

KfW IPEX-Bank GmbH

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Table Of Contents

Rating Score Snapshot

Credit Highlights

Outlook

Key Metrics

Anchor: 'bbb+', Reflecting IPEX's Exposure To A Wide Range Of Countries

Business Position: Germany's Export-Supporting Financial Institution

Capital And Earnings: A Strong Capital Base With Potential Support From The Owner If Needed

Risk Position: Portfolio Concentration And Exposure To Governance Risks Constrain Our Assessment

Funding And Liquidity: Material Benefits From Parent's Liquidity Support

Support: Six Notches Of Uplift Due To GRE Support

Environmental, Social, And Governance (ESG)

Key Statistics

Table Of Contents (cont.)

Related Criteria

Related Research

KfW IPEX-Bank GmbH

Rating Score Snapshot

Issuer Credit Rating

AA+/Stable/A-1+

SACP: **bbb+** →

Support: **+6** →

Additional factors: **0**

SACP: bbb+			Support: +6		Issuer credit rating AA+/Stable/A-1+
Anchor	bbb+		ALAC support	0	
Business position	Moderate	-1	GRE support	+6	
Capital and earnings	Strong	+1	Group support	0	
Risk position	Moderate	-1	Sovereign support	0	
Funding	Strong	+1			
Liquidity	Strong				
CRA adjustment		0			

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
Extremely high likelihood of extraordinary support from the German government, if needed.	Portfolio with large single borrower concentration.
Strong benefits through direct owner KfW in terms of funding and liquidity.	Significant exposure to cyclical sectors such as aviation, maritime industry, and industrials.
Important role in providing exposure guarantees together with export credit agencies and other sovereign-related entities worldwide.	Reputational risk due to exposures to countries with lower governance standards than Western Europe.

S&P Global Ratings expects that KfW IPEX-Bank GmbH (IPEX) will remain tightly integrated with its owner, state-owned KfW. We think IPEX will continue to implement Germany's economic policy via export promotion, including carrying out KfW's export-finance business. Therefore, we see an extremely high likelihood that it will receive extraordinary support from its parent, KfW, and ultimately from the German government, if needed.

Our 'bbb+' stand-alone credit profile (SACP) assessment reflects IPEX's business model as a specialized lender. IPEX is active in export and project finance, which we consider to be more vulnerable to changes in the external operating environment than the business of a typical, more diversified German bank. Positively, IPEX benefits from strong risk-adjusted capital (RAC), while KfW provides sizable funding and capital, both of which support IPEX's stand-alone profile.

We consider concentration risks and exposure to countries with governance shortcomings intrinsic to IPEX's business model. In our view, IPEX is exposed to several cyclical sectors, which are substantially affected by the weaker macroeconomic environment and carry material risks to asset quality. In addition, we believe that IPEX's business model faces a high risk of potential litigation cases, due to the bank's exposures to countries with different governance standards than countries in Western Europe.

Outlook

The stable outlook reflects our expectation that IPEX's ownership structure and KfW's strong commitment to the bank will keep IPEX's business risk profile unchanged over the next two years. Moreover, we believe that the likelihood of timely and sufficient support for IPEX from Germany (AAA/Stable/A-1+) will remain extremely high over that period. Therefore, we do not anticipate that potential moderate movements in the bank's SACP would affect our ratings.

Downside scenario

We could downgrade IPEX if we considered that support from Germany through KfW was weakening, and that IPEX had no alternative forms of support. We do not anticipate this, however. We could consider a negative rating action if, for example, any EU regulatory initiatives were to introduce meaningful barriers to extraordinary government support for IPEX, but similarly we see this as unlikely.

Upside scenario

We consider a positive rating action unlikely absent an unexpected expansion of IPEX's role for the German government or substantial strengthening of the bank's SACP.

