

Local government financing vehicles (LGFVs) – China

LGFV Bond Monitor

Onshore LGFV bond issuance will slow in H2 because of government's increased oversight of LGFV debt management and investor risk aversion

SECTOR IN-DEPTH

JUNE 2021



LGFV Bond Monitor

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Summary

Summary

1

Recent regulatory guidelines limit weak LGFVs' access to funding

In recent months, Chinese authorities have released regulatory guidelines aimed at tightening supervision of state-owned enterprises' (SOEs) debt management and leverage growth. In particular, the State Council published guidance in April on fiscal budget reforms. Among other measures, this guidance encourages insolvent local LGFVs to go through debt restructuring or bankruptcy processes according to relevant laws. Also in April, the [Shanghai and Shenzhen stock exchanges](#) raised the threshold for LGFVs to issue bonds for purposes other than refinancing. These measures have reshaped investors' expectations around implicit government support for LGFVs and LGFVs' access to funding. Funding access will be difficult for LGFVs of low strategic importance or from regions with weak fundamentals or recent SOE defaults. But we expect the impact on LGFVs from economically developed provinces, including LGFVs that are core to lower-tier regional and local governments (RLGs) in these provinces, to be limited.

2

Onshore LGFV bond issuance is likely to slow in H2 2021

Onshore LGFV bond issuance jumped in Q1 2021 after declining in Q4 2020. This was driven by large refinancing needs and improved market sentiment following a weakening of sentiment because of SOE defaults in late 2020. But we expect the issuance momentum will slow in the second half of the year for three reasons: [measures the government announced in March](#) to contain RLGs' contingent liabilities by strengthening debt management for local SOEs; the Shanghai and Shenzhen stock exchanges' tightened criteria for new corporate bond issuance; and investors' concern about the Chinese government's increasing tolerance for SOE defaults. Onshore LGFV bond issuance decreased significantly in May, particularly for LGFVs with low domestic ratings or from provinces with weak fundamentals or recent SOE defaults. The expected slowdown in H2 follows three consecutive full years of record issuance volume. Nevertheless, we do not expect full-year issuance will be significantly lower than in 2020; the large amount (RMB1.9 trillion) of LGFV bonds due for refinancing in H2 will support continued issuance.

Summary

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Offshore LGFV bond issuance will remain influenced by credit events, more so than onshore issuance

Offshore LGFV bond issuance remained low in Q1 2021, totaling \$5.6 billion, largely for refinancing. This low issuance indicates that investor confidence in the offshore market has not fully recovered following SOE defaults in late 2020. Investor confidence was further dampened in April because of negative credit news and the aforementioned guidance and announcements in the onshore market. Offshore LGFV bond issuance was \$418 million in April, down 42% from April 2020, and \$818 million in May, down 36% from May 2020. We expect investor sentiment in the offshore market to stay fluid because risk remains. The risk stems from increasing funding difficulties for weak LGFVs amid tightening funding conditions and government measures in the onshore market. But refinancing requirements in the offshore market are high in H2 2021, particularly in December. Nearly half of the maturing bonds were issued by non-rated LGFVs; they often, but not always, have a weaker credit profile than rated LGFVs.

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Regional differentiation in terms of funding access solidified

The five provinces with the most LGFV bond issuance - Jiangsu, Zhejiang, Shandong, Sichuan and Hunan - accounted for nearly 60% of total onshore LGFV bond issuance in Q1 2021, similar to Q4 2020. LGFVs in less-developed provinces or provinces in which SOEs have defaulted, such as Tianjin, Henan and Yunnan, showed no sign of improvement in access to the onshore bond market. Significantly increased credit spreads for LGFVs in these provinces also added to their funding difficulties. For example, the credit spread ticked up for LGFVs in Qinghai, Heilongjiang and Tianjin in Q1. We expect the geographic disparity in LGFVs' access to funding will continue to widen in both onshore and offshore markets given the uneven economic development across China and investors' increasing awareness of variance in RLGs' capacity to support and manage LGFVs.

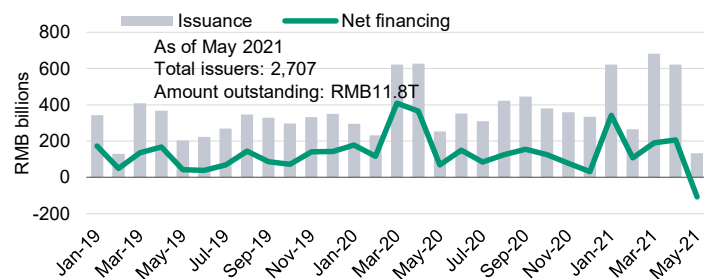
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Onshore issuance

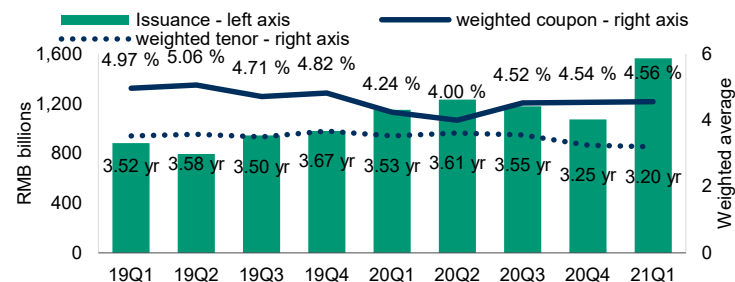
Onshore issuance will slow in H2

Tightening measures to contain RLGs' contingent liabilities and investor risk aversion will limit some LGFVs' funding access

LGFV bond issuance fell in May after active first four months in 2021



Weighted coupon rose slightly to 4.56% in Q1 while average tenor shortened further to 3.2 years



Q1 2021 issuance rose 36% compared with Q1 2020, driven by large refinancing needs and improved market sentiment; quarterly net financing also recovered and was comparable to historical level in Q1 2020

	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	21Q1
ONSHORE													
Issuance (RMB billions)	577	561	610	777	882	794	944	980	1,150	1,231	1,178	1,073	1,564
Net financing (RMB billions)	195	3	80	311	358	249	298	356	704	583	366	235	640
year-on-year growth of issuance (%)	111%	25%	-21%	47%	53%	41%	55%	26%	30%	55%	25%	9%	36%
year-on-year growth of net financing (%)	-375%	-100%	-80%	279%	83%	8993%	274%	14%	96%	134%	23%	-34%	-9%

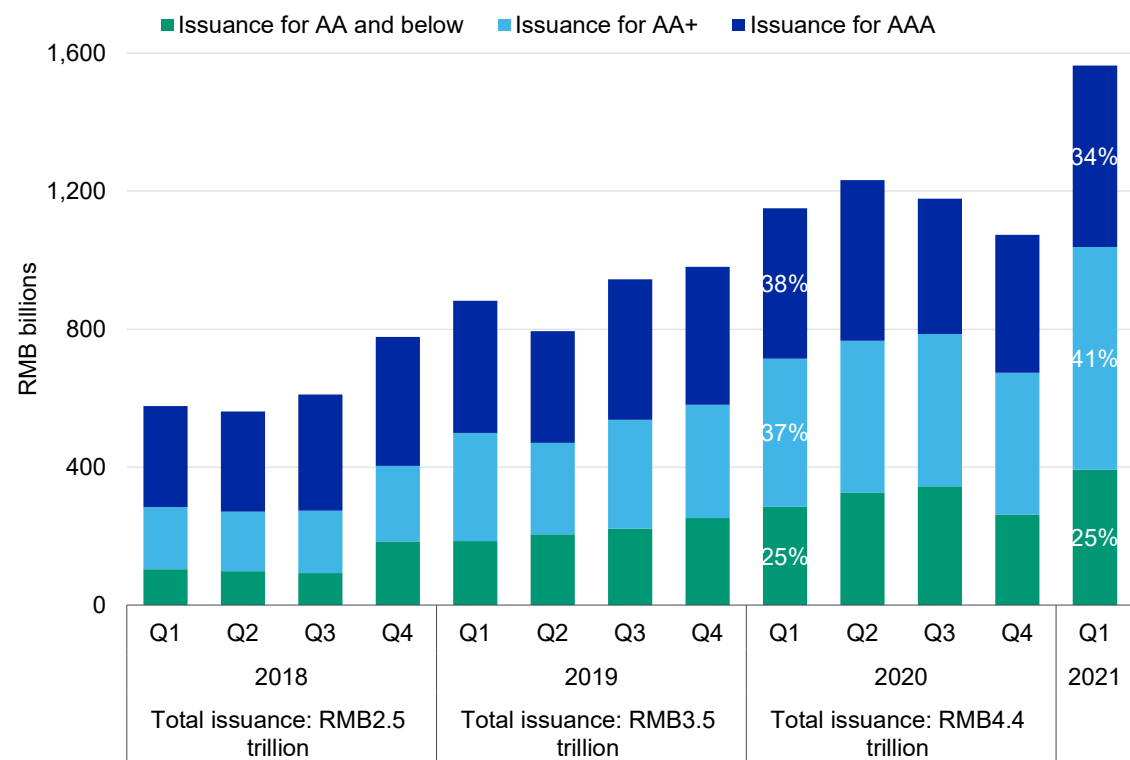
In this report we use Wind for onshore LGFV issuers and issuance, and Bloomberg for offshore issuers and issuance.
Sources: Wind, Moody's Investors Service

