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Svenska Handelsbanken AB

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Svenska Handelsbanken AB

SACP	a+		+	Support	+1	+	Additional Factors	0
Anchor	a-			ALAC Support	+1		Issuer Credit Rating	
Business Position	Strong	+1		GRE Support	0		AA-/Stable/A-1+	
Capital and Earnings	Strong	+1		Group Support	0		Resolution Counterparty Rating	
Risk Position	Adequate	0		Sovereign Support	0		AA-/--/A-1+	
Funding	Average	0						
Liquidity	Adequate	0						

Credit Highlights

Overview	
Key strengths	Key risks
Conservative strategy and stable business model, reflected in sound profitability and strong asset quality.	High share of wholesale funding, relative to Nordic peers, leading to high sensitivity to market confidence.
Solid market position in household and corporate lending and deposits in Sweden, complemented by Nordic and U.K. franchises.	Concentration risks arising from large single-name and real estate exposures.
Robust risk-adjusted capitalization provides a buffer against potential downside risks in core markets.	

Stable decentralized business model, combined with developing digital offering, will continue to support the bank's franchise position and earnings capacity. Handelsbanken's decentralized business model that empowers branch offices allows the bank to focus on building profitable customer relationships at a local and regional level, while remaining strict on underwriting and cost efficiency at the group level. With total assets of Swedish krona (SEK) 3.436 billion (€337 billion) as of June 30, 2021, the bank continues to demonstrate sound earnings generation. For example, it reported operating profit of SEK11.6 billion (+7% year-on-year) and return on equity of 11.1% in the first half of 2021 (10% in 2020). While the branch offices remain the core of Handelsbanken in Sweden and other core markets, the group is increasingly emphasizing building its digital presence and developing new customer offers to adjust to changing customer preferences.

We expect Handelsbanken to focus on strengthening its client focus in core markets and to optimize its already best-in-class operating efficiency. The bank's three main initiatives aim to focus on its six core markets by slimming down its remaining international presence, discontinuing non-core products and services, and completing an internal rationalization of its central unit. These initiatives--along with the announced reduction in the branch network and increased focus on digitalization--aim to reduce operating costs to SEK20 billion by end-2022 (excluding any potential allocation to its employee profit sharing plan (Oktogonen); SEK21.9 billion annualized costs at H1 2021). Positively, the relative share of development costs as a proportion of total costs will increase over time. We believe that this will aid the bank in further optimizing its already sound operating efficiency (49.6% in the first half of 2021) and that its digital

initiatives will allow it to catch up quickly with its Nordic peers' advanced franchises.

The bank's business volumes proved resilient to COVID-19-induced stress. We expect Handelsbanken to maintain its primary focus on Sweden, which accounted for approximately 60% of the bank's operating profits and loan book as of Dec. 31, 2020. The bank maintains a significant share of lending (20.4%) and deposits (19.5%) in the domestic market for retail and corporate clients and has generated much of the loan growth in the domestic market in 2020-H1 2021. Handelsbanken generates more than one-third of its revenue internationally, in the Nordics, the U.K., and the Netherlands, with a focus on more affluent private customers, property companies, and other owner-led companies. Despite uncertainties related to both Brexit and COVID-19 having inadvertently affected Handelsbanken PLC's business momentum in the U.K., we expect the market to remain a key growth driver for the group in the medium term and to stay central to its strategy. Handelsbanken's customer offering is complemented by asset management and mutual funds where it also holds a strong market position. For example, it reported assets under management of SEK892 billion and a market share of 26% net savings in Swedish mutual funds as of June 30, 2021.

We do not expect Handelsbanken to depart from its conservative underwriting standards that underpin its exceptional loan loss record, even amid COVID-19 stress. The bank has a low-risk business model and no significantly complex or material exposure outside its relatively stable core Nordic and U.K. markets. As such, we believe the bank will continue to benefit from geographic diversification in its lending portfolio. We also expect it to maintain strong capital buffers, with a projected risk-adjusted capital (RAC) ratio in the range of 12.0%-12.75% through 2023 (12.5% in 2020) to absorb potential unexpected losses in the loan book. Handelsbanken's asset quality remains superior to that of its Nordic and international peers (Stage 3 loans of 0.3% as June 30, 2021), but we believe that it could face some pressure in its corporate and SME portfolio once extensive COVID-19-related policy measures come to an end in its core markets. We note that Handelsbanken's exposure to sectors most vulnerable to COVID-19-related stress, SME corporates, and non-mortgage household exposures totalled SEK225 billion, or about 7.5% of overall credit exposures as of June 30, 2021. These most vulnerable sectors include retail premises, hotels, restaurants, leisure, transportation, and shipping, among others. During first-half 2021, Handelsbanken reported a small net loan-loss recovery, while it continues to hold an additional portfolio reserve of SEK597 million related to COVID-19 to cover stressed exposures. We therefore project that credit losses will remain contained at around 5-10bps and therefore below those of its peers through 2023.

