MOODY'S INVESTORS SERVICE

CREDIT OPINION
30 June 2022

Update

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RATINGS

Raiffeisenbank Austria d.d.

Domicile	Zagreb, Croatia
Long Term CRR	Baa2 , Possible Upgrade
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	Baa2
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Raiffeisenbank Austria d.d.

Update following initiation of review for upgrade

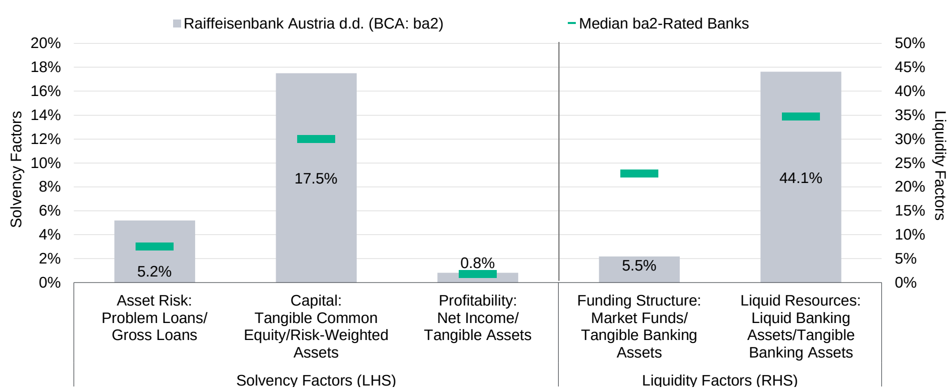
Summary

On 28 June 2022, we placed Raiffeisenbank Austria d.d.'s (RBA) Baa2 long-term Counterparty Risk Ratings (CRR) and its long and short-term Baa3(cr)/P-3(cr) Counterparty Risk (CR) Assessments on review for upgrade and affirmed its Baa2 deposit ratings with a stable outlook.

RBA's Baa2 deposit ratings incorporate the bank's ba2 Baseline Credit Assessment (BCA), our assumption of a high probability of parental support from Raiffeisen Bank International AG (RBI, A2/A2 stable, baa2[1]), resulting in one notch of rating uplift to RBA's ba1 Adjusted BCA and two notches of rating uplift from the application of our Advanced Loss Given Failure (LGF) analysis.

RBA's ba2 standalone BCA reflects the bank's strong capital buffers, with a tangible common equity (TCE)/risk-weighted assets ratio of 17.5% as of the end of 2021, a stable deposit-based funding structure and high liquidity. These strengths are moderated by relatively high asset risks, and moderate and somewhat volatile profitability that will continue to face headwinds in the coming quarters. RBA's BCA also reflects high litigation risk from consumers who had borrowed in Swiss francs[2] in the past and are suing the bank claiming to have suffered losses on the basis of exchange rate differences, as well as for compensation for changes in interest rates.

Exhibit 1
Rating Scorecard - Key financial ratios



These are our Banks Methodology scorecard ratios. Asset Risk and Profitability reflect the weaker of either the latest figure or the three-year and latest figure average. Capital is the latest reported figure. Funding Structure and Liquid Resources reflect the latest fiscal year-end figures.
Source: Moody's Investors Service

Credit strengths

» Strong capital buffers

» Stable deposit-based funding structure and high liquidity

» High likelihood of affiliate support, which provides rating uplift

Credit challenges

» Relatively high asset risk

» High litigation risk from consumers who had borrowed in Swiss franc

» Moderate and somewhat volatile profitability

Outlook

The stable outlook on the deposit ratings balances RBA's strong capital buffers, favourable funding structure and high liquidity buffers against some asset risk challenges and moderate profitability.

The review for upgrade on RBA's CRR and CR Assessments is driven by the review for upgrade on Croatia's Ba1 sovereign rating.

Factors that could lead to an upgrade

» The CRR and CR Assessments could be upgraded upon conclusion of the review, in case the Government of Croatia's ratings are upgraded.

» Upward pressure on RBA's BCA and therefore ratings could also result from a significant improvement in Croatia's operating environment, for example following the country's euro area accession, along with lower asset risk, a material reduction in litigation risk, and sustainably stronger and more stable profitability metrics for RBA, in case the sovereign ratings are upgraded.