Key Takeaways

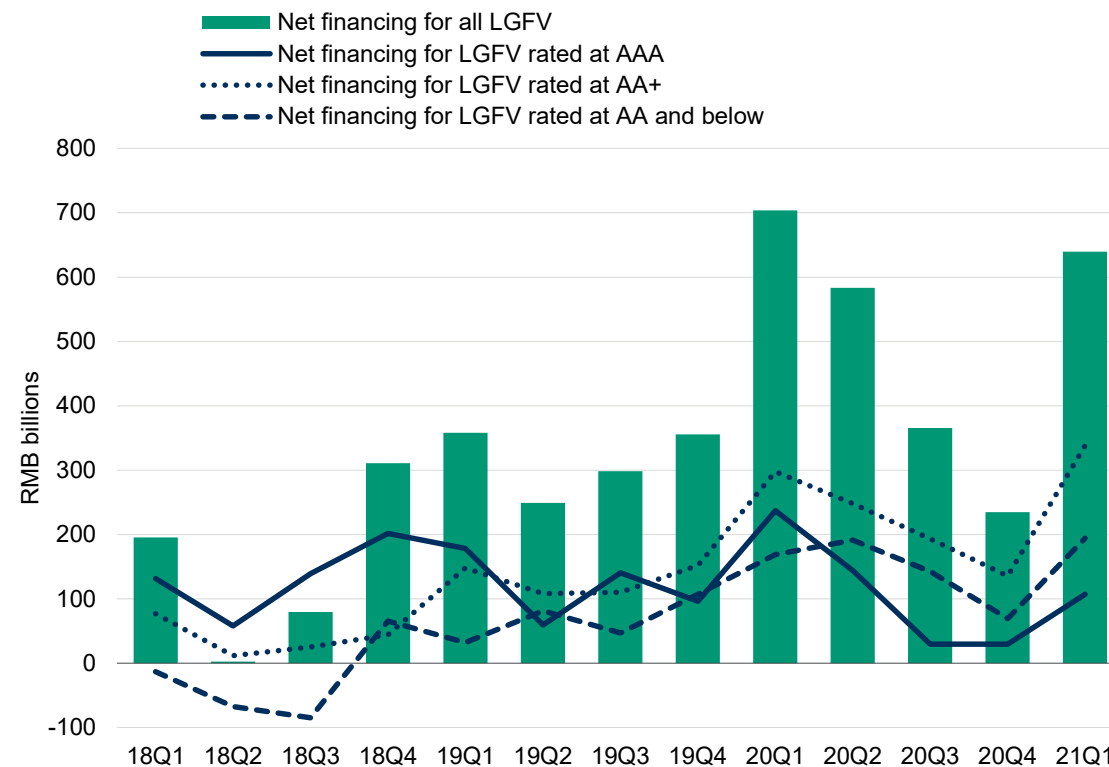
- » Total LGFV onshore bond issuance fell 47% in May compared with May 2020, leading to a record negative net financing (RMB108 billion).
- » The fall was driven largely by more stringent government measures to contain RLGs' contingent liabilities and investors' increased risk aversion to LGFVs owned by RLGs with high leverage and weak economic fundamentals.
- » The May fall followed a 36% rise in issuance in Q1 2021 compared with Q4 2020, driven by large refinancing requirements and improved market sentiment.
- » Funding costs remained elevated with a weighted coupon of 4.56% in Q1 2021 versus 4.54% in Q4 2020.
- » Net financing in Q1 2021 also recovered and was comparable to historical level in Q1 2020, driven by LGFVs with AA+ domestic ratings.
- » We expect LGFV onshore bond issuance to slow in H2 because of tightening policy measures and investor risk aversion.
- » The slowdown will likely continue to reduce LGFV net financing and constrain the refinancing ability of some LGFVs: those reliant on bond financing or owned by RLGs with high leverage and weak economic fundamentals.

Issuance by LGFVs with AA+ domestic rating drove issuance and net financing increase in Q1 2021

Issuance by LGFVs with a domestic rating of AA+ increased to 41% of total LGFV onshore issuance in Q1 2021 versus 38% in the previous quarter



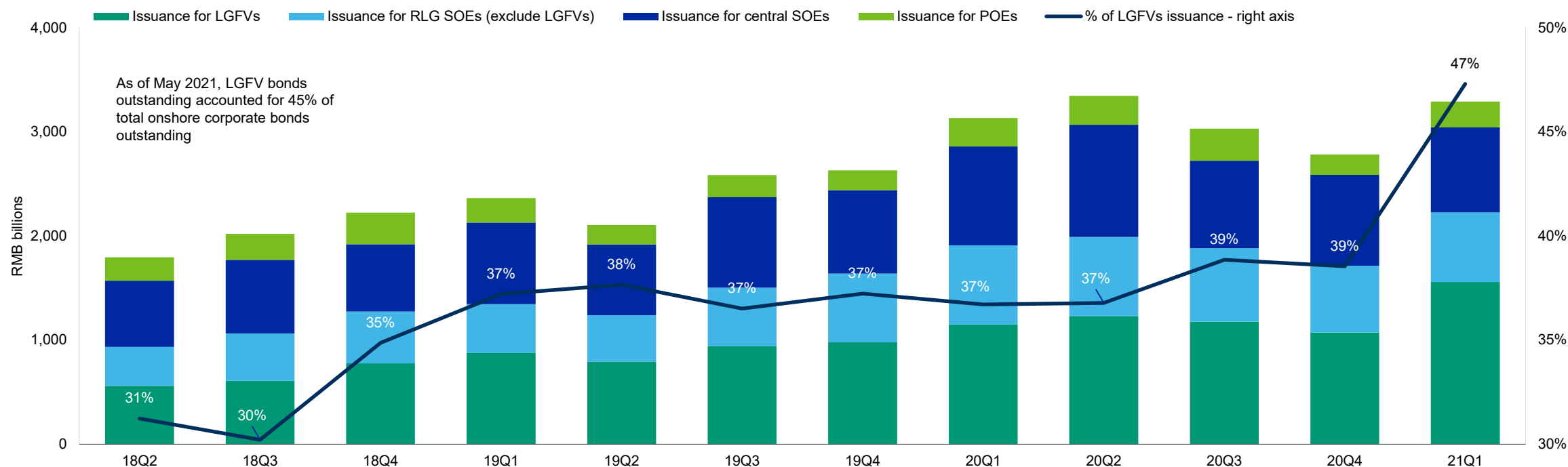
LGFVs with a domestic rating of AA+ continued to lead the net financing in Q1 2021; net financing also rose for LGFVs in other domestic rating categories



Sources: Wind, Moody's Investors Service

LGFV issuance dominated total onshore corporate issuance in Q1

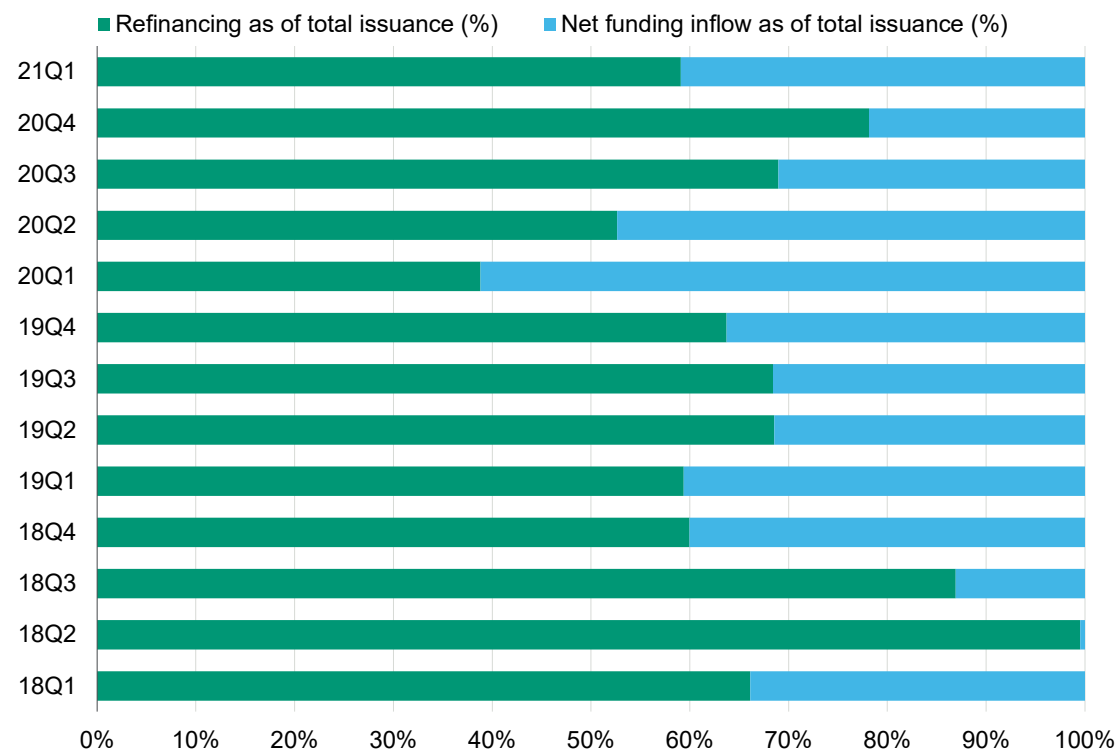
LGFVs accounted for 47% of total corporate bond issuance in the onshore market in Q1 2021, up from 39% in Q4 2020; that compares with 25% for central SOEs, 20% for regional SOEs (excluding LGFVs) and 8% for privately owned enterprises (POEs)



Corporate bonds here include enterprise bonds, corporate bonds, medium-term notes, commercial paper, government-supported institution debt, private-placement notes and convertible bonds.
Sources: Wind, Moody's Investors Service

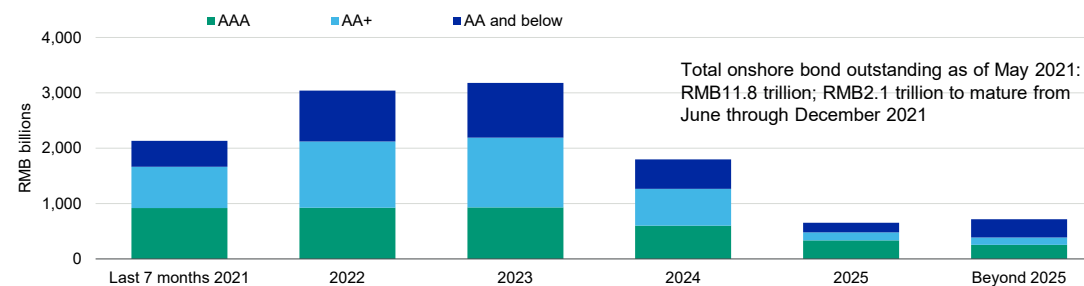
Maturities will stay elevated through 2021

While net funding inflow increased in Q1, around 60% of total issuance was used for refinancing

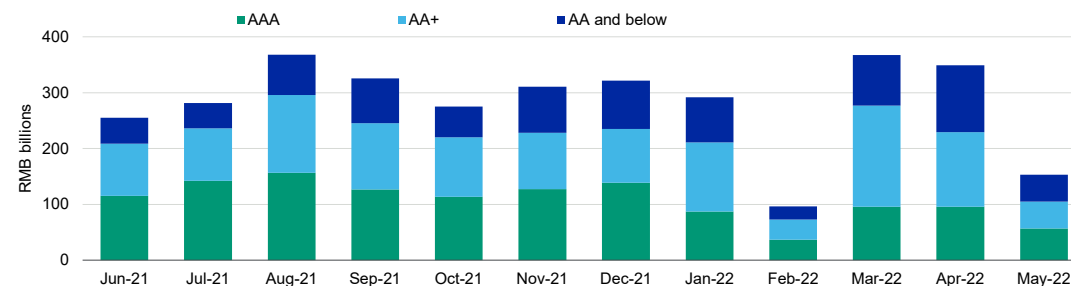


Sources: Wind, Moody's Investors Service

LGFVs' onshore maturities (as of May 2021) will stay high throughout the next three years



Monthly LGFV onshore maturities will stay elevated in 2021 especially in the second half of the year



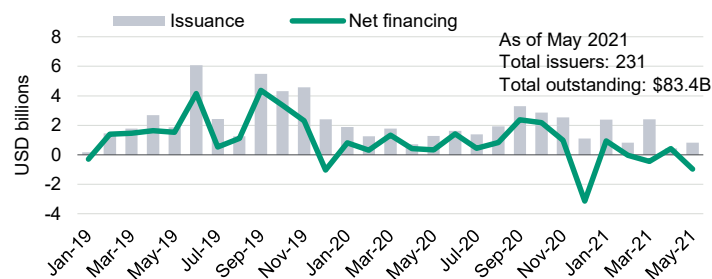
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Offshore issuance

