

CREDIT OPINION

19 April 2017

New Issue
Rate this Research »
Contacts

Kenneth Kurtz 415-274-1737
Senior Vice President
 kenneth.kurtz@moodys.com

Nicholas Samuels 212-553-7121
VP-Sr Credit Officer/ Manager
 nicholas.samuels@moodys.com

State of Hawaii

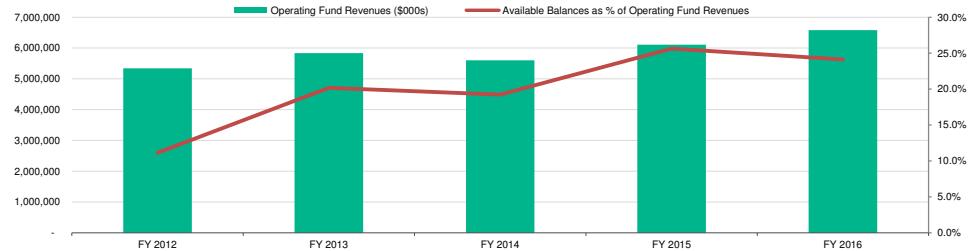
New Issue - Moody's assigns Aa1 to \$860 million Hawaii GO bonds, Series FK, FL, FM, FN and FO; outlook stable

Summary Rating Rationale

Moody's Investors Service has assigned Aa1 ratings to the State of Hawaii's current offering of 2017 general obligation bonds to be issued in an estimated total amount of \$860 million in five series: Series FK, Refunding Series FL, Refunding Series FM, Refunding Series FN, and Taxable Series FO. Following this sale, the state will have approximately \$7 billion general obligation bonds outstanding, all rated Aa1. The outlook on these ratings is stable.

The Aa1 ratings reflect the state's positive economic and revenue trends, the restoration and maintenance of sizable reserves, and proactive measures to improve the funding of its pension and OPEB liabilities. State statutes require it to ramp up its OPEB contribution to 100% of the actuarially required contribution (ARC) by fiscal 2019; the state, notably, contributed more than the statutorily-required amount in fiscal years 2014 through 2017 which will result in savings in future years. The state is also planning to phase in higher pension contributions in response to an increase in the estimated pension liability. Despite these measures, the state's fixed costs will remain among the highest in the country at least over the medium term. Debt levels are notably above average in part due to the state's responsibility for financing K-12 capital needs. Hawaii has strong governance practices such as multi-year financial planning, quarterly binding consensus revenue forecasting, and timely financial reporting.

Exhibit 1
Strong Revenue Growth Drives Increase in Reserves



Source: State of Hawaii Comprehensive Annual Financial Reports, with Moody's Investors Service adjustments.

Credit Strengths

- » Strong financial governance practices including multi-year planning, quarterly consensus revenue forecasting, and strong executive power to reduce spending.
- » Historical fiscal conservatism; prompt action to address revenue shortfalls.
- » Low unemployment rates; healthy growth in tourism industry; stable military presence.
- » Strong liquidity position.
- » Rapid amortization of debt; no exposure to variable rate debt or derivative products.
- » Commitment to and progress toward reducing pension and OPEB liabilities, including plans to fund fully the OPEB ARC.

Credit Challenges

- » Vulnerability to shifts in Hawaii's tourism-based economy, resulting in revenue falloff and budget shortfalls.
- » Large state and local government employment sector that contributes to spending pressure for salary and benefit settlements.
- » Debt ratios that are among the highest in the nation, largely attributable to the state's responsibility for funding all the capital needs of its centralized K-12 school system.
- » High pension and OPEB liabilities.

Rating Outlook

The stable outlook reflects the expectation that the state will maintain strong reserves while continuing to make planned progress in funding its pension and OPEB liabilities.

Factors that Could Lead to an Upgrade

- » Increased economic diversification and reduced economic volatility.
- » Sustained reduction in debt ratios and significant improvement in pension funded ratios, sooner than currently projected.

