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Banking Industry Country Risk Assessment Update: October 2013

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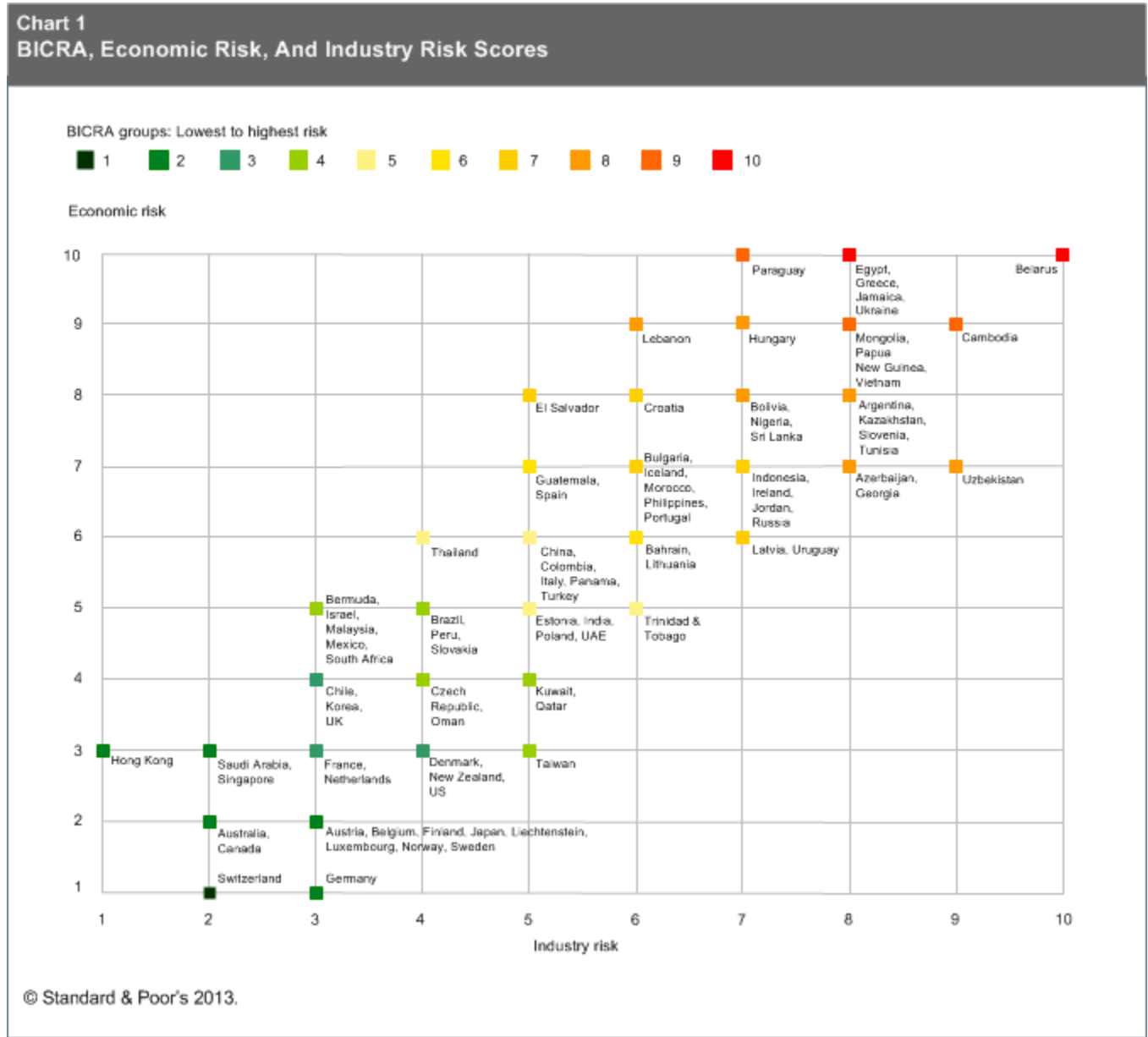
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Banking Industry Country Risk Assessment Update: October 2013

This article presents updates to Standard & Poor's Ratings Services' BICRA scores for the 86 banking systems that it currently reviews under its Banking Industry Country Risk Assessment (BICRA) methodology (see the chart below and the tables in the appendix). We also present economic and industry risk trends that we are introducing this year for those banking systems.



