

RatingsDirect®

Basellandschaftliche Kantonalbank

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Basellandschaftliche Kantonalbank

SACP	a+		+	Support	+2	+	Additional Factors	0
Anchor	a-			ALAC Support	0		Issuer Credit Rating AA/Stable/A-1+	
Business Position	Adequate	0		GRE Support	+2			
Capital and Earnings	Very Strong	+2		Group Support	0			
Risk Position	Adequate	0		Sovereign Support	0			
Funding	Average	0						
Liquidity	Strong							

Major Rating Factors

Strengths:	Weaknesses:
<ul style="list-style-type: none"> • Close ties with the Canton of Basel-Country, facilitated by majority ownership and a statutory guarantee. • A sound financial profile, underpinned by very strong capitalization and stable earnings. • A strong retail banking franchise in the Canton of Basel-Country and to a lesser extent nearby cantons. 	<ul style="list-style-type: none"> • Concentration risk due to focus on residential mortgage lending in the home region. • Limited geographic, business, and earnings diversification. • Limited growth potential

Outlook: Stable

S&P Global Ratings' stable outlook on Switzerland-based Basellandschaftliche Kantonalbank (BLKB) reflects that on the bank's majority owner and guarantor, the Canton of Basel-Country. We expect that BLKB's status as a government-related entity (GRE) and the extremely high likelihood of support will not change in the foreseeable future. Moreover, we expect that BLKB will maintain its sound financial profile, underpinned by its very strong capitalization and sound earnings capacity over the next two years.

Downside scenario

We could take a negative rating action if BLKB's ties with Basel-Country were to loosen or if changes to the canton's statutory guarantee were made. However, we currently consider this scenario unlikely and we expect BLKB's existing obligations would be grandfathered. All else being equal, if BLKB's stand-alone credit profile were to worsen moderately, we would expect our current issuer credit rating to remain supported by additional support through the canton.

Upside scenario

A positive rating action stemming solely from the improvement of BLKB's stand-alone credit profile (SACP) is remote at this stage, since we do not expect BLKB to adjust its comparatively concentrated business model. However, a positive rating action on the canton would trigger an upgrade of BLKB.

Rationale

We expect BLKB's banking franchise will continue to benefit from a strong market position in its home region, which however offers limited geographic, business, and earnings diversification. We consider BLKB's superior capital position as the main rating strength, mirrored by our projected risk-adjusted capital (RAC) ratio of over 27% in the next 24 months. BLKB's risk profile is characterized by concentration risks in its loan portfolio, balanced by high overcollateralization levels and sound asset quality through the cycle. Our view on funding and liquidity profile are supported by the bank's largely deposit-funded business model and sound metrics.

We consider BLKB to be a GRE with an extremely high likelihood of receiving timely and sufficient extraordinary support from Basel-Country if needed. We base this opinion on BLKB's very important role and integral link to its home canton. This provides a two-notch uplift from the 'a+' SACP to arrive at the 'AA' issuer credit rating.

Anchor:'a-' for banks operating only in Switzerland

Our criteria use our Banking Industry Country Risk Assessment's economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. Our anchor for a bank operating mainly in Switzerland is 'a-'. We view the trends for both economic and industry risk as stable.

Our economic risk score of '2' for Switzerland is supported by the country's highly diversified and competitive economy, very high household income, and banks' prudent loan underwriting standards. However, we also consider housing market risks. In our view, both house prices and household debt remain high. The investment property segment (30% of the market) is a particular risk, in our view, where we have observed the first signs of a price

correction. We expect imbalances to remain moderate in a global context, due to the regulator's macroprudential measures to rein in growth of mortgage debt and banks' further strengthening of self-regulatory measures to prevent excessive risk-taking in mortgage financing. We recognize that house price growth has cooled materially since 2014 with lending growth remaining moderate. We also see that very high mortgage debt is mitigated by a large amount of financial assets, including pensions, held by households in Switzerland.

Our industry risk score of '2' primarily reflects the banking sector's stability and relatively high share of deposit funding. In our view, the Swiss regulator's initiatives are more stringent than those in other European banking industries. Banks' net interest margins continue to decline gradually, given the pressure on deposit margins from the negative yield environment. This is partly offset, however, by higher margins on lending products, fee income from investment advisory-related activities, and cost management. As a result, banks are able to generate sufficient returns on core banking products to meet their cost of capital. We consider risk for Swiss banks from tech disruption to be limited, given the population's preference for cash payments, the small size of the market with few foreign banks, the regulatory framework, and technologically well-equipped banks.

