

Banco Cooperativo Sicredi S.A.

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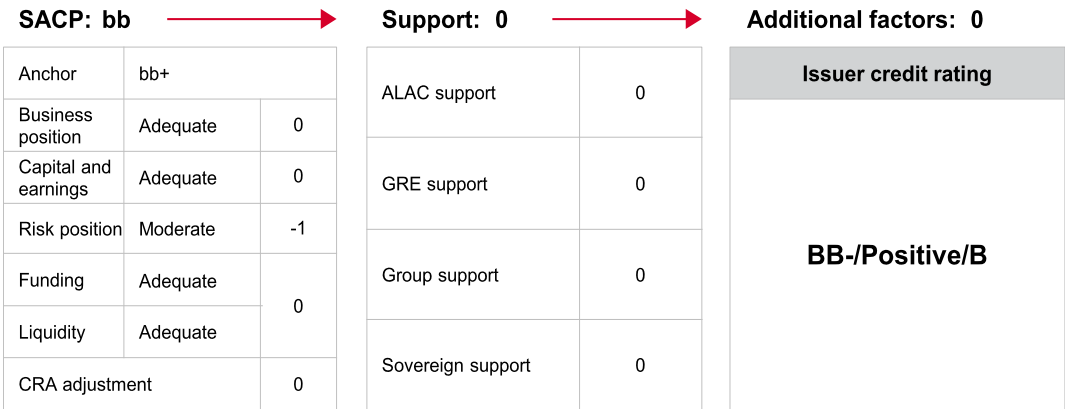
Key Statistics

Related Criteria

Banco Cooperativo Sicredi S.A.

Ratings Score Snapshot

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



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	Key risks
Support from all entities that make up the Sicredi Cooperative System (Sicredi or System), reflected in the existing joint guarantee mechanisms.	Operational complexity due to the structure of the credit union system.
A business model that provides competitive advantages thanks to the dynamics between Sicredi and its customers that are members of the system.	Rapid expansion of its credit portfolio and business correlation.
Diversified and stable funding structure due to its wide branch network	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. We base our analysis 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 five years, well above the market average. Sicredi's total loan portfolio grew 26.8% in 2022, with a significant 39.2% increase in the rural segment. Although those figures are still higher than the industry average, they indicate a slower growth pace than previous years, reflecting Brazil's challenging economic situation. Nevertheless, Sicredi's profitability

has continued to improve, supported by its resilient net interest margins, with net income reaching R\$5.9 billion in 2022, a 24% increase over 2021. In the first quarter of 2023, this continued, despite higher credit loss provisions: net income was 11.9% higher than a year before.

Higher risk in the economy is pressuring asset quality, while system complexity remains a key risk. Despite good delinquency metrics posted in recent years, the System's nonperforming loans (NPLs), accordingly with S&P metrics, reached 2.5% in March 2023 from 2.3% in December 2022 and 1.4% in December 2021. Although these metrics are still well below the financial industry's average, they reflect tougher credit conditions stemming from a deterioration in unsecured retail products such as credit cards and personal loans. Moreover, we believe the system's operational complexity and its above-average lending growth could add additional volatility to its financial performance.

Sicredi benefits from a diversified and stable funding structure due to its large branch network. Sicredi's retail depositors, which are mostly part of the cooperative system, make up the majority of its funding base, which we view as less expensive and more diversified than other sources of funding. At the same time, we view Sicredi's liquidity policy as conservative—it monitors the liquidity of each entity in the System. As of March 2023, the group's broad liquid assets covered 3.6x its short-term wholesale funding, in line with the historical average.

Outlook

The positive outlook on Sicredi reflects that on the global scale sovereign rating on Brazil (BB-/Positive/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 its geographic reach with good profitability, despite the challenging economic scenario that pressures asset quality.

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--			
(%)	2021a	2022a	2023f	2024f
Growth in operating revenue	21.7	36.1	15.0-20.0	15.0-20.0

Banco Cooperativo Sicredi S.A.--Key ratios and forecasts (cont.)