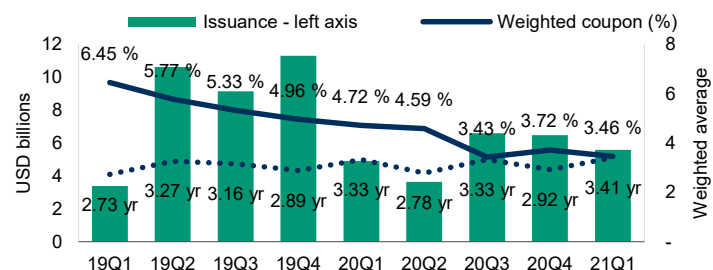
Offshore LGFV issuance remains weak

Offshore issuance fell to \$5.6 billion (RMB36.2 billion) in Q1 2021; most of the issuance was for refinancing

Offshore LGFV issuance and net financing remained weak in the first five months of 2021



Weighted coupon dropped to 3.46% in Q1, while weighted tenor lengthened to 3.41 years



In Q1, risk-averse sentiment was more pronounced in the offshore market compared with the improved market sentiment onshore

	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	21Q1
OFFSHORE													
Issuance (USD billions)	5.6	1.2	5.8	10.9	3.4	10.6	9.2	11.3	4.9	3.6	6.6	6.5	5.6
Net financing (USD billions)	5.1	(1.9)	4.2	8.3	2.6	7.3	6.0	4.6	2.5	2.2	3.6	0.0	0.4
Year-on-year growth of issuance (%)	240%	167%	168%	42%	-40%	763%	59%	4%	45%	-66%	-28%	-43%	14%
Year-on-year growth of net financing (%)	383%	1076%	224%	127%	-50%	-475%	43%	-45%	-4%	-70%	-39%	-100%	-82%

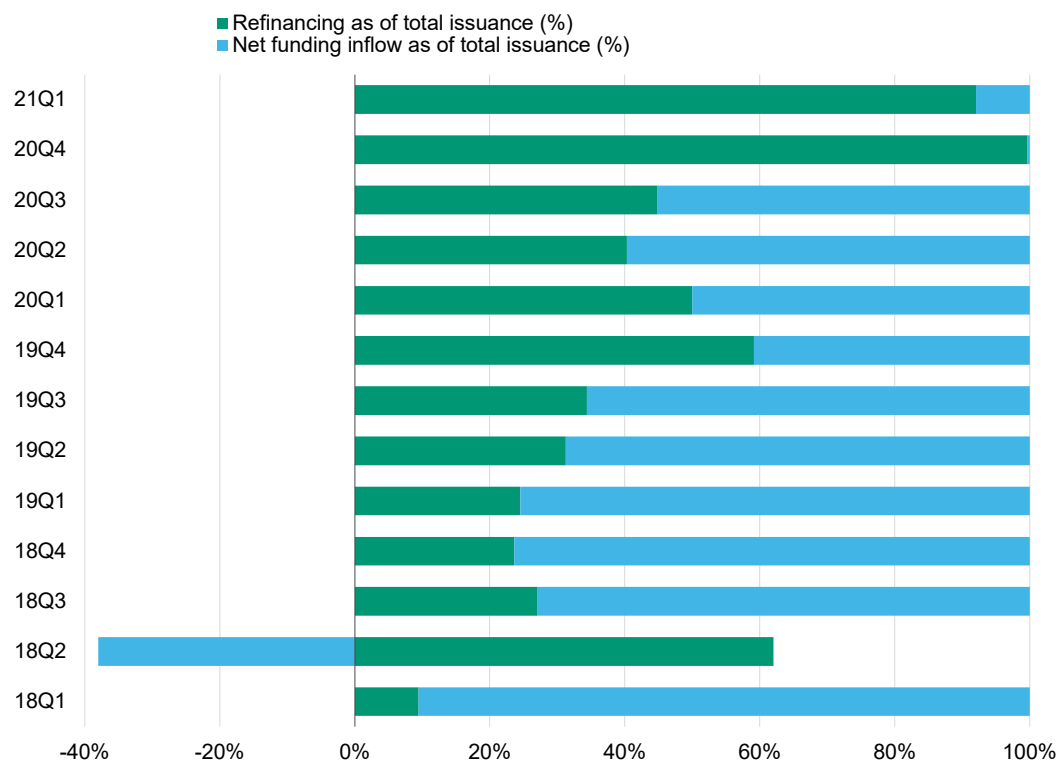
Sources: Bloomberg, Moody's Investors Service

Key Takeaways

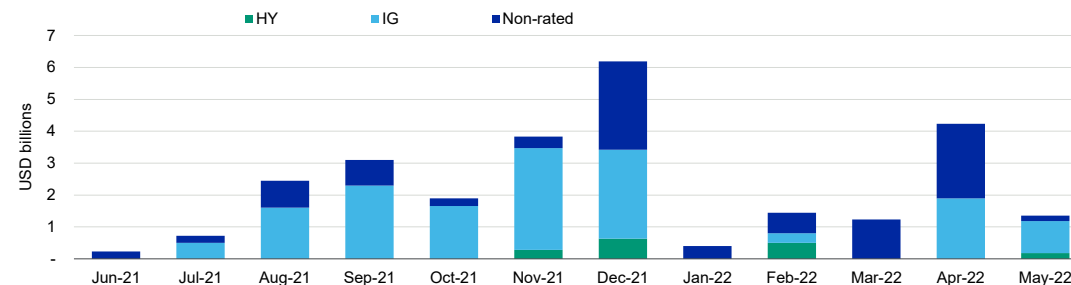
- » Offshore LGFV bond issuance fell 42% in April 2021 compared with April 2020, to \$417 million, and fell 36% in May 2021 compared with May 2020, to \$818 million. The fall came on the back of market uncertainties and evolving regulation in the onshore market.
- » Issuance in Q1 2021 totaled \$5.6 billion with modest net financing as investors remained cautious following SOE defaults in 2020.
- » The weighted average coupon was down 26 basis points to 3.46% in Q1 2021 and the weighted tenor increased to 3.41 years from 2.92 years in Q4 2020.
- » Offshore investors are more sensitive than onshore investors to negative credit events, uncertainty around the likelihood of government support and government's increasing tolerance for SOE defaults.
- » We expect offshore market sentiment to remain fluid because risk remains amid increasing funding constraints for financially weak LGFVs owned by lower-tier RLGs.
- » Refinancing peak looms in H2 2021 (\$18.2 billion), particularly in December with nearly half of the amount issued by non-rated LGFVs.

Offshore maturities jump in late 2021

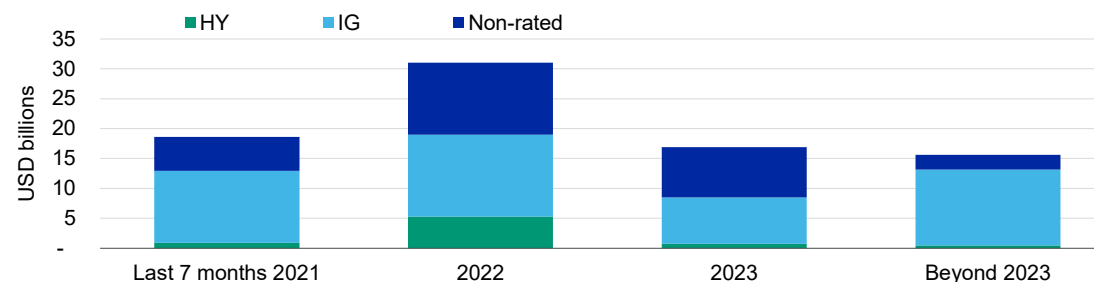
Offshore LGFV issuance remained weak in Q1 2021 with modest net funding inflow



2021 offshore LGFV bond maturities are concentrated in H2; peak will be in December with around 45% of the monthly total issued by non-rated issuers, many of which are weak



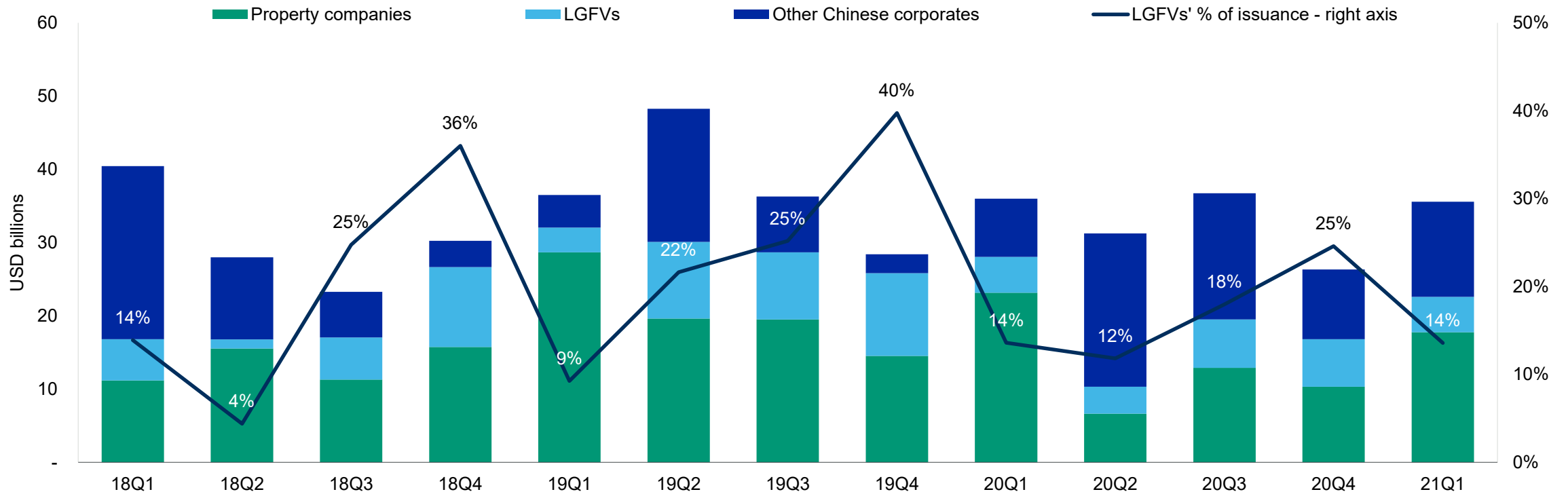
Refinancing will peak in 2022, accounting for 38% of total outstanding LGFV offshore bonds as of May 2021



Sources: Bloomberg, Moody's Investors Service

LGFVs' share of total Chinese corporate offshore issuance fell in Q1

Total Chinese corporate offshore bond issuance rose in Q1, but the contribution from LGFVs fell for two reasons: strong issuance by property developers in January, which increased their share of the total; and investors' concern over government's increasing tolerance for SOE defaults



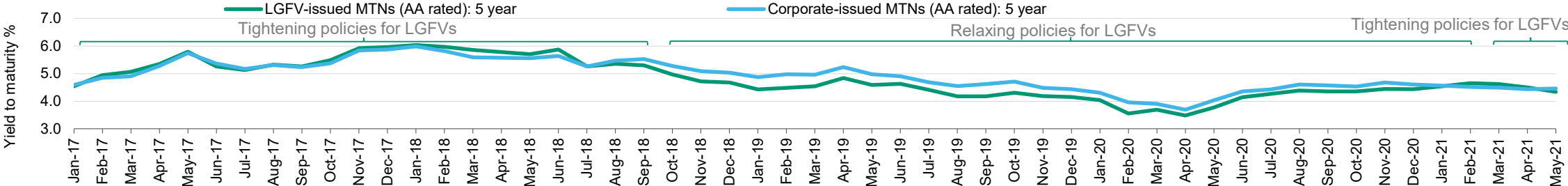
Sources: Dealogic, Bloomberg, Moody's Investors Service

