University of Minnesota, MN

Update to credit analysis

**Summary**

University of Minnesota’s (UM, Aa1 stable) excellent credit profile reflects strong student and research market positions and ample financial resources, all incorporated in the university’s excellent strategic position. UM receives good support from the State of Minnesota (Aa1 stable), including payment of debt service on $242 million of Special Purpose Revenue Bonds (Aa2 stable). The university also continues to benefit from strong fundraising.

Offsetting challenges are relatively thin operating performance compared to peers, indirect exposure to patient care revenue and capital plans that rely upon additional borrowing. However, planned increases debt are moderate and will be offset by University of Minnesota’s scheduled debt amortization.

**Credit strengths**

» Excellent strategic positioning as Minnesota’s flagship research and land grant university and Big Ten Conference member

» Ample financial resources with unrestricted monthly liquidity of $1.6 billion or 173 monthly days cash on hand supporting its self-liquidity program and other needs

» Fundraising strength evidenced by around $240 million of fiscal 2019 gift revenue

» Conservative debt amortization, with approximately $345 million of principal repayment for fiscal 2020-2023, offsetting future borrowing plans
Credit challenges
» Modest operating performance compared to peers with an 8% operating cash flow margin in fiscal 2019
» Constrained revenue growth from highly competitive student market and research funding environments pressuring operations
» Ongoing capital plans with a potential of up to $193 million of planned new debt through fiscal 2023
» Exposure to healthcare operations through it’s affiliated practice plan as well as with Fairview Health System (A3/negative) partially mitigated by favorable agreement in place

Rating outlook
The stable outlook reflects our expectations that UM will manage through challenging conditions related to the corona virus and related economic recession, mitigating fiscal impacts through appropriate budgetary responses. Over the next several years’ we expect continued favorable student demand, tuition revenue and sponsored research trends. The outlook also incorporates longer term stable to improving operating cash flow and debt service coverage.

Factors that could lead to an upgrade
» Substantial growth in financial resources
» Sustained, notable improvement in operating performance

Factors that could lead to a downgrade
» Sustained weakening of operations and cash flow generation
» Additional net new debt without improved operating performance

Key indicators

Exhibit 2
UNIVERSITY OF MINNESOTA, MN

|----------------------|-------|-------|-------|-------|-------|-----------
| Total FTE Enrollment | 60,620| 61,121| 61,995| 61,321| 61,009| 61,009
| Operating Revenue ($000) | 3,286,315| 3,394,128| 3,380,569| 3,524,194| 3,651,243| 3,651,243
| Annual Change in Operating Revenue (%) | 2.0 | 3.3 | -0.4 | 4.2 | 3.6 | 3.6
| Total Cash & Investments ($000) | 4,900,605| 4,936,644| 5,072,473| 5,418,924| 5,784,494| 5,784,494
| Total Debt ($000) | 1,389,443| 1,440,148| 1,409,404| 1,455,620| 1,503,046| 1,525,521
| Spendable Cash & Investments to Total Debt (x) | 2.6 | 2.5 | 2.5 | 2.7 | 2.8 | 2.8
| Spendable Cash & Investments to Operating Expenses (x) | 1.1 | 1.1 | 1.1 | 1.1 | 1.2 | 1.2
| Monthly Days Cash on Hand (x) | 178 | 180 | 180 | 174 | 173 | 173
| Operating Cash Flow Margin (%) | 7.7 | 7.8 | 7.0 | 7.0 | 8.1 | 8.1
| Total Debt to Cash Flow (x) | 5.5 | 5.4 | 5.9 | 5.9 | 5.1 | 5.1
| Annual Debt Service Coverage (x) | 2.2 | 2.0 | 1.8 | 1.8 | 2.3 | 2.3

Proforma includes $115 million in series 2020 bonds
Source: Moody’s Investors Service

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.moodys.com for the most updated credit rating action information and rating history.
Profile
University of Minnesota, founded in 1851, has a national market position as the state's flagship and land grant university and member of the Big Ten Academic Alliance (Big 10). One of the nation's largest research universities, total revenues were over $3.6 billion with nearly $863 million of research awards for fiscal 2019. With campuses in the Twin Cities, Duluth, Morris, Crookston, and Rochester the university reported enrollment of around 67,000 headcount students for fall 2019.

