

## Update: OP Corporate Bank PLC

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### **Table Of Contents**

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Ratings Score Snapshot

Credit Highlights

Core Subsidiary: Pohjola Insurance

Outlook

Key Metrics

Environmental, Social, And Governance

Hybrid Instruments

Key Statistics

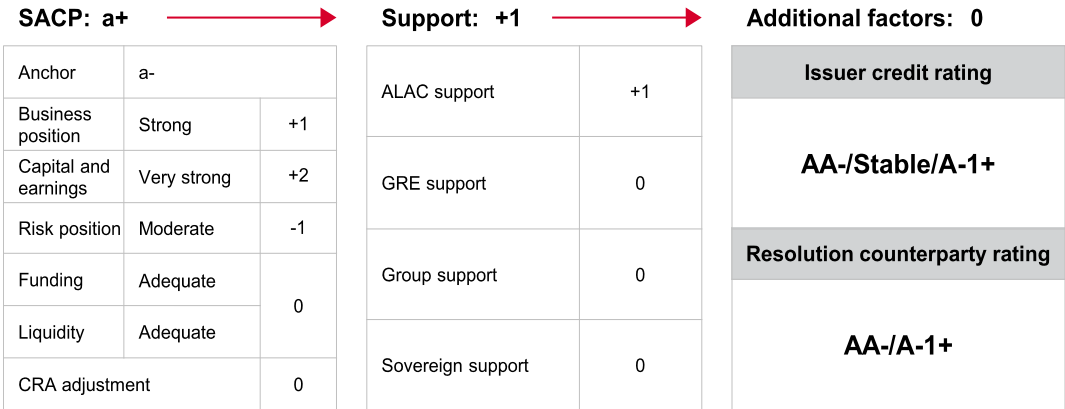
Related Criteria

Related Research

# Update: OP Corporate Bank PLC

## Ratings Score Snapshot

Global Scale Ratings	
<b>Issuer Credit Rating</b>	AA-/Stable/A-1+
<b>Resolution Counterparty Rating</b>	AA-/--/A-1+



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

## Credit Highlights

Overview	
Key strengths	Key risks
Successful bancassurance strategy and solid domestic retail and corporate franchise.	Geographical concentration in Finland.
Robust capitalization, underpinned by high earnings retention and profit share issuances.	Weaker asset-quality metrics than those of peers.
Deeply rooted cooperative banking model, with OP Corporate Bank PLC and the member banks having joint liability.	

**OP Financial Group, the parent of OP Corporate Bank, has a dominant position in the Finnish bancassurance market, which will provide revenue stability.** With total assets of €160 billion, OP Financial Group is the leading financial institution in Finland, with a strong retail and corporate banking franchise. It has 2.1 million owner-customers and a market share of almost 40% in loans and deposits. This is supported by the group's life and nonlife insurance operations, which have strong market shares of 20% and 33%, respectively. The group's asset management business, which manages €111 billion of customer assets and has a 20% share of the domestic mutual funds market, complements the offering.

We expect the group's hybrid service model--under which Financial Group is now investing to ramp up its digital

capabilities to increase value to customers--will further support cross-selling in the competitive operating environment. This will help the group maintain a target of return on equity (ROE) of above 9% (excluding OP's bonuses to member customers) by 2027, and a robust capitalization that is at least 400 basis points (bps) above the common equity tier 1 ratio requirement.

***OP Financial Group's continuous investments in digitalization and artificial intelligence (AI) is targeted to improve its customer offering and operating efficiency.*** We expect this strategy will allow the group to address changing customer behaviors and streamline its operating structure. Over time, OP Financial Group aims to transform into a fully digitalized business and so is following a collaborative fintech strategy, reflected in its recent decision to build new digital services platform based on Microsoft Azure. More than 99% of private customers' payments and services come through digital channels and more than 70% of clients are active digital users, with OP Financial Group's mobile app being the main service channel (more than 1.6 million active users).