Latest BICRA Actions And Reports

BICRA trends

Since we last published this report on Sept. 6, 2013, we changed our BICRA, economic risk, and industry risk scores for Croatia; our BICRA and economic risk scores for Bermuda; as well as our economic risk score for Slovakia.

Croatia. We have revised the BICRA on Croatia to '7' from '6', after revising our economic risk score to '8' from '7' and our industry risk score to '6' from '5'. Our view of higher economic risk reflects the prolonged recession in Croatia and weak prospects for a recovery in the short term. External conditions, particularly regarding Croatia's trading partners in the EU and the region, as well as subdued domestic demand are also holding back the economy. The contraction in the real estate market and the slowdown in credit to the private sector are taking their toll on the banking sector. We view the economic risk trend as stable. It incorporates our view that a further weakening of the Croatian economy is less likely, beyond what we already incorporate in our BICRA assessment. EU accession in July 2013 could spur high levels of investment, depending on Croatia's absorption capacity.

The revision of our industry risk score and the negative trend reflect long-lasting pressure on local banks' business operations and performance. We believe that the operational environment for banks will continue to weaken asset quality and profitability, and therefore might alter the market's stable competitive dynamics. We believe banks' funding base will become more reliant on domestic customer deposits, rather than foreign parental funding, to finance any future credit growth. We expect the narrow capital market to remain a medium-term funding constraint.

Bermuda. "Ratings On Bermudian Banks Lowered On Rising Economic Risk; Outlooks Negative," published on Sept. 26, 2013. We have revised the BICRA for Bermuda to '4' from '3', after revising our economic risk score to '5' from '3'. We believe that economic risks for Bermudian banks have increased because of persistent weakness in the economy and a prolonged real estate downturn, which has contributed to a substantial increase in nonperforming loans and credit losses. Moreover, we assess the trend for economic risks to be negative largely based on our belief that given economic trends, banks' loan portfolios could deteriorate somewhat further throughout 2013 and 2014, before showing signs of stabilization in 2015.

Slovakia. We kept our BICRA and industry risk scores at '4', but revised our economic risk score to '5' from '4'. We believe that banks' exposure is significant to cyclical construction companies and the commercial real estate sector, together accounting for more than 23% of the corporate loan book. In addition, single-name risks within these segments are high. We furthermore believe that underwriting standards in the housing loans segment are gradually weakening. This can heighten losses for the banks if economic conditions remain weak over the longer run or when interest rates increase. Indeed, low interest rates have so far kept the repayment burden for households at a manageable level and the nonperforming loans in the household segment stable, despite high unemployment.

BICRA trends

We have recently determined the industry risk trend for Indonesia to be positive and the economic risk trend for Morocco to be negative.

Indonesia. "Banking Industry Country Risk Assessment: Indonesia," published on Sept. 19, 2013. We now view Indonesia's industry risk trend as positive mainly because of its improving institutional framework. Bank regulation and supervision have come a long way since the late 1990s when Indonesia faced a banking system crisis. The banking system's fundamentals have improved and the incidence of bank failures in recent years has been low. We believe a smooth transition of regulatory responsibilities to the Financial Services Authority of Indonesia from Bank Indonesia could further strengthen the regulatory framework.

Morocco. We view the trend for economic risk in the Moroccan banking sector as negative. Morocco remains constrained by its comparatively low prosperity and, since the onset of the global financial crisis, its fiscal and current account deficits have risen quickly. The real estate sector also continues to present risks for Morocco's banking industry, especially in light of the recent drop in real estate prices since mid-2013.