Key Metrics

KfW IPEX-Bank GmbH--Key ratios and forecasts*

(%)	--Fiscal year ended Dec. 31--				
	2021a	2022a	2023f	2024f	2025f
Growth in operating revenue	13.1	(2.1)	9.4-11.5	6.7-8.2	6.1-7.4
Growth in customer loans	0.0	(6.3)	10.3-12.5	8.8-10.8	7.9-9.7
Net interest income/average earning assets (NIM)	1.2	1.3	1.4-1.5	1.4-1.5	1.4-1.5
Cost to income ratio	48.9	52.0	50.0-52.6	47.4-49.8	45.1-47.4
Return on assets	0.5	0.4	0.6-0.8	0.6-0.8	0.6-0.8
New loan loss provisions/average customer loans	0.4	0.5	0.3-0.4	0.3-0.4	0.4-0.5
Gross nonperforming assets/customer loans	4.3	4.6	4.4-4.9	4.4-4.9	4.2-4.7
Risk-adjusted capital ratio	14.6	16.0	14.3-15.0	13.3-13.9	12.4-13.0

*Forecast by S&P Global Ratings based on analytical opinion.. a--Actual. f--Forecast. NIM--Net interest margin.

Anchor: 'bbb+', Reflecting IPEX's Exposure To A Wide Range Of Countries

Under our Banking Industry Country Risk Assessment (BICRA), the anchor for banks operating primarily in Germany is 'bbb+' reflecting our economic risk assessment of '2' and our industry risk assessment of '4' (on a scale of 1-10, with '10' signifying the highest risk). We view the trends for economic risk and industry risk as stable.

About 55% of IPEX's ultimate geographic risk exposures (after guarantees) are within markets with higher economic risk than Germany. Germany and the EU each make up about 30% of credit exposures. In addition, meaningful exposures are in the U.K. (10%), North America (5%), and Switzerland (5%). The weighted-average economic risk score is 3.2.

Our economic risk assessment considers that the German economy has a demonstrated ability to absorb large economic and financial shocks based on its wealth and the government's ample flexibility for countercyclical measures, including substantial fiscal stimulus and additional wide-ranging support. Accordingly, our base-case scenario considers that economic risks for German banks are fairly limited by global standards, as German households, corporates, and public finances should be largely cushioned from the fallout related to geopolitical stresses.

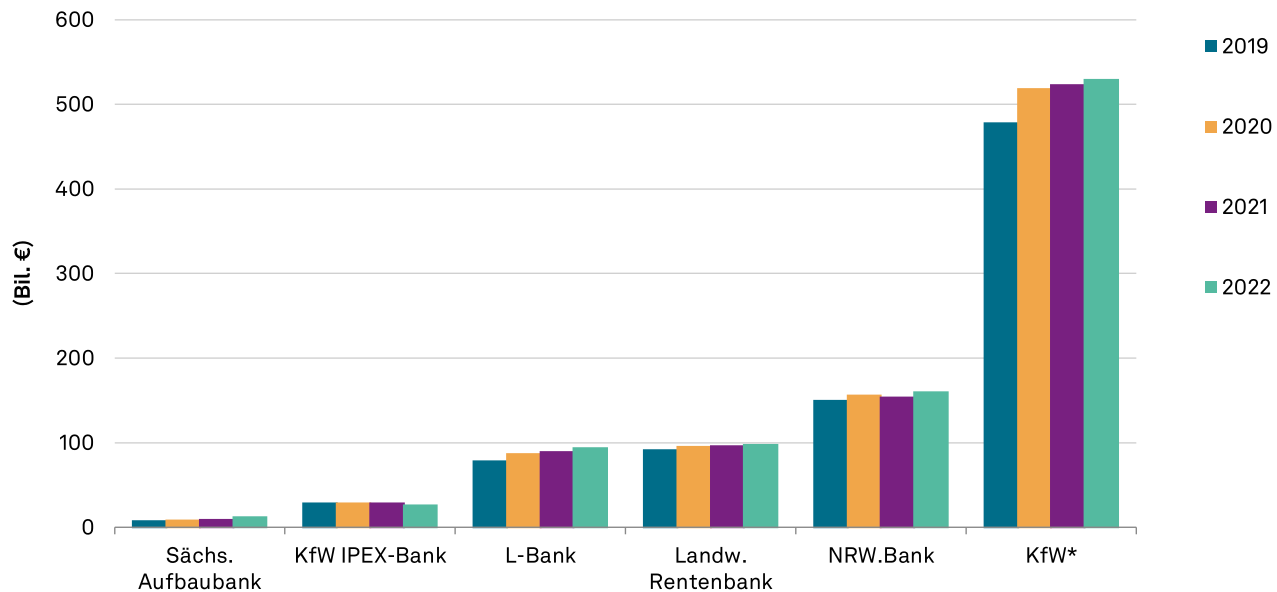
Our industry risk assessment of Germany considers that while the rise in interest rates has helped to boost banks' net interest margins for now, we expect high competition to continue to weigh on the sector's longer-term profitability. We believe German banks operate in a highly competitive and structurally overbanked market. While pressure on net interest margins has abated for now, we believe German banks still lag peers in terms of cost efficiency and digitalization.