Diversified funding profile underpinned by sound deposit franchise and broad capital market access as result of a solid reputation. Customer deposits increased over the past 12 months, representing 47.7% of the bank's funding base as of June 30, 2021. While a lower share of deposit-based funding is not untypical among Nordic banks, Handelsbanken generally makes extensive use of the wholesale market, in particular the Swedish covered bond market. This counterbalances the lower S&P Global Ratings' liquidity ratio (broad liquid assets to short-term wholesale funding or BLAST) compared with Swedish peers' and the tighter margin to the regulatory net stable funding ratio than that of other European banks. As of June 2021, S&P Global Ratings' stable funding ratio equalled 96% and the BLAST ratio improved to 0.95x (compared with 89% and 0.8x at year-end 2020). We consider Handelsbanken's liquidity to be adequate, reflecting the bank's continuous access to capital markets, its substantial prefunding with long-term debt, and our expectations of a functioning domestic covered bond market--even against the more stressful COVID-19 backdrop.

We incorporate one notch of ALAC uplift in the issuer credit rating, since we expect the bank's bail-inable buffers will increase through issuance of senior nonpreferred instruments by the 2024 deadline. We calculate that the additional loss-absorbing capacity (ALAC) buffer equalled 5.9% of S&P Global Ratings' risk-weighted assets (RWAs) at year-end 2020. By mid-2021, Handelsbanken had issued about SEK31 billion of senior non-preferred (SNP) debt and SEK18 billion of Tier 2 instruments and we expect a significant amount of subordinated debt issuance to meet the minimum requirement for own funds and eligible liabilities (MREL) by the 2024 regulatory deadline. Although the required SNP issuance volumes might be lower under the proposed new MREL policy by the Swedish National Debt Office (previously up to SEK90 billion), we project that Handelsbanken will maintain an ALAC ratio comfortably above our

5.0% threshold for a one-notch uplift.

Outlook: Stable

Our stable outlook reflects our view that Handelsbanken will maintain strong capitalization and asset quality over the next two years, on the back of the expected recovery in its key markets in 2021-2022, and despite the continued lending growth in the Nordic countries and the U.K. This is supported by our view of Handelsbanken's capital levels, with a projected RAC ratio exceeding 10%, and its low-risk business model in its core markets.

In addition, we believe that Handelsbanken will issue large volumes of senior nonpreferred instruments in the coming years to meet the MREL by 2024. As a result, we anticipate that the bank's ALAC will sustainably exceed our 5% threshold for a one-notch uplift.

Downside scenario

We could take a negative rating action if Handelsbanken's issuance of ALAC-eligible instruments amounts to less than 5% of S&P Global Ratings' RWAs. Furthermore, we could lower our ratings if the pandemic's effects on the bank's operating conditions were longer than expected. This could result in significantly higher credit losses than we currently expect, leading its capitalization to weaken materially over the next two years.

Upside scenario

We consider a positive rating action on Handelsbanken to be remote at present, given that our ratings on the bank are now among the highest of those on rated commercial banks globally. Moreover, we do not see Handelsbanken as a positive outlier compared with these banks for the time being.