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Credit risk differentiation

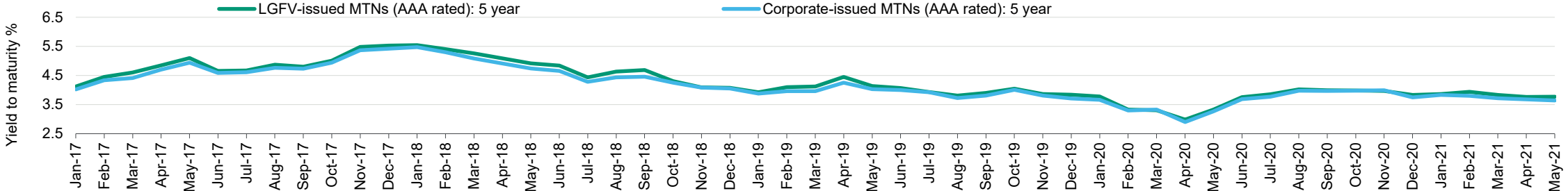
Funding costs for low-rated LGFVs remain high

Average yields for five-year medium-term notes (MTNs) issued by LGFVs with AA domestic ratings have approached yields for five-year MTNs issued by all AA-rated corporates (including LGFVs) since the beginning of 2021; this indicates investors are wary of LGFVs at the lower end of the credit curve following high-profile SOE defaults in late 2020



Sources: Dealogic, Bloomberg, Moody's Investors Service

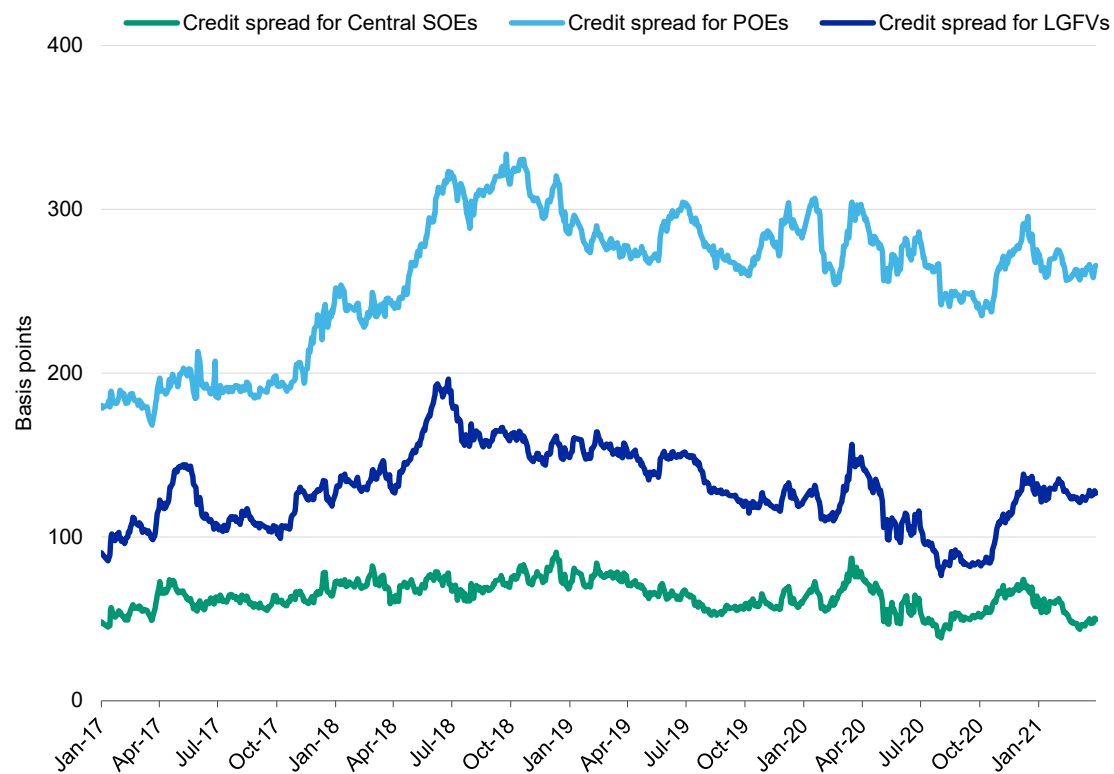
Average yields for five-year MTNs issued by LGFVs with AAA domestic ratings are more aligned with the average yields of five-year MTNs issued by all AAA-rated corporates (including LGFVs); investors' similar preference for these two groups at the high end of the credit curve remained unchanged



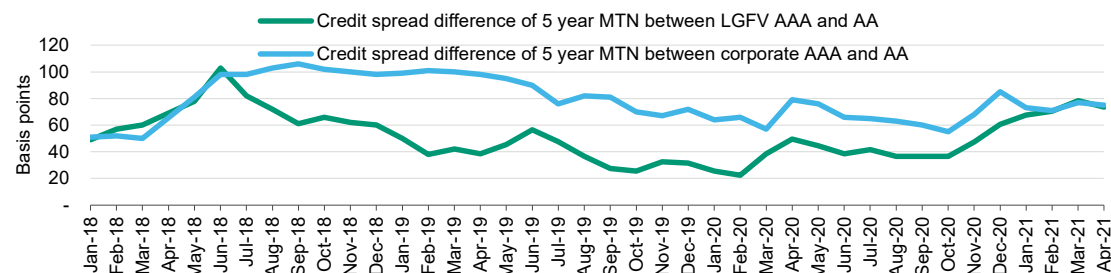
Sources: China Central Depository & Clearing Co. Ltd., Moody's Investors Service

Credit differentiation among LGFVs will become more pronounced

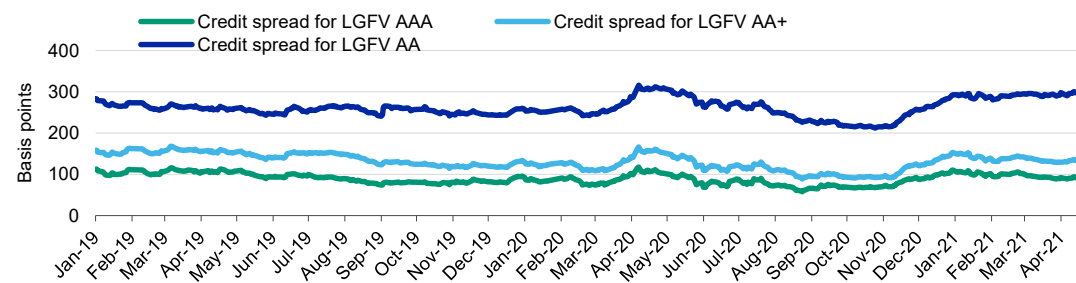
Credit spreads between LGFVs and central SOEs have widened since late 2020 because of heightened risk aversion to weak LGFVs



Credit spread between LGFVs rated AAA and AA narrowed to that between all corporates rated AAA and AA, indicating increased credit differentiation between strong and weaker LGFVs



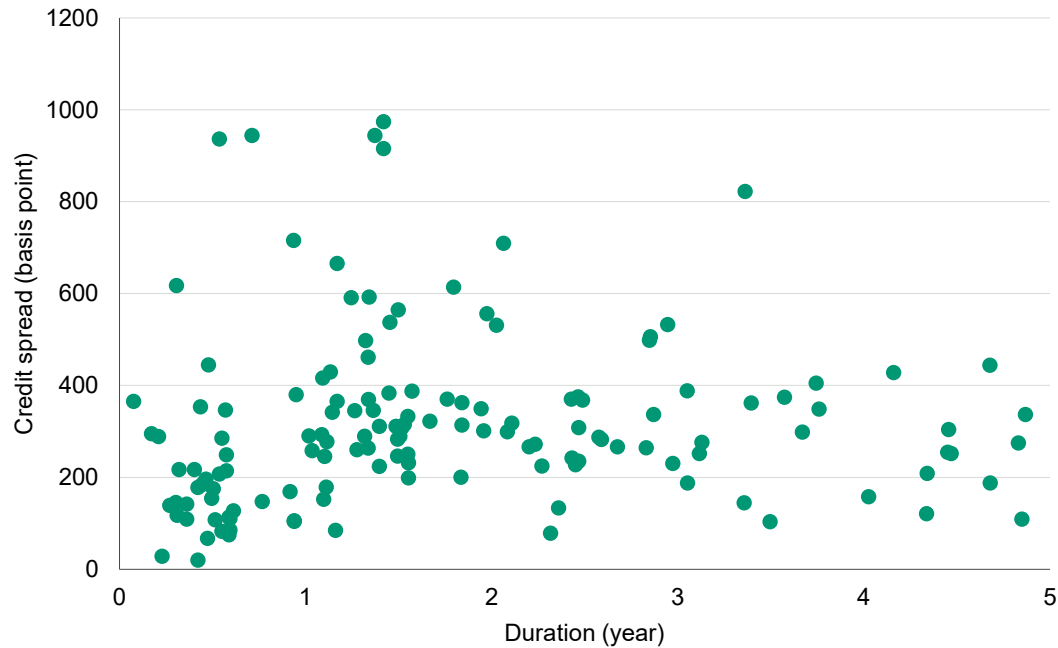
Credit spread for weaker LGFVs has become more pronounced since Q4 2020



Sources: Wind, China Central Depository & Clearing Co. Ltd., Moody's Investors Service

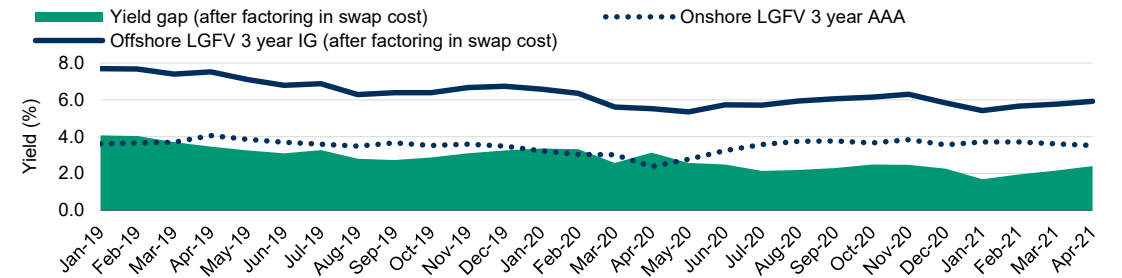
Offshore investors are more sensitive to credit events than onshore investors

Most offshore LGFV bonds have durations less than two years and a wide credit spread