Detailed credit considerations

Market profile: strong student demand and major research role
The University of Minnesota's excellent strategic positioning will continue to bolster credit strength, reflected in strong student demand as the state's Big 10 flagship and land grant institution. The university will weather an enrollment decline in fall 2020 of around 2.4% below the prior year due to fewer nonresident students as a result of the coronavirus pandemic, which follows several years of generally flat trends. Fall 2019 enrollment was 61,000 FTEs, with about 33% non-resident and international students systemwide. Nearly 20% of the fall 2019 undergraduate students at the Twin Cities campus are non-resident non-reciprocity (NRNR) students paying tuition higher than resident undergraduate students.

UM is one of the nation's leading comprehensive research universities, demonstrating success in growing sponsored awards. Estimated awards in fiscal 2020 show a 1.5% increase to $875 million following an 8.8% rise in fiscal 2019. More recently UM received grants to participate in state-wide coronavirus testing program and is also undertaking clinical trials for therapeutic cures.

Operating performance: thin cash flow generation, with well-diversified revenue base
University of Minnesota's operating performance will narrow in fiscal 2020 and 2021 from an already thin position due to the impact of the coronavirus pandemic on tuition and auxiliary revenues. Fiscal 2019's operating cash flow margin of 8.1% was slightly improved from the 7.0% in fiscal 2018 but compares unfavorably to the median 11.8% for Aa1-rated public universities. Nevertheless we expect a return to balanced but modest operating performance post-covid in fiscal 2022.

The university's revenue base is diverse and supports operating stability. State funding, accounting for about 20% of revenue, favorably rose by 3.2% in fiscal 2020. The state legislature has not indicated any change in the fiscal appropriation for fiscal 2021, which at present, is expected to remain flat. The upcoming fiscal 2022-2023 biennium budget is not yet approved but will be constrained by state budgetary challenges.

Exhibit 3
Operating performance is weaker than peers

While the university does not own a hospital it has exposure to the health care operations of Fairview, the company that owns and operates the University of Minnesota Medical Center (UMMC), and the University of Minnesota Physicians group, given their critical importance to the university's medical school and research. These entities face challenges related to heightened competition in the region and the negative impact of coronavirus on elective procedures. The Physicians group is treated as a discretely presented component unit in the university's financial statements, although its activities are controlled by the university board. It has substantial
operations with revenues and expenses amounting to around $630 million, which would add about 14% to the university’s revenues and expenses if included ultimately depressing operational metrics.

UM and Fairview, with University of Minnesota Physicians, entered into a new agreement effective January 1, 2019 which benefits the university through financial support from Fairview to the university’s medical school in partial recognition of the franchise value and human capital the university brings to the partnership. At the same time the closer relationship between the entities exposes the university to potential reputational risks of the hospitals.

Wealth and liquidity: ample balance sheet reserves and liquidity
UM’s financial resource profile will remain strong, bolstered by fundraising and investment returns and providing a buffer for debt and operations. Total cash and investments, estimated at $5.9 billion in fiscal 2020, with about one half held by University of Minnesota Foundation, are sizeable and support the university’s excellent strategic positioning. These reserves grew by nearly 18% over the past five years and estimates show a 1.5% rise in fiscal 2020. The university’s investments of over $2.9 billion at June 30, 2019 were primarily comprised of the Consolidated Endowment Fund (CEF, $1.4 billion) and the short-term reserves (TIP, $1.2 billion).

The university’s endowment is managed by its Office of Investments and Banking in conjunction with external managers. The CEF portfolio allocation is diversified and consistent with that of comparably sized endowments. The pool’s reported return was 8.3% in fiscal 2019. The TIP portfolio is held in cash and treasuries and agency bonds.