Factors that Could Lead to a Downgrade

- » Economic weakening leading to deteriorating revenue trends, budget imbalance, liquidity pressures, and narrowing of financial position.
- » Return to reliance on non-recurring solutions to balance the budget.
- » Increased debt ratios relative to other states, or deterioration of pension funded ratios.

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.

Key Indicators

Exhibit 2

Hawaii	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Operating Fund Revenues (\$000s)	5,340,250	5,838,577	5,606,221	6,109,019	6,583,418
Available Balances as % of Operating Fund Revenues	11.1%	20.2%	19.2%	25.6%	24.1%
Net Tax-Supported Debt (\$000s)	5,912,089	6,636,905	6,908,297	6,523,739	7,168,256
Net Tax-Supported Debt/Personal Income	10.0%	10.6%	10.8%	9.9%	9.9%
Net Tax-Supported Debt/Personal Income 50 State Median	2.8%	2.6%	2.5%	2.5%	N/A
Debt/Own-Source Governmental Funds Revenue	98.1%	99.8%	106.7%	94.1%	98.0%
Debt/Own-Source Governmental Funds Revenue Median	37.4%	36.1%	35.8%	34.4%	N/A
ANPL/Own-Source Govt Funds Revenue	273.1%	170.6%	198.8%	118.3%	N/A
ANPL/Own-Source Govt Funds Revenue Median	94.2%	91.8%	90.9%	84.9%	N/A
Total Non-Farm Employment Change (CY)	2.2%	2.0%	1.4%	1.8%	1.5%
Per Capita Income as a % of US (CY)	100.3%	100.3%	100.3%	100.7%	104.9%

Source: State of Hawaii CAFRs with Moody's Investors Service adjustments; Moody's state debt and pension medians reports; US Bureau of Labor Statistics; US Bureau of Economic Analysis.

Recent Developments

Recent developments are included in the Detailed Rating Considerations below.

Detailed Rating Considerations

Economy and Tax Base

Although Hawaii's economy has shown some diversification, its large tourism industry remains key to the economy and the state's economic performance closely tracks tourism trends. As a highly desirable tourist destination for international and domestic visitors, the tourism industry is somewhat insulated from US economic cycles and has at times been counter-cyclical. The last recession was particularly challenging since both national and international visitations were affected at the same time. Visitor arrivals did not surpass the pre-recession peak (2007) until 2012. Growth since that time has been particularly strong, however, and visitor arrivals reached record levels in 2015 (8.7 million) and 2016 (8.9 million), and are projected to hit another new record in 2017 (9.1 million). Hotel revenues per room night are expected to reach \$208 in 2017, compared to \$124 in 2010.

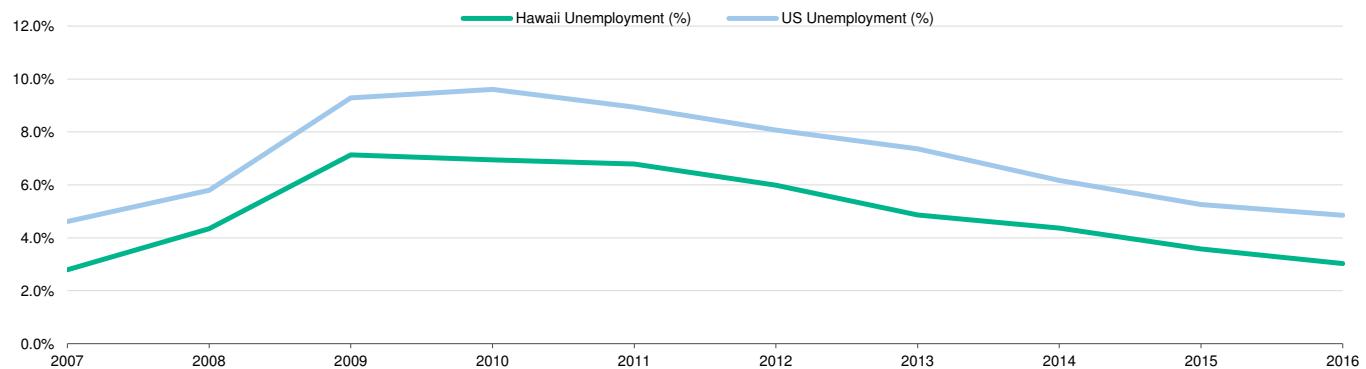
A sizable military presence adds stability, and military housing construction has contributed to expanding construction activity. Federal defense spending in Hawaii, dictated by the island's strategic geographic importance, plays a large part in the state's economy. Federal activity amounts to about 12% of Hawaii's gross state product, with much of it defense related.

