# Various Rating Actions Taken On Greek Banks On Improving Asset Quality And Earnings, And Potentially Less Funding Risk

**July 19, 2022**

## Overview

- Large Greek banks have managed to clean-up about €50 billion of legacy bad assets since 2019, reducing the stock of nonperforming assets (NPAs) to €19.4 billion, or 15.9% of gross loans, at end-2021.
- This enables normalization of banks' provisioning costs and gradual improvements of earnings, although each bank will advance at a different pace.
- Strong deposits formation since 2018, alongside the massive balance sheet clean-up, supports our view that Greek banks have continued to rebalance their funding profiles, thanks to improving confidence of domestic depositors.
- We therefore revised our outlooks to positive from stable on Aegean Baltic Bank S.A., Alpha Bank SA, Alpha Services and Holdings Societe Anonyme, Eurobank S.A., Eurobank Holdings, National Bank of Greece S.A., and Piraeus Bank S.A., and affirmed our long- and short-term issuer credit ratings on these entities.
- We affirmed our ratings on Piraeus Financial Holdings S.A. and maintained the stable outlook.

PRIMARY CREDIT ANALYST

**Goksenin Karagoz, FRM**
Paris
+ 33.1.44206724
goksenin.karagoz
@spglobal.com

SECONDARY CONTACTS

**Pierre Hollegien**
Paris
+ 33 14 075 2513
Pierre.Hollegien
@spglobal.com

**Mirko Sanna**
Milan
+ 390272111275
mirko.sanna
@spglobal.com

RESEARCH CONTRIBUTOR

**Sabah M Ahmed**
Mumbai
Sabah.Ahmed
@spglobal.com

PARIS (S&P Global Ratings) July 19, 2022--S&P Global Ratings today took the following rating actions on eight Greek financial institutions:

- Aegean Baltic Bank S.A.: we revised the outlook to positive from stable and affirmed our 'B/B' long- and short-term issuer credit ratings.
- Alpha Bank SA: we revised the outlook to positive from stable and affirmed our 'B+/B' long- and short-term issuer credit ratings and our 'BB-/B' resolution counterparty ratings (RCRs).
- Alpha Services and Holdings Societe Anonyme: we revised the outlook to positive from stable and affirmed our 'B-/B' long- and short-term issuer credit ratings.
- Eurobank S.A: we revised the outlook to positive from stable and affirmed our 'B+/B' long- and short-term issuer credit rating and our 'BB-/B' RCRs.
- Eurobank Holdings: we revised the outlook to positive from stable and affirmed our 'B-/B' long- and short-term issuer credit ratings.

- National Bank of Greece S.A.: we revised the outlook to positive from stable and affirmed our 'B+/B' long- and short-term issuer credit ratings and our 'BB-/B' RCRs.
- Piraeus Bank S.A.: we revised the outlook to positive from stable and affirmed our 'B/B' long- and short-term issuer credit ratings and our 'B+/B' RCRs.
- Piraeus Financial Holdings S.A.: we affirmed our 'B-/B' long- and short-term issuer credit ratings and maintained the stable outlook.

We affirmed various senior and subordinated issue ratings on these banks and related entities.

## Rationale

**Greek banks have made material progress on a journey that started in 2018, significantly reducing their NPA stock and NPA ratios.** Following three years of nonperforming loan (NPL) sales and securitizations in large amounts, with the help of the Hercules Asset Protection Scheme (HAPS), systemwide legacy NPLs have reduced by more than €50 billion since 2019. This prompted the systemwide NPA ratio to drop to 15.9% in 2021 from 42.0% in 2019. Asset quality's resilience to COVID-19 fallout supported the NPA improvement. Given the upcoming sales of additional NPL, we expect the systemwide NPA ratio to drop below 10% by end-2022.

**As a result, cost of risk (COR) should be less of a burden for banks over the next 12-18 months.** We expect Eurobank's and NBG's COR to normalize to 60-70 basis points (bps) over the next two years. We also expect Piraeus Bank' and Alpha Bank's underlying COR to improve once the ratios absorb the additional provisioning costs from remaining NPL sales and securitizations. Furthermore, we note that the domestic property prices have continued to rise steadily, even during the pandemic, which supports the recovery prospects of the remaining NPLs. As for Aegean Baltic Bank, we expect the bank will continue benefitting from its conservative lending policy and knowledge of the shipping industry. As such, Aegean's NPL ratio is expected to remain below 2%, with above 50% coverage, and COR to remain in the 30-40 bps range over our outlook horizon.