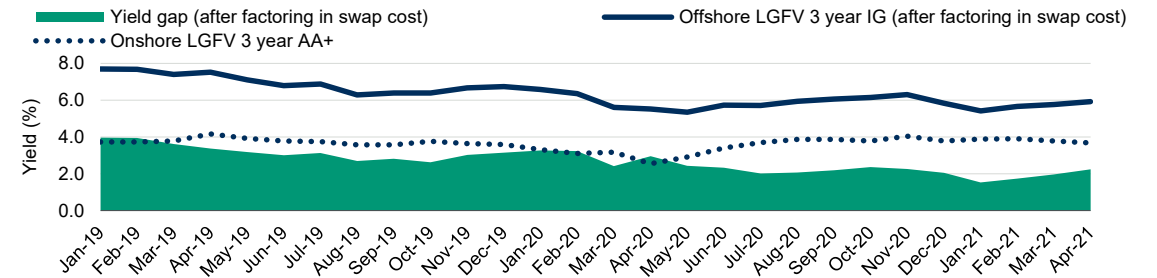


LGFVs as defined by China Central Depository & Clearing Co. Ltd.
Sources: Bloomberg, China Central Depository & Clearing Co. Ltd., Moody's Investors Service

Yield gap between offshore LGFV investment-grade and onshore AAA LGFV bonds widened during the first four months of 2021 because of weaker offshore market sentiment



Trend is similar for offshore LGFV investment-grade bonds and onshore AA+ LGFV bonds

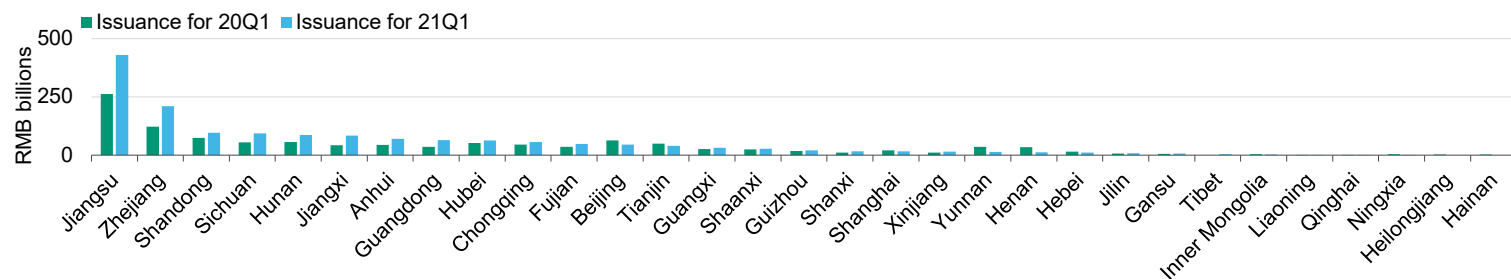


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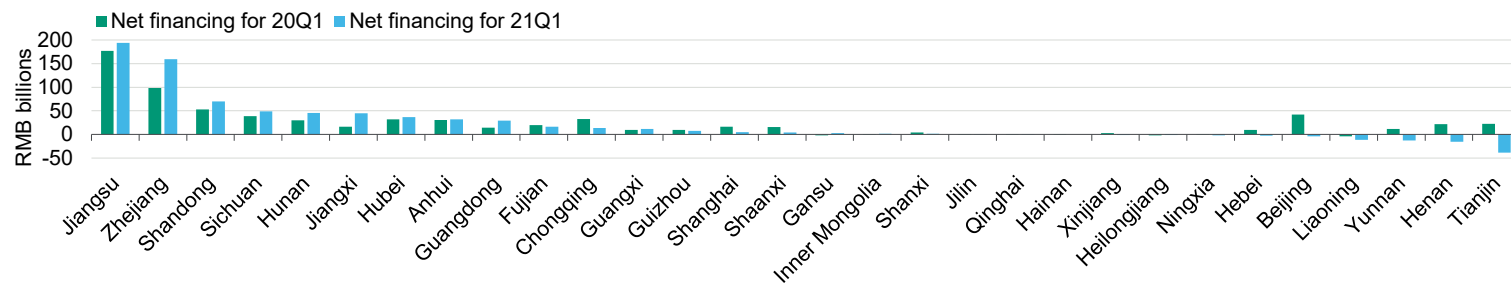
Provincial LGFV profiles

Disparity in onshore issuance by province increased

LGFVs from economically developed regions reported higher issuance in Q1 2021 than in Q1 2020; issuance by LGFVs from less developed or highly leveraged regions remained low



LGFVs from regions with stronger economic fundamentals reported higher net financing in Q1 2021 than in Q1 2020; but LGFVs from most of the weaker regions with high-profile SOEs defaults in the past recorded net redemptions



Sources: Wind, Moody's Investors Service

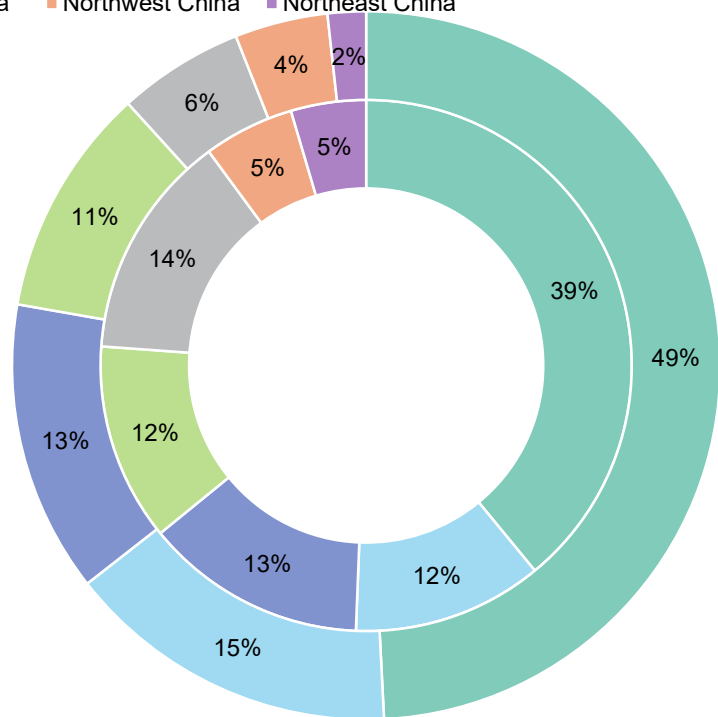
Key Takeaways

- » Onshore bond issuance increased most in Q1 for LGFVs in Jiangsu, followed by LGFVs in Zhejiang. The top five issuing provinces accounted for 58% of total onshore LGFV issuance in Q1 2021, up from 49% in Q1 2020.
- » LGFVs in provinces such as Tianjin, Henan and Yunnan continued to report net redemptions in Q1 2021, as in Q4 2020, indicating their continued difficulty in accessing financing.
- » Credit spreads narrowed for LGFVs in a number of provinces in Q1 2021 but widened for LGFVs in provinces with weak economic fundamentals or a history of SOE defaults such as Tianjin, Heilongjiang and Qinghai.
- » The situation is similar in the offshore market. While LGFVs in Zhejiang, Guangdong and Jiangsu reported higher net financing in Q1 2021 than in Q1 2020, a number of provinces had net redemptions.
- » Increasing regional differences in terms of LGFV bond issuance and funding costs will continue this year in both onshore and offshore markets. This will constrain some LGFVs' funding capacity, especially those with higher refinancing needs and reliance on bond funding. Investors are increasingly cautious about the capacity of RLGs with weak fundamentals or high debt to support LGFVs.

LGFVs in less developed regions will face increasing funding difficulties

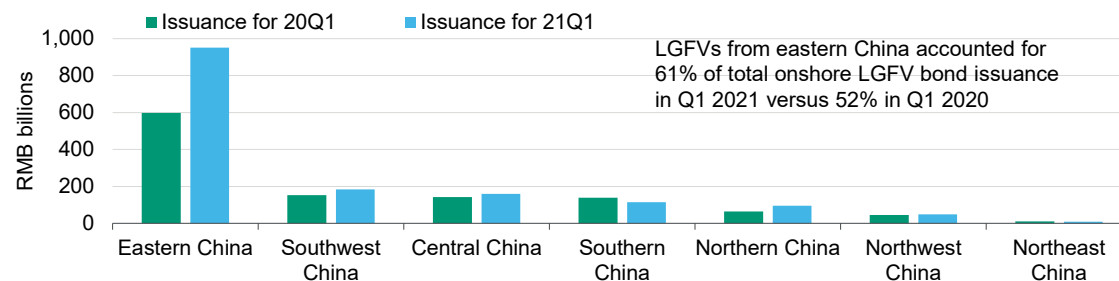
LGFVs from eastern China, where GDP is highest, continued to account for almost half of outstanding LGFV bonds (as of April 2021)

■ Eastern China ■ Southwest China ■ Central China ■ Northern China
■ Southern China ■ Northwest China ■ Northeast China

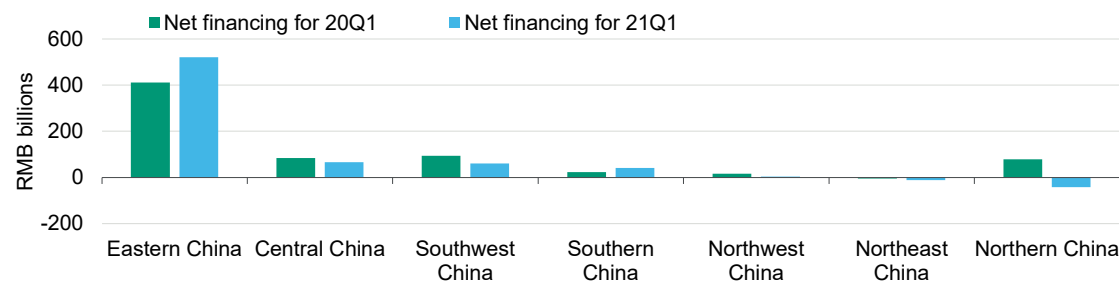


Inner circle: 2020 GDP contribution by region
 Outer circle: LGFV onshore bonds outstanding by region as of December 2020
 Sources: Wind, Moody's Investors Service

LGFVs in eastern China drove the total increase in Q1 onshore LGFV bond issuance; issuance from LGFVs from northeast China remained minimal

