

## Banco Cooperativo Sicredi S.A.

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# Banco Cooperativo Sicredi S.A.

## Ratings Score Snapshot

### Issuer Credit Rating

BB-/Stable/--

*Brazil National Scale*

brAAA/Stable/--

SACP: bb



Support: 0



Additional factors: -1

Anchor	bb+	
Business position	Adequate	0
Capital and earnings	Adequate	0
Risk position	Moderate	-1
Funding	Adequate	0
Liquidity	Adequate	
CRA adjustment	0	

ALAC support	0
GRE support	0
Group support	0
Sovereign support	0

Issuer credit rating
<b>BB-/Stable/B</b>

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

## Credit Highlights

### Key strengths

Support from all entities that make up the Sicredi Cooperative System (Sicredi or System), reflected in the existing joint guarantee mechanisms.

A business model that provides competitive and funding advantages thanks to the dynamics between Sicredi and its customers that are members of the system.

Solid asset quality metrics despite difficult economic conditions.

### Key risks

Operational complexity due to the structure of the credit union system.

Rapid expansion of its credit portfolio and business correlation.

Higher credit risk in the domestic market due to the challenging economic scenario.

**The rating on Banco Cooperativo Sicredi S.A. (Sicredi) reflects the System's aggregate credit quality.** Our analysis is based on our opinion that the bank and the credit unions that are part of the System form an integrated institution--despite independent operations--that would provide support in any foreseeable circumstance to any of the System's entities. Our rating also takes into account the competitive advantage of Sicredi's business model, which promotes stability of the customer and depositor base, the latter of which consists of members of the System.

**Based on the cooperative model, Sicredi has reported annual average lending growth of more than 30% in the past four years, well above the market average.** The entity maintained good levels of capitalization, even with the strong growth it posted, thanks to the substantial profits of recent years. Despite the challenging economic situation in Brazil, Sicredi's loan portfolio grew 36.9% in 2021, with an impressive 41% increase in the rural segment. The System's profitability also improved, with net income reaching R\$4.7 billion in 2021, a 43% increase over 2020.

**Sound asset quality counterbalanced by system complexity.** Despite good delinquency metrics posted in recent years, the intricacies stemming from large cooperative groups hamper the entity's risk position. While its nonperforming loans (NPLs) were 0.9% in December 2021, well below the financial system's average, the system's operational complexity and its above-average lending growth can add additional volatility to its capital position.

**Healthy funding and liquidity.** Sicredi benefits from a diversified and stable funding structure due to its wide branch network. Retail deposits make up the majority of the funding base, which we view as less expensive and more diversified than other sources of funding, and they're also more stable because the depositors are part of the System. At the same time, we view Sicredi's liquidity policy as conservative--it monitors the liquidity of each entity in the System. As of December 2021, the group's broad liquid assets covered 2.75x its short-term wholesale funding, in line with the historical average.

## Outlook

The stable outlook on Sicredi reflects that on the sovereign rating on Brazil (BB-/Stable/B) for the next 12 months. The sovereign rating cap reflects Sicredi's high exposure to government bonds and to the domestic market. As a result, we expect the ratings on the bank to move in tandem with that on the sovereign. We expect Sicredi to continue strengthening its cooperative business model, expanding the number of members and geographical reach with good profitability, despite the challenging economic scenario, which includes soaring inflation and policy rates combined with political uncertainty.

### Upside scenario

We could upgrade Sicredi following the same action on Brazil.

### Downside scenario

We could downgrade Sicredi following the same action on Brazil because we rate the bank at the same level as the sovereign. In our view, a downgrade due to a deterioration in Sicredi's stand-alone credit quality is unlikely because we don't see pressure on its credit factors.

## Key Metrics

### Banco Cooperativo Sicredi S.A.--Key Ratios And Forecasts\*

	--Fiscal year ended Dec. 31--				
	2020a	2021a	2022f	2023f	2024f
Growth in operating revenue (%)	9.6	21.7	16.0-20.0	9.5-11.5	7.5-9.5
Growth in customer loans (%)	34.7	36.9	19.0-21.0	9.0-11.0	9.0-11.0
Growth in total assets (%)	40.0	27.6	16.0-20.0	7.0-9.0	7.0-9.0
Net interest income/average earning assets (NIM) (%)	7.7	7.0	6.5-7.5	6.5-7.5	6.5-7.5
Cost to income ratio (%)	61.7	59.6	59.0-62.0	59.0-62.0	58.0-61.0
Return on equity (%)	17.6	21.1	20.0-21.0	20.0-21.0	20.0-21.0
Return on assets (%)	2.6	2.8	2.5-3.0	2.5-3.0	2.5-3.0