BICRA reports

Since we last published this report, we released comprehensive BICRA reports on Vietnam, Australia, the U.S., Germany, New Zealand, the U.K., Indonesia, Austria, Bolivia, and Korea:

- "Banking Industry Country Risk Assessment: Vietnam," Oct. 3, 2013
- "Banking Industry Country Risk Assessment: Australia," Oct. 1, 2013
- "Banking Industry Country Risk Assessment: U.S.," Sept. 26, 2013
- "Banking Industry Country Risk Assessment: Germany," Sept. 26, 2013
- "Banking Industry Country Risk Assessment: New Zealand," Sept. 26, 2013
- "Banking Industry Country Risk Assessment: United Kingdom," Sept. 25, 2013
- "Banking Industry Country Risk Assessment: Indonesia," Sept. 19, 2013
- "Banking Industry Country Risk Assessment: Austria," Sept. 12, 2013
- "Banking Industry Country Risk Assessment: Plurinational State of Bolivia," Sept. 10, 2013
- "Banking Industry Country Risk Assessment: Korea," Sept. 9, 2013

About BICRAs

The strengths and weaknesses of an economy and banking industry are critical factors that underpin the creditworthiness of a country's financial institutions. We distill this analysis into a single Banking Industry Country Risk Assessment (BICRA), "designed to evaluate and compare global banking systems," as stated in our criteria. A BICRA is scored on a scale from '1' to '10', ranging from what we view as the lowest-risk banking systems (group '1') to the highest-risk (group '10'). The BICRA methodology has two main analytical components: "economic risk" and "industry risk."

A BICRA analysis for a country covers all of its financial institutions that take deposits, extend credit, or engage in both activities, whether we rate them or not. In addition, the analysis considers the relationship of the banking industry to the financial system, and furthermore to its sovereign. For that reason, many of the factors underlying a sovereign rating are important in determining a BICRA score.

Our analysis of economic risk of a banking sector takes into account the structure and stability of the country's economy, including the central government's macroeconomic policy flexibility; actual or potential economic imbalances; and the credit risk of economic participants--mainly households and enterprises.

Our view of industry risk factors in the quality and effectiveness of bank regulation and the track record of authorities in reducing vulnerability to financial crises, as well as the competitive environment of a country's banking industry--including the industry's risk appetite, structure, and performance--and possible distortions in the market. Industry risk also addresses the range and stability of funding options available to banks, including the role of the central bank and government.

Part of our review involves an evaluation of governments' tendency to support private banks in countries where we assign BICRA scores. Our view of the likelihood of government support may influence our issuer credit rating on systemically important banks in a particular country, according to our criteria (see "Banks: Rating Methodology And Assumptions," published on Nov. 9, 2011).

Appendix: Latest BICRA Scores

Table 1

BICRAs By Group And Country				
(Group '1' to '10', from lowest to highest risk)				
Group 1	Group 2	Group 3	Group 4	Group 5
Switzerland	Australia	Chile	Bermuda*	China
	Austria	Denmark	Brazil	Colombia
	Belgium	France	Czech Republic	Estonia
	Canada	Korea	Israel	India
	Finland	Netherlands	Kuwait	Italy
	Germany	New Zealand	Malaysia	Panama
	Hong Kong	U.K.	Mexico	Poland
	Japan	U.S.	Oman	Thailand
	Liechtenstein		Peru	Trinidad and Tobago
	Luxembourg		Qatar	Turkey
	Norway		Slovakia	United Arab Emirates
	Saudi Arabia		South Africa	
	Singapore		Taiwan	
	Sweden			
Group 6	Group 7	Group 8	Group 9	Group 10
Bahrain	Bulgaria	Argentina	Cambodia	Belarus
Guatemala	Croatia*	Azerbaijan	Mongolia	Egypt
Lithuania	El Salvador	Bolivia	Papua New Guinea	Greece
Spain	Iceland	Georgia	Paraguay	Jamaica
	Indonesia	Hungary	Vietnam	Ukraine
	Ireland	Kazakhstan		
	Jordan	Lebanon		
	Latvia	Nigeria		
	Morocco	Slovenia		
	Philippines	Sri Lanka		
	Portugal	Tunisia		
	Russia	Uzbekistan		
	Uruguay			

Note: Data on Oct. 9, 2013. *Indicates a change in BICRA score since our previous monthly article published on Sept. 6, 2013. BICRA--Banking Industry Country Risk Assessment. Source: Standard & Poor's.