**However, there are visible differences in the resulting asset quality metrics and the capitalization of the four systemically important banks.** This is because these banks started the recovery journey at different times and at varying paces. We note that Eurobank's and NBG's NPA ratios have already reduced to mid-single digits this year. We forecast that Alpha Bank's NPA ratios will reach a similar range toward year-end. Piraeus Bank's NPA, however, is set to stay in the high-single-digits over the same period. Similarly, we expect the individual COR of Alpha Bank, NBG, and Eurobank to remain in the 60-70 bps range by end-2023, while Piraeus Bank's COR stays closer to 100 bps. NBG and Eurobank also stand out with coverage of NPAs by loan provisions at 70% and 80%, respectively, at March 31, 2022. This compares with less than 50% for both Alpha Bank and Piraeus Bank. We therefore assume that NBG's and Eurobank's risk-adjusted capital (RAC) ratios will exceed 5% by end-2023.

**We still consider that large Greek banks' quality of capital remains low, owing to a high share of deferred tax credits (DTC) in their capital bases.** Banks are amortizing these at different paces but at negligible amounts per year compared to the total amounts accumulated. That said, cleaner balance sheets and improving earnings more positively capture banks' capitalizations than before. This is especially the case for Eurobank and NBG, for which we forecast RAC ratios to improve to above 5% by end-2023. Still, we believe that the high amount of DTCs weighs on the creditworthiness of all Greek banks, especially compared with that of European peers. As such, we continue to view capital and earnings of NBG and of Eurobank as a ratings weakness, on par with Alpha Bank and Piraeus Bank, despite better RAC expectations for the former two banks. Of note, and contrary to systemic banks, Aegean Baltic Bank benefits from a sound capital base with no DTCs and a RAC ratio expected to remain above the 10% threshold.

**As the clean-up of NPAs nears completion, banks will likely prioritize restoring earnings, better placing them to deal with competitive challenges.** We expect profitability to substantially improve, supported by lower loan-loss provisions, resumed demand for loans, and a focus on controlling operational expenditure. Banks will shift their focus to restoring earnings and optimizing their balance sheets, rather than cleaning up NPLs through sales, securitizations, hive-downs, and sales of domestic and foreign financial subsidiaries. We expect banks' performing loan books to expand by 3%-4%, though the downside risk remains high due to elevated macroeconomic risks at home and abroad. Yet, resumed new business growth is a positive factor for Greek banks' creditworthiness after years of negative loan growth, which was driven by large nonperforming exposure sales.

**Greek banks are rebalancing their funding profiles thanks to improving depositors' confidence at home, but medium-term challenges remain.** In the past five years, systemwide deposits in Greece increased by more than €50 billion to €188 billion. This marked a turnaround for Greek banks, considering the loss of some €40 billion of their €173 billion in deposits during 2014. Improving macro fundamentals since 2017 allowed Greek banks to tap debt markets abroad for their senior secured, unsecured, and subordinated debt needs. This was also thanks to the ongoing support from the ECB in various forms. At the same time, Greek banks' deleveraging aimed at the cleaning-up of large volumes of legacy bad assets brought the system's loan to deposits ratio to below 70% last year compared with the peak of 128% in 2014. Although we acknowledge this positive trend, the June decision of the ECB's governing council to start normalizing its monetary policy poses new challenges to Greek banks given their relatively higher reliance on the TLTRO. We believe that banks have sufficient liquidity to repay these borrowings, but with visible differences between the banks. For example, NBG's regulatory liquidity coverage ratio is one of the highest among the domestic banks. That said, we believe banks' net stable funding ratios (NSFR) will inevitably tighten, forcing banks to secure alternative long-term funding sources. This, in the current market environment, could prove scarce and expensive. Again, the impact will be at different magnitudes. For instance, NBG already states that its NSFR ratio after the full repayment of the TLTRO will be comfortably above 100%. Nevertheless, Greek banks will need to minimize the potential contagion effect of higher sovereign costs on their retail funding base.