Business Position: Germany's Export-Supporting Financial Institution

IPEX's public mandate as a specialized lending institution, supporting German export and international project finance, inherently exposes the bank to cyclical sectors, despite sovereign guarantees cushioning potential losses. However, we believe that IPEX is more diversified in terms of sector exposure than narrowly specialized peers, such as banks active only in transportation finance (for example Danmarks Skibskredit A/S).

Chart 1**KfW IPEX-Bank is a midsize German specialized lending institution**

Total assets



*Excluding KfW-IPEX. Source: S&P Global Ratings.

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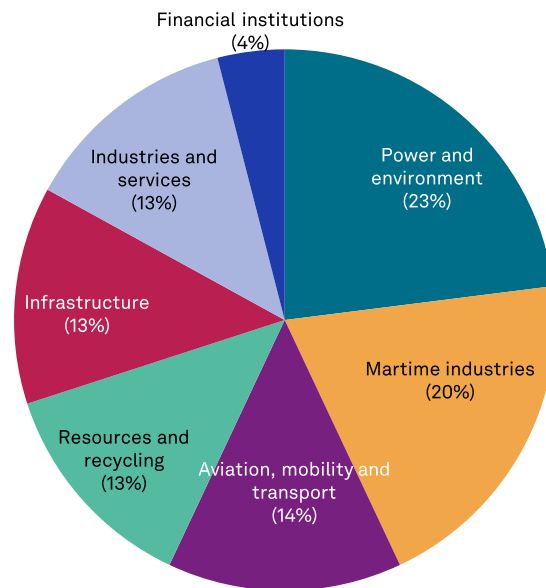
With total assets of €25.9 billion as of Dec. 31, 2022, IPEX offers corporate loans and trade, export, and project finance in sectors such as shipping, transportation, infrastructure, and energy to clients mainly located in Germany and Europe.

IPEX's customer base is a combination of specialized midsize companies and leading German and European exporters, for which the bank provides tailored financing solutions. In addition, IPEX's franchise is supported by expertise in arranging lending covered by export credit agencies (ECAs).

We estimate IPEX's total assets exceeded €30 billion at year-end 2023. At this level, IPEX will be subject to direct supervision by the European Central Bank (ECB) from 2026, instead of the German Federal Regulation Authority (BaFin). We expect the regulatory transition to cause sizable additional costs in the coming years, which might affect the bank's cost structure in the short term.