***OP Financial Group's performance will depend on the operating environment.*** We expect economic growth in Finland will only pick up in 2025 and we project real GDP growth of 1.3%-1.4% in 2025-2026. Despite the low demand for credit due to persistent economic uncertainty and a gradual decline in interest rates, we believe that OP Financial Group will continue to demonstrate a strong performance in the next 12-24 months with a projected ROE of 11.6% in 2024 (compared with 12.3% in the first nine months 2024) and 8%-10% in 2025-2026. We believe the group's diversified revenue mix will support its earnings. Customer-related income rose by 7% year-on-year to €2,813 million driven by strong net interest income (up 10% versus the first nine months of 2023) and the insurance service result (up 63%), while net fee and commission income decreased due to the waiver of daily banking services charges for member customers in 2024. The group announced that it will also provide these benefits in 2025 (valued at €90 million). Earnings for the first nine months benefitted from a strong net investment income (€942 million), which predominantly relates to the insurance business.

In anticipation of gradually declining policy rates leading to lower headline revenues, the group aims to ensure operating efficiency to maintain its core profitability in the medium term. Therefore, it will focus on improving its cost structure as it continues to streamline by further reducing the number of cooperative banks through mergers. There were 99 member banks at the end of September, down from 137 in 2020. That said, we understand that about 80% of the banking business comes from the 10 largest member banks.

***The weak construction and real estate market is taking a toll on OP Financial Group's asset quality metrics.*** Its loan portfolio decreased to €98 billion as of September 2024. Granular retail mortgage loans (44% of total loans as of September 2024) dominate the loan book and we view the group's underwriting standards as prudent with sound average loan-to-collateral (LTC) at 63.8%. Although most mortgage lending is on a floating-rate basis, the group applies stress testing on borrowers' repayment capacity at initiation and about one-third of borrowers have interest-rate hedges.

OP Financial Group's corporate loan book comprises about 46% of the total loan portfolio and is well diversified across sectors. Increased financing costs and weak demand have hit the property and construction sectors (6% of corporate loans) and this has affected OP Financial Group's loan portfolio. Real estate exposures make up €11 billion, or 9% of the portfolio, of which about half the exposure is to commercial real estate, 29% to residential real estate, and the

remaining split between different real estate types. The group has an €85 million management overlay provision on the portfolio as of Sept. 30, 2024.

With modest GDP growth, still-high financing costs, and growing corporate bankruptcies, we project the group's nonperforming loans (including forbore exposures) will be 3.0%-3.5% over 2024-2025, above the average of its large Nordic peers. Consequently, we forecast cost of risk of 20 bps-25 bps in 2024-2026 (27 bps in 2023 and 10 bps in the first nine months 2024), a level we consider manageable given the group's strengthened earnings capacity and robust loss-absorbing capacity.

***In our view, OP Financial Group's risk-adjusted capitalization (RAC) provides a very strong buffer to absorb unexpected losses.*** We project its RAC ratio will be 20%-22% in the next 12-24 months, based on our expectation of limited credit growth, continued strong earnings generation, and a conservative capital policy across the cooperative network. In 2023, the RAC ratio equaled 19.8%. As a cooperative, the group almost fully retains its earnings to support business growth and to build further capital. The interest on profit shares for 2023 totaled €148 million or 9% of net profits and the return target for 2024 is 5.5% (4.5% in 2023). The group's regulatory capital remains robust with common equity tier 1 ratio of 21.4% as of September 2024 compared with the regulatory requirement of 13.4%. Furthermore, we estimate that OP Financial Group's additional loss absorbing capacity (ALAC) buffer--consisting of subordinated debt and senior nonpreferred instruments--will be about 7.3% of projected S&P Global Ratings RWAs at year-end 2024. For a bank with a group stand-alone credit profile (SACP) of 'a+', the ALAC uplift is limited to one notch.

## Core Subsidiary: Pohjola Insurance

Pohjola Insurance is one of the leading non-life insurance companies in Finland, with a solid market share above 30%. We regard the insurance subsidiary as a core entity of OP Financial Group because it is integral to the overall strategy and is an important earnings contributor. However, we do not believe that it would benefit from the bank's ALAC in resolution. We anticipate that the Finnish resolution framework would exclude insurance activities from a bail-in process. For this reason, we equalize our long-term ratings on the subsidiary with our 'a+' assessment of the group SACP (see "Pohjola Insurance Ltd.," published on Sept. 11, 2024).

## Outlook

The stable outlook on OP Corporate Bank reflects our view that the wider OP Financial Group will maintain its solid financial position over the next two years, and that the support mechanisms within the group--underpinned by the joint liability of OP Corporate Bank and the member banks--will remain a positive factor.