Key Metrics

Svenska Handelsbanken AB--Key Ratios And Forecasts

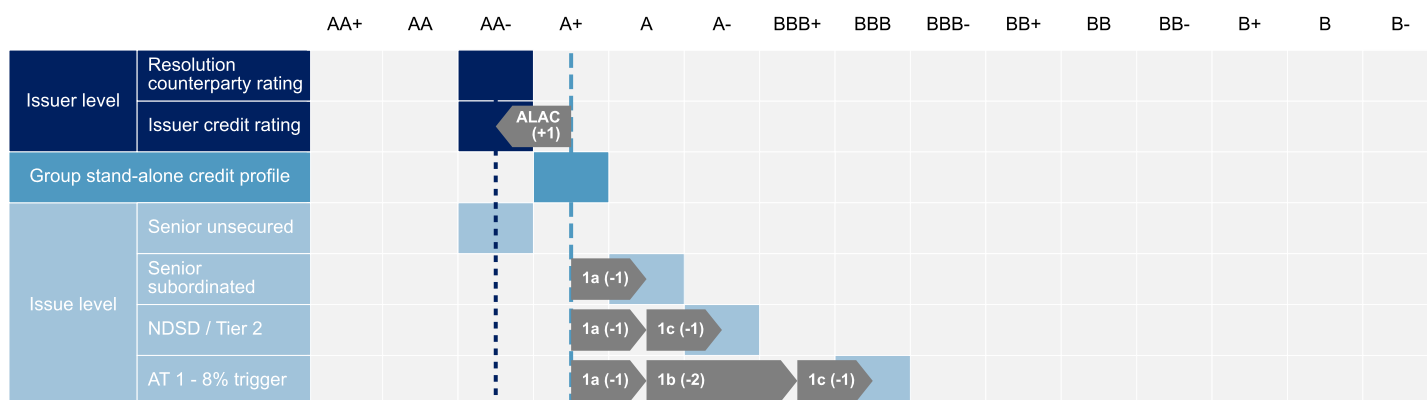
(%)	--Fiscal year ended Dec. 31 --				
	2019a	2020a	2021f	2022f	2023f
Growth in operating revenue	1.7	(0.6)	0.2-0.3	2.7-3.3	3.2-3.9
Growth in customer loans	4.7	(1.1)	2.3-2.8	3.6-4.4	3.6-4.4
Growth in total assets	3.1	2.1	1.8-2.2	2.8-3.4	2.8-3.5
Net interest income/average earning assets (NIM)	1.3	1.3	1.2-1.3	1.2-1.3	1.2-1.3
Cost to income ratio	46.7	48.8	47.0-49.0	45.0-47.0	45.0-47.0
Return on average common equity	11.2	9.4	9.2-10.1	10.0-11.0	10.8-11.9
Return on assets	0.6	0.5	0.5-0.6	0.5-0.6	0.6-0.7
New loan loss provisions/average customer loans	0.0	0.0	0.0-0.1	0.0-0.1	0.0-0.1
Gross nonperforming assets/customer loans	0.4	0.3	0.3-0.4	0.3-0.4	0.3-0.4
Net charge-offs/average customer loans	(0.0)	(0.0)	0.0-0.0	0.0-0.0	0.0-0.0
Risk-adjusted capital ratio	11.9	12.5	12.25-12.75	12.0-12.5	12.0-12.5

All figures are S&P Global Ratings-adjusted. a--Actual. e--Estimate. f--Forecast. NIM--Net interest margin.

Hybrid notching

We rate Handelsbanken's hybrid debt instrument according to their respective features (see chart 1).

Svenska Handelsbanken AB: Notching



Key to notching

- Group stand-alone credit profile
- Issuer credit rating
- RC Resolution counterparty liabilities (senior secured debt)
- ALAC Additional loss-absorbing capacity buffer
- 1a Contractual subordination
- 1b Discretionary or mandatory nonpayment clause and whether the regulator classifies it as regulatory capital
- 1c Mandatory contingent capital clause or equivalent

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 3 of our "Hybrid Capital: Methodology And Assumptions" criteria, published on July 1, 2019.

AT1--Additional Tier 1. NDS--Non-deferrable subordinated debt. NVCC--nonviability contingent capital.

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Key Statistics

Table 1

Svenska Handelsbanken AB--Key Figures					
--Fiscal year end Dec. 31--					
(Mil. SEK)	Jun-21	2020	2019	2018	2017
Adjusted assets	3,194,705	2,926,735	2,878,559	2,824,927	2,614,813
Customer loans (gross)	2,327,028	2,261,443	2,286,733	2,183,843	2,064,313
Adjusted common equity	146,535	139,187	138,617	114,405	110,830
Operating revenues	22,894	44,248	44,509	43,770	41,674
Noninterest expenses	11,355	21,613	20,784	20,890	18,980
Core earnings	9,109	16,919	17,611	17,346	16,091

SEK--Swedish krona.