**Banco Cooperativo Sicredi S.A.--Key Ratios And Forecasts\* (cont.)**

	--Fiscal year ended Dec. 31--				
	2020a	2021a	2022f	2023f	2024f
New loan loss provisions/average customer loans (%)	1.9	1.5	1.2-1.5	1.2-1.4	1.2-1.4
Gross nonperforming assets/customer loans (%)	0.9	0.9	1.5-2.0	1.5-2.0	1.5-2.0
Net charge-offs/average customer loans (%)	0.8	0.3	0.3-0.4	0.3-0.4	0.3-0.4
Risk-adjusted capital ratio (%)	7.4	7.5	7.5-8.0	7.5-8.0	7.5-8.0

\*All figures adjusted by S&P Global Ratings. a--Actual. f--Forecast.

## Anchor:'bb+' For Banks Operating In Brazil

We classify Brazil's banking sector in group '6' under our Banking Industry Country Risk Assessment (BICRA). Other countries in group '6' include China, Colombia, Portugal, Indonesia, Brunei, Thailand, Trinidad and Tobago, South Africa, and Uruguay. Our bank criteria use our BICRA economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. The anchor for banks operating only in Brazil is 'bb+'.

In our opinion, Brazil's low income levels and the government's weak fiscal position constrain the country's economic resilience. We expect economic performance will remain mediocre in the medium term, absent a faster pace of reform approvals. Asset quality metrics remain stronger than we expected and should weaken due to the softer economic performance we expect for 2022 and the weaker credit growth, but should remain manageable thanks to banks' conservative growth strategies before the pandemic.

Our industry risk assessment for Brazil reflects its well-developed financial regulation that is broadly in line with international standards, and the regulator's good track record that helped the domestic financial system withstand the last economic downturn. We expect profitability to continue improving in 2022, reflecting lower provisioning needs. As interest rates pick up, banks' net interest margins should be resilient thanks to their ability to transfer the higher funding costs to ultimate borrowers and to the high share of variable-rate loans and the short tenor of the bulk of fixed-rate loans. The Brazilian banking system has an adequate funding mix with a large and stable core customer deposit base.

## Business Position: Solid Customer Base Reflects The Cooperative-Based Model

We base our business position assessment on Sicredi's business model that provides competitive advantages due to the dynamics between the System and its customers, which are also members of the credit unions. This has enabled Sicredi to develop long-term relationships with its customers, fostering loyalty and as a result greater revenue stability, strengthening its business position. Additionally, we believe that the System has a unified strategy, and its management has experience in the segments in which it operates. However, the complexity of its operational model and the autonomy of credit unions in certain decision-making processes reduces the ability of senior management to implement strategies on a consolidated basis.

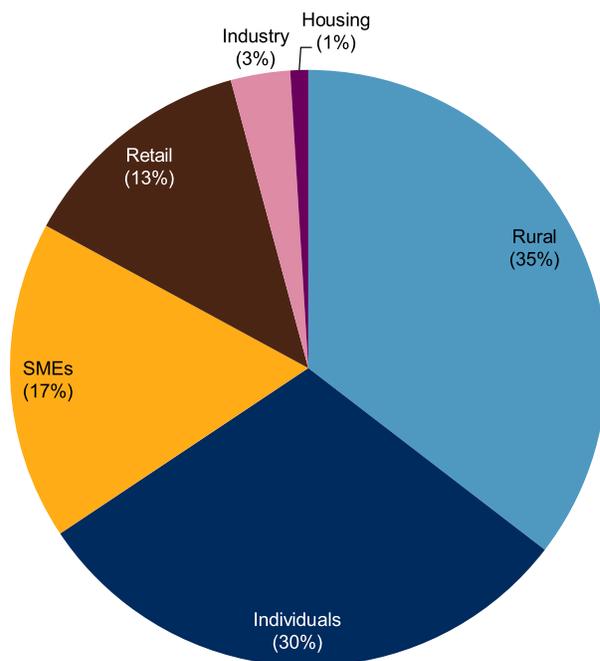
Sicredi comprises more than 5.5 million members across over 100 cooperatives, which are aggregated in five regional

credit centers. As of June 2021, the Sicredi conglomerate was the ninth-largest financial institution in Brazil in terms of assets, holding a market share of about 1.6%, and the sixth largest in terms of deposits, holding about 2.9% of total deposits. Despite its presence in 25 Brazilian states, Sicredi still has some geographical concentration, because approximately 65% of its credit portfolio is in southern Brazil, while the market average is only 18% for that region.