Table 1

Basellandschaftliche Kantonalbank--Key Figures					
--Year ended Dec. 31--					
(Mil. CHF)	2019*	2018	2017	2016	2015
Adjusted assets	25,753.0	25,334.5	24,203.9	23,681.6	23,171.7
Customer loans (gross)	20,690.3	20,298.6	19,636.1	19,097.6	18,645.8
Adjusted common equity	2,338.5	2,330.0	2,223.4	2,106.9	1,989.4
Operating revenues	181.8	361.5	370.3	372.4	375.1
Noninterest expenses	101.7	192.5	194.4	184.9	178.8
Core earnings	77.4	164.4	171.8	183.1	191.0

*Data as of June 30. CHF--Swiss Franc.

Business position: A well-established regional franchise in the Canton of Basel-Country

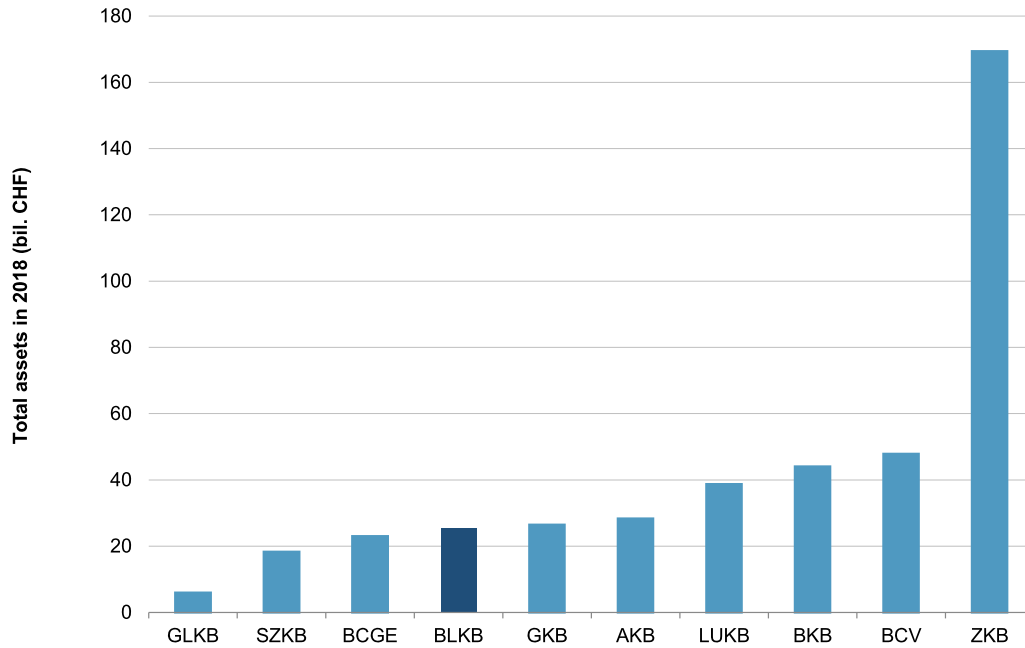
We expect BLKB's business profile to remain focused on its strong retail franchise in Basel-Country and to a lesser extent in neighboring cantons. This supports our view that its competitive position remains on par with peers' in Switzerland and in countries with similar industry risk, such as Germany, France, and Belgium.

We view as negative BLKB's reliance on its relatively narrow but economically strong home region, where we expect it will remain the market leader in retail banking with its strong focus on residential mortgage lending (90% of the loan book). We consider this rating weakness to be compensated by BLKB's sound efficiency and track record of exceptional business stability over the economic cycle. We expect BLKB to continue its conservative operating stance, supported by the canton, which prioritizes stability ahead of returns.