As a leading financial institution in Finland, OP Financial Group's performance will be closely tied to the evolution of the Finnish economy (we project real GDP growth of 1.3%-1.4% over 2025-2026). Moreover, the leaner group structure, and the digital transformation, will help OP Financial Group to sustainably improve its cost structure, which, in turn, will support its core profitability. We expect our RAC ratio for the group to stay above 15% in the next two years, on the back of stable retained earnings.

### Downside scenario

We could take a negative rating action if OP Financial Group fails to achieve its 2027 strategic targets (which include ROE of 9.0% excluding member bonuses and a CET1 ratio at least 400 bps above the regulatory requirement). Moreover, we could also lower the rating if we project that the RAC ratio will decline below 15% and, at the same time, we consider that the relativities versus peers at 'a+' group SACP have weakened.

### Upside scenario

An upgrade during our two-year outlook horizon is unlikely because our rating on the bank is now among the highest of those on rated commercial banks globally. Moreover, we do not see OP Financial Group as a positive outlier compared with these banks.

## Key Metrics

### OP Financial Group--Key ratios and forecasts

(%)	--Fiscal year ended--				
	2022a	2023a	2024f	2025f	2026f
Growth in operating revenue	(5.3)	39.4	2.6-2.7	0.2-0.2	(3.9)-(4.2)
Growth in customer loans	1.6	(0.5)	0.0-0.0	1.5-1.5	1.5-1.5
Growth in total assets	0.8	(8.6)	0.1-0.1	0.8-0.9	0.8-0.9
Net interest income/average earning assets (NIM)	1.4	2.5	2.2-2.5	2.1-2.3	1.8-2.0
Cost to income ratio	63.9	51.4	47.1-48.1	47.9-48.9	51.0-52.0
Return on average common equity	7.2	10.8	11.0-12.5	9.5-11.0	8.5-10.0
Return on assets	0.7	1.1	1.3-1.6	1.2-1.5	1.1-1.3
New loan loss provisions/average customer loans	0.1	0.3	0.2-0.2	0.2-0.3	0.2-0.2
Gross nonperforming assets/customer loans	2.8	3.5	3.2-3.6	3.0-3.4	2.8-3.1
Net charge-offs/average customer loans	0.1	0.1	0.1-0.1	0.1-0.1	0.1-0.1
Risk-adjusted capital ratio	17.1	19.8	20.0-21.0	20.5-21.5	20.0-21.0

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

## Environmental, Social, And Governance

ESG credit factors do not materially impact our ratings on OP Corporate Bank.

Social factors are gaining importance, considering that the cooperative is the largest lender in the country and the largest taxpayer, with the 99 independent member banks paying their taxes locally in their operating regions. OP Financial Group is owned by over 2.1 million owner-customers, mainly individuals. Aside from their business role, the cooperative banks play a significant social role in Finland, particularly in times of stress. The group is committed to providing access to financial services in sparsely populated or economically disadvantaged areas through its vast branch network. This solidifies its business position.