The entity has a clear expansion strategy, and after establishing 38 branches in 2021, its goal is 62 openings in 2022. Because credit unions are often present in small municipalities and are sometimes the only financial institution physically in those places, they have a competitive edge against large banks, which have been closing branches and focusing on digital offerings in recent years. Moreover, Sicredi aims to combine its brick-and-mortar growth with a digital presence, and to expand its brand recognition in large cities. Still, we don't expect major changes in the entity's operations in the next few years because it should continue to be mostly concentrated in southern Brazil and in the agribusiness sector, which represents 35% of its loan portfolio.

**Chart 1**

**Loans Breakdown**



Source: S&P Global Ratings.  
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**Capital And Earnings: Robust Internal Capital Underpins The System's Rapid Growth**

Our assessment of Sicredi's capital and earnings is based on our projected risk-adjusted capital (RAC) ratio of

7.5%-8.0% in the next two years. Although it doesn't have an aggregate calculation of regulatory capital, Sicredi maintains individual control of the regulatory capital indices of each cooperative and the bank, which are solidly above the minimum regulatory requirements. As of December 2021, Banco Sicredi's Basel III ratio was 15.27% and its Tier I ratio was 15.01%. We expect the group to maintain this capitalization thanks to its solid internal capital generation in the next two years.

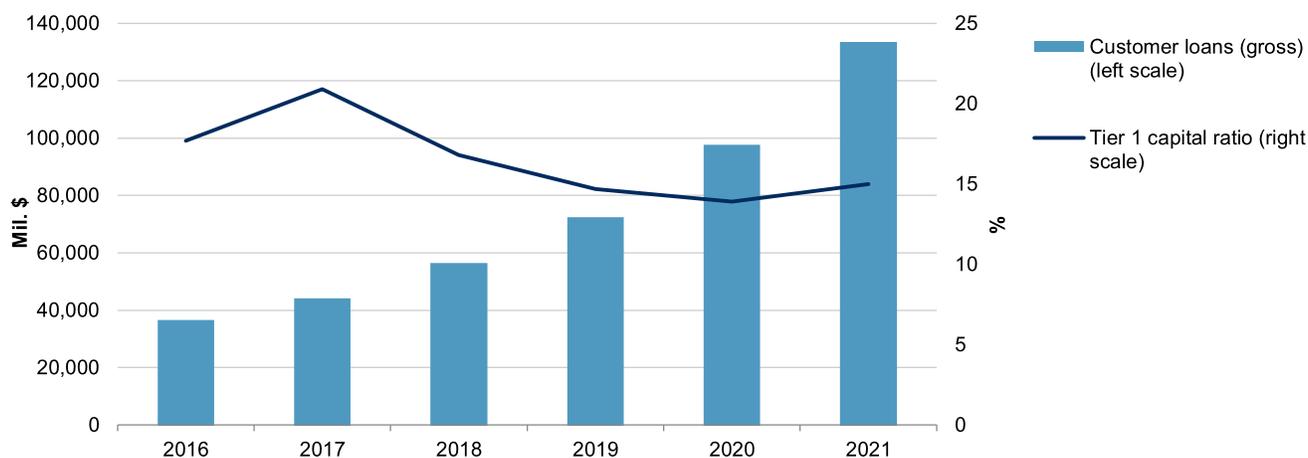
We apply our risk-adjusted capital framework (RACF) to assess the bank's capitalization level, regardless of the local regulations and the entity's internal risk indicators. Our RAC ratio compares our definition of total adjusted capital (TAC) with our calculation of the risk-weighted assets (RWA), resulting in a more globally comparable risk metric than the regulatory ratios. The main difference between our methodology and local regulations is that we apply risk weights to exposures to government bonds based on the rating on that country. This is ultimately punitive for banks operating in Brazil, which usually have high exposure to these bonds. For Sicredi, we analyzed the exposures and capital in aggregate for the System.

We base our projections on Sicredi on the following base-scenario assumptions:

- Brazil's real GDP growth of 0.4% in 2022 and 1.7% in 2023;
- System's loan portfolio to continue expanding, although at a slightly slower pace than in recent years. We expect loan growth at 10%-20% in the next two years because credit unions are likely to face greater competition;
- Efficiency levels for 2022 and 2023 in line with those in the past two years;
- NPLs returning to historical levels, at 1.5%-2.0% in 2022 and 2023;
- Return on equity (ROE) of 18%-20% in 2022 and 2023; and
- Distribution of dividends of about 30% of the credit unions' net income in the coming years, while Banco Sicredi should continue to distribute 100% of its net income.