Chart 2**KfW IPEX-Bank has a diversified portfolio with focus on possibly vulnerable sectors**

Volume of lending per business sector at year-end 2022



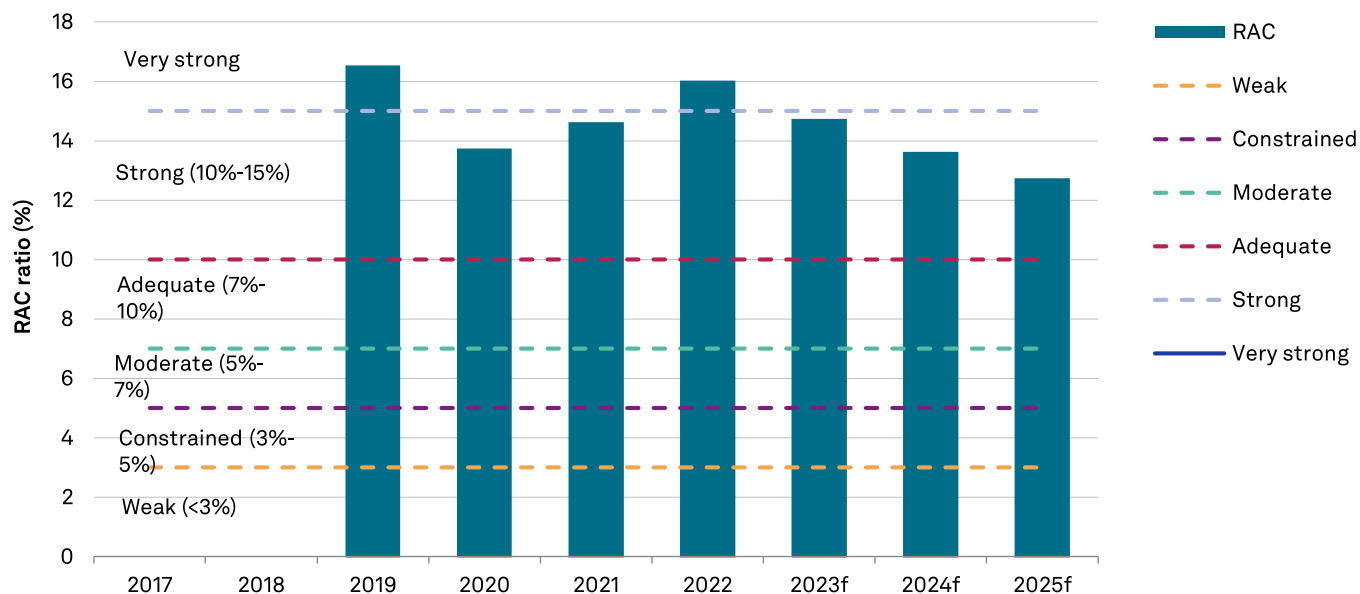
Sources: KfW IPEX-Bank's financial reporting, S&P Global Ratings.
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Capital And Earnings: A Strong Capital Base With Potential Support From The Owner If Needed

IPEX's strong capitalization is a key factor supporting its SACP. This mainly reflects our projection that our RAC ratio before diversification will remain between 12.5% and 13.5% in the coming years, driven by full profit payout and return to stronger growth. The jump of the RAC ratio to 15.8% at year-end 2022 from 14.6% in the previous year was driven by a temporary decrease in lending volume. If higher credit losses exceed our base-case assumptions of about 30-40 basis points, IPEX's RAC ratio may weaken slightly. For 2023-2025, we anticipate loan growth of about 10%, combined with higher increasing net interest margins of 1.46% due to a more favorable interest rate environment.

Chart 3**KfW IPEX-Bank's strong capitalization acts as buffer against risks in the portfolio**

Risk-adjusted capital (RAC) ratio from 2019 to 2025f



f--Forecast. Source: S&P Global Ratings, including forecasts.

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As part of a profit transfer agreement, IPEX has been transferring its annual profits under German commercial law to its direct legal owner, KfW. In 2022, it transferred €96 million. In the same year, IPEX profited from additional tier 1 (AT1) issuance of €600 million and a subordinated loan of €400 million from KfW in return for its former silent participation of €1 billion. We assess the AT1 issuance as having high equity content because in our view it is held solely by or on behalf of a government and we anticipate that the hybrid will absorb losses or conserve cash in a stress scenario.

Risk Position: Portfolio Concentration