Table 2

BICRA Economic Risk And Industry Risk Scores And Components

(Group '1' to '10', from lowest to highest risk)

Country	BICRA Group	Economic risk factors and descriptors			Industry risk factors and descriptors				
		Economic Resilience	Economic Imbalances	Credit risk in the economy	Economic risk	Institutional framework	Competitive dynamics	Systemwide funding	Industry risk
Switzerland	1	Very Low	Very Low	Low	1	Low	Low	Very Low	2
Germany	2	Very Low	Very Low	Low	1	Intermediate	Intermediate	Very Low	3
Australia	2	Very Low	Intermediate	Low	2	Very Low	Very Low	Intermediate	2
Canada	2	Very Low	Intermediate	Low	2	Very Low	Low	Low	2
Austria	2	Very Low	Low	Intermediate	2	Intermediate	Intermediate	Low	3
Belgium	2	Low	Very Low	Low	2	Intermediate	Intermediate	Low	3
Finland	2	Low	Low	Low	2	Intermediate	Low	Intermediate	3
Japan	2	Low	Low	Low	2	Intermediate	Intermediate	Very Low	3
Liechtenstein	2	Low	Low	Low	2	Intermediate	Low	Low	3
Luxembourg	2	Very Low	Very Low	Intermediate	2	Intermediate	Low	Low	3
Norway	2	Very Low	Intermediate	Low	2	Intermediate	Low	Intermediate	3
Sweden	2	Very Low	Intermediate	Low	2	Intermediate	Low	Intermediate	3
Hong Kong	2	Very Low	High	Low	3	Very Low	Low	Very Low	1
Saudi Arabia	2	Intermediate	Low	Intermediate	3	Low	Low	Low	2
Singapore	2	Very Low	High	Low	3	Very Low	Low	Low	2
France	3	Low	Intermediate	Low	3	Low	Intermediate	Low	3
Netherlands	3	Very Low	Intermediate	Intermediate	3	Intermediate	Intermediate	Low	3
Denmark	3	Very Low	Intermediate	Intermediate	3	Intermediate	Intermediate	Intermediate	4
New Zealand	3	Very Low	Intermediate	Intermediate	3	Low	Low	High	4
U.S.	3	Very Low	Intermediate	Intermediate	3	Intermediate	High	Very Low	4
Chile	3	Intermediate	Intermediate	Intermediate	4	Low	Intermediate	Low	3
Korea	3	Intermediate	Low	High	4	Intermediate	Intermediate	Low	3
U.K.	3	Low	Intermediate	High	4	Intermediate	Intermediate	Low	3
Taiwan	4	Intermediate	Low	Intermediate	3	Intermediate	Very High	Very Low	5
Czech Republic	4	Intermediate	Intermediate	Intermediate	4	Intermediate	Intermediate	Intermediate	4
Oman	4	Intermediate	Low	High	4	Intermediate	Intermediate	Intermediate	4
Kuwait	4	Low	Intermediate	High	4	Very High	Intermediate	Low	5
Qatar	4	Low	Intermediate	High	4	Intermediate	High	Intermediate	5
Bermuda	4*	Intermediate	High*	Intermediate*	5*	Intermediate*	Low	Intermediate	3
Israel	4	Intermediate	Intermediate	High	5	Intermediate	Intermediate	Low	3
Malaysia	4	High	Low	High	5	Intermediate	Intermediate	Low	3
Mexico	4	High	Very Low	High	5	Intermediate	Low	Low	3
South Africa	4	High	Intermediate	Intermediate	5	Low	Intermediate	Intermediate	3
Brazil	4	High	Intermediate	Intermediate	5	Intermediate	Intermediate	Intermediate	4
Peru	4	Intermediate	Low	Very High	5	Low	Intermediate	High	4
Slovakia	4	Intermediate	Intermediate	High*	5*	Intermediate	Intermediate	Intermediate	4
Estonia	5	Intermediate	Intermediate	High	5	High	Intermediate	Intermediate	5