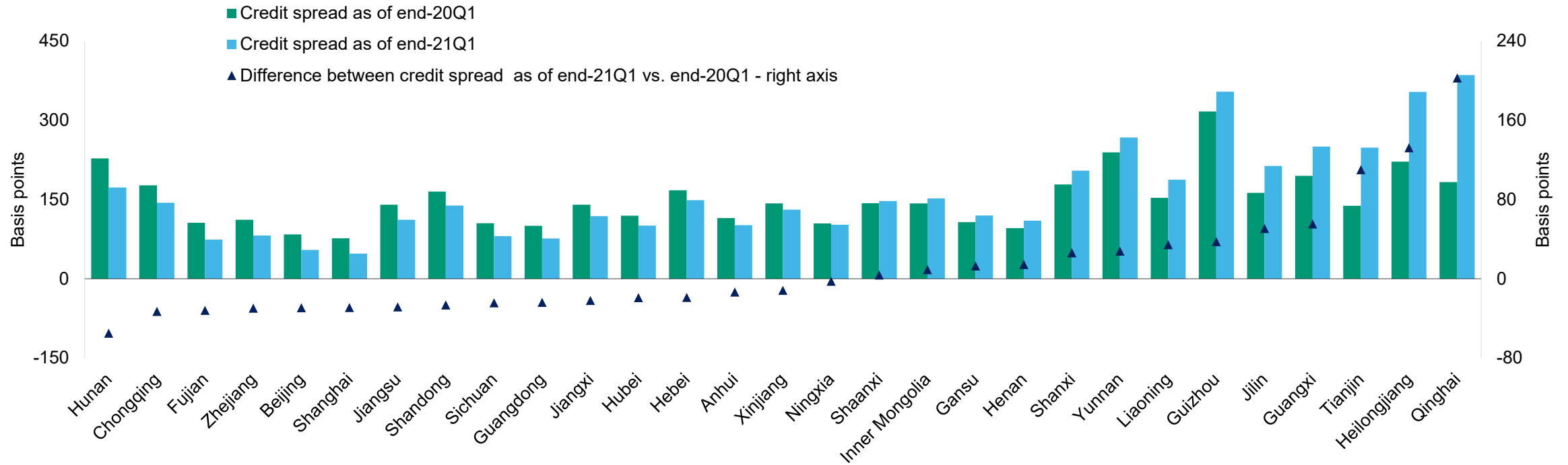


LGFVs in eastern China dominated net financing in Q1 2021



Onshore credit spread ticked up in weak provinces

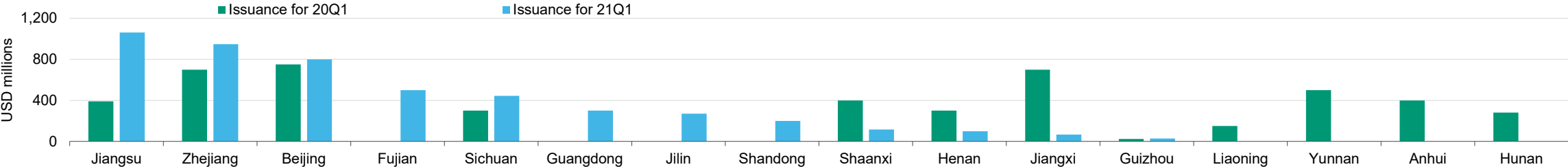
Credit spread narrowed in some provinces in Q1 2021, but credit spread widened in provinces with weak economic fundamentals or history of SOE defaults



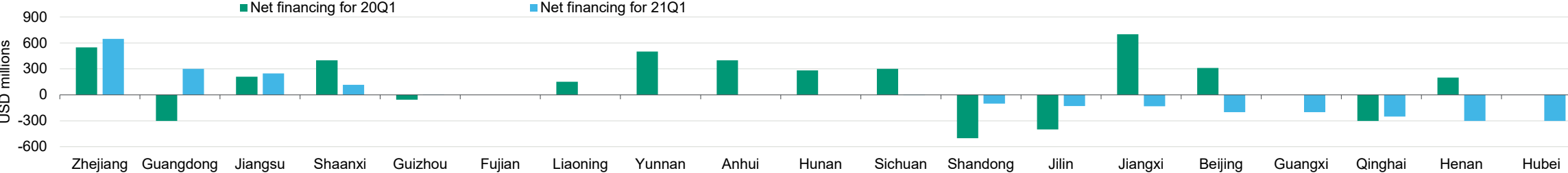
.Sources: Wind, Moody's Investors Service

Divergence in offshore LGFV bond issuance increases among regions

LGFV offshore bond issuance is uneven geographically; highest in economically strong provinces such as Jiangsu and Zhejiang in Q1 2021



LGFVs in Zhejiang, Guangdong and Jiangsu reported higher net financing in Q1 2021 than in Q1 2020; LGFVs in many other regions reported net redemptions

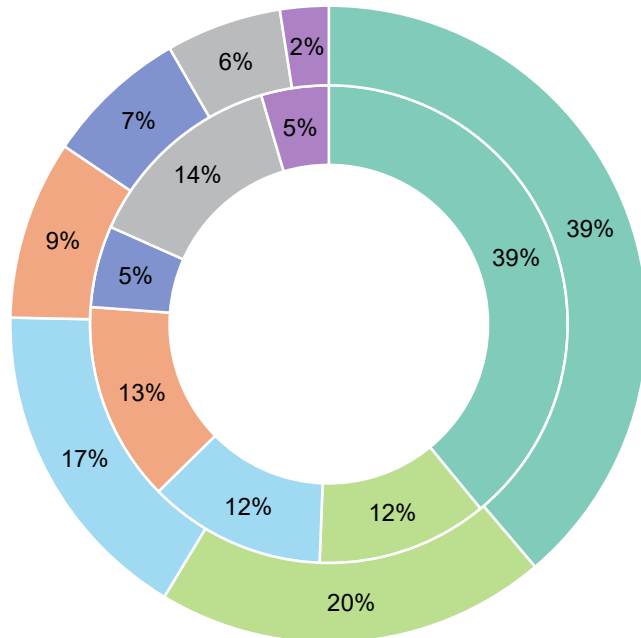


Sources: Bloomberg, Moody's Investors Service

Offshore LGFV bond issuance is also concentrated in eastern China

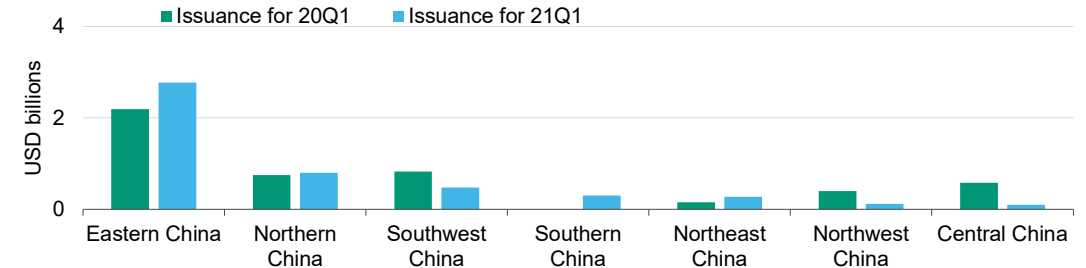
LGFVs from eastern China account for the largest portion of offshore bonds outstanding, followed by LGFVs from southwest China (as of April 2021)

- Eastern China
- Southwest China
- Northern China
- Central China
- Northwest China
- Southern China
- Northeast China

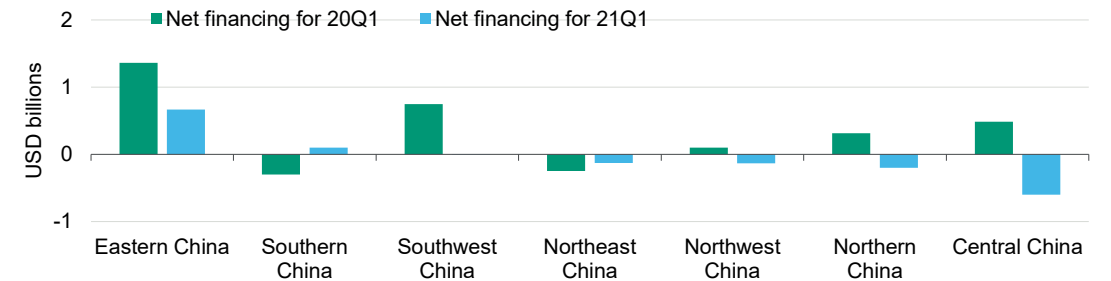


Inner circle: 2020 GDP contribution by region
 Outer circle: LGFV offshore bonds outstanding by region as of December 2020
 Sources: Bloomberg, Moody's Investors Service

LGFV offshore issuance regional concentration is similar to onshore issuance - concentrated in eastern China



LGFVs from eastern and southern China reported net financing in Q1 2021; the remaining regions reported net redemptions



6

Appendix

Summary of key LGFV policy documents

Policies aim to regulate regional and local governments' contingent liabilities from LGFVs

Name	Date	Issuing Authorities	Implication
Doc 43: Guidelines to strengthen the supervision and management of local government debt	Oct-14	The State Council	<ul style="list-style-type: none"> » Prohibits RLGs from using LGFVs to borrow » Allows 36 high-tier RLGs to issue bonds directly » Introduces a bond-debt swap program to refinance legacy LGFV debt (incurred before year-end 2014) for which RLGs have repayment obligations
Doc 88: Guidelines for contingency plans for local government debt risks	Nov-16	The State Council	<ul style="list-style-type: none"> » Outlines the reporting framework and contingency plans to address situations in which RLGs are in financial distress » Reiterates the principles in Doc 43 regarding the separation of RLGs' obligations in corporate debt » However, RLGs could have rescue responsibilities for certain debt if defaults are likely to cause systemic risks and undermine social security » If creditors do not accept the bond-debt swap offer, LGFVs will have to pay legacy debt on their own
Doc 50: Further regulation of local governments' debt financing	May-17	Ministry of Finance, Ministry of Justice, People's Bank of China, China Securities Regulatory Commission, China Banking Regulatory Commission and the National Development and Reform Commission	<ul style="list-style-type: none"> » Six government ministries and commissions will make joint and coordinated efforts to supervise the debt and financing of RLGs and LGFVs » RLGs have to rectify non-compliant financing activities by 31 July 2017 » Prohibits RLGs from injecting public welfare assets or public land, or pledging future land sale proceeds into LGFVs to enhance the LGFVs' creditworthiness » Pushes LGFVs to become more market-oriented SOEs and to use market-oriented means to raise funds
Doc 87: Notice on resolutely curbing the illegal financing of local governments in the name of government procurement of services	May-17	Ministry of Finance	<ul style="list-style-type: none"> » Highlights activities that should be excluded from Government Procurement of Service, which is directly linked to the fiscal budget of local government » These activities include goods purchase, infrastructure construction related to railway, highway, airport, utilities, education, medical service and financing provided banks non-bank financial institutions » Shantytown redevelopment and relocation of impoverished residents projects are exceptions

Sources: The State Council of the PRC, Moody's Investors Service

Summary of key LGFV policy documents

Policies aim to regulate regional and local governments' contingent liabilities from LGFVs

Name	Date	Issuing Authorities	Implication
Doc 23: Notice on relevant issues on financial institutions regarding the investment and financing activities by local governments and state-owned enterprises	Apr-18	Ministry of Finance	<ul style="list-style-type: none"> » State-owned financial institutions shall not, except for purchasing RLG bonds, provide any forms of financing for local governments and their departments directly or indirectly through local SOEs and public institutions. » State-owned financial institutions should not finance the state-owned enterprises (including LGFVs) which participated in infrastructure development or PPP projects, for the equity portions
Doc 101: Guidelines to strengthen measures in addressing weak links in infrastructure sector	Nov-18	The State Council	<ul style="list-style-type: none"> » Increases financial support for projects under construction and key projects in weak fields based on the government's guidance » Financial institutions should meet reasonable funding needs of LGFVs as per market-oriented principle, and negotiate with LGFVs to refinance projects-under-construction to avoid projects being abandoned » Allows LGFVs to roll over debt, restructure debt or use other measures to maintain working capital turnover basis negotiation with financial institutions when they have repayment difficulty for outstanding contingent liabilities, on the premise that the size of local government's contingent liabilities will not increase
Doc 10: Notice on propelling the development of Public Private Partnership (PPP) criterion	Mar-19	Ministry of Finance	<ul style="list-style-type: none"> » Tightens regulatory requirements and scrutiny of PPP projects to prevent RLGs from exposure to contingent liabilities through improper PPP structure » Classifies scenarios likely to cause contingent liabilities of local governments » Clarifies projects that have increased local government's contingent liabilities should be removed from the registration and those accountable should bear legal consequence