	--Fiscal year ended Dec. 31--			
(%)	2021a	2022a	2023f	2024f
Growth in customer loans	36.9	20.6	15.0-20.0	15.0-20.0
Growth in total assets	27.6	33.4	15.0-17.5	15.0-17.5
Net interest income/average earning assets (NIM)	7.0	7.5	7.0-7.5	7.2-7.7
Cost to income ratio	59.6	56.2	56.0-60.0	56.0-60.0
Return on average common equity	21.1	21.4	19.0-21.5	19.5-22.0
Return on assets	2.8	2.6	2.1-2.6	2.2-2.7
New loan loss provisions/average customer loans	1.5	2.5	2.3-2.6	2.1-2.3
Gross nonperforming assets/customer loans	1.4	2.3	2.6-2.9	2.5-2.8
Net charge-offs/average customer loans	0.3	0.5	1.1-1.1	1.2-1.2
Risk-adjusted capital ratio	7.4	7.2	7.0-7.5	7.0-7.5

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

Anchor:'bb+' For Banks Operating In Brazil

We classify Brazil's banking sector in group '6' under our Banking Industry Country Risk Assessment (BICRA). 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 growth of 1.7% in 2023 because of very strong agricultural performance and its spillover effects on the rest of the economy. Credit growth will likely moderate amid interest rates that stay higher for longer, private banks' tighter underwriting practices and uncertainty regarding the economic policies the new government will implement. Asset quality will slip as a result of the economic downturn, low credit growth, and high interest rates, but credit losses should be manageable because of the high provisioning coverage.

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 has helped the domestic financial system withstand the last economic downturn. Brazilian banks' profitability remained resilient thanks to the high provisioning coverage and diversified revenue mix. Profitability will likely slip as provisioning needs rise, but from good levels. 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 and a stronger 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

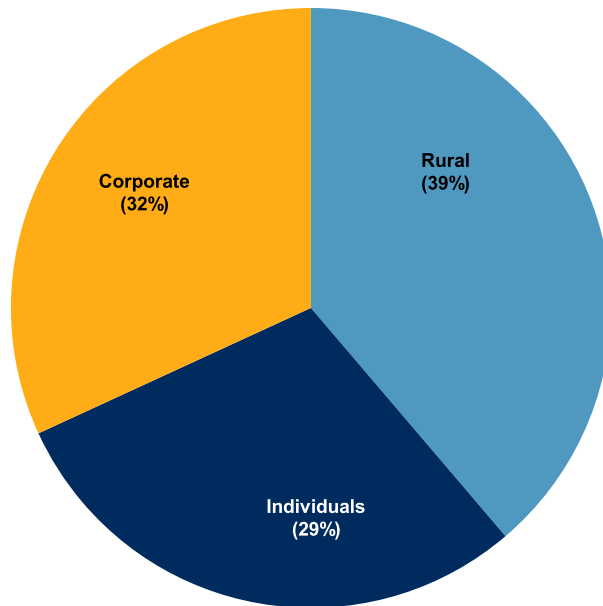
autonomy of credit unions in certain decision-making processes reduces the ability of senior management to implement strategies on a consolidated basis.

Sicredi comprises more than 6.6 million members across more than 100 cooperatives, which are aggregated in five regional credit centers. As of March 2023, the Sicredi conglomerate was the seventh largest financial institution in Brazil in terms of loans, holding a market share of about 3.0%, and the sixth largest in terms of deposits, holding about 3.5%. Despite its presence in 26 Brazilian states, Sicredi still has some geographic concentration because approximately 58% of its credit portfolio is in southern Brazil.