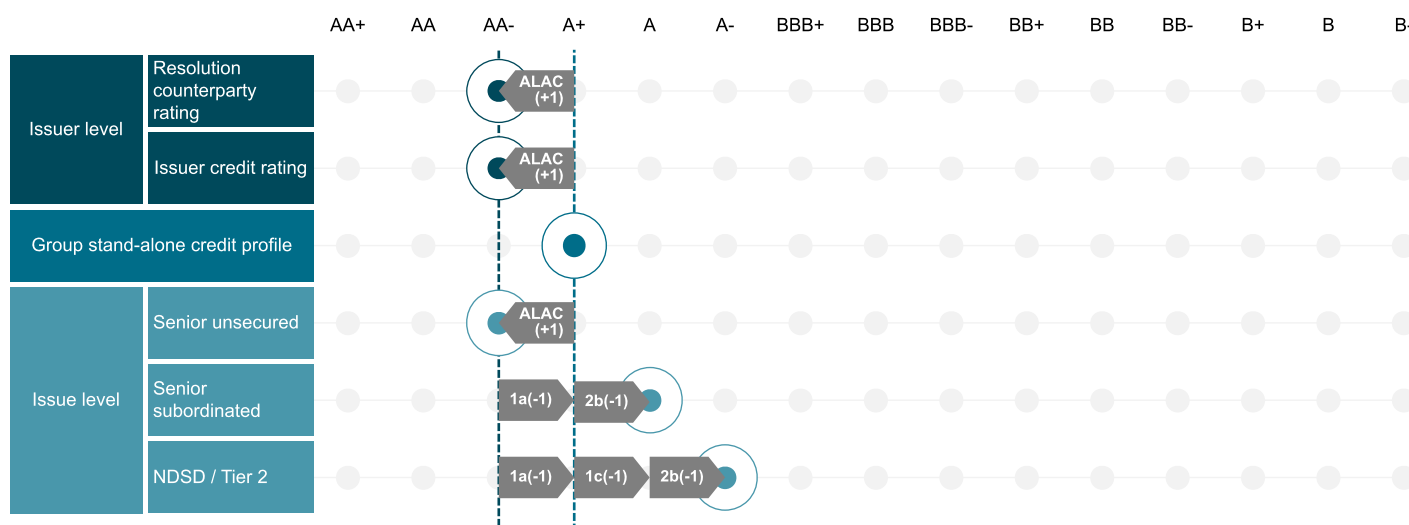
OP Financial Group's governance supports our strong assessment of its business position, but we do not consider it a positive distinguishing factor compared with local peers. We consider that the group's strategy is clear and consistent, and that it has a strong social and local community role. Most of the group's board comprises independent directors. Like the rest of the financial sector, OP Financial Group's most notable risks relate to conduct risk and fighting financial crime and we believe its risk appetite and risk management framework adequately address these risks.

OP Financial Group's environmental framework is advanced, and the bank aims to achieve carbon neutrality in its direct operations by 2025 and in its corporate loan portfolios and managed funds by 2050. The group has set sector-specific emission reduction targets for three sectors--energy production, agriculture and home loans--accounting for more than 90% of the emissions in the group's credit portfolio. The group offers green loans and sustainability-linked loans to corporates, with total outstanding debt of €6.6 billion as of year-end 2023. It has expanded the offering to small and midsize enterprises in 2023. Within its own green bond and covered bond frameworks OP Financial Group has outstanding green bonds of €2.75 billion as of year-end 2023.

## Hybrid Instruments

We rate OP Corporate Bank's hybrid debt instruments according to their respective features.

## OP Corporate Bank PLC: Notching



### Key to notching

- Issuer credit rating
- Group stand-alone credit profile

- ALAC Additional loss-absorbing capacity buffer
- 1a Contractual subordination
- 1c Mandatory contingent capital clause or equivalent
- 2b Other nonpayment or default risk not captured already

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 3 of our “Hybrid Capital: Methodology And Assumptions” criteria, published on, March 2, 2022.

AT1--Additional Tier 1. NDSD--Non-deferrable subordinated debt.

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## Key Statistics

Table 1

OP Financial Group--Key figures					
--Fiscal year end Dec. 31--					
	2024	2023	2022	2021	2020
Adjusted assets	136,720	139,104	155,460	151,828	139,907
Customer loans (gross)	98,722	98,718	99,248	97,662	94,307
Adjusted common equity	14,328	12,986	11,362	10,527	9,809
Operating revenues	3,650	4,775	3,426	3,616	3,007
Noninterest expenses	1,629	2,456	2,190	2,212	2,090
Core earnings	1,561	1,642	907	999	565

**Table 2**

<b>OP Financial Group--Business position</b>					
	<b>--Fiscal year end Dec. 31--</b>				
	<b>2024</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
Loan market share in country of domicile	33.85	34.32	34.62	34.72	34.62
Deposit market share in country of domicile	39.88	39.19	38.41	38.02	37.62
Total revenues from business line (currency in millions)	3,650	4,775	3,569	3,616	3,103
Commercial banking/total revenues from business line	18.77	18.51	21.74	24.50	22.78
Retail banking/total revenues from business line	57.97	62.32	55.93	49.03	53.27
Commercial and retail banking/total revenues from business line	76.74	80.84	77.67	73.53	76.06
Insurance activities/total revenues from business line	24.11	23.64	21.69	31.39	24.33
Other revenues/total revenues from business line	(0.85)	(4.48)	0.64	(4.92)	(0.39)
Return on average common equity	12.30	10.79	7.17	6.66	5.05