The economy is also boosted by strong construction activity. The value of building permits issued has returned to pre-recession levels. Major projects include high-rise condos in Central Honolulu targeted at both visitors and residents, as well as retail commercial projects in Honolulu and new hotel/resort projects primarily on the neighbor islands. Two new master planned communities with a total of 15,250 housing units have been approved in Honolulu and are expected to begin construction in late 2016/early 2017. Large public projects include the Honolulu rail system and improvements at the airports and port.

The state's employment trends are generally less volatile than in other tourism dependent states such as [Florida](#) (Aa1 stable) and [Nevada](#) (Aa2 stable). Unlike most mainland states, Hawaii did not experience a severe housing market bust during the recession. Hawaii's unemployment rate, 3.0% for 2016, remains well below the national average as it was throughout the recession. Median family incomes are among the highest in the nation, but per capita income levels are closer to the US average.

Exhibit 3

Hawaii's Unemployment Rate is Consistently Below US Rate



Source: US Bureau of Labor Statistics.

Financial Operations and Reserves

General Fund tax revenue growth was particularly strong in fiscal 2013, 10.0% on a budget basis and 8.2% on a GAAP basis. This growth reflected a continuation of the underlying economic strength that produced strong growth in 2010, 2011, and 2012. But it also reflected some one-time factors including the acceleration by taxpayers of capital gains income into calendar 2012 due to federal tax law changes and delays in processing certain payments related to tax collection makeup for the [City and County of Honolulu](#) (Aa1 stable) in late fiscal 2013.

Growth in tax revenues stalled in fiscal 2014. Total tax revenues dropped 1.8% from 2013 on a budget basis. This decline reflected, in part, the one-time factors in fiscal 2013. Additionally, a \$55.5 million deposit in the Hawaii Hurricane Relief Fund (HHRF) was excluded from General Fund revenues. Nevertheless, recurring tax revenues remained essentially flat. Officials estimate that after adjusting for the makeup payments to Honolulu and the HHRF deposit, total tax revenues declined by 0.2% on a budget basis.

Driven by the underlying economic trends, strong growth resumed in fiscal 2015 and 2016. General Fund tax revenues increased by 6.8% in 2015 and 8.0% in 2016. In its March 2017 forecast, the Hawaii Council of Revenues lowered its general fund revenue projections for 2017 from 3.0% to 2.5%. It is projecting annual growth of 4.0% to 4.5% in the out years (2018-2023) of its multi-year forecast period.

Strong reserve levels are important for Hawaii given the state's vulnerability to national and international shifts in its essential tourism-based economy. Balance sheet deterioration during the recent recession reflected the state's use of one-time actions for budget relief, including the use of reserve balances from both the Emergency and Budget Reserve Fund (EBRF) and the HHRF. At the low point, the state reported negative GAAP balances for fiscal years 2009 and 2010. In the prior 2001 recession, the state's available reserves hit a low of about 7.5% of operating revenues at the end of fiscal 2003, but were never negative.

As its economy has recovered, Hawaii has rebuilt its balances to a healthy position relatively quickly. Moody's measure of available GAAP-basis reserves (primarily unassigned General Fund balance plus the HHRF) grew to a strong 20.2% of operating revenues at the end of fiscal 2013, up from 11.1% at the end of fiscal 2012 and essentially equal to the pre-recession peak of 21% at the end of fiscal 2006. Reserves remained essentially unchanged in fiscal 2014 due to the flat revenues in that year and because the state increased its OPEB contribution to \$100 million greater than required by statute. Available reserves increased again in fiscal 2015, reaching a record 25.6% of revenues. They remained relatively stable in fiscal 2016 at 24.1% of revenues.