The entity has a clear expansion strategy through its branch network since credit unions are often present in small municipalities and are sometimes the only financial institution physically in those places. As a result, Sicredi has 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 about 49% 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

We base our assessment of Sicredi's capital and earnings on our projected risk-adjusted capital (RAC) ratio of 7.0%-7.5% in the next two years. Although Sicredi doesn't have an aggregate calculation of regulatory capital, it maintains individual control of the regulatory capital indices of each cooperative and the bank, which are solidly above the minimum regulatory requirements. As of March 2023, the aggregate Basel III ratio for the system was 18.34% and its Tier I ratio was 17.50%. At the bank level, the ratios were 15.46% and 14.65%, respectively. We expect the group to maintain this capitalization thanks to its solid internal capital generation in the next two years.

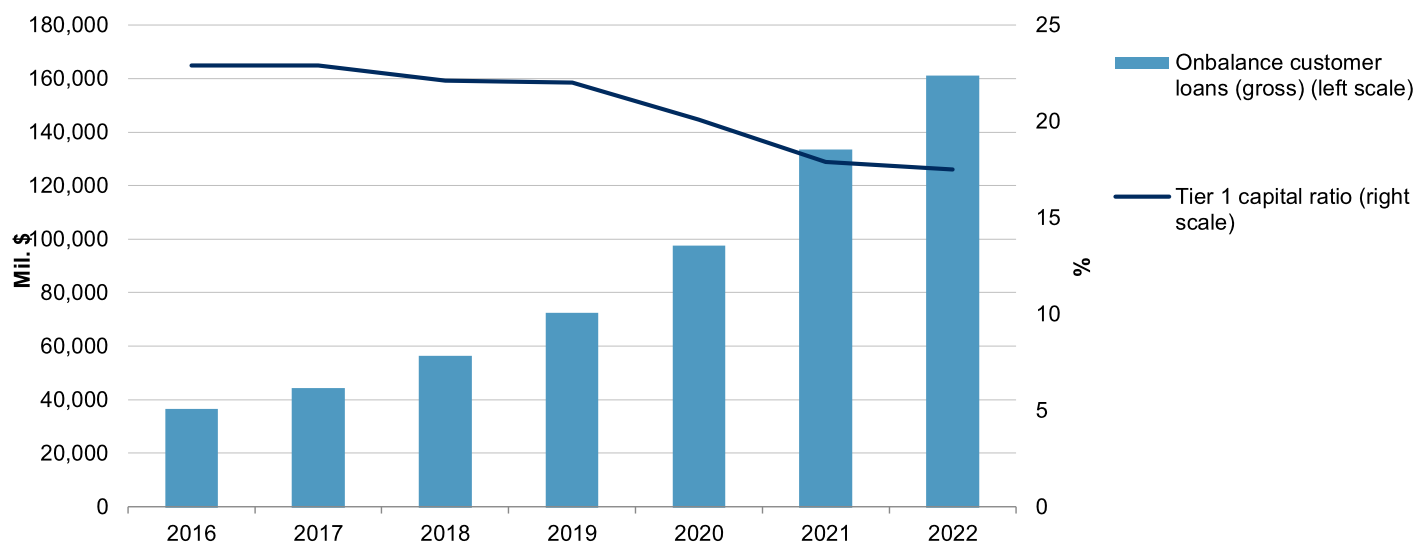
We apply our risk-adjusted capital framework (RACF) to assess the bank's capitalization level, regardless of the local regulations and the entity's internal risk indicators. Our RAC ratio compares our definition of total adjusted capital (TAC) with our calculation of the risk-weighted assets (RWA), resulting 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 analyze the exposures and capital in aggregate for the System.

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

- Brazil's real GDP growth of 1.7% in 2023 and 1.5% in 2024;
- System's loan portfolio to continue expanding, although at a slightly slower pace than in recent years. We expect loan growth of 20% annually in the next two years;
- Efficiency levels in line with those in the past two years;
- Higher NPLs at 2.5%-3.0% for the next two years;
- Return on equity (ROE) of 18%-22%; and
- Distribution of dividends of about 25% of the credit unions' net income in the coming years, while Banco Sicredi to 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 The System's Complexity

Sicredi's risk position reflects several operational complexities intrinsic to large cooperative groups, despite the entity's historically strong asset quality metrics. 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 the group's capital position more volatile.