**Table 3**

<b>OP Financial Group--Capital and earnings</b>					
	<b>--Fiscal year end Dec. 31--</b>				
	<b>2024</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
Tier 1 capital ratio	21.40	19.20	17.40	18.20	18.90
S&P Global Ratings' RAC ratio before diversification	N/A	19.77	17.08	15.77	14.59
S&P Global Ratings' RAC ratio after diversification	N/A	18.82	15.71	14.45	13.67
Adjusted common equity/total adjusted capital	100.00	100.00	100.00	100.00	100.00
Net interest income/operating revenues	58.03	60.13	47.23	38.97	42.70
Fee income/operating revenues	16.41	19.02	29.33	28.60	30.96
Market-sensitive income/operating revenues	45.48	36.69	(23.44)	6.75	14.93
Cost to income ratio	44.63	51.43	63.92	61.17	69.50
Preprovision operating income/average assets	1.68	1.38	0.71	0.84	0.60
Core earnings/average managed assets	1.30	0.98	0.52	0.60	0.37

N/A--Not available. RAC--Risk-adjusted capital.

**Table 4**

<b>OP Financial Group RACF [Risk-Adjusted Capital Framework] Data</b>					
	<b>Exposure*</b>	<b>Basel III RWA</b>	<b>Average Basel III RW(%)</b>	<b>S&amp;P Global Ratings' RWA</b>	<b>Average S&amp;P Global Ratings' RW (%)</b>
<b>Credit risk</b>					
Government & central banks	27,409,651,987	34,326,552	0	233,512,618	1
Of which regional governments and local authorities	3,560,226,612	19,438,813	1	128,827,342	4
Institutions and CCPs	8,477,014,194	1,212,030,211	14	1,395,890,549	16
Corporate	36,897,010,202	31,339,784,101	85	24,822,587,667	67
Retail	66,705,806,438	27,109,079,314	41	24,126,613,127	36
Of which mortgage	46,735,829,025	15,744,623,763	34	10,793,774,332	23
Securitization§	500,219,472	50,021,947	10	100,043,894	20

Table 4

OP Financial Group RACF [Risk-Adjusted Capital Framework] Data (cont.)					
Other assets†	3,938,269,130	3,216,118,538	82	2,221,230,563	56
Total credit risk	143,927,971,423	62,961,360,663	44	52,899,878,419	37
<b>Credit valuation adjustment</b>					
Total credit valuation adjustment	--	216,665,579	--	0	--
<b>Market Risk</b>					
Equity in the banking book	499,362,204	304,722,490	61	4,809,649,898	963
Trading book market risk	--	1,006,451,472	--	1,509,677,207	--
Total market risk	--	1,311,173,962	--	6,319,327,105	--
<b>Operational risk</b>					
Total operational risk	--	4,935,897,594	--	6,459,671,497	--
	<b>Exposure</b>	<b>Basel III RWA</b>	<b>Average Basel II RW (%)</b>	<b>S&amp;P Global Ratings' RWA</b>	<b>% of S&amp;P Global Ratings' RWA</b>
<b>Diversification adjustments</b>					
RWA before diversification	--	71,509,097,798	--	65,678,877,021	100
Total Diversification/ Concentration Adjustments	--	--	--	3,309,655,379	5
RWA after diversification	--	71,509,097,798	--	68,988,532,400	105
		<b>Tier 1 capital</b>	<b>Tier 1 ratio (%)</b>	<b>Total adjusted capital</b>	<b>S&amp;P Global Ratings' RAC ratio (%)</b>
Capital ratio		S&P Global Ratings' RWA	S&P Global Ratings' RWA	S&P Global Ratings' RWA	S&P Global Ratings' RWA
Capital ratio before adjustments		14,111,055,211	19.7	12,986,344,692	19.8
Capital ratio after adjustments‡		14,111,055,211	19.2	12,986,344,692	18.8

\*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of 'Dec. 31 2023', S&P Global Ratings.