Chart 2

## Loan Portfolio And Capital Ratio



Source: S&P Global Ratings.

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## Risk Position: Track Record Of Low Losses Offset by System's Complexity

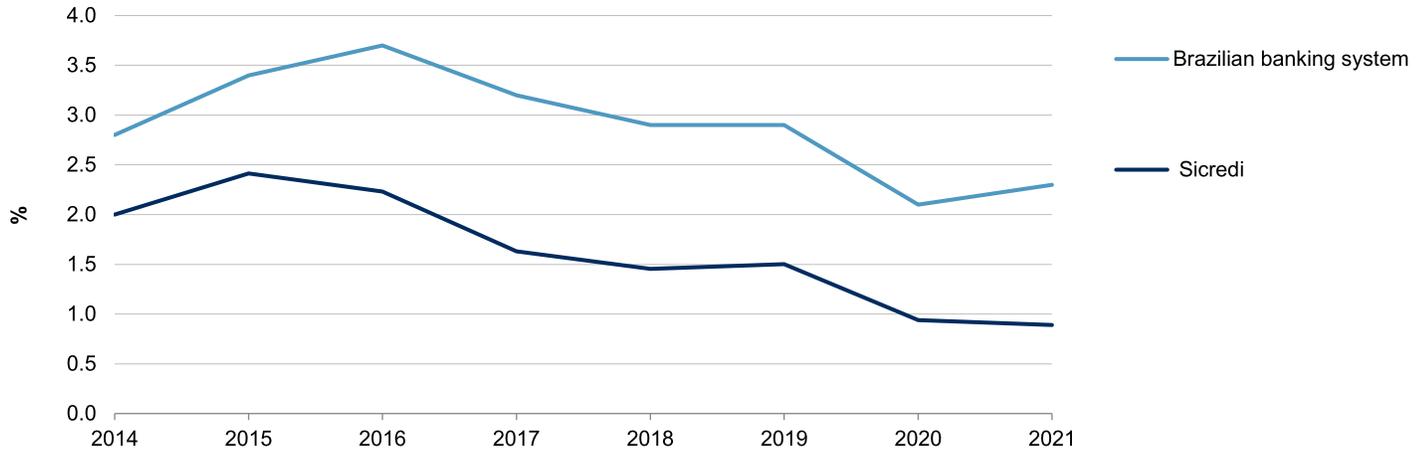
Sicredi's risk position reflects several operational complexities intrinsic to large cooperative groups, despite the entity's strong asset quality metrics in recent years. When analyzed in isolation, we think the factors related to the System's operational complexity, lending growth above the market average, and correlation of its businesses aren't excessively problematic, but if combined, they could make its capital position more volatile.

After delinquency metrics decreased during 2020, in line with the financial system, Sicredi posted NPLs of 0.89% in December 2021 from 0.94% in the previous year. Although the combined figures are below the banking system average, since the credit analysis and approval process are decentralized, the various entities and geographic regions of the System have distinct asset quality indicators and portfolio composition, with different levels of risk appetite.

In addition, the System's complexity is reflected in the potential changes in its capital base due to variations in the number of members and cooperatives. Although this aspect has been generally positive, we believe that external effects, which are not directly under the System's control, could result in some unpredictability for its capital position. Finally, we consider that the System's aggressive growth and the correlation among its businesses can cause some volatility in the asset quality metrics in an adverse operational scenario.

**Chart 3**

**Nonperforming Assets Comparison**



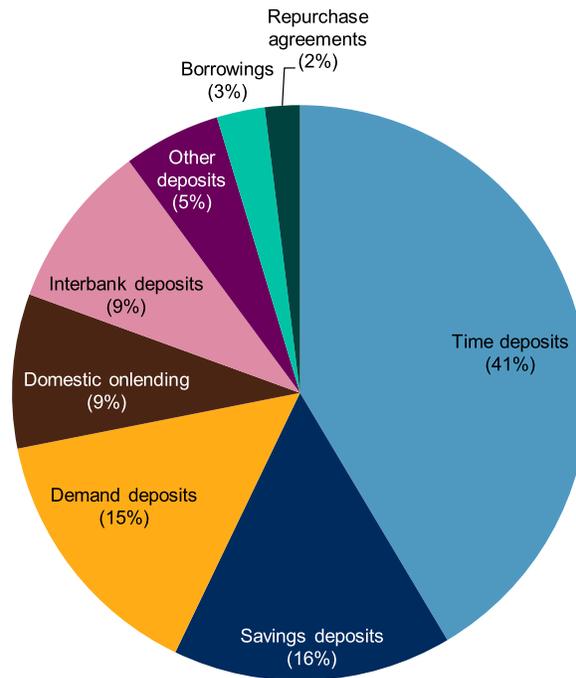
Source: S&P Global Ratings.