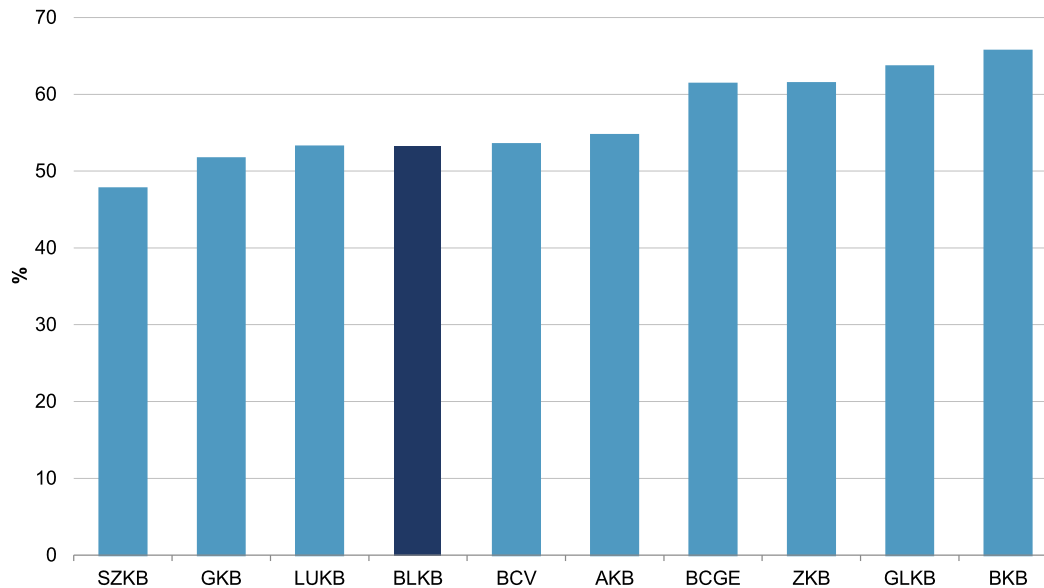
Lending to small and midsize enterprises accounting for around 10% of the loan portfolio. BLKB's remaining business activities are accompanied by asset management and private banking operations and, to a smaller extent, client-initiated trading activities, a business model that we do not expect to change in the next few years (see chart 1). Despite some progress in diversifying its revenue sources toward fees and commissions, BLKB exhibits one of the highest interest income dependencies among its cantonal bank peers.

Chart 1

Basellandschaftliche Kantonalbank Is A Midsize Swiss Cantonal Bank
BLKB versus rated peers



CHF--Swiss franc. Source: S&P Global Ratings. Data as of December 2018
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Chart 2**BLKB's Efficiency Is Better Than The Average For Rated Cantonal Bank Peers'**
Noninterest expenses/operating revenues

Source: S&P Global Ratings.

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BLKB divested its equity holding in Swissquote, but we understand that cooperation in e-mortgage loans will continue. This allows BLKB to offer loans countrywide, allowing some diversification outside the home region. However, we expect the share of e-mortgage loans to remain below 5% of BLKB's mortgage loan book.

In our view, BLKB proactively executes strategic initiatives to adapt to the changing banking industry landscape, resulting from ongoing trends, such as digitalization and more sustainable banking. For instance, it has established a partnership with Swiss robo-advisor (online wealth management) True Wealth. After selling its participation in asset manager Swisscanto, BLKB has also built up its own strategic funds focusing on assets that meet sustainability criteria. While we do not expect BLKB's business profile to change significantly from these initiatives, they support our assessment of BLKB's continuous transformation of its strategies.

Table 2**Basellandschaftliche Kantonalbank--Business Position**

(%)	--Year ended Dec. 31--				
	2019*	2018	2017	2016	2015
Loan market share in country of domicile	1.7	1.7	1.7	1.7	1.7
Deposit market share in country of domicile	1.4	1.4	1.4	1.4	1.4
Total revenues from business line (currency in millions)	184.5	381.7	394.0	385.0	397.4

Table 2

Basellandschaftliche Kantonalbank--Business Position (cont.)					
(%)	--Year ended Dec. 31--				
	2019*	2018	2017	2016	2015
Commercial & retail banking/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Return on average common equity	4.4	5.7	5.9	6.3	6.5