Fundraising is strong, with $236 million of three-year average gift revenue for fiscal years 2017–2019, as reported in the financial statements. The University of Minnesota Foundation reports an estimated $385 million in gifts and commitments for fiscal 2020 up from $361 million in fiscal 2019. UM publicly launched its 10-year $4 billion "Driven" comprehensive campaign in September 2017. Reporting $3.9 billion raised as of June 30, 2020 the campaign is targeted to end in June 2021.

Liquidity
Unrestricted liquidity is ample at $1.6 billion, translating to 173 monthly days cash on hand. It provides a strong 685% buffer to demand debt.

UM’s commercial paper program is supported by its own liquidity. At June 30, 2020 the university had $979 million of discounted daily liquidity, largely treasuries with some deposits at P-1 rated banks. The internal daily liquidity provides a strong 5.6x coverage of its commercial paper excluding the largest money market investment with one sponsor. The calculation is based on the limitation of $175 million of commercial paper that can mature in a 5 business day period in its Amended and Restated Issuing and Paying Agency Agreement. A line of credit in the amount of $150 million further bolsters liquidity albeit including MAC clauses.

Leverage: moderate direct leverage, with significant other long-term liabilities
University of Minnesota’s leverage is moderate relative to its financial resources and cash flow. However, it is higher when including the adjusted net pension liability for the state pension plans. Planned issuance of $115 million in fiscal 2021 is moderate and will not significantly add to leverage given amortization of debt. The proceeds will be used to retire $53 million in commercial paper issued in fiscal 2020 and finance capital projects.

Leverage will remain manageable with debt repayment offsetting future new issuance. Through fiscal 2023 UM could issue up to $193 million to fund various capital projects in the amount of $315 million. These new borrowing plans will be offset by $345 million of scheduled debt repayment from 2020 through 2023, including the Special Purpose debt paid by the state. The borrowings are subject to construction timing, expected gifts and UM’s planned use of its own reserves for portions of the projects. The university expects to use CP to provide the initial funding of the projects until taken out by long-term debt.
Legal security
All General Obligation bonds and commercial paper are unconditional, direct and general obligations of the university. There are no debt service reserve funds for the bonds.

Debt structure
Currently UM's only exposure to variable rate debt is its commercial paper, current with $232 million currently outstanding and projected to decrease to $179 million following the planned refunding. UGC has three variable rate bonds with the tender feature supported by a Standby Bond Purchase Agreement from Wells Fargo Bank, N.A. expiring on 8/31/2021.

Debt-related derivatives
None

Pensions and OPEB
University of Minnesota has substantial debt-like liabilities through pensions, and its unfunded share of the state's defined benefit plans could pressure operations as longer-term pension funding needs emerge. UM employees participate in federal and state defined benefit pension plans (DBP), including the State Employees Retirement Fund (SERF). UM also offers defined contribution plans. Changes in actuarial assumptions of the DBPs resulted in a decrease in UM's reported pension liability to $209 million from $11 billion in fiscal 2019. Moody's adjusted net pension liability (ANPL) at June 30, 2019, using a standard discount rate, is much higher $1.8 billion, bringing pro forma total adjusted debt to $3.4 billion, elevated but manageable given the university's scope. Contributions remain a 1.3% modest amount of expenses.

ESG considerations

Environmental
Environmental considerations are not currently a key credit driver. For its largest campus in the Twin Cities in Minnesota, there is moderate risk for heat and water stress but low risk for extreme rainfall. Given the inland location the university has no exposure to rising sea levels or to hurricanes and typhoons.

Social
We regard the coronavirus outbreak as a social risk under our ESG framework given the substantial implications for public health and safety. In fiscal 2020, the university of Minnesota margins thinned due to refunds for housing and dining operations which resulted in a small reduction in revenues not fully offset by slower expense growth despite budget reductions. As a result, we estimate that operating cash flow margin was narrower, although still sound. For fall 2020, classes are being offered in a hybrid format with a lower density of housing. The revenue dampening effects of an estimated slight decline in enrollment of 2.4%, lower density in student residences, and a reduction in athletic activities including ticket sales will further strain operating performance in fiscal 2021. The university is planning cost reductions to offset these revenue losses to achieve a balanced position. Its liquidity position has strengthened to confront these temporary fiscal challenges.