Table 5

	--Fiscal year end Dec. 31--				
	2024	2023	2022	2021	2020
Growth in customer loans	0.01	-0.53	1.62	3.56	2.49
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	5.04	8.76	9.14	6.71
Total managed assets/adjusted common equity (x)	11.14	12.35	15.45	16.54	16.33
New loan loss provisions/average customer loans	0.10	0.27	0.12	0.16	0.24
Net charge-offs/average customer loans	0.05	0.08	0.12	0.12	0.11
Gross nonperforming assets/customer loans + other real estate owned	3.38	3.45	2.77	2.83	2.66
Loan loss reserves/gross nonperforming assets	27.43	25.87	25.53	25.91	26.41

RWA--Risk-weighted assets. N/A--Not available.

**Table 6**

<b>OP Financial Group--Funding and liquidity</b>					
	<b>--Fiscal year end Dec. 31--</b>				
	<b>2024</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
Core deposits/funding base	68.65	65.64	60.41	59.09	61.57
Customer loans (net)/customer deposits	126.90	131.37	126.35	124.82	129.07
Long-term funding ratio	93.23	92.49	82.55	89.17	91.51
Stable funding ratio	114.41	113.23	113.59	125.27	116.86
Short-term wholesale funding/funding base	7.77	8.51	19.23	11.90	9.34
Regulatory net stable funding ratio	130.00	130.00	128.00	130.00	123.00
Broad liquid assets/short-term wholesale funding (x)	3.46	3.26	1.97	2.95	3.05
Broad liquid assets/total assets	18.93	19.65	27.86	26.48	20.96
Broad liquid assets/customer deposits	39.20	42.31	62.71	59.36	46.29
Net broad liquid assets/short-term customer deposits	26.72	28.12	29.59	39.15	31.05
Regulatory liquidity coverage ratio (LCR) (%)	214.00	199.00	217.00	212.00	197.00
Short-term wholesale funding/total wholesale funding	24.79	24.77	48.56	29.09	24.30
Narrow liquid assets/3-month wholesale funding (x)	7.70	7.26	2.73	7.72	6.65

### **OP Corporate Bank PLC--Rating component scores**

<b>Issuer credit rating</b>	<b>AA-/Stable/A-1+</b>
SACP	a+
Anchor	a-
Economic risk	2
Industry risk	3
Business position	Strong
Capital and earnings	Very strong
Risk position	Moderate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0
Support	+1
ALAC support	+1
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

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

## **Related Criteria**

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- 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
- 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

- Banking Industry Country Risk Assessment: Finland, Nov. 7, 2023
- Banking Industry Country Risk Assessment Update: October 2024, Oct. 30, 2024
- Pohjola Insurance Ltd, Sept. 11, 2024
- Finnish Banks Show Resilience As Economic Risks Recede; BICRA Group '2' Maintained, Sept 10, 2024
- Transaction Update: OP Mortgage Bank, May 13, 2024
- OP Corporate PLC, May 10, 2024
- Norwegian And Finnish Covered Bond Market Insights 2024, March 11, 2024
- SLIDES: Nordic Banks In 2024 Ploughing On Through Tough Terrain, Feb. 7, 2024

### Ratings Detail (As Of November 18, 2024)\*

#### OP Corporate Bank PLC

Issuer Credit Rating	AA-/Stable/A-1+
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	
<i>Local Currency</i>	A-1+
Senior Subordinated	A
Senior Unsecured	AA-
Short-Term Debt	A-1+
Subordinated	A-

#### Issuer Credit Ratings History

22-Jan-2021	<i>Foreign Currency</i>	AA-/Stable/A-1+
19-May-2020		AA-/Negative/A-1+
17-Nov-2016		AA-/Stable/A-1+
22-Jan-2021	<i>Local Currency</i>	AA-/Stable/A-1+
19-May-2020		AA-/Negative/A-1+
17-Nov-2016		AA-/Stable/A-1+

#### Sovereign Rating

Finland	AA+/Stable/A-1+
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## Ratings Detail (As Of November 18, 2024)\*(cont.)

**Related Entities****OP Mortgage Bank**

Senior Secured	AAA/Stable
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**Pohjola Insurance Ltd.**

Financial Strength Rating	
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<i>Local Currency</i>	A+/Stable/--
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Issuer Credit Rating	
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<i>Local Currency</i>	A+/Stable/--
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\*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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