Table 2

BICRA Economic Risk And Industry Risk Scores And Components (cont.)									
India	5	High	Low	High	5	High	High	Low	5
Poland	5	High	Intermediate	Intermediate	5	Intermediate	Intermediate	High	5
United Arab Emirates	5	Low	High	High	5	High	Intermediate	Intermediate	5
Trinidad and Tobago	5	High	Low	High	5	High	High	Intermediate	6
Thailand	5	High	Low	Very High	6	Intermediate	High	Low	4
China	5	Intermediate	High	High	6	High	High	Very Low	5
Colombia	5	High	Intermediate	High	6	High	Intermediate	Intermediate	5
Italy	5	High	Intermediate	High	6	Intermediate	Intermediate	High	5
Panama	5	Intermediate	High	High	6	Intermediate	Low	Very High	5
Turkey	5	High	High	Intermediate	6	Intermediate	Intermediate	High	5
Bahrain	6	High	Intermediate	High	6	Intermediate	High	High	6
Lithuania	6	High	Intermediate	High	6	High	Intermediate	High	6
Guatemala	6	Very High	Low	Very High	7	High	Intermediate	Intermediate	5
Spain	6	Intermediate	Very High	High	7	Intermediate	Intermediate	High	5
Latvia	7	High	Intermediate	High	6	High	High	Very High	7
Uruguay	7	Intermediate	Intermediate	Very High	6	High	High	Very High	7
Bulgaria	7	High	High	Very High	7	High	Intermediate	High	6
Iceland	7	High	High	High	7	High	Intermediate	High	6
Morocco	7	Very High	Intermediate	Very High	7	High	Intermediate	High	6
Philippines	7	Very High	Low	Very High	7	Very High	Intermediate	Intermediate	6
Portugal	7	High	High	Very High	7	Intermediate	Intermediate	Very High	6
Indonesia	7	Very High	Intermediate*	Very High	7	Very High	High	Intermediate	7
Ireland	7	Intermediate	Very High	Very High	7	High	High	Very High	7
Jordan	7	Very High	Intermediate	Very High	7	High	High	High	7
Russia	7	High	Intermediate	Very High	7	Very High	High	High	7
El Salvador	7	Extremely High	Very Low	Very High	8	Intermediate	Intermediate	High	5
Croatia	7*	Very High*	High	Very High*	8*	High	High*	Intermediate	6*
Azerbaijan	8	High	Low	Extremely High	7	Very High	High	Very High	8
Georgia	8	Very High	High	High	7	Intermediate	High	Extremely High	8
Uzbekistan	8	Very High	Intermediate	Very High	7	Extremely High	Very High	High	9
Bolivia	8	Very High	Intermediate	Extremely High	8	Very High	High	Intermediate	7
Nigeria	8	Very High	Intermediate	Extremely High	8	Very High	Very High	Intermediate	7
Sri Lanka	8	Very High	High	Very High	8	Very High	High	Intermediate	7
Argentina	8	Extremely High	High	High	8	Very High	High	Very High	8
Kazakhstan	8	High	High	Extremely High	8	Extremely High	High	High	8
Slovenia	8	High	Very High	Very High	8	Very High	High	Very High	8