On a budget basis, total reserves, including the General Fund ending balance plus the EBRF but excluding the HHRF, are expected to decrease by approximately \$300 million in fiscal 2017 due to one-time spending for capital projects, a supplemental OPEB contribution of \$82 million, and the write-off of receivables. Reserves are expected to remain relatively stable in 2018 even after planned increases in OPEB and pension contributions, but projections do not include allowances for salary increases. Collective bargaining agreements expire at the end of fiscal 2017.

LIQUIDITY

Hawaii does not engage in short-term borrowing for cash flow purposes and relies on pooled treasury cash for temporary internal borrowing as needed. During the recession, when the state's General Fund reserves were depleted, some liquidity strain was indicated by payment deferrals at the end of fiscal 2009 and the delay of fiscal 2010 personal income tax refunds until fiscal 2011. But liquidity levels have improved substantially since that time and the state has not engaged in any additional deferrals.

Debt and Pensions

DEBT STRUCTURE

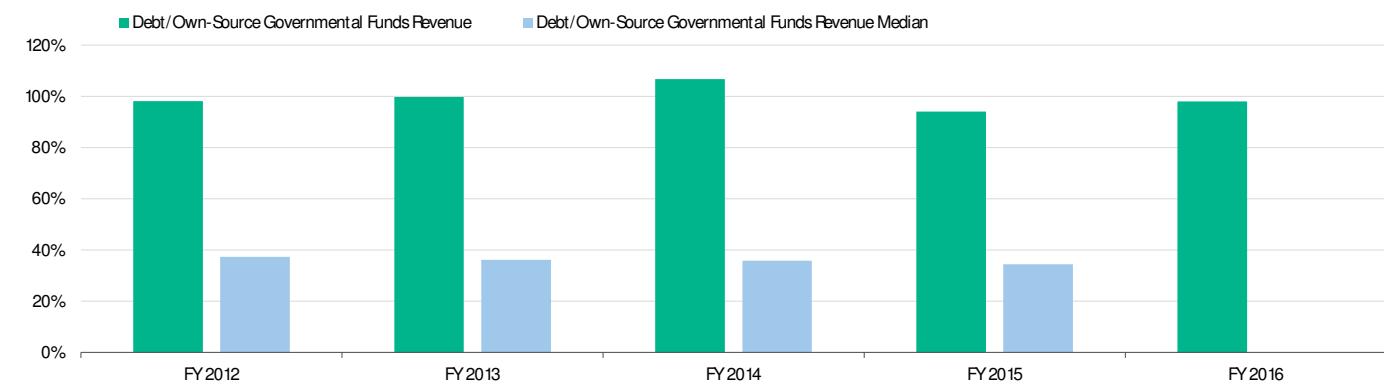
Hawaii compares unfavorably with other states on measures such as debt ratios, pension funding levels, and OPEB liabilities. Debt per capita is \$4,557 ranking Hawaii third highest among the states and over four times [Moody's 50-state median](#) of \$1,025. As a percentage of personal income, Hawaii's debt is the highest in the country at 9.9%, compared with the median of 2.5%.

These debt ratios are, in part, attributable to the fact that, unlike other states Hawaii, is entirely responsible for the capital needs of its centralized K-12 school system. Total state and local government debt ratios indicate that the state's debt is a more manageable burden on the state's economy than suggested by comparison to the state medians. Nevertheless, the state's high levels of direct debt, along with its large pension liability and aggressive OPEB funding plan, contribute to its high fixed costs.

Hawaii's general obligation bonds are conservatively structured with a maximum maturity of 20 years and level annual debt service. As a result, payout of the state's general obligation debt is relatively rapid. Prior to the current offering, 67% of principal is repaid in 10 years.

Exhibit 4

Hawaii's Debt Levels are Well Above Moody's 50-State Medians



Source: Moody's Investors Service State Debt Medians Reports.

DEBT-RELATED DERIVATIVES

The state has no variable rate debt and no debt-related derivatives.