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## Funding And Liquidity: Stable Deposit Base And Centralized Liquidity Management

In our view, Sicredi's funding benefits from the System's operating model that fosters a vast base of retail deposits, which we view as more stable and diversified than other sources of funding. Additionally, Sicredi's stable funding base reflects the close relationship between the System and depositors that are part of the System, making this funding source more stable. Time deposits represent about 41% of the group's funds, followed by savings deposits (16%) and demand deposits (15%).

**Chart 4**  
**Sicredi Funding Breakdown**



Source: S&P Global Ratings.  
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Demand and time deposits stem mainly from the relationship between the credit unions and their members, while savings deposits are also taken by credit unions, but booked at the level of Sicredi and subsequently transferred to the credit unions. Moreover, as of December 2021, Sicredi's stable funding ratio (SFR) was 124%, from 135% in December 2020.

Sicredi is tapping funding from multilateral lending agencies. In May 2021, IFC, an arm of World Bank investments, granted the credit union \$120 million in a seven-year term to fund renewable energy projects with a focus on solar energy systems. With that, Sicredi became the first Brazilian cooperative financial institution to be certified by the Climate Bonds Initiative and by the Green Loan Principles.

Sicredi has maintained a conservative liquidity policy, with a high level of liquid assets invested mainly in government bonds, in addition to centralized liquidity management in the System. The institution monitors the liquidity of each entity in the System, with a minimum level of liquidity required, and may block the granting of credit to a cooperative if it doesn't meet this minimum requirement. In addition, the sources of SFG (Sicredi Fundos Garantidores) are available to the System in a tight liquidity scenario, representing a contingency line. The group's broad liquid assets cover 1.6x its wholesale funding and 47% of its core deposits, which we view as adequate. The System reported a broad liquid assets to short-term wholesale funding ratio of 2.75x as of December 2021, with an average of 3.2x for the

past five years.

## Support: No Uplift To The SACP

In our view, the bank and the System's credit unions make up an integrated institution that would provide support to the bank in any foreseeable circumstance. Our opinion reflects Sicredi's integration, the consolidated strategic decision process, and the System's joint and several guarantee mechanisms, consisting of the following pillars:

- **Statutory structure:** all entities that make up the System are subject to the same policies, procedures, governance standards, and risk management. At the same time, membership in the System automatically implies joint and several liability and contribution to Sicredi's guarantee funds.
- **Centralized financial management:** the System's liquidity management is centralized, and it can apply the procedures established in its bylaws and internal policies in relation to joint and several liability with the other entities in the System.
- **Guarantee funds:** the System guarantees funds with the aim of promoting the growth of cooperatives or providing support to any entity that may face financial stress.

Sicredi's integration and the mechanisms available to provide support to the bank in a stress scenario are key factors that allow us to rate the institution based on the group's aggregate credit quality. We believe that the bank's high importance for the System's strategy--given that it's the intermediary between the credit unions and the market--makes it a core entity for its group. As a result, the rating on the bank reflects the group's credit profile. On the other hand, the sovereign rating on Brazil caps the rating on the bank, given Sicredi's high exposure to the domestic market.

## Environmental, Social, And Governance (ESG)

### ESG Credit Indicators



ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumeric 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

Social factors are a positive consideration in our credit rating analysis of Sicredi. The entity's business position is underpinned by its role of increasing financial inclusion by connecting unbanked citizens in small municipalities to the financial system. Sicredi has a competitive advantage over commercial banks, stemming from its cooperative model, which promotes high stability given the long-standing relationship between the system and its clients, who are also the cooperative members and, therefore, part of the system. As a result, the bank has historically had a solid business thanks to its sticky member base, and has posted steady growth in Brazil's small cities.