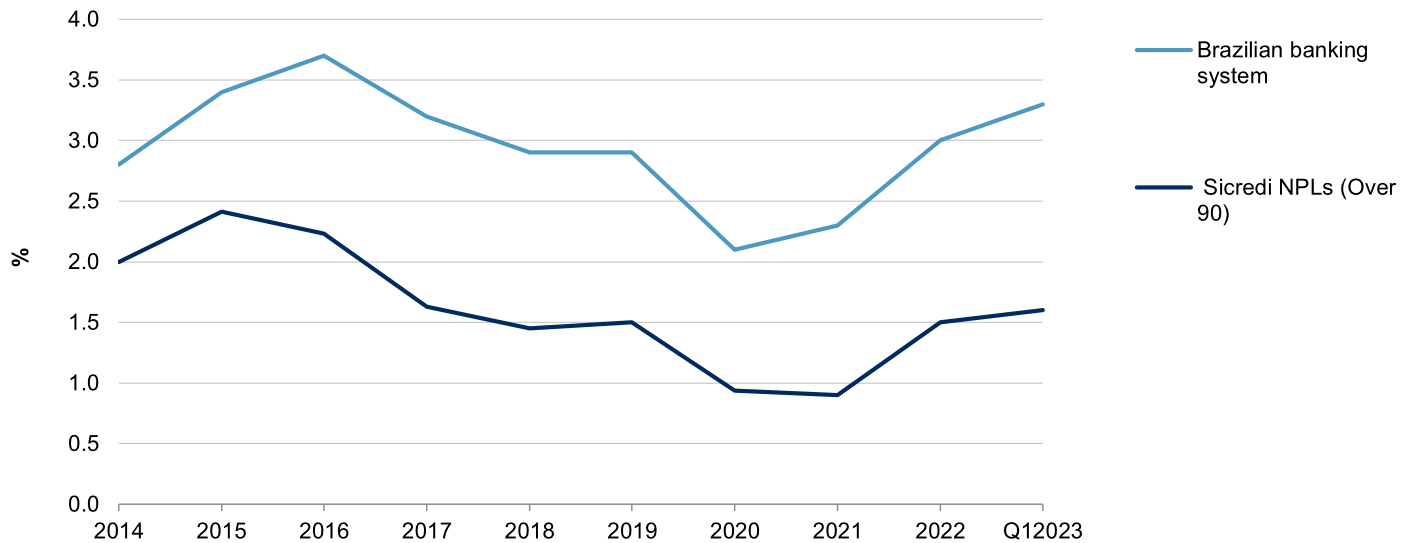
Sicredi has kept solid overall asset quality metrics historically, with NPLs, accordingly with S&P metrics, averaging 1.7% and credit losses 0.6% in the past five years. This reflects the high share of agribusiness loans in its portfolio that have very low loss rates and that have performed well in different economic cycles. However, as of March 2023, Sicredi's combined figures show NPLs deteriorating to 2.5%, following the industry trend. As of the same date, Sicredi's NPLs over 90 days was 1.6%. Although the combined figures are still below the banking system average, they reflect a tougher credit environment stemming from a deterioration in unsecured retail products such as credit cards and personal loans. We expect this trend to continue in 2023, but to be manageable. The System has high provisions for credit losses, which covered 1.7x NPLs as of March 2023.

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 that aren't directly under the System's control could result in some unpredictability for its capital position.

Finally, we consider that the System's high credit growth and the correlation among its businesses could cause some volatility in the asset quality metrics in an adverse operational scenario.

Chart 3

Nonperforming assets comparison



Source: S&P Global Ratings.