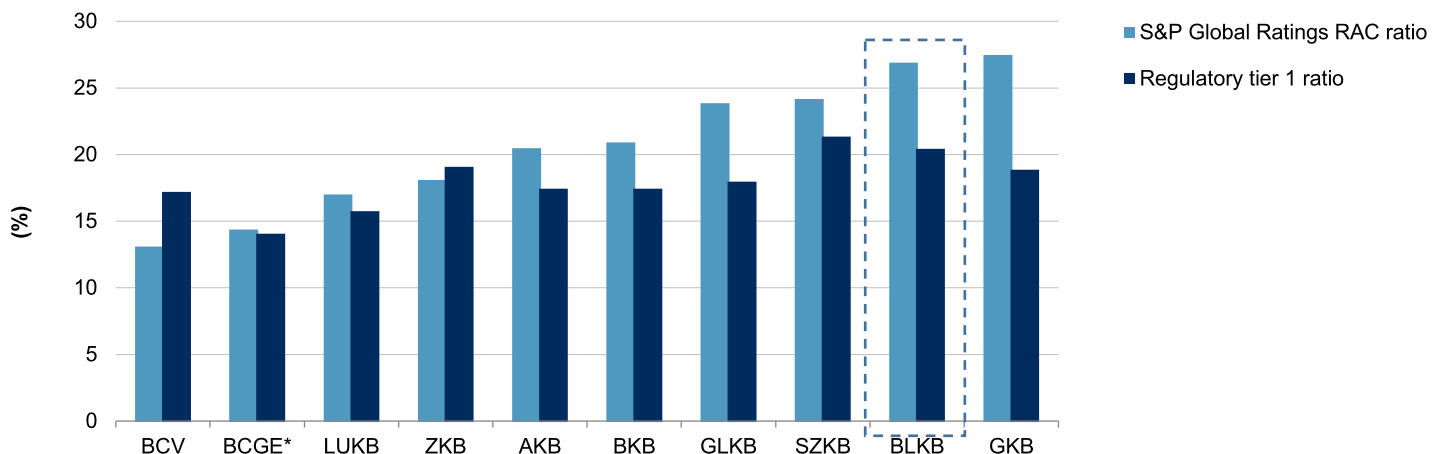
*Data as of June 30. N/A--Not applicable.

Capital and earnings: Very strong capitalization supported by stable earnings

We consider BLKB's stable earnings generation and exceptional capitalization levels to be a key rating strength. We do not anticipate a change in the bank's capital policy and expect BLKB's RAC ratio to increase beyond 27% over the next 18-24 months from 26.8% at year-end 2018. We continue to expect capital buildup will exceed the growth of our risk-weighted assets metric for BLKB over that period. This will allow the bank to maintain a RAC ratio that is among the highest in a global comparison (see chart 3).

Chart 3

BLKB's Risk-Adjusted Capitalization Is Among The Highest Of Rated Cantonal Banks



*Ratios as of Dec. 31, 2017. Source: S&P Global Ratings.

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We view BLKB's earnings capacity as strong and predictable, and we expect loan growth will remain slightly below market growth rates, at 2%-3% in the next two years. This results from the bank's focus on improving mortgage lending margins rather than volume growth.

We project that earnings will also be supported by stable fee and commission income, mainly stemming from the securities and wealth management business. We expect the bank's dividend policy to remain in line with that of previous years, with a total payout of Swiss franc (CHF) 80 million-CHF90 million yearly. BLKB's three-year average earnings buffer is expected to remain stable at about 1.40% of our risk-weighted assets figure (an earnings buffer of

1.0% indicates adequate earnings to cover normalized losses). This will support further capital buildup. On a risk-adjusted basis, BLKB's return figures also compare very well with domestic peers'.

BLKB's regulatory core equity tier 1 ratio stood at 19.9% as of end-June 2019, which is very high in a global comparison but lower than the bank's RAC ratio since we apply lower risk weights on Swiss retail loans than the Swiss regulator. We believe that Basel-Country, which owns 74% of BLKB and holds 100% of the voting rights, remains supportive of BLKB's capital position, and that BLKB won't be required to make major or extraordinary dividend distributions that might weaken its RAC ratio.

Table 3

Basellandschaftliche Kantonalbank--Capital And Earnings					
	--Year ended Dec. 31--				
(%)	2019*	2018	2017	2016	2015
Tier 1 capital ratio	19.9	20.4	20.0	19.9	19.2
S&P Global Ratings' RAC ratio before diversification	N/A	26.8	26.1	26.1	25.7
S&P Global Ratings' RAC ratio after diversification	N/A	19.3	19.1	18.8	20.4
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	73.7	74.6	74.6	77.5	76.0
Fee income/operating revenues	18.7	18.4	17.4	15.4	16.6
Market-sensitive income/operating revenues	6.2	4.7	6.5	5.8	5.7
Noninterest expenses/operating revenues	56.0	53.3	52.5	49.7	47.7
Preprovision operating income/average assets	0.6	0.7	0.7	0.8	0.9
Core earnings/average managed assets	0.6	0.7	0.7	0.8	0.9

*Data as of June 30. N/A--Not applicable.