## Key Statistics

**Table 1**

Banco Cooperativo Sicredi S.A. Key Figures					
	--Year-ended Dec. 31--				
(Mil. R\$)	2021	2020	2019	2018	2017
Adjusted assets	197,239.8	154,480.7	110,254.3	94,648.8	76,977.1
Customer loans (gross)	133,145.3	97,240.6	72,176.5	56,062.9	43,891.6
Adjusted common equity	24,878.7	20,178.4	17,383.3	14,867.0	12,752.2
Operating revenues	16,419.5	13,496.5	12,311.6	10,553.3	9,148.3
Noninterest expenses	9,780.4	8,321.0	7,655.0	6,663.5	5,667.2
Core earnings	4,841.6	3,379.0	3,104.4	2,784.0	2,413.6

R\$--Brazilian real.

**Table 2**

Banco Cooperativo Sicredi S.A. Business Position					
	--Year-ended Dec. 31--				
(%)	2021	2020	2019	2018	2017
Loan market share in country of domicile	N/A	2.2	1.9	1.6	1.3
Deposit market share in country of domicile	N/A	2.8	2.6	2.3	2.3
Return on average common equity	21.1	17.6	18.8	19.6	19.9

N/A--Not applicable.

**Table 3**

Banco Cooperativo Sicredi S.A. Capital And Earnings					
	--Year-ended Dec. 31--				
(%)	2021	2020	2019	2018	2017
Tier 1 capital ratio	15.0	13.9	14.7	16.8	20.9
S&P Global Ratings' RAC ratio before diversification	7.4	7.4	8.8	8.7	N/A
S&P Global Ratings' RAC ratio after diversification	7.1	6.8	8.3	8.2	N/A
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	73.2	72.8	75.3	75.3	78.1
Fee income/operating revenues	20.4	20.4	18.9	18.3	17.1
Cost to income ratio	59.6	61.7	62.2	63.1	61.9
Provision operating income/average assets	3.8	3.9	4.5	4.5	4.9
Core earnings/average managed assets	2.7	2.5	3.0	3.2	3.4

N/A--Not applicable.

**Table 4**

Banco Cooperativo Sicredi S.A. Risk Position					
	--Year-ended Dec. 31--				
(%)	2021	2020	2019	2018	2017
Growth in customer loans	36.9	34.7	28.7	27.7	21.1

**Table 4**

<b>Banco Cooperativo Sicredi S.A. Risk Position (cont.)</b>					
	<b>--Year-ended Dec. 31--</b>				
<b>(%)</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Total diversification adjustment/S&P Global Ratings' RWA before diversification	4.0	8.2	6.1	5.3	N/A
Total managed assets/adjusted common equity (x)	7.9	7.7	6.4	6.4	6.1
New loan loss provisions/average customer loans	1.5	1.9	2.2	2.1	2.5
Net charge-offs/average customer loans	0.3	0.8	0.7	0.7	1.3
Gross nonperforming assets/customer loans + other real estate owned	0.9	0.9	1.5	1.5	1.6
Loan loss reserves/gross nonperforming assets	225.7	378.8	280.1	312.0	323.2

N/A--Not applicable.

**Table 5**

<b>Banco Cooperativo Sicredi S.A. Funding And Liquidity</b>					
	<b>--Year-ended Dec. 31--</b>				
<b>(%)</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Core deposits/funding base	77.3	80.4	77.3	75.4	75.8
Customer loans (net)/customer deposits	100.3	89.9	100.4	92.6	88.8
Long-term funding ratio	88.4	91.1	89.3	87.6	88.6
Stable funding ratio	124.2	135.8	121.9	130.8	138.3
Short-term wholesale funding/funding base	13.3	10.3	12.8	14.8	13.7
Broad liquid assets/short-term wholesale funding (x)	2.7	4.0	2.8	2.9	3.4
Broad liquid assets/total assets	30.9	34.8	29.1	35.0	37.8
Broad liquid assets/customer deposits	47.4	51.7	46.8	57.6	62.3
Net broad liquid assets/short-term customer deposits	68.1	83.4	68.2	85.4	106.9
Short-term wholesale funding/total wholesale funding	58.9	52.5	56.3	60.1	56.5

## Related Criteria

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 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
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

**Ratings Detail (As Of June 23, 2022)\*****Banco Cooperativo Sicredi S.A.**

Issuer Credit Rating	BB-/Stable/--
<i>Brazil National Scale</i>	brAAA/Stable/--

**Issuer Credit Ratings History**

27-Jul-2020	BB-/Stable/--
11-Jul-2018	brAAA/Stable/--
17-Apr-2018	brAA-/Stable/--

**Sovereign Rating**

Brazil	BB-/Stable/B
<i>Brazil National Scale</i>	brAAA/Stable/--

\*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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