Table 2

BICRA Economic Risk And Industry Risk Scores And Components (cont.)									
Tunisia	8	Very High	Intermediate	Extremely High	8	Very High	High	Very High	8
Lebanon	8	Extremely High	High	Very High	9	High	High	Intermediate	6
Hungary	8	Very High	Very High	Very High	9	High	High	Very High	7
Mongolia	9	Very High	High	Extremely High	9	Extremely High	High	High	8
Papua New Guinea	9	Very High	Very High	Very High	9	Very High	High	Very High	8
Vietnam	9	Very High	High	Extremely High	9	Extremely High	Very High	Intermediate	8
Cambodia	9	Extremely High	Intermediate	Extremely High	9	Extremely High	High	Very High	9
Paraguay	9	Extremely High	Very High	Extremely High	10	Very High	Very High	Intermediate	7
Egypt	10	Extremely High	High	Extremely High	10	Very High	High	Very High	8
Greece	10	Very High	Very High	Extremely High	10	High	High	Extremely High	8
Jamaica	10	Extremely High	High	Extremely High	10	High	Very High	Very High	8
Ukraine	10	Very High	Very High	Extremely High	10	Very High	Very High	High	8
Belarus	10	Very High	Very High	Extremely High	10	Extremely High	Very High	Extremely High	10

*Indicates a change in BICRA score since our previous monthly article published on Sept. 6, 2013. Data on Oct. 9, 2013. BICRA--Banking Industry Country Risk Assessment. Source: Standard & Poor's.

Table 3

Government Support Assessment By Region					
Asia-Pacific		CEEMEA		Latin America	
Country	Government support assessment	Country	Government support assessment	Country	Government support assessment
Australia	Highly supportive	Bahrain	Highly supportive*	Bolivia	Supportive
China	Highly supportive	Kuwait	Highly supportive	Brazil	Supportive
Hong Kong	Highly supportive	Oman	Highly supportive	Chile	Supportive
India	Highly supportive	Qatar	Highly supportive	Colombia	Supportive
Indonesia	Highly supportive	Saudi Arabia	Highly supportive	Guatemala	Supportive
Japan	Highly supportive	United Arab Emirates	Highly supportive	Mexico	Supportive
Korea	Highly supportive	Uzbekistan	Highly supportive	Paraguay	Supportive
Malaysia	Highly supportive	Azerbaijan	Supportive	Peru	Supportive
Philippines	Highly supportive	Bulgaria	Supportive	Trinidad and Tobago	Supportive
Singapore	Highly supportive	Croatia	Supportive	Argentina	Uncertain
Taiwan	Highly supportive	Czech Republic	Supportive	El Salvador	Uncertain
Thailand	Highly supportive	Egypt	Supportive	Jamaica	Uncertain
Vietnam	Highly supportive	Georgia	Supportive	Panama	Uncertain

Table 3

Government Support Assessment By Region (cont.)					
Mongolia	Supportive	Hungary	Supportive	Uruguay	Uncertain
New Zealand	Supportive	Israel	Supportive		
Sri Lanka	Supportive	Jordan	Supportive		
Cambodia	Uncertain	Kazakhstan	Supportive		
Papua New Guinea	Uncertain	Lebanon	Supportive		
		Morocco	Supportive		
		Nigeria	Supportive		
		Poland	Supportive		
		Russia	Supportive		
		Slovakia	Supportive		
		Slovenia	Supportive		
		South Africa	Supportive		
		Tunisia	Supportive		
		Turkey	Supportive		
		Belarus	Uncertain		
		Ukraine	Uncertain		
North America			Western Europe		
Country	Government support assessment	Country	Government support assessment		
Bermuda	Supportive	Austria	Supportive		
Canada	Supportive	Belgium	Supportive		
U.S.	Supportive	Denmark	Supportive		
		Estonia	Supportive		
		Finland	Supportive		
		France	Supportive		
		Germany	Supportive		
		Greece	Supportive		
		Ireland	Supportive		
		Italy	Supportive		
		Latvia	Supportive		
		Liechtenstein	Supportive		
		Lithuania	Supportive		
		Luxembourg	Supportive		
		Netherlands	Supportive		
		Norway	Supportive		
		Portugal	Supportive		
		Spain	Supportive		
		Sweden	Supportive		
		Switzerland	Supportive		
		U.K.	Supportive		
		Iceland	Uncertain		

Note: Data on Oct. 9, 2013. *Not applicable for wholesale banks.