Sources: The State Council of the PRC, Moody's Investors Service

Summary of key LGFV policy documents

Policies aim to regulate regional and local governments' contingent liabilities from LGFVs

Name	Date	Issuing Authorities	Implication
Doc 33: Notice on the division of financial authority and payment responsibility between central and local governments in transportation	Jun-19	The State Council	<ul style="list-style-type: none"> » Increases regulatory oversight and financial support from the central government in transportation » Clarifies allocation of spending responsibilities to address RLG funding gap and balance transport infrastructure development across China
Doc 666: Notice on registration regime for offshore bond issuance by local state-owned enterprises (SOEs)	Jun-19	National Development and Reform Commission	<ul style="list-style-type: none"> » Emphasizes the importance of reliability of filings for bond registration » Specifies enterprises that qualify for offshore bond issuance should have no less than three years in operation » Emphasizes local SOEs should not receive guarantee from their local governments » Limits LGFVs' use of offshore bond proceeds to only refinance portion of mid- to long-term debt maturities due within one year
Notice on Chinese RLGs' special purpose bonds (SPBs) issuance for infrastructure project financing	Jun-19	The State Council, Central Committee of the Communist Party	<ul style="list-style-type: none"> » Allows RLGs to use special-purpose-bond proceeds for capital in certain infrastructure projects » Encourages financial institutions to provide funding to related project companies including LGFVs
Announcement on reduction of equity ratio for infrastructure projects	Nov-19	State Council Executive Meeting	<ul style="list-style-type: none"> » Reduces the minimum equity ratio for some infrastructure projects: 20% from 25% for ports and reductions of up to five percentage points for other projects including roads, rail, city construction, logistics » The reductions will be valid for projects that have a clear investment return mechanism, reliable revenue and manageable risk » Infrastructure project companies can also issue hybrid financial instruments as equity as long as the funds from hybrid capital do not exceed 50% of total project equity

Sources: The State Council of the PRC, Moody's Investors Service

Summary of key LGFV policy documents

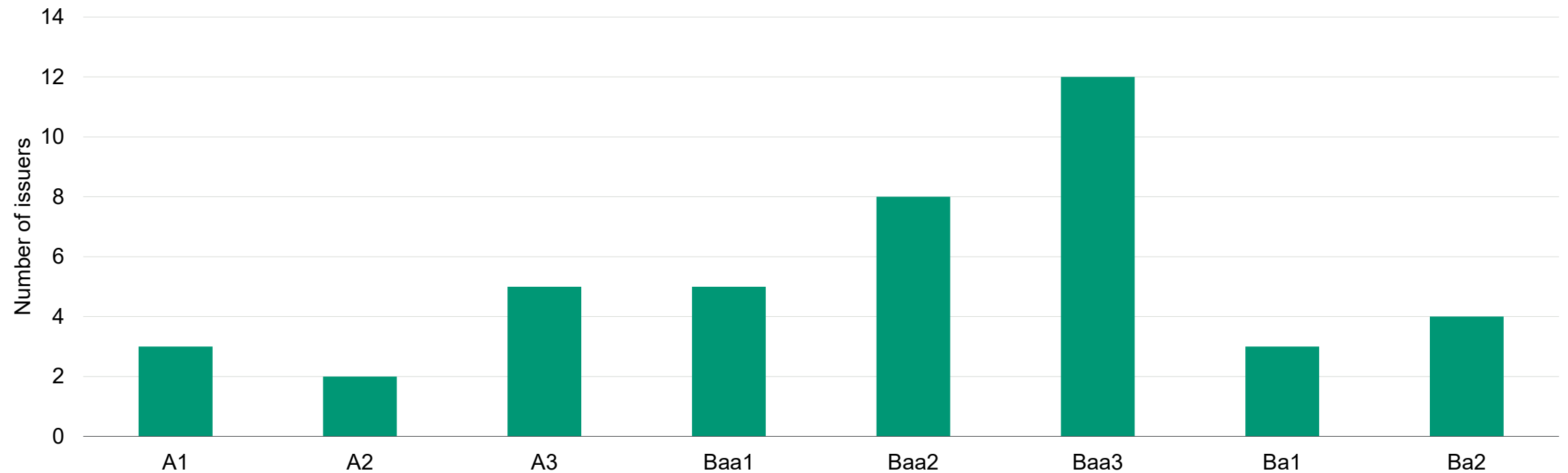
Policies aim to regulate regional and local governments' contingent liabilities from LGFVs

Name	Date	Issuing Authorities	Implication
Doc 5: Notice on Further Deepening the Reform of the Budget Management System	Apr-21	The State Council	<ul style="list-style-type: none"> » Aims to strengthen the overall management of government resources and to standardize government revenue budget management and budgetary revenue planning » Tightens the government budget preparation process to enhance the overall integrity of fiscal budgets » Calls for RLGs to strengthen risk management and risk prevention measures and properly manage and eliminate hidden debt risk » Calls for RLGs to enhance fiscal transparency and promote the interconnection of budget information between central and RLGs » Suggests that insolvent LGFVs should go through debt restructuring or bankruptcy processes according to relevant laws
Doc 3: Guidelines for the Application of the Review Rules for the Issuance and Listing of Corporate Bonds at Shanghai Stock Exchange	Apr-21	Shanghai Stock Exchange	<ul style="list-style-type: none"> » Aims to strengthen the quality of corporate bond information disclosure » Highlights issuers conditions that require special attention, restricts use of proceeds, tightens disclosure requirements of issuing corporate bonds in China
Doc 1: Guidelines for the Application of the Review Rules for the Issuance and Listing of Corporate Bonds at Shenzhen Stock Exchange	Apr-21	Shenzhen Stock Exchange	<ul style="list-style-type: none"> » LGFVs with total assets less than RMB10 billion, or with domestic ratings at AA or below, should enhance their repayment ability by measures such as applying proceeds from bond issuance for repayment of outstanding corporate bonds, considering their individual conditions including profitability, balance sheet and cash flow positions

Sources: The State Council of the PRC, Moody's Investors Service

Moody's LGFV rating distribution

Number of Moody's-rated LGFV bond issuers (as of 18 June 2021)



Source: Moody's Investors Service

Moody's-rated LGFV methodology scorecards as of 29 June 2021

Issuer	Beijing Infrastructure Investment Co., Ltd.	Beijing Public Housing Center	Guangzhou Metro Group Co., Ltd.	Zhongyuan Yuzi Investment Hldg Grp Co., Ltd.	Shandong Finance Investment Group Co. Ltd.	Guangzhou City Constr. Invs. Grp. Co., Ltd	Henan Water Conservancy Investment Grp Co Ltd
Local Government Financing Vehicles in China [1][2]							
Governmental Capacity to Support Component							
Central Government Rating	A1	A1	A1	A1	A1	A1	A1
Notching for Governmental Capacity to Support	0	0	-1	-1	0	-1	-1
Governmental Capacity to Support Score	a1	a1	a2	a2	a1	a2	a2
LGFV Characteristics Affecting Support Component							
LGFV Characteristics Affecting Support Notching (Downward Only)							
Business Profile							
Business Position	Strong	Strong	Strong	Strong	Strong	Strong	Strong
Essentiality of Primary Public Activities	Strong	Strong	Strong	Strong	Strong	Strong	Strong
Proportion and Riskiness of Commercial Activities	Low	Low	Low	Low	Low	High	Low
Final notching	0	0	0	0	0	-1	0
Integration, Control and Oversight							
Debt Management	Strong	Strong	Strong	Strong	Strong	Moderate	Moderate
Access to Funding	Strong	Strong	Strong	Strong	Strong	Strong	Strong
Predictability of Government Payments	Strong	Strong	Strong	Strong	Moderate	Moderate	Strong
Exposure to Contingent Risks	Low	Low	Low	Low	Low	Low	Medium
Final notching	0	0	0	0	0	0	0
External Bailout Risk	0	0	0	0	0	0	0
LGFV Characteristics Affecting Support Notching (Upward Only)							
Exceptional Governmental Willingness to Support Characteristics [3]	1	0	1	0	0	0	0
Notching for LGFV Characteristics Affecting Support Component	1	0	1	0	0	-1	0
Rating							
Scorecard-Indicated Outcome	A1	A1	A2	A2	A1	A3	A2
Actual Rating assigned	A1	A1	A1	A2	A2	A3	A3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] Current fiscal year for the rating factors is as of 12/31/2019.

[3] The resulting scorecard-indicated outcome is capped by the controlling RLG's credit profile.

Sources: Moody's Financial Metrics, Moody's Investors Service

Moody's-rated LGFV methodology scorecards as of 29 June 2021

Issuer	Tianjin Rail Transit Group Co., Ltd.	Wuhan Metro Group Co., Ltd.	Zhengzhou Metro Group Co., Ltd.	Changchun Urban Dev. Invs. Hldgs (Grp) Co Ltd	Jiangxi Railway Investment Group Company Ltd	Kunming Rail Transit Group Co., Ltd.	Shuifa Group Co., Ltd.
Local Government Financing Vehicles in China [1][2]							
Governmental Capacity to Support Component							
Central Government Rating	A1	A1	A1	A1	A1	A1	A1
Notching for Governmental Capacity to Support	-2	-2	-2	-4	-1	-4	0
Governmental Capacity to Support Score	a3	a3	a3	baa2	a2	baa2	a1
LGFV Characteristics Affecting Support Component							
LGFV Characteristics Affecting Support Notching (Downward Only)							
Business Profile							
Business Position	Strong	Strong	Strong	Strong	Moderate	Strong	Moderate
Essentiality of Primary Public Activities	Strong	Strong	Strong	Moderate	Moderate	Strong	Strong
Proportion and Riskiness of Commercial Activities	Low	Low	Low	Low	High	Low	Medium
Final notching	0	0	0	0	-2	0	-1
Integration, Control and Oversight							
Debt Management	Strong	Strong	Strong	Strong	Strong	Strong	Moderate
Access to Funding	Strong	Strong	Strong	Strong	Strong	Strong	Moderate
Predictability of Government Payments	Strong	Strong	Strong	Strong	Strong	Strong	Moderate
Exposure to Contingent Risks	Low	Low	Low	Medium	Low	Low	Low
Final notching	0	0	0	0	0	0	-1
External Bailout Risk	0	0	0	0	0	0	-1
LGFV Characteristics Affecting Support Notching (Upward Only)							
Exceptional Governmental Willingness to Support Characteristics [3]	1	1	1	0	0	1	0
Notching for LGFV Characteristics Affecting Support Component	1	1	1	0	-2	1	-3
Rating							
Scorecard-Indicated Outcome	A2	A3	A3	Baa2	Baa1	Baa1	Baa1
Actual Rating assigned	A3	A3	A3	Baa1	Baa1	Baa1	Baa1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] Current fiscal year for the rating factors is as of 12/31/2019.