**We expect the disruption stemming from the Russia-Ukraine conflict and global CPI shock to be manageable for Greece and Greek banks.** We understand that banks have limited exposures and links to Ukraine or Russia. Our base-case scenario for all banks already assumes a slight negative impact in new NPL flows and the loan growth owing to expected increase of lending rates. Large expected Next Generation EU (NGEU) and other transfers should support the demand and supply for new loans. We are not excluding eventual trading losses from large holdings of GGBs by Greek banks, but our forecasts take this into account. We also believe that the fallout from the Russia-Ukraine conflict appears manageable for the Greek sovereign considering the substantial buffers in both the private and public sectors. Higher energy prices and an acceleration of inflation will contribute to a deceleration of GDP growth this year to 3.4% versus 8.3% in 2021, with GDP projected to average more than 3.0% during 2023-2025, thanks to the NGEU, among other transfers, and a strong anticipated further recovery in tourism earnings. We note that the first-quarter GDP reading was strong and still supportive of our forecast GDP growth of 3.5% this year. Greece is set to enjoy a solid tourism season: Bookings are very strong and new airline connections are being set up to meet the rising demand. GGB yields have risen visibly, but Greece has a sizable cash buffer and a very long-dated debt, thereby enjoying the flexibility to accommodate issuances when prices look more attractive.

## Aegean Baltic Bank S.A. (ABB)

### Outlook

The positive outlook on ABB reflects our view that there is at least a one-in-three possibility that Greek banks will face reduced industry risks action over the next 12 months, which will be supportive for Aegean Baltic Bank's creditworthiness. In our view, ABB's improved profitability prospects in line with the rest of the Greek banking system. The bank is well positioned to achieve a double-digit return on equity in 2022 with cost-to-income ratio falling below 50% despite increasingly challenging macroeconomic environment. Aegean also benefits from improved depositors' confidence as it managed to grow organically its depositors base, reducing its reliance on brokered deposits to 5% of total deposits at end-June 2022 against 9% at end-2021.

**Upside scenario:** We would consider raising our long-term issuer credit rating on ABB by one notch to 'B+' if our view was that industry risks for Greek banks had reduced sustainably, all else being equal. This could happen, for example, if we observed a material improvement in the stability and diversification of the sector's funding base.

**Downside scenario:** We could revise our outlook to stable if we conclude that:

- The industry risks faced by the Greek banking sector were unlikely to reduce in the next two years.
- ABB's funding or liquidity profile deteriorated because of its too-aggressive balance-sheet growth, high asset-liability mismatches, or outflows of deposits.
- ABB's asset quality had deteriorated compared with historical levels.
- The bank proved unable to preserve its sound capitalization. Specifically, this could occur if the RAC ratio fell closer or below 10% on a sustained basis, mostly due to rising credit losses or aggressive growth. In turn, this could stem from a scenario in which shipping industry trade volumes and business activity are more severely affected, putting material pressure on shippers' cash flow capacity and overall financial profiles.

### ESG credit indicators: E-2, S-2, G-2

## Alpha Bank S.A. and Alpha Services and Holdings S.A.

### Outlook

Our positive outlook on Alpha Bank and Alpha Services and Holdings indicates that there is at least a one-in-three possibility that Greek banks will face reduced industry risks action over the next 12 months.

| |
|---|
| Alpha Bank S.A. |

**Upside scenario:** We could raise our long-term issuer credit rating on Alpha Bank by one notch to 'BB-', if we form a view that industry risks for Greek banks had reduced sustainably, all else being equal. This could happen, for example, if we observed a material improvement in the stability and diversification of the sector's funding base.

**Downside scenario:** We could revise our outlook to stable if we conclude that the industry risks faced by the Greek banking sector were unlikely to reduce in the next two years. In addition, if economic conditions in Greece deteriorated more than currently anticipated due to the ongoing Russia-Ukraine conflict or the monetary tightening, leading to resumed stress on asset quality and pressure on the bank's capitalization, we would revise the outlook to stable.

| |
|---|
| Alpha Services and Holdings S.A. |

**Upside scenario:** A positive rating action on Alpha Services and Holdings would follow a positive rating action on Alpha Bank, unless we see a potential material increase in liquidity risks, most likely in a scenario where the NOHC's investments in Alpha Bank materially exceed 120% of the NOHC's equity on a sustained basis. In this case, we might eventually widen the notching difference between Alpha Bank and Alpha Services and Holdings.