Table 4

Economic And Industry Risk Trends		
Countries for which we have determined trends so far in 2013		
Country	Economic risk trend	Industry risk trend
Argentina	Negative	Negative
Australia	Negative	Stable
Austria	Negative	Negative
Bahrain	Stable	Positive
Belarus	Stable	Stable
Belgium	Negative	Stable
Bermuda*	Negative	Stable
Bolivia	Stable	Negative
Brazil	Negative	Stable
Bulgaria	Stable	Stable
Cambodia	Stable	Stable
Canada	Negative	Stable
Chile	Stable	Stable
China	Stable	Stable
Croatia*	Stable	Negative
Czech Republic	Negative	Stable
Denmark	Stable	Stable
Egypt	Stable	Negative
El Salvador	Stable	Stable
Estonia	Positive	Stable
Finland	Negative	Stable
France	Stable	Stable
Georgia	Positive	Positive
Germany	Negative	Stable
Greece	Stable	Negative
Hong Kong	Stable	Stable
Hungary	Stable	Negative
Iceland	Stable	Stable
India	Negative	Stable
Indonesia*	Stable	Positive
Ireland	Stable	Stable
Israel	Stable	Stable
Italy	Negative	Negative
Jamaica	Stable	Negative
Japan	Stable	Stable
Jordan	Negative	Stable
Kazakhstan	Stable	Stable
Korea	Stable	Stable
Latvia	Positive	Stable
Liechtenstein	Stable	Stable

Table 4

Economic And Industry Risk Trends (cont.)		
Lithuania	Positive	Stable
Mexico	Stable	Stable
Mongolia	Stable	Stable
Morocco*	Negative	Stable
Netherlands	Negative	Stable
New Zealand	Negative	Stable
Norway	Negative	Stable
Oman*	Stable	Stable
Papua New Guinea	Stable	Stable
Peru	Stable	Stable
Portugal	Negative	Negative
Qatar	Stable	Stable
Russia	Stable	Stable
Singapore	Stable	Stable
Slovakia*	Stable	Stable
Slovenia	Stable	Stable
South Africa	Negative	Negative
Spain	Stable	Negative
Sweden	Negative	Stable
Switzerland	Negative	Stable
Taiwan*	Stable	Stable
Trinidad and Tobago	Stable	Stable
Tunisia	Negative	Negative
Turkey	Stable	Negative
U.K.	Stable	Negative
U.S.	Positive	Stable
Ukraine	Stable	Negative
United Arab Emirates	Positive	Stable
Uruguay*	Stable	Stable
Vietnam*	Stable	Stable

*Indicates our assignments of new economic and industry risk trends since our previous monthly article published on Sept. 6, 2013. Note: Data on Oct. 9, 2013. Source: Standard & Poor's.

Related Criteria And Research

For a fuller understanding of our revised framework for rating banks, including the BICRA methodology, the bank criteria, and other relevant publications, please see the following articles published on RatingsDirect.

- Banking Risks Are Slowly Receding In Much Of The World, But Watch Out For The Hot Spots, Oct. 2, 2013
- S&P To Publish Economic And Industry Risk Trends For Banks, March 12, 2013
- Analytical Linkages Between Sovereign And Bank Ratings, Dec. 6, 2011
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011

- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- S&P's BICRAs Measure Banking Risks For 86 Countries, Nov. 9, 2011
- The Evolving Landscape For Banks Requires A Robust Analytical Framework, Nov. 1, 2011
- Sovereign Government Rating Methodology And Assumptions, June 30, 2011

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