Table 2

Svenska Handelsbanken AB--Business Position					
	--Fiscal year end Dec. 31--				
(%)	Jun-21	2020	2019	2018	2017
Loan market share in country of domicile	N/A	20.4	20.7	21.2	21.2
Deposit market share in country of domicile	N/A	19.3	19.8	19.4	19.3
Total revenues from business line (currency in millions)	22,900.0	44,250.0	44,584.0	43,784.0	41,688.0
Commercial & retail banking/total revenues from business line	68.9	71.4	72.1	75.4	75.3
Trading and sales income/total revenues from business line	3.9	2.3	1.2	2.2	3.0
Corporate finance/total revenues from business line	0.6	0.5	0.6	0.5	0.6
Brokerage/total revenues from business line	0.9	0.9	0.9	1.1	1.5
Insurance activities/total revenues from business line	2.4	2.2	2.0	1.9	1.9
Payments and settlements/total revenues from business line	3.4	3.8	4.5	4.5	4.5
Asset management/total revenues from business line	14.6	12.2	11.3	10.8	10.3
Other revenues/total revenues from business line	5.3	6.6	7.4	3.6	2.9
Investment banking/total revenues from business line	4.4	2.8	1.8	2.7	3.6
Return on average common equity	10.4	9.4	11.2	12.2	11.6

N/A--Not applicable.

Table 3

Svenska Handelsbanken AB--Capital And Earnings					
	--Fiscal year end Dec. 31--				
(%)	Jun-21	2020	2019	2018	2017
Tier 1 capital ratio	22.2	21.9	20.7	18.6	25.0
S&P Global Ratings' RAC ratio before diversification	N/A	12.5	11.9	9.7	9.8
S&P Global Ratings' RAC ratio after diversification	N/A	12.2	11.6	9.3	9.6
Adjusted common equity/total adjusted capital	92.0	92.0	89.8	91.4	91.9
Double leverage	53.2	51.1	55.1	59.7	39.4
Net interest income/operating revenues	68.9	71.4	72.2	71.5	71.4
Fee income/operating revenues	26.3	24.4	24.0	23.4	23.3
Market-sensitive income/operating revenues	3.9	3.5	3.0	2.5	3.3
Cost to income ratio	49.6	48.8	46.7	47.7	45.5
Provision operating income/average assets	0.7	0.7	0.8	0.8	0.8
Core earnings/average managed assets	0.6	0.5	0.6	0.6	0.6

N/A--Not applicable.

Table 4

Svenska Handelsbanken AB--Risk-Adjusted Capital Framework Data					
(Mil. SEK)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk					
Government & central banks	493,513.7	7,213.7	1.5	2,283.5	0.5

Table 4

Svenska Handelsbanken AB--Risk-Adjusted Capital Framework Data (cont.)					
Of which regional governments and local authorities	340,731,713,579,998.0	2,230,671,275.0	654,670,870,393,247.0	110,350,819,007,899.0	323,864,244,535,577.0
Institutions and CCPs	52,536.5	11,589.8	22.1	5,736.0	10.9
Corporate	872,081.2	222,340.3	25.5	635,357.1	72.9
Retail	1,547,307.6	326,200.2	21.1	389,074.0	25.1
Of which mortgage	1,479,255.6	308,103.7	20.8	357,013.1	24.1
Securitization§	15.5	48.5	312.3	3.1	20.0
Other assets†	14,455.5	9,922.4	68.6	12,994.5	89.9
Total credit risk	2,979,910.0	577,314.9	19.4	1,045,448.2	35.1
Credit valuation adjustment					
Total credit valuation adjustment	--	2,712.5	--	0.0	--
Market Risk					
Equity in the banking book	7,339.9	18,877.8	257.2	64,284.3	875.8
Trading book market risk	--	7,512.5	--	11,268.8	--
Total market risk	--	26,390.3	--	75,553.0	--
Operational risk					
Total operational risk	--	68,612.5	--	89,235.8	--
	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global Ratings RWA	% of S&P Global Ratings RWA
Diversification adjustments					
RWA before diversification	--	721,405.1	--	1,210,237.1	100.0
Total Diversification/ Concentration Adjustments	--	--	--	27,166.7	2.2
RWA after diversification	--	721,405.1	--	1,237,403.8	102.2
		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings RAC ratio (%)
Capital ratio					
Capital ratio before adjustments		158,332.0	21.9	151,358.8	12.5
Capital ratio after adjustments‡		158,332.0	21.9	151,358.8	12.2

*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. SEK--Swedish krona. Sources: Company data as of Dec. 31, 2020, S&P Global Ratings.