Table 4

Basellandschaftliche Kantonalbank--Risk-Adjusted Capital Framework Data					
	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk					
Government & central banks	3,882,733,804.5	251,210,035.6	6.5	33,593,918.1	0.9
Of which regional governments and local authorities	0.0	0.0	0.0	0.0	0.0
Institutions and CCPs	1,582,510,517.8	451,335,289.7	28.5	237,400,894.1	15.0
Corporate	1,762,403,126.6	1,567,785,235.8	89.0	1,161,799,942.2	65.9
Retail	19,048,025,211.5	8,106,387,728.8	42.6	5,683,089,719.1	29.8
Of which mortgage	16,113,083,046.3	6,290,063,831.6	39.0	3,746,952,578.7	23.3
Securitization§	0.0	0.0	0.0	0.0	0.0
Other assets†	0.0	0.0	0.0	0.0	0.0
Total credit risk	26,275,672,660.5	10,376,718,290.0	39.5	7,115,884,473.4	27.1
Credit valuation adjustment					
Total credit valuation adjustment	--	8,100,000.0	--	0.0	--

Table 4

Basellandschaftliche Kantonalbank--Risk-Adjusted Capital Framework Data (cont.)					
Market Risk					
Equity in the banking book	108,706,682.8	136,924,263.6	126.0	748,773,219.5	688.8
Trading book market risk	--	49,862,500.0	--	74,793,750.0	--
Total market risk	--	186,786,763.6	--	823,566,969.5	--
Operational risk					
Total operational risk	--	0.0	--	743,615,053.6	--
	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global Ratings RWA	% of S&P Global Ratings RWA
Diversification adjustments					
RWA before diversification	--	11,483,419,003.6	--	8,683,066,496.5	100.0
Total Diversification/ Concentration Adjustments	--	--	--	3,397,806,412.9	39.1
RWA after diversification	--	11,483,419,003.6	--	12,080,872,909.4	139.1
		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings RAC ratio (%)
Capital ratio					
Capital ratio before adjustments		2,336,314,000.0	20.3	2,329,999,000.0	26.8
Capital ratio after adjustments†		2,336,314,000.0	20.3	2,329,999,000.0	19.3

*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. CHF -- Swiss Franc. Sources: Company data as of 'Dec. 31 2018', S&P Global Ratings.

Risk position: Conservative underwriting of new mortgage lending keeps nonperforming loans low

BLKB's business model focuses on low-risk well-collateralized lending categories, such as mortgages, small and midsize enterprises, and corporates, with only a small exposure to market-sensitive business.

BLKB's loan book of about CHF20.7 billion on June 30, 2019, shows a degree of concentration risk stemming from its residential real estate loans in Basel-Country and neighboring cantons. However, in our view, BLKB's risk profile will remain supported by very strong asset quality, high granularity, and collateralization levels (estimated average loan-to-value ratio of 55% for mortgage loans).

Still, like its domestic peers, BLKB remains exposed to risks related to a potential correction in Swiss residential real estate markets, in particular in its home canton following continued house price increases in recent years. Positively, however, we believe the bank will maintain its conservative underwriting standards in new mortgage lending, helping it to report low nonperforming loans. This supports our estimate that the cost of risk will be less than 5 basis points over the next two years, which we expect to be below the industry average.

To diversify its loan book, BLKB selectively participates in syndicated corporate loans to large corporations across Switzerland. However, we don't believe that this activity, which currently represents less than 5% of BLKB's lending and predominately focuses on highly rated corporations, will expose BLKB to elevated credit risks that would impair

its risk profile.

We observe that BLKB is mitigating its asset-liability risk by running its lending and refinancing activities with matching maturities and additionally uses interest rate swaps in order to lock in the desired interest rate risk exposure.

Table 5

Basellandschaftliche Kantonalbank--Risk Position					
(%)	--Year ended Dec. 31--				
	2019*	2018	2017	2016	2015
Growth in customer loans	3.9	3.4	2.8	2.4	1.9
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	39.1	37.1	39.3	26.2
Total managed assets/adjusted common equity (x)	11.0	10.9	10.9	11.2	11.7
New loan loss provisions/average customer loans	0.0	0.0	0.0	0.0	0.0
Gross nonperforming assets/customer loans + other real estate owned	N/A	0.1	0.1	0.2	0.1

*Data as of June 30. N/A--Not applicable.

Funding and liquidity: The strong retail franchise provides funding stability

We expect that BLKB's stable funding ratio will remain comfortable at 110%-115% over the next two years. The bank's funding will continue to benefit from a high level of core customer deposits, which constituted 73% of the total funding base on June 30, 2019, and from the strong equity base, comprising about 9% of total assets. We consider that the bank's customer deposits will remain very stable, owing to BLKB's business stability and the statutory guarantee of its liabilities from Basel-Country.

