covered bond issuer must regularly report key figures to the regulator. In addition, a cover pool monitor will monitor various operations with respect to the cover pool on a day-to-day basis. For example, we understand that cover assets may not be de-registered from the cover pool without the prior consent of the cover pool monitor.

In the event of an issuer default, the cover pool will be segregated from the bankruptcy estate of the issuer and a cover pool administrator (*besonderer Verwalter*) will be appointed upon the commencement of bankruptcy procedures. This cover pool administrator shall undertake the necessary administrative measures to satisfy claims by the covered bondholders by collecting claims that are due, selling individual cover assets or organising bridge financing.

Payments and receivables on the cover pool assets are not required to be separated from other cash flows of the covered bond issuer before a declaration of bankruptcy. Upon the commencement of bankruptcy proceedings, the covered bondholders would have a preferential claim on all

receivables in the cover pool. The appointed cover pool administrator will be obliged by operation of the Austrian Covered Bond Act to apply all collections to satisfy the preferential claims against the cover pool.

We understand that no set-off may be exercised by the borrower against the Austrian cover assets recorded in the cover pool and governed by Austrian law by the operation of the act.

In the event of an issuer default, the following scenarios may occur:

- » If feasible, the cover pool administrator may transfer the cover pool together with the obligations under the covered bonds to another suitable bank, which will assume the obligations under the covered bond and will take over the cover pool.
 - » If the cover pool and the outstanding covered bonds are not transferred and the cover pool assets are not sufficient to satisfy all claims of covered bondholders, the outstanding covered bonds would accelerate. The cover pool administrator would dispose of the cover pool assets, subject to the approval of the competent court and distribute the proceeds stemming from the disposal of the cover pool assets among the cover bondholders on a *pari passu* basis. If the proceeds prove insufficient to meet all claims of the *pari passu* creditor of the cover pool, then the covered bondholders will have a senior unsecured claim against the general bankruptcy estate of the covered bond issuer.
- » Subject to the approval of the competent court, the cover pool administrator may sell the cover pool assets and satisfy the claims of the covered bondholders by an early redemption of the covered bonds at the then-current present value, provided certain conditions were met, which include the following:
 - A transfer of the cover pool together with the outstanding covered bond to another suitable bank is not possible;
 - There is sufficient cover for all *pari passu* claims against the cover pool; and
 - The covered bond issuer has opted for an early redemption at present value in its articles of association in this scenario. We understand that Raiffeisen-Landesbank Steiermark has not used this option for its public-sector covered bonds.

CHART 1

Overview of Covered Bond Acts in Austria

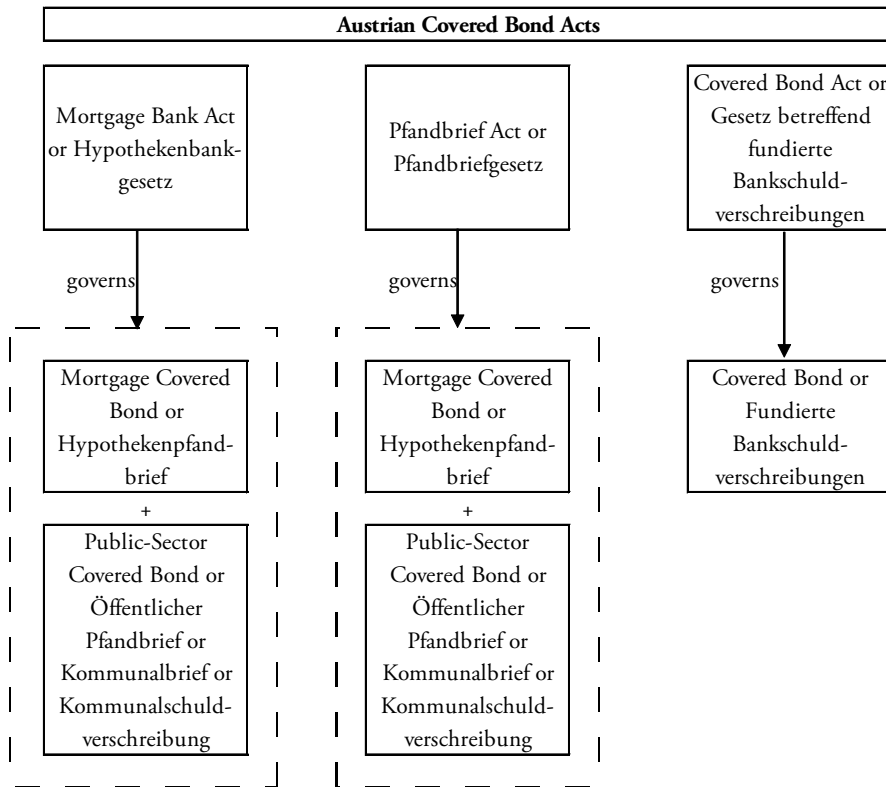
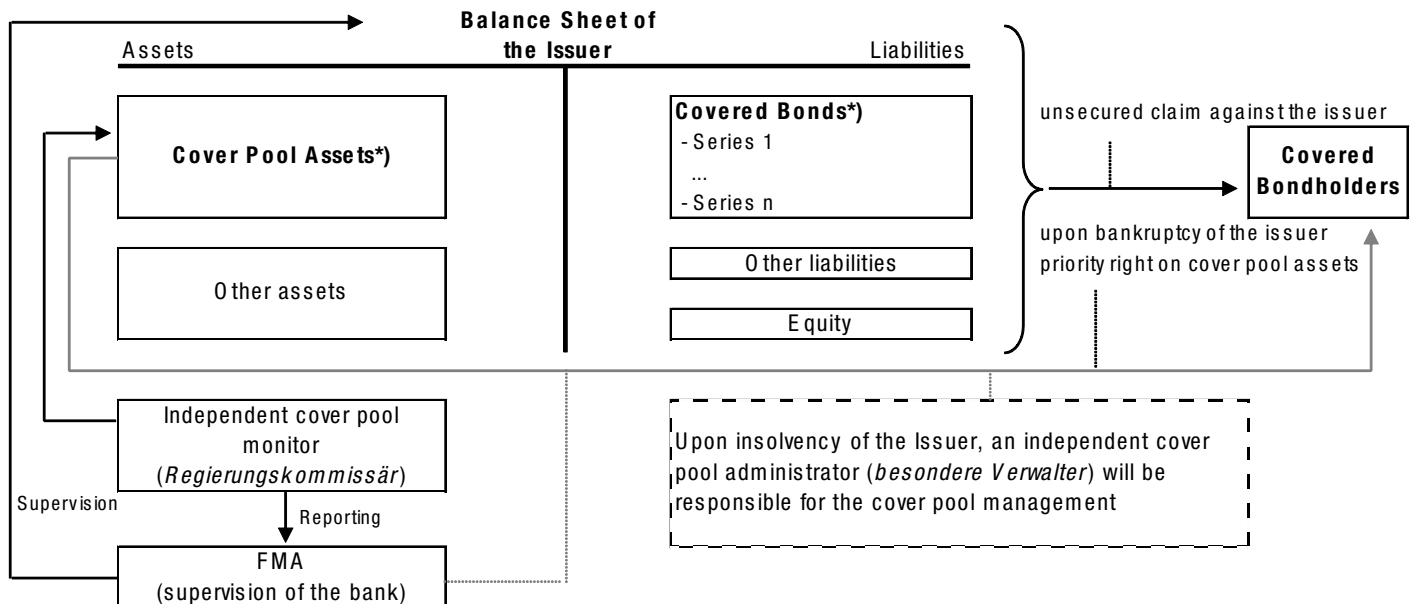