Table 5

Svenska Handelsbanken AB--Risk Position					
	--Fiscal year end Dec. 31--				
(%)	Jun-21	2020	2019	2018	2017
Growth in customer loans	5.8	(1.1)	4.7	5.8	5.3
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	2.2	3.3	3.8	2.1
Total managed assets/adjusted common equity (x)	23.5	22.5	22.1	26.0	25.0
New loan loss provisions/average customer loans	(0.0)	0.0	0.0	0.0	0.1
Net charge-offs/average customer loans	(0.0)	(0.0)	(0.0)	0.0	0.0
Gross nonperforming assets/customer loans + other real estate owned	0.3	0.3	0.4	0.4	0.4
Loan loss reserves/gross nonperforming assets	45.0	49.4	51.7	48.7	57.9

N/A--Not applicable.

Table 6

Svenska Handelsbanken AB--Funding And Liquidity					
	--Fiscal year end Dec. 31--				
(%)	Jun-21	2020	2019	2018	2017
Core deposits/funding base	47.7	45.5	41.7	38.0	38.7
Customer loans (net)/customer deposits	164.2	184.6	205.5	217.8	220.5
Long-term funding ratio	73.9	72.6	73.0	70.7	70.6
Stable funding ratio	96.2	89.1	87.3	86.6	84.0
Short-term wholesale funding/funding base	27.6	29.2	28.7	30.9	31.2
Broad liquid assets/short-term wholesale funding (x)	0.9	0.8	0.7	0.6	0.6
Net broad liquid assets/short-term customer deposits	(31.1)	(416.2)	(785.7)	(788.0)	(710.6)
Short-term wholesale funding/total wholesale funding	52.4	53.0	48.7	49.5	50.6
Narrow liquid assets/3-month wholesale funding (x)	5.2	5.4	3.5	2.5	2.9

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Financial Institutions | Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Banking Industry Country Risk Assessment: August 2021, Aug. 24, 2021
- Global Banking Country Outlook Midyear 2021: Tantalizing Signs Of Stability, July 22, 2021
- Global Banks Outlook Midyear 2021: Clawing Back To Normalcy, July 22, 2021
- EMEA Financial Institutions Monitor 3Q2021: Resilience Amid The Search For Stronger Profitability, July 16, 2021
- Svenska Handelsbanken AB, March 31, 2021
- SLIDES: Nordic Banks: Strong Fundamentals And Digital Preparedness Shield Against COVID-19 Stress, Feb. 18, 2021
- Handelsbanken PLC, Dec. 15, 2020
- Handelsbanken Quickens Digital Transformation In Step With Changing Customer Needs And Push For Leaner Sales Structure, Sept. 16, 2020

Anchor Matrix										
Industry Risk	Economic Risk									
	1	2	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of September 9, 2021)*

Svenska Handelsbanken AB

Issuer Credit Rating

AA-/Stable/A-1+

Resolution Counterparty Rating

AA/--/A-1+

Commercial Paper

A-1+

Ratings Detail (As Of September 9, 2021)*(cont.)

Junior Subordinated		BBB
Senior Subordinated		A
Senior Unsecured		AA-
Short-Term Debt		A-1+
Subordinated		A-
Issuer Credit Ratings History		
29-Mar-2017	<i>Foreign Currency</i>	AA-/Stable/A-1+
25-Sep-2013		AA-/Negative/A-1+
19-Jul-2013		AA-/Watch Neg/A-1+
29-Mar-2017	<i>Local Currency</i>	AA-/Stable/A-1+
25-Sep-2013		AA-/Negative/A-1+
19-Jul-2013		AA-/Watch Neg/A-1+
Sovereign Rating		
Sweden		AAA/Stable/A-1+
Related Entities		
Handelsbanken PLC		
Issuer Credit Rating		AA-/Stable/A-1+
Resolution Counterparty Rating		AA/--/A-1+
Stadshypotek AB		
Issuer Credit Rating		AA-/Stable/A-1+
<i>Nordic Regional Scale</i>		--/--/K-1
Resolution Counterparty Rating		AA/--/A-1+
Commercial Paper		A-1+
<i>Nordic Regional Scale</i>		K-1
Senior Unsecured		AA-
Short-Term Debt		A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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