Factors that could lead to a downgrade

» The CRR and CR Assessments could be confirmed at their current levels following a confirmation of the Government of Croatia's ratings at Ba1.

» Downward pressure on RBA's BCA and therefore ratings could be triggered by an unexpected deterioration in operating conditions, a significant deterioration in the bank's asset-quality and profitability metrics, higher-than-expected litigation costs, or from a material reduction in the bank's capital beyond what is currently expected.

» Significantly reduced capacity or willingness by RBI to provide support to RBA, or a change in the bank's liability structure that reduces the uplift provided by our Advanced LGF analysis could also result in a ratings downgrade.

Key indicators

Exhibit 2

Raiffeisenbank Austria d.d. (Consolidated Financials) [1]

	12-21[2]	12-20[2]	12-19[2]	12-18[2]	12-17[2]	CAGR/Avg.[3]
Total Assets (HRK Million)	44,532.0	40,127.0	36,844.0	35,165.0	34,178.0	6.8[4]
Total Assets (USD Million)	6,708.6	6,504.7	5,558.0	5,426.1	5,513.0	5.0[4]
Tangible Common Equity (HRK Million)	4,736.0	4,302.0	4,232.0	4,178.0	4,398.0	1.9[4]
Tangible Common Equity (USD Million)	713.5	697.4	638.4	644.7	709.4	0.1[4]
Problem Loans / Gross Loans (%)	4.8	5.4	5.4	8.4	13.1	7.4[5]
Tangible Common Equity / Risk Weighted Assets (%)	17.5	16.7	16.2	16.6	17.4	16.9[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	18.9	21.1	21.2	29.2	40.5	26.2[5]
Net Interest Margin (%)	1.9	2.2	2.5	2.5	2.6	2.4[5]
PPI / Average RWA (%)	2.2	1.7	2.3	2.3	2.6	2.2[6]
Net Income / Tangible Assets (%)	1.1	0.2	1.2	0.8	0.6	0.8[5]
Cost / Income Ratio (%)	62.3	70.0	63.8	64.1	60.7	64.2[5]
Market Funds / Tangible Banking Assets (%)	5.5	8.3	8.9	7.3	10.9	8.2[5]
Liquid Banking Assets / Tangible Banking Assets (%)	44.1	42.5	39.0	42.5	41.4	41.9[5]
Gross Loans / Due to Customers (%)	67.6	73.4	78.9	71.1	83.6	74.9[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Investors Service and company filings

Profile

RBA was established in 1994 as the first bank founded with foreign capital in Croatia. RBA provides banking and factoring services to corporates, small and medium-sized enterprises (SMEs), and retail clients. It also offers leasing and consulting services through its subsidiary companies.

RBA was the fifth-largest bank in Croatia with a market share of 8.3% as of the end of 2021, according to data from the Croatian National Bank (CNB). As of March 2022, RBA had total consolidated assets of €5.6 billion and the bank operated through 70 branches with 1,750 employees, as per RBI disclosures.

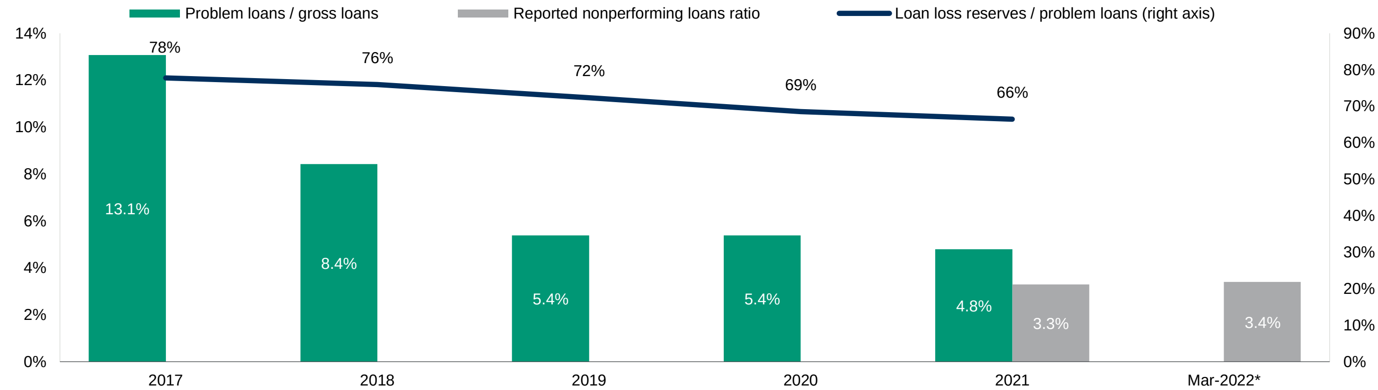
Detailed credit considerations

Relatively high asset risk, although problem loan levels continue to decline

We consider RBA's asset risks as relatively high reflecting some legacy problematic exposures, potential renewed asset quality pressure resulting from high inflation and the impact from Russia's invasion of Ukraine, and high litigation risks. The bank continues to face ongoing litigation risk from Swiss franc borrowers (see Profitability and ESG sections).

Although RBA's problem loan ratio remains higher than the median of similarly-rated peers, our assessment also considers the gradual improvement in asset quality in recent years. The bank's problem loans (defined as IFRS 9 stage 3 loans and purchased or originated credit impaired loans that are in stage 3) declined to 4.8% of gross loans as of the end of 2021, from 8.4% in 2018 (see Exhibit 3). Improved risk management, some deleveraging by local corporates (although corporate debt levels in Croatia were still above regional peers at 60% of GDP in 2020 compared to 42% for Slovenia and 31% for Romania), and problem loan recoveries and sales have been the main drivers for the improvement.

Exhibit 3
Relatively high asset risk, although problem loan levels have been declining

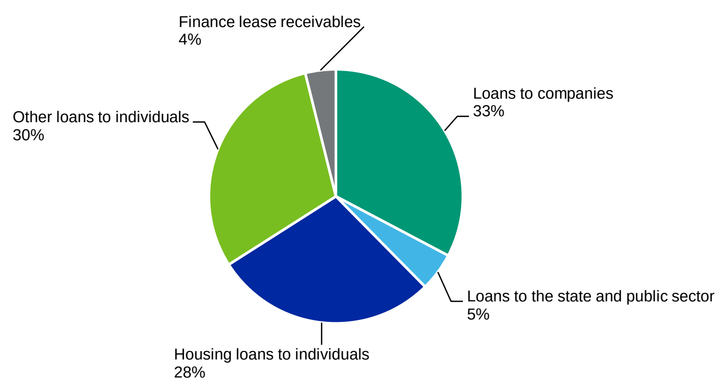


Nonperforming loans as disclosed by RBI, which is a different definition from our problem loans. For 2019, 2020 and 2021, loan-loss reserves reflect expected credit losses for stage 3 and purchased or originated credit impaired loans under the IFRS 9 accounting standard
Sources: Moody's Investors Service, March 2022 data sourced RBI's Q1 2022 results presentation

Meanwhile, the coverage of problem loans by stage 3 provisions was adequate at 66% as of the end of 2021. According to RBI disclosures, RBA reported a nonperforming loan ratio of 3.4% as of March 2022, marginally up from 3.3% as of the end of 2021. The bank reported a stage 2 loan balance (those with a significant increase in credit risk) of about 18% of total gross loans as of end 2021, reflecting elevated risk but also the bank's proactive classification of borrowers into this category. According to the bank's disclosures, during the first quarter of 2022 it also proactively classified a small number of borrowers that had some exposure to Russia or Ukraine to stage 2.

We expect some new but manageable problem loan formation because of the impact of high inflation on individuals' disposable income and on some companies, and the indirect macroeconomic effects from the conflict and the mounting economic sanctions against Russia. Around 30% of the bank's loans are unsecured loans to individuals[3] and would therefore be more vulnerable to a loss of income for borrowers. Recent strong mortgage lending growth together with rising house prices in Croatia, also increase cyclical risks for banks. RBA's housing loans to individuals grew by 10% during 2021.

Exhibit 4
Unsecured loans to individuals make up a significant part of RBA's loan book
Loan book breakdown as of year end 2021



Source: Moody's Investors Service, bank's financial statements

Concentration to individual corporate borrowers is moderate. RBA, however, is highly exposed to the Croatian government, primarily through its liquidity portfolio of government bonds and treasury bills. These exposures were equivalent to around 130% of RBA's TCE.

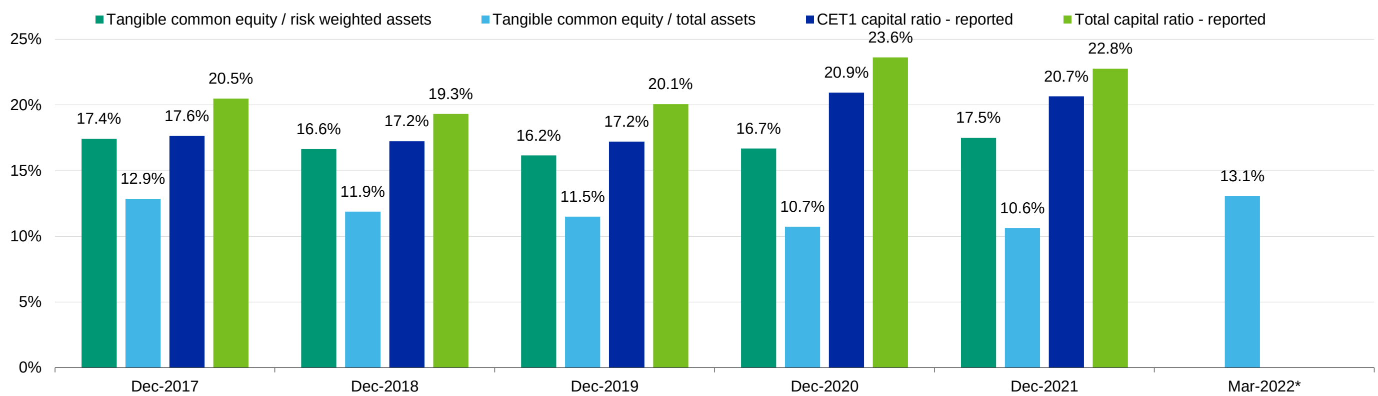
Loans in foreign currency accounted for around half of gross loans at the end of 2021, but most of these are euro denominated or linked to the euro and therefore currency-induced credit risk will be eliminated following a potential adoption of the euro as Croatia's national currency.

Strong capital buffers

RBA has significant capacity to absorb unexpected losses because of strong capital buffers, which is a credit strength. The bank's adjusted TCE/risk-weighted assets ratio where we risk-weight government exposures according to Croatia's sovereign rating was 17.5%, and TCE/total assets was 10.6% as of the end of 2021 (see Exhibit 4). On balance, we expect RBA's capital buffers to decline modestly as the bank resumes dividend payments but to remain strong[4], although some strain may arise if litigation losses and provision requirements are higher than current projections. A potential upgrade of Croatia sovereign rating to investment grade would reduce the effective risk-weight we use for government exposures to 50% from 100% currently and therefore benefit our TCE/risk-weighted assets ratio.

Exhibit 5

High capital buffers are a credit strength



For March 2022 the ratio tangible common equity / total assets reflects equity / total assets
Sources: Moody's Investors Service, March 2022 data sourced RBI's Q12022 results presentation

Reported regulatory capital metrics were also significantly higher than capital requirements. The bank reported a Common Equity Tier 1 (CET1) capital ratio of 20.7% and a total capital ratio of 22.8% as of the end of 2021. These were substantially above the regulatory requirement of 12.0% for the CET1 ratio and 16.7% for the total capital ratio, which included a 1.5% systemic risk buffer applicable to all Croatian banks, a 2.0% other systemically important bank buffer and a 2.7% Pillar 2 requirement for RBA.[5] In February, the CNB announced a new 0.5% countercyclical capital buffer (CCyB) for credit institutions with effect from 31 March 2023 but the bank will easily meet the higher requirements.

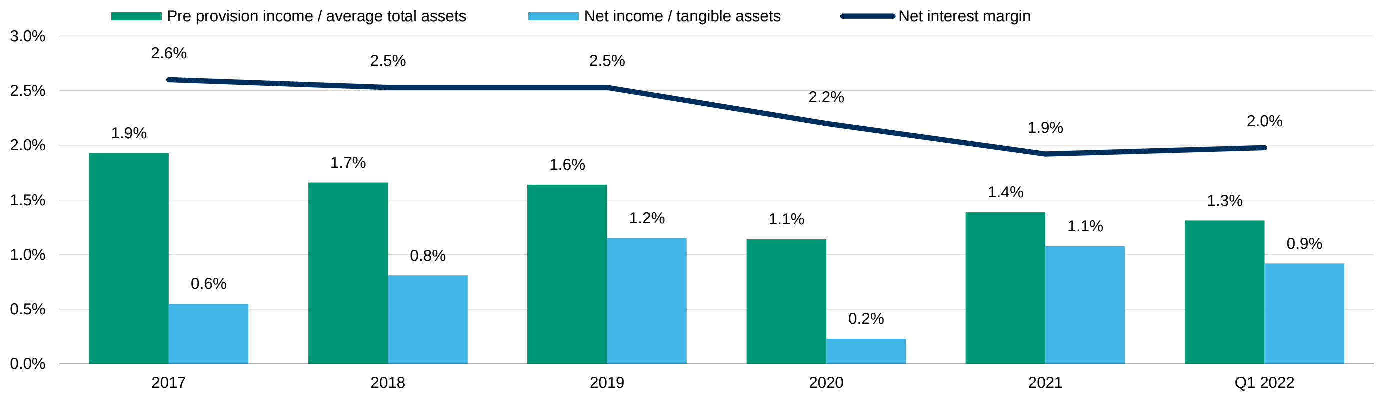
RBA applies the standardised approach to calculate credit-related risk-weighted assets and therefore the bank's capital metrics are less sensitive to potential amendments in regulatory methods to calculating risk-weighted assets, including floor requirements, or to macroeconomic shocks that could increase risk-weights of more risk-sensitive models.

Moderate and somewhat volatile profitability

RBA profitability is moderate, with a net income to tangible assets averaging 0.9% during 2017 to 2019. Net income to tangible assets increased to 1.1% in 2021 from 0.2% in 2020 (see Exhibit 5) because of higher fee and commission income as well as significant releases of provisions related to higher pandemic-related impairments in 2020. The bank's net interest margin declined to 1.9% in 2021 from 2.2% in 2020, reflecting high liquidity and lower interest rates on loans and debt securities.

Exhibit 6

Moderate earnings-generation capacity



Sources: Moody's Investors Service, Q1 2022 data sourced from RBI's Q1 2022 results presentation

The bank's profitability has been constrained by legal provisions against litigation from consumers who had borrowed in Swiss francs and claim to have suffered losses as a result of the currency depreciation or banks' unilateral change of interest rates and a relatively high operating cost base. Operating expenses were 2.2% of assets in 2021, higher than larger local peers reflecting relatively limited economies of scale, but significantly improved from 2.6% in 2020. Operating cost efficiency will continue to improve in light of ongoing digitalisation and automation initiatives by the bank, supporting resilience at times of stress.

We expect profitability will continue to face headwinds over the next few quarters because of ongoing legal costs and provisions. Interest margin pressure will also likely not abate despite an increase in long-term interest rates in Europe given high system liquidity in Croatia and strong competition among banks that is continuing to drive lower lending rates. For example, interest rates on new mortgages declined further in April 2022. Convergence to euro area rates would also likely compress margins. Additionally, RBA's cost of funding will likely increase as the bank will need to issue more debt to meet its minimum requirement for own funds and eligible liabilities (MREL). Potential adoption of the euro as Croatia's national currency from 2023 will reduce fee income related to foreign exchange transactions. However, euro area accession will benefit banks because it will reduce credit and funding foreign-currency risks.

The monetary impact from Swiss franc related litigation is difficult to assess because it will partly depend on the number of consumers that will sue the bank, most of whom have already repaid their loans, and the outcome from these proceedings. We expect the impact to be significant but manageable. As of March 2022, RBA's accumulated provisions for such court cases amounted to €58 million according to RBI disclosures.

Stable deposit-based funding structure and high liquidity

RBA benefits from a stable predominantly deposit-based funding structure. Customer deposits were equivalent to 72% of total assets as of March 2022 according to RBI disclosures. Deposits have grown strongly in recent years and are sufficient to fund the bank's lending operations, with a net-loan-to-deposits ratio of 70% as of the same date.

Customer deposits are relatively granular with deposits from individuals making up 55% of total deposits at the end of 2021. A high share of deposits in foreign currency of 52% as of the end of 2021, predominantly in euro, remains a risk. However, Croatia's euro area accession would significantly reduce this risk.

Reliance on potentially more confidence sensitive market funding remains limited. Market funds accounted for 5.5% of tangible banking assets as of the end of 2021. These funds included parent-bank borrowings, interbank exposures, borrowings from developmental institutions and an inaugural bridge private MREL-related bond issuance. Going forward we expect market funding reliance to increase moderately as the bank issues debt to meet its MREL.

High liquidity buffers also further mitigate funding risks. Liquid assets were 44% of tangible banking assets at the end of 2021, with cash and interbank balances accounting for 27% of assets while the remaining was invested in securities, mainly government bonds. The bank's liquidity coverage ratio was 200% in 2021, with a net stable funding ratio at 169%.

Sources of facts and figures cited in this report

Unless noted otherwise, we have sourced data relating to systemwide trends and market shares from the central bank. Bank specific figures originate from banks' reports and figures are based on our own chart of account and may be adjusted for analytical purposes. Please refer to the document Please refer to the document Financial Statement Adjustments in the Analysis of Financial Institutions published on 9 August 2018.

ESG considerations

In line with our general view of the banking sector, RBA has low exposure to environmental risks. See our Environmental risks heat map for further information.

The most relevant social risks for banks arise from the way they interact with their customers. See our Social risks heat map for further information. Croatian banks, including RBA, face significant legal and other costs related to often populist legislative propositions, such as challenging banks' decisions to disperse Swiss franc-linked loans to their clients. Further, Supreme Court decisions ruled that related clauses — such as the unilateral change of interest rates and a Swiss franc foreign-exchange clause — were “null and void” because consumers were unfairly treated and not fully informed of the risks, and eventually suffered significant losses. In February 2021 the Constitutional Court rejected the banks' complaints and upheld earlier court rulings regarding a class action lawsuit launched by a local consumer organisation over the foreign currency clauses. These developments lead to both reputational and monetary damages for affected banks. Michael Mueller, the previous CEO of RBA, resigned from his position in January 2020, following an RBA tender seeking the services of a PR company in relation to the Swiss franc loan issue, which attracted negative publicity and caused reputational damage to the bank. In the case of RBA, we capture the near-term crystallisation of these risks within our Solvency subfactor scores.

Governance is highly relevant for RBA, as it is to all participants in the banking industry. Corporate governance weaknesses can lead to a deterioration in a bank's credit quality, whereas governance strengths can benefit its credit profile. Governance risks are largely internal rather than externally driven, and for RBA, we do not highlight particular governance issues, given its appropriate risk management framework. Nonetheless, corporate governance remains a key credit consideration and requires ongoing monitoring.

Support and structural considerations

Affiliate support

We believe that there is a high probability of support from RBA's parent, RBI. Our assessment is based on RBI's 100% stake in RBA, the parent's strong operational support and oversight, and the subsidiary's use of the Raiffeisen logo and name. RBA is a strategic fit in RBI and the Raiffeisen group and we consider both RBA and the Croatian market important to RBI's operations. Hence, the risk of the parent disposing of its subsidiary is low. This assessment results in one notch of rating uplift for RBA's Adjusted BCA to ba1 from the bank's standalone BCA of ba2.

Loss Given Failure (LGF) analysis

RBA operates in Croatia, which is a European Union member. Croatian banks are subject to the EU Bank Recovery and Resolution Directive (BRRD), which we consider an operational resolution regime. In accordance with our methodology, we therefore apply our Advanced LGF analysis to RBA's liabilities, which takes into account the risks faced by the different debt and deposit classes across the liability structure should the bank enter resolution.

In our Advanced LGF analysis, we use our standard assumptions and assume residual tangible common equity of 3% and post-failure losses of 8% of tangible banking assets, a 25% runoff in junior wholesale deposits and a 5% runoff in preferred deposits. We assign a 25% probability to deposits being preferred to senior unsecured debt and assume 26% of junior deposits over total deposits (EU average).

Under these assumptions, for RBA's Baa2 deposits our Advanced LGF analysis indicates a very low loss given failure reflecting the likely reduction in expected loss because of the loss absorption provided by the substantial volume of deposits, translating into two notches of uplift from the bank's ba1 Adjusted BCA.

Government support considerations

We do not incorporate any government support uplift into RBA's ratings because we consider the probability of government support, in case of need, to be low. Our government support assumptions are driven by the authorities history of preferring market-based solutions for troubled banks and the implementation of the EU's BRRD in Croatia, which limits the authorities' flexibility to provide support.

Counterparty Risk Ratings (CRRs)

RBA's CRRs are at Baa2/Prime-2, the long-term CRRs are on review for upgrade.

RBA's CRRs are positioned at Baa2/Prime-2, currently constrained at two notches above the Ba1 government rating, in accordance with our Banks Methodology.

Counterparty Risk (CR) Assessment

RBA's CRs are at Baa3(cr)/Prime-3(cr) on review for upgrade.

The CR Assessment is positioned at Baa3(cr)/Prime-3(cr), currently constrained at one notch above the government rating, also in accordance with our methodology.

These constraints are reflected in our Assigned LGF notchings for CRRs and the CR Assessment, compared to a higher LGF notching guidance

Methodology and scorecard

About Moody's Bank Scorecard

Our Bank Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 7

Raiffeisenbank Austria d.d.

Macro Factors							
Weighted Macro Profile	**Moderate -**	**100%**					
Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	5.2%	ba3	↔	b2	Long-run loss performance	Litigation risk
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	17.5%	baa1	↓↓	baa3	Expected trend	Stress capital resilience
Profitability						
Net Income / Tangible Assets	0.8%	ba2	↔	ba3	Loan loss charge coverage	
Combined Solvency Score		ba1		ba3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	5.5%	baa2	↓↓	baa3	Expected trend	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	44.1%	baa2	↔	baa3	Stock of liquid assets	
Combined Liquidity Score		baa2		baa3		
Financial Profile				ba2		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Ba1		
BCA Scorecard-indicated Outcome - Range				ba1 - ba3		
Assigned BCA				ba2		
Affiliate Support notching				1		
Adjusted BCA				ba1		

Balance Sheet	**in-scope (HRK Million)**	**% in-scope**	**at-failure (HRK Million)**	**% at-failure**
Other liabilities	7,978	18.1%	11,400	25.8%
Deposits	33,541	76.0%	30,120	68.3%
Preferred deposits	24,820	56.2%	23,579	53.4%
Junior deposits	8,721	19.8%	6,540	14.8%
Equity	1,324	3.0%	1,324	3.0%
Total Tangible Banking Assets	42,843	100.0%	44,131	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	20.7%	20.7%	20.7%	20.7%	3	3	3	2	0	baa2
Counterparty Risk Assessment	20.7%	20.7%	20.7%	20.7%	3	3	3	1	0	baa3 (cr)
Deposits	20.7%	3.0%	20.7%	5.9%	2	2	2	2	0	baa2

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	2	0	baa2	0	Baa2	Baa2
Counterparty Risk Assessment	1	0	baa3 (cr)	0	Baa3(cr)	
Deposits	2	0	baa2	0	Baa2	Baa2

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 8

Category	Moody's Rating
RAIFFEISENBANK AUSTRIA D.D.	
Outlook	Rating(s) Under Review
Counterparty Risk Rating	Baa2/P-2[1]
Bank Deposits	Baa2/P-2
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	ba1
Counterparty Risk Assessment	Baa3(cr)/P-3(cr)[1]
PARENT: RAIFFEISEN BANK INTERNATIONAL AG	
Outlook	Stable
Counterparty Risk Rating	A2/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A2(cr)/P-1(cr)
Senior Unsecured -Dom Curr	A2
Subordinate	Baa2
Pref. Stock Non-cumulative -Dom Curr	Ba2 (hyb)

[1] Rating(s) within this class was/were placed on review on June 28 2022
Source: Moody's Investors Service

Endnotes

1 The ratings shown here are RBI's deposit rating, senior unsecured debt rating and Baseline Credit Assessment.

2 Predominantly in the form of Swss frank-linked loans.

3 The include personal loans, credit cards and overdrafts.

4 In September 2021, the CNB announced the repeal of the temporary restriction on distributions from banks as of October 2021. In view of the pandemic, in March 2020, the CNB restricted banks from paying dividends or making other profit distributions to shareholders. In January 2021, the CNB had extended this temporary restriction until 31 December 2021.

5 The Pillar 2 requirement was 1.5% within the CET1 ratio going up to 2.7% for the total capital ratio.

REPORT NUMBER 1330801

CLIENT SERVICES

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

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