[3] The resulting scorecard-indicated outcome is capped by the controlling RLG's credit profile.

Source: Moody's Financial Metrics, Moody's Investors Service

Moody's-rated LGFV methodology scorecards as of 29 June 2021

Issuer	Sichuan Transportation Invt. Group Co., Ltd.	Hunan Xiangjiang New Area Dev. Grp. Co., Ltd	Chengdu Tianfu New Area Invs. Grp. Co., Ltd	Guangxi Communications Investment Grp Co.,Ltd	Jiangxi Provincial Water Conservancy Invt Grp	Jinan Urban Construction Group Co., Ltd	Lhasa City Construction Invt Mgmt Co., Ltd.
Local Government Financing Vehicles in China [1][2]							
Governmental Capacity to Support Component							
Central Government Rating	A1	A1	A1	A1	A1	A1	A1
Notching for Governmental Capacity to Support	-1	-2	-2	-1	-1	-2	-3
Governmental Capacity to Support Score	a2	a3	a3	a2	a2	a3	baa1
LGFV Characteristics Affecting Support Component							
LGFV Characteristics Affecting Support Notching (Downward Only)							
Business Profile							
Business Position	Strong	Strong	Moderate	Strong	Moderate	Strong	Strong
Essentiality of Primary Public Activities	Strong	Moderate	Moderate	Strong	Strong	Moderate	Moderate
Proportion and Riskiness of Commercial Activities	Medium	Medium	Medium	Medium	Medium	Medium	Medium
Final notching	0	-1	-1	0	-1	-1	-1
Integration, Control and Oversight							
Debt Management	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate
Access to Funding	Strong	Moderate	Strong	Strong	Strong	Strong	Strong
Predictability of Government Payments	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate	Strong
Exposure to Contingent Risks	Low	Low	Low	Low	Medium	Medium	Low
Final notching	-1	-1	-1	-1	-1	-1	0
External Bailout Risk	0	0	0	-1	0	0	0
LGFV Characteristics Affecting Support Notching (Upward Only)							
Exceptional Governmental Willingness to Support Characteristics [3]	0	0	0	0	0	0	0
Notching for LGFV Characteristics Affecting Support Component	-1	-2	-2	-2	-2	-2	-1
Rating							
Scorecard-Indicated Outcome	A3	Baa2	Baa2	Baa1	Baa1	Baa2	Baa2
Actual Rating assigned	Baa1	Baa2	Baa2	Baa2	Baa2	Baa2	Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] Current fiscal year for the rating factors is as of 12/31/2019.

[3] The resulting scorecard-indicated outcome is capped by the controlling RLG's credit profile.

Source: Moody's Financial Metrics, Moody's Investors Service

Moody's-rated LGFV methodology scorecards as of 29 June 2021

Issuer	Tianjin Binhai New Area Cons & Invst Group Co.	Wuhan Urban Construction Group Co., Ltd.	Chengdu High-Tech Investment Group Co. Ltd.	Huzhou City Investment Development Grp	Jiaxing City Invs and Dev Group Co., Ltd.	Lanzhou Construction Invnt (Hldg) Grp Co Ltd	Qingdao West Coast Development (Grp) Co., Ltd
Local Government Financing Vehicles in China [1][2]							
Governmental Capacity to Support Component							
Central Government Rating	A1	A1	A1	A1	A1	A1	A1
Notching for Governmental Capacity to Support	-2	-2	-2	-4	-3	-4	-1
Governmental Capacity to Support Score	a3	a3	a3	baa2	baa1	baa2	a2
LGFV Characteristics Affecting Support Component							
LGFV Characteristics Affecting Support Notching (Downward Only)							
Business Profile							
Business Position	Strong	Strong	Moderate	Moderate	Moderate	Strong	Moderate
Essentiality of Primary Public Activities	Strong	Moderate	Moderate	Moderate	Moderate	Moderate	Weak
Proportion and Riskiness of Commercial Activities	Medium	High	High	Medium	Medium	Low	High
Final notching	0	-1	-2	-1	-1	0	-3
Integration, Control and Oversight							
Debt Management	Moderate	Moderate	Weak	Moderate	Moderate	Strong	Moderate
Access to Funding	Strong	Moderate	Strong	Moderate	Strong	Moderate	Strong
Predictability of Government Payments	Moderate	Moderate	Strong	Moderate	Moderate	Moderate	Moderate
Exposure to Contingent Risks	Low	Low	Medium	Low	Low	Low	Medium
Final notching	-1	-1	-1	-1	-1	-1	-1
External Bailout Risk	0	0	0	0	0	0	0
LGFV Characteristics Affecting Support Notching (Upward Only)							
Exceptional Governmental Willingness to Support Characteristics [3]	0	0	0	0	0	0	0
Notching for LGFV Characteristics Affecting Support Component	-1	-2	-3	-2	-2	-1	-4
Rating							
Scorecard-Indicated Outcome	Baa1	Baa2	Baa3	Ba1	Baa3	Baa3	Baa3
Actual Rating assigned	Baa2	Baa2	Baa3	Baa3	Baa3	Baa3	Baa3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] Current fiscal year for the rating factors is as of 12/31/2019.

[3] The resulting scorecard-indicated outcome is capped by the controlling RLG's credit profile.

Source: Moody's Financial Metrics, Moody's Investors Service

Moody's-rated LGFV methodology scorecards as of 29 June 2021

Issuer	Taiyuan Longcheng Development Invt Grp Co Ltd	Hubei Science & Technology Investment Group	Hanjiang Guotou Group Co., Ltd.	Yinchuan Tonglian Cap. Inv. Opn. Co., Ltd.	Yiwu State-owned Capital Operation Co., Ltd.	Zhoushan City Investment Group Corp Ltd.	Zhuzhou City Construction Dev. Group Co Ltd
Local Government Financing Vehicles in China [1][2]							
Governmental Capacity to Support Component							
Central Government Rating	A1	A1	A1	A1	A1	A1	A1
Notching for Governmental Capacity to Support	-4	-2	-4	-3	-4	-4	-4
Governmental Capacity to Support Score	baa2	a3	baa2	baa1	baa2	baa2	baa2
LGFV Characteristics Affecting Support Component							
LGFV Characteristics Affecting Support Notching (Downward Only)							
Business Profile							
Business Position	Strong	Strong	Strong	Strong	Strong	Strong	Strong
Essentiality of Primary Public Activities	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate
Proportion and Riskiness of Commercial Activities	Medium	Medium	Low	Medium	Low	Low	Low
Final notching	-1	-1	0	-1	0	0	0
Integration, Control and Oversight							
Debt Management	Strong	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate
Access to Funding	Moderate	Moderate	Moderate	Moderate	Strong	Moderate	Moderate
Predictability of Government Payments	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate
Exposure to Contingent Risks	Low	High	Low	Medium	Medium	Low	Medium
Final notching	0	-2	-1	-1	-1	-1	-1
External Bailout Risk	0	0	0	0	0	0	0
LGFV Characteristics Affecting Support Notching (Upward Only)							
Exceptional Governmental Willingness to Support Characteristics [3]	0	0	0	0	0	0	0
Notching for LGFV Characteristics Affecting Support Component	-1	-3	-1	-2	-1	-1	-1
Rating							
Scorecard-Indicated Outcome	Baa3	Baa3	Baa3	Baa3	Baa3	Baa3	Baa3
Actual Rating assigned	Baa3	Baa3	Baa3	Baa3	Baa3	Baa3	Baa3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] Current fiscal year for the rating factors is as of 12/31/2019.

[3] The resulting scorecard-indicated outcome is capped by the controlling RLG's credit profile.

Source: Moody's Financial Metrics, Moody's Investors Service

Moody's-rated LGFV methodology scorecards as of 29 June 2021

Issuer	Changde Economic Construction Investment Grp	Yangzhou Economic and Tech Dev Zone Dev Corp	Zhuji State-owned Assets Management Co., Ltd.	Kunming Municipal Urban Const Invt & Dev Co	ChengDu JingKai GuoTou Inv Grp Co.,Ltd.	Nanjing Pukou Economic Development Co., Ltd.	Weihai Wendeng District Bluesea Invt & Dvpt
Local Government Financing Vehicles in China [1][2]							
Governmental Capacity to Support Component							
Central Government Rating	A1	A1	A1	A1	A1	A1	A1
Notching for Governmental Capacity to Support	-5	-4	-5	-4	-2	-5	-4
Governmental Capacity to Support Score	baa3	baa2	baa3	baa2	a3	baa3	baa2
LGFV Characteristics Affecting Support Component							
LGFV Characteristics Affecting Support Notching (Downward Only)							
Business Profile							
Business Position	Strong	Moderate	Strong	Moderate	Weak	Moderate	Moderate
Essentiality of Primary Public Activities	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate
Proportion and Riskiness of Commercial Activities	Low	Low	Medium	Low	Medium	Low	Low
Final notching	0	-1	-1	-1	-2	-1	-1
Integration, Control and Oversight							
Debt Management	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate
Access to Funding	Moderate	Moderate	Moderate	Weak	Weak	Moderate	Weak
Predictability of Government Payments	Moderate	Moderate	Moderate	Moderate	Weak	Moderate	Moderate
Exposure to Contingent Risks	Medium	High	Low	Medium	High	Medium	Medium
Final notching	-1	-2	-1	-2	-3	-1	-2
External Bailout Risk	0	0	0	0	0	0	0
LGFV Characteristics Affecting Support Notching (Upward Only)							
Exceptional Governmental Willingness to Support Characteristics [3]	0	0	0	0	0	0	0
Notching for LGFV Characteristics Affecting Support Component	-1	-3	-2	-3	-5	-2	-3
Rating							
Scorecard-Indicated Outcome	Ba1	Ba2	Ba2	Ba2	Ba2	Ba2	Ba2
Actual Rating assigned	Ba1	Ba1	Ba1	Ba2	Ba2	Ba2	Ba2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] Current fiscal year for the rating factors is as of 12/31/2019.

[3] The resulting scorecard-indicated outcome is capped by the controlling RLG's credit profile.

Source: Moody's Financial Metrics, Moody's Investors Service

Moody's related publications

Sector Profile

- » [Province of Hunan \(China\): Weakening fiscal profile and rising debt burden weigh on ability to support government-related entities](#), 8 March 2021
- » [Province of Zhejiang \(China\): Dynamic private sector supports Zhejiang's strong economy but reliance on land sales poses risks](#), 15 January 2021

Sector in-Depth

- » [Credit conditions – China: Government balances systemic risk, moral hazard for distressed state-owned entities](#), 24 May 2021
- » [Credit Conditions – China: Tightened corporate bond issuance policies limit weak companies' access to market](#), 13 May 2021
- » [LGFVs in a province – Hunan province](#), 17 March 2021
- » [LGFV Bond Monitor: Fourth quarter 2021](#), 26 March 2021

Methodology

- » [Local Government Financing Vehicles in China Methodology](#), 29 July 2020

Outlook

- » [Global Macro Outlook 2021-22 \(May 2021 Update\): Recovery solidifies in the US and Europe, while emerging markets face multiple risks](#), 26 May 2021

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