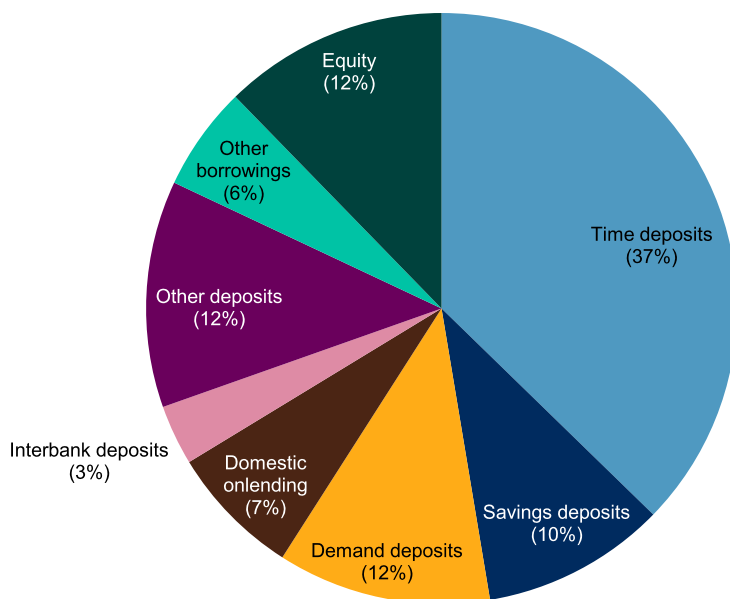
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Funding And Liquidity: Stable Deposit Base And Centralized Liquidity Management

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 37% of the group's funds, followed by demand deposits (12%) and savings deposits (10%)

Chart 4

Sicredi's 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. Credit unions also take savings deposits, but these are booked at Sicredi's level and subsequently transferred to the credit unions. Moreover, as of December 2022, Sicredi's stable funding ratio (SFR) was 135%, up from 124% in December 2021.

Moreover, Sicredi continues tapping funding from multilateral lending agencies. In May 2021, IFC, an arm of the World Bank, 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 Fondos Garantidores") are available to the System in a tight liquidity scenario, representing a contingency line.

The group's broad liquid assets cover 1.77x its wholesale funding and 55% of its customer deposits, which we view as adequate. The System reported a broad liquid assets to short-term wholesale funding ratio of 3.3x as of December

2022, with an average of 3.2x for the past five years.

Additional Rating Factors: The Rating On The Bank Reflects The Group's Credit Profile

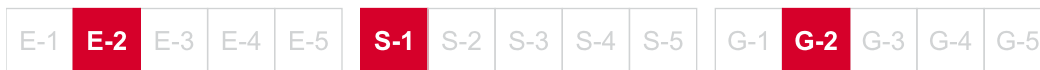
In our view, the bank and the System's credit unions make up an integrated institution that would provide support to the bank in any foreseeable circumstance. Our opinion reflects Sicredi's integration, the consolidated strategic decision process, and the System's joint and several guarantee mechanisms, 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\$)	2023*	2022	2021	2020	2019
Adjusted assets	280,975.5	263,129.6	197,239.8	154,480.7	110,254.3
Customer loans (gross)	164,924.5	160,633.2	133,145.3	97,240.6	72,176.5
Adjusted common equity	31,823.2	30,224.1	24,878.7	20,178.4	17,383.3
Operating revenues	6,291.7	22,352.7	16,419.5	13,496.5	12,311.6
Noninterest expenses	3,479.8	12,552.9	9,780.4	8,321.0	7,655.0
Core earnings	1,592.5	5,987.8	4,841.6	3,379.0	3,104.4

*Data as of March 31. R\$--Brazilian real.

Table 2

Banco Cooperativo Sicredi S.A.--Business position					
	--Year-ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Loan market share in country of domicile	0.3	0.4	0.4	2.2	1.9
Deposit market share in country of domicile	1.0	1.0	1.0	2.8	2.6
Return on average common equity	20.3	21.4	21.1	17.6	18.8

*Data as of March 31.