**Downside scenario:** We would revise our outlook to stable on Alpha Services and Holdings over the next 12 months if we took a similar action on Alpha Bank.

### ESG credit indicators: E-2, S-2, G-2

## Eurobank and Eurobank Holdings

### Outlook

Our positive outlook on Eurobank and Eurobank Holdings reflects the at least one-in three likelihood of an upgrade on decreasing funding and competitive risks over the next 12 months. This could happen, for example ,if we observed a material improvement in the stability and diversification of the sector's funding base.

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|---|
| Eurobank S.A. |

**Upside scenario:** If we conclude that Greek banking sector's funding stability and diversification continues improving, all else being equal, we could raise our long-term issuer credit rating on Eurobank.

**Downside scenario:** We could revise our outlook to stable if we conclude that the industry risks faced by the Greek banking sector were unlikely to reduce in the next two years. In addition, if economic conditions in Greece deteriorate more than anticipated due to the Russia-Ukraine conflict or the ongoing monetary tightening, leading to resumed stress on asset quality and capitalization, we would revise our outlook to stable.

| Eurobank Holdings |
| --- |

**Upside scenario:** A positive rating action on Eurobank Holdings would follow a positive rating action on the operating entity Eurobank unless we see a potential increase in liquidity risks, most likely in a scenario where the NOHC's investments in Eurobank materially exceed 120% of the NOHC's equity on a sustained basis. In this case, we might eventually widen the notching difference between the operating and holding entities.

**Downside scenario:** We would revise our outlook to stable on Eurobank Holdings should we do the same for Eurobank.

### ESG credit indicators: E-2, S-2, G-2

## National Bank of Greece (NBG)

### Outlook

Our positive outlook on NBG reflects the at least one-in-three likelihood of an upgrade owing to our anticipation of decreasing funding and competitive risks for Greek banks over the next 12 months. This could happen, for example, if we observed a material improvement in the stability and diversification of the sector's funding base.

**Upside scenario:** If we conclude that the Greek banking sector's funding stability and diversification strengthens further, all else being equal, we could raise our long-term issuer credit rating on NBG.

**Downside scenario:** We could revise our outlook on NBG to stable if we conclude that the industry risks faced by the Greek banking sector were unlikely to reduce in the next two years. In addition, if economic conditions in Greece deteriorate more than anticipated due to the Russia-Ukraine conflict or the ongoing monetary tightening, leading to resumed stress on asset quality and capitalization, we would revise our outlook to stable.

### ESG credit indicators: E-2, S-2, G-2

## Piraeus Bank S.A.

### Outlook

Our positive outlook on Piraeus Bank reflects our view that there is at least one-in-three possibility that Greek banks will face reduced industry risks action over the next 12 months. This could happen, for example, if we observed a material strengthening in the stability and diversification of the sector's funding base.

**Upside scenario:** We could raise our long-term issuer credit rating on Piraeus Bank by one notch to 'B+' if we view that industry risks for Greek banks had reduced sustainably, all else being equal. A positive rating action would also hinge on the bank continuously improving its asset quality and profitability as per its strategic plan, while maintaining its RAC ratio above the 3% threshold.

**Downside scenario:** We could revise our outlook to stable if we concluded that the industry risks faced by the Greek banking sector were unlikely to reduce in the next two years. Additionally, if economic conditions in Greece deteriorate more than anticipated due to the Russia-Ukraine conflict or the monetary tightening, leading to resumed stress on asset quality and pressure on the bank's capitalization, we would revise our outlook to stable.

### ESG credit indicators: E-2, S-2, G-2

## Piraeus Financials Holdings S.A.

### Outlook

The stable outlook on Piraeus Financial Holdings reflects the subordination of the holding to the operating company and balances the bank's low quality of capital, weak earnings capacity, and deeper legacy NPEs than those of domestic peers against its improved liquidity and the benefits from its strategic transformation targeting a cleaner balance sheet.

**Downside scenario:** We could take a negative rating action if economic conditions in Greece worsen substantially, intensifying the stress on asset quality and pushing NPEs to levels like those in the past downturn. Rating pressure would also stem from an unexpected weakening of Piraeus Bank's funding profile. Furthermore, we could take a negative rating action on Piraeus Financial Holdings if we saw a lower likelihood of Piraeus Bank meeting its obligations toward the NOHC.