However, the loan portfolio continues to exceed the deposit base as demonstrated by BLKB's customer loans-to-deposits ratio, which has ranged between 115% and 120% over the past five years (122% as of June 30, 2019), which indicates BLKB's reliance on other means of funding. Consequently, BLKB takes advantage of wholesale funding, mainly covered bonds and unsecured bonds

We believe that BLKB's funding profile would not weaken during an economic downturn. Evidence for this is in the flight to quality observed during the most recent crises, and the continuous increase in customer deposits over recent years, despite the low interest rates the bank has offered.

Our assessment of BLKB's liquidity as strong reflects our estimate of the bank's strong one-year liquidity ratio (broad liquid assets to short-term wholesale funding) at almost 3x on June 30, 2019. Its use of short-term wholesale funding (mainly repurchase agreements) remains at a low 6.3% of the funding base. We consider the bank's liquidity coverage--consisting mainly of securities eligible for repurchase at the Swiss central bank--to be strong, indicating the availability of sufficient liquid assets to withstand a lack of access to wholesale funding for more than 12 months.

Table 6

Basellandschaftliche Kantonalbank--Funding And Liquidity					
(%)	--Year A6ended Dec. 31--				
	2019*	2018	2017	2016	2015
Core deposits/funding base	73.1	73.4	76.8	73.9	74.0
Customer loans (net)/customer deposits	122.3	120.5	116.7	120.3	119.3

Table 6

Basellandschaftliche Kantonalbank--Funding And Liquidity (cont.)					
--Year Aged Dec. 31--					
(%)	2019*	2018	2017	2016	2015
Long-term funding ratio	94.3	94.1	96.4	94.1	94.6
Stable funding ratio	112.0	112.8	107.0	112.3	112.9
Short-term wholesale funding/funding base	6.3	6.6	4.0	6.5	5.9
Broad liquid assets/short-term wholesale funding (x)	2.9	2.9	3.0	2.9	3.1
Net broad liquid assets/short-term customer deposits	16.8	17.3	10.3	16.8	19.7
Short-term wholesale funding/total wholesale funding	23.4	24.6	17.2	24.9	22.9
Narrow liquid assets/3-month wholesale funding (x)	30.3	7.7	4.1	4.3	11.8

*Data as of June 30.

Support: Uplift due to support from the Canton of Basel-Country

We regard BLKB as a GRE and see an extremely high likelihood that BLKB's owner, Basel-Country, would provide timely and sufficient support to BLKB. We base our assessment on the bank's integral link with Basel-Country, which we expect will provide timely support to BLKB. Our assessment is underpinned by the owner's full control of the bank (100% of the voting rights) and its provision of a statutory guarantee for the bank's liabilities. BLKB plays very important role for the canton, owing to the significant impact of its activities on the local economy. Because of this, we add a two-notch uplift to BLKB's 'a+' SACP to derive the long-term rating. We do not envisage that the bank's GRE status or our view of an extremely high likelihood of extraordinary government support will change in the medium term.

We expect the existing cantonal guarantees to remain in place in the medium term. However, although beyond our outlook horizon, we consider the potential risk that future agreements between Switzerland and the EU regarding preferential market access might include the removal of cantonal guarantees for all banks.

BLKB benefits from Basel-Country's statutory guarantee, which ultimately covers all of BLKB's liabilities, excluding nonvoting participation certificates ("Partizipationskapital"). However, we note that the guarantee does not explicitly ensure timely repayment, as defined by our criteria. Nevertheless, we believe that the canton has strong incentives to help BLKB meet its obligations on time, owing to the bank's importance to the regional economy and to prevent reputational damage.

Related Criteria

- 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
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Group Rating Methodology, Jul 01, 2019

- 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: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Banking Industry Country Risk Assessment: Switzerland, Nov. 30, 2018

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 December 16, 2019)*

Basellandschaftliche Kantonalbank	
Issuer Credit Rating	AA/Stable/A-1+
Senior Unsecured	AA
Issuer Credit Ratings History	
01-Dec-2014	AA/Stable/A-1+
20-Jan-2014	AA+/Negative/A-1+
03-Jul-2012	AAA/Negative/A-1+
Sovereign Rating	
Switzerland	AAA/Stable/A-1+
Related Entities	
Basel-Country (Canton of)	
Issuer Credit Rating	AA+/Stable/A-1+
Senior Unsecured	AA+

*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

Ratings Detail (As Of December 16, 2019)*(cont.)

debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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