Table 3

Banco Cooperativo Sicredi S.A.--Capital and earnings					
	--Year-ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Tier 1 capital ratio	14.6	15.4	15.0	13.9	14.7
S&P Global Ratings' RAC ratio before diversification	N/A	7.2	7.4	7.4	8.8
S&P Global Ratings' RAC ratio after diversification	N/A	7.0	7.1	6.8	8.3
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	75.7	75.6	73.2	72.8	75.3
Fee income/operating revenues	18.0	18.2	20.4	20.4	18.9
Cost to income ratio	55.3	56.2	59.6	61.7	62.2
Provision operating income/average assets	4.1	4.3	3.8	3.9	4.5
Core earnings/average managed assets	2.3	2.6	2.7	2.5	3.0

*Data as of March 31. N/A--Not applicable. RAC--Risk-adjusted capital.

Table 4

Banco Cooperativo Sicredi S.A.--Risk position					
	--Year-ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Growth in customer loans	10.7	20.6	36.9	34.7	28.7

Table 4

Banco Cooperativo Sicredi S.A.--Risk position (cont.)					
(%)	--Year-ended Dec. 31--				
	2023*	2022	2021	2020	2019
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	3.5	4.1	8.2	6.1
Total managed assets/adjusted common equity (x)	8.8	8.7	7.9	7.7	6.4
New loan loss provisions/average customer loans	2.8	2.5	1.5	1.9	2.2
Net charge-offs/average customer loans	1.4	0.5	0.3	0.8	0.7
Gross nonperforming assets/customer loans + other real estate owned	2.5	2.3	1.4	1.4	2.2
Loan loss reserves/gross nonperforming assets	168.0	177.6	225.7	253..	190.6

*Data as of March 31. N/A--Not applicable. RWA--Risk-weighted asset.

Table 5

Banco Cooperativo Sicredi S.A.--Funding and liquidity					
(%)	--Year-ended Dec. 31--				
	2023*	2022	2021	2020	2019
Core deposits/funding base	76.9	76.2	75.9	79.2	77.3
Customer loans (net)/customer deposits	85.3	90.0	102.2	91.3	100.4
Long-term funding ratio	89.1	89.0	88.4	91.1	89.3
Stable funding ratio	141.1	134.9	124.2	135.8	121.9
Short-term wholesale funding/funding base	12.4	12.5	13.3	10.3	12.8
Broad liquid assets/short-term wholesale funding (x)	3.7	3.4	2.7	4.0	2.8
Broad liquid assets/total assets	38.6	36.0	30.9	34.8	29.1
Broad liquid assets/customer deposits	58.7	55.3	48.3	52.4	46.8
Net broad liquid assets/short-term customer deposits	107.9	96.7	68.1	83.4	68.2
Short-term wholesale funding/total wholesale funding	53.5	52.5	55.3	49.5	56.3

*Data as of March 31.

Sicredi--Rating component scores

Issuer credit rating	BB-/Positive/B
SACP	bb
Anchor	bb+
Economic risk	7
Industry risk	5
Business position	Adequate
Capital and earnings	Adequate
Risk position	Moderate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0
Support	0
ALAC support	0
GRE support	0
Group support	0

Sicredi--Rating component scores (cont.)

Issuer credit rating	BB-/Positive/B
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- 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: Hybrid Capital: Methodology And Assumptions , March 2, 2022
- 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: Rating Government-Related Entities: Methodology And Assumptions , March 25, 2015
- 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 30, 2023)***Banco Cooperativo Sicredi S.A.**

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

Issuer Credit Ratings History

15-Jun-2023	BB-/Positive/--
27-Jul-2020	BB-/Stable/--
11-Jul-2018 <i>Brazil National Scale</i>	brAAA/Stable/--
17-Apr-2018	brAA-/Stable/--

Sovereign Rating

Brazil	BB-/Positive/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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