PENSIONS AND OPEB

The state's pension liabilities are above average. Moody's 2015 Adjusted Net Pension Liability (ANPL) for Hawaii was \$8.2 billion or 141% of state own-source governmental revenues, the 18th highest of the 50 states and well above [Moody's 50-state median](#) of 85%. Hawaii's three-year average ANPL was 156% of revenues, the 13th highest and well above the median of 88%.

Pension reforms adopted in 2011 are expected to improve the funding levels of the state's retirement system over the long term. Benefits were reduced for new members after June 30, 2012, and employer contributions were increased. A moratorium on any enhancement of retirement benefits remains in effect until the funded ratio reaches 100%. Additional reforms approved by the legislature and the governor in 2012 focused on reducing the "spiking" of final compensation. The latest, fiscal 2016, system valuation resulted in an increase in the UAAL from \$8.7 billion to \$12.4 billion and a reduction in the funded ratio from 62.4% to 51.3% based on market value of assets, primarily as a result of a reduction in the discount rate from 7.65% to 7.00% and revisions to the mortality table. The state has proposed to phase in higher employer contribution rates—from 25% to 41% for police and fire and from 17% to

24% for general employees—to address the increased liability. The proposed increases are currently being evaluated by the legislature. The new rates, if implemented, are projected to eliminate the UAAL by 2045.

Hawaii's OPEB unfunded obligation is also quite sizeable. The valuation report for July 1, 2015 showed a total unfunded obligation of \$11.8 billion, of which approximately \$9.1 billion was the state's portion. As in most states, Hawaii historically funded its OPEB costs on a pay-go basis. However, in the 2013 legislative session, the state adopted a plan to require phasing in higher annual contributions by the state and counties beginning in fiscal 2015. By fiscal 2019, the payments would reach 100% of the ARC. Notably, the state also made supplemental contributions to the OPEB trust beyond the statutorily-required amounts--\$100 million in fiscal 2014, \$34 million in 2015, \$86 million in 2016, and \$82 million in 2017.

Management and Governance

Hawaii has very strong governance practices, including consensus revenue forecasts, updated quarterly, and multi-year financial planning. The governor has power to restrict spending during the fiscal year, if necessary. The constitution does not provide for voter initiatives. The state adopted its first debt affordability study and debt policies in December 2016.

Legal Security

The five series of bonds that comprise the current offering are general obligations of the state, to which the state has pledged its full faith, credit and resources. The bonds have a first charge on all general fund resources.

Use of Proceeds

Proceeds of the Series FK and Taxable Series FO bonds will fund various state public improvement projects. Proceeds of the Series FL, FM and FN bonds will be used to refund outstanding bonds for debt service savings.

Obligor Profile

Hawaii is the 40th largest state by population, at 1.4 million. Its state gross domestic product is 38th largest. The population's income levels are above average, with per capita personal income equal to 100% of the US level and a median household income equal to 133%. Its poverty rate is in the bottom third among states.

Methodology

The principal methodology used in this rating was US States Rating Methodology published in April 2013. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 5

Hawaii (State of)

Issue	Rating
General Obligation Bonds of 2017, Series FK	Aa1
Rating Type	Underlying LT
Sale Amount	\$575,000,000
Expected Sale Date	05/09/2017
Rating Description	General Obligation
General Obligation Refunding Bonds of 2017, Series FL	Aa1
Rating Type	Underlying LT
Sale Amount	\$4,310,000
Expected Sale Date	05/09/2017
Rating Description	General Obligation
General Obligation Refunding Bonds of 2017, Series FM	Aa1
Rating Type	Underlying LT
Sale Amount	\$1,210,000
Expected Sale Date	05/09/2017
Rating Description	General Obligation
General Obligation Refunding Bonds of 2017, Series FN	Aa1
Rating Type	Underlying LT
Sale Amount	\$232,115,000
Expected Sale Date	05/09/2017
Rating Description	General Obligation
Taxable General Obligation Bonds of 2017, Series FO	Aa1
Rating Type	Underlying LT
Sale Amount	\$45,000,000
Expected Sale Date	05/09/2017
Rating Description	General Obligation

Source: Moody's Investors Service

© 2017 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

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

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

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

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

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

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

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody's.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

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

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

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

REPORT NUMBER 1068769