CHART 2

General Structure of an Austrian covered bond



* A covered bond issuer may have more than one covered bond programme. Covered bond series from different programmes would be covered by different cover pools.

FMA = Österreichische Finanzmarktaufsicht (Austrian Financial Supervisory Authority)

Moody's Related Research

For a more detailed explanation of Moody's approach to this type of transaction as well as similar transactions please refer to the following reports:

Rating Methodologies:

- » [Moody's Rating Approach to Covered Bonds, July 2012 \(SF291041\)](#)
- » [Assessing Swaps as Hedges in the Covered Bond Market, September 2008 \(SF142765\)](#)

Special Reports:

- » [EMEA Covered Bonds 2012 Outlook, December 2011 \(SF270040\)](#)
- » [Moody's EMEA Covered Bond Monitoring Overview: Q2 2012, October 2012 \(SF299313\)](#)
- » [European Covered Bond Legal Frameworks: Moody's Legal Checklist, German Translation, January 2006 \(SF67969\)](#)
- » [European Covered Bond Legal Frameworks: Moody's Legal Checklist, December 2005 \(SF66418\)](#)

Announcements:

- » [Moody's updates on non-EEA assets in German and Austrian covered bond transactions, April 2010](#)
- » [Moody's updates on status of non-EEA assets in Austrian and German Covered Bond transactions, June 2009](#)
- » [Covered bond issuer ratings important for accuracy and stability of covered bond ratings, April 2009](#)

Credit Opinion:

- » [Raiffeisen-Landesbank Steiermark AG, June 2012](#)

Webpage:

- » www.moody's.com/coveredbonds

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.

-
- ¹ The ratings shown are the bank's deposit rating, its standalone bank financial strength rating/baseline credit assessment and the corresponding rating outlooks.
- ² This currently high OC can be expected to be reduced as a result of the issuance of the next series. For example after an issuance of additional €250 million, the OC would be around 16%.
- ³ The ratings shown are the bank's deposit rating, its standalone bank financial strength rating/baseline credit assessment and the corresponding rating outlooks.
- ⁴ Issuer default is defined as removal from the cover pool of (1) support provided by entities within the issuer, (2) ancillary activities of the issuer (i.e. those not related to the cover pool) and (3) typically, management functions of the issuer.
- ⁵ The ratings shown are the bank's deposit rating, its standalone bank financial strength rating/baseline credit assessment and the corresponding rating outlooks.
- ⁶ ["Moody's Approach to Rating Covered Bonds"](#), published in July 2012 (see Related Research).
- ⁷ The collateral score can be seen as the amount of risk-free enhancement required to protect a Aaa rating from otherwise unsupported assets – therefore, the stronger the credit quality of the collateral, the lower the collateral score. This only considers the credit deterioration of the assets and ignores any market risk (see Rating Methodology ["Moody's Approach to Rating Covered Bonds"](#) published in July 2012 (see Related Research)).
- ⁸ Please see Press Releases ["Moody's updates on status of non-EEA assets in Austrian and German Covered Bond transactions"](#), June 2009 and ["Moody's updates on non-EEA assets in German and Austrian covered bond transactions"](#), April 2010.

» contacts continued from page 1

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