**Upside scenario:** A positive rating action on Piraeus Financial Holdings is unlikely because of the NOHC's structural subordination to Piraeus Bank. At the 'bb-' anchor level, we usually rate NOHCs two notches below the group SACP. Therefore, an upgrade to the NOHC would require us to revise the group SACP upward by at least two notches.

### ESG credit indicators: E-2, S-2, G-2

## BICRA Score Snapshot*

### Greece

| | To | From |
|---|---|---|
| BICRA group | 8 | 8 |
| Economic risk | 7 | 8 |
| Economic resilience | High Risk | High Risk |
| Economic imbalances | High Risk | Very High Risk |

### Greece (cont.)

| | To | From |
|---|---|---|
| Credit risk in the economy | Very High Risk | Very high Risk |
| Trend | Stable | Stable |
| Industry risk | 8 | 8 |
| Institutional framework | High Risk | High risk |
| Competitive dynamics | Very High Risk | Very High Risk |
| Systemwide funding | Very High Risk | Very high Risk |
| Trend | Positive | Stable |

Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores are on a scale from 1 (lowest risk) to 10 (highest risk). For more details on our BICRA scores on banking industries across the globe, please see "Banking Industry Country Risk Assessment Update," published monthly on RatingsDirect.

## Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- 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: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- The New Normal For Eurozone Banks: Strong Funding Franchises Are Back In Vogue, July 7, 2022
- Implications Of The ECB's Policy Normalization For Interest Rates, The Balance Sheet, And Yields, June 9, 2022
- From "Whatever It Takes" To Wherever It Leads: How The ECB Has Reshaped The European Economy And Markets, June 23, 2022
- When Rates Rise: Not All European Banks Are Equal, June 8, 2022
- Greece Upgraded To 'BB+' On Improved Economic Policy Governance; Outlook Stable, April 22, 202

- The Russia-Ukraine Conflict: European Banks Can Manage The Economic Spillovers, For Now, April 21, 2022
- Greek Banking Sector 2022: Focus Turns To Profitability, March 28, 2022

## Ratings List

| * * * * * * * * * * * * * Aegean Baltic Bank S.A. * * * * * * * * * * * * | | |
|---|---|---|
| **Outlook Action; Ratings Affirmed** | | |
| | **To** | **From** |
| **Aegean Baltic Bank S.A.** | | |
| Issuer Credit Rating | B/Positive/B | B/Stable/B |
| *** * * * * * * * Alpha Services and Holdings Societe Anonyme * * * * * * *** | | |
| **Outlook Action; Ratings Affirmed** | | |
| | **To** | **From** |
| **Alpha Bank SA** | | |
| Issuer Credit Rating | B+/Positive/B | B+/Stable/B |
| Resolution Counterparty Rating | BB-/--/B | BB-/--/B |
| **Alpha Services and Holdings Societe Anonyme** | | |
| Issuer Credit Rating | B-/Positive/B | B-/Stable/B |
| * * * * * * * * * * * * * * Eurobank Holdings * * * * * * * * * * * * * * | | |
| **Outlook Action; Ratings Affirmed** | | |
| | **To** | **From** |
| **Eurobank S.A** | | |
| Issuer Credit Rating | B+/Positive/B | B+/Stable/B |
| Resolution Counterparty Rating | BB-/--/B | BB-/--/B |
| **Eurobank Holdings** | | |
| Issuer Credit Rating | B-/Positive/B | B-/Stable/B |
| * * * * * * * * * * * * National Bank of Greece S.A. * * * * * * * * * * * | | |
| **Outlook Action; Ratings Affirmed** | | |
| | **To** | **From** |
| **National Bank of Greece S.A.** | | |
| Issuer Credit Rating | B+/Positive/B | B+/Stable/B |
| Resolution Counterparty Rating | BB-/--/B | BB-/--/B |
| * * * * * * * * * * * Piraeus Financial Holdings S.A. * * * * * * * * * * | | |
| **Outlook Action; Ratings Affirmed** | | |
| | **To** | **From** |
| **Piraeus Bank S.A.** | | |
| Issuer Credit Rating | B/Positive/B | B/Stable/B |
| Resolution Counterparty Rating | B+/--/B | B+/--/B |

**Ratings Affirmed**

| **Piraeus Financial Holdings S.A.** | |
|---|---|
| Issuer Credit Rating | B-/Stable/B |

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914

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