The state faces demographic challenges with only slow projected growth in high school graduates and significant competition with other public universities and community colleges. It employs a strategy of seeking out of state residents that is having mixed results.

Governance
University of Minnesota's Board of Regents and leadership team display good fiscal oversight reflected in the strengthened unrestricted liquidity and balance sheet reserves. An engaged board support the university and one third are elected by a joint convention of both branches of the Legislature biennially to six year terms. A sound institutional framework that includes oversight and financial support by the state supports sound governance.

The leadership team has good tenure diversity between long-serving and recently appointed management. A new President began her term in July 2019, joined by a new Provost and VP of Finance in 2020. One of the key focuses of the new President is on strategic planning with a new plan, "M Pact 2025" approved in June 2020. The strategy includes increasing innovative education delivery modes, greater collaboration with industry and community, innovation in health and fiscal stewardship including greater attention to risk management.
Rating methodology and scorecard factors

The Higher Education Methodology includes a scorecard that summarizes the factors that are generally most important to higher education credit profiles. Because the scorecard is a summary and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not match an assigned rating. We assess strategic positioning on a qualitative basis, as described in the methodology.

Exhibit 4
University of Minnesota, MN

<table>
<thead>
<tr>
<th>Scorecard Factors and Sub-factors</th>
<th>Value</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Factor 1: Market Profile (30%)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scope of Operations (Operating Revenue) ($000)</td>
<td>3,651,243</td>
<td>Aaa</td>
</tr>
<tr>
<td>Reputation and Pricing Power (Annual Change in Operating Revenue) (%)</td>
<td>3.6</td>
<td>Baa1</td>
</tr>
<tr>
<td>Strategic Positioning</td>
<td>Aa</td>
<td>Aa</td>
</tr>
<tr>
<td><strong>Factor 2: Operating Performance (25%)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Results (Operating Cash Flow Margin) (%)</td>
<td>8.1</td>
<td>A1</td>
</tr>
<tr>
<td>Revenue Diversity (Maximum Single Contribution) (%)</td>
<td>36.5</td>
<td>Aa1</td>
</tr>
<tr>
<td><strong>Factor 3: Wealth &amp; Liquidity (25%)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Wealth (Total Cash &amp; Investments) ($000)</td>
<td>5,784,494</td>
<td>Aaa</td>
</tr>
<tr>
<td>Operating Reserve (Spendable Cash &amp; Investments to Operating Expenses) (x)</td>
<td>1.2</td>
<td>Aaa</td>
</tr>
<tr>
<td>Liquidity (Monthly Days Cash on Hand)</td>
<td>173</td>
<td>Aa2</td>
</tr>
<tr>
<td><strong>Factor 4: Leverage (20%)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Leverage (Spendable Cash &amp; Investments to Total Debt) (x)</td>
<td>2.8</td>
<td>Aa1</td>
</tr>
<tr>
<td>Debt Affordability (Total Debt to Cash Flow) (x)</td>
<td>5.1</td>
<td>Aa1</td>
</tr>
</tbody>
</table>

Scorecard-Indicated Outcome: Aa1
Assigned Rating: Aa1

Data is based on most recent fiscal year available. Debt may include pro forma data for new debt issued or proposed to be issued after the close of the fiscal year.
For non-US issuers, nominal figures are in US dollars consistent with the Higher Education Methodology.
Fiscal 2019 results and proforma debt of $115 million
Source: Moody’s Investors Service
MOODY'S INVESTORS SERVICE

© 2020 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/OR ITS CREDIT RATINGS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S INVESTORS SERVICE 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 INVESTORS SERVICE CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

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

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

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

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

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

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

MOODY'S Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to MCO and/or its affiliates for credit ratings opinions and services. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy.”

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY’S affiliate, Moody’s Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody’s Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients” within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY’S that you are, or are accessing the document as a representative of, a "wholesale client” and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients” within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan K.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's Singapore Pte. Ltd. ("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 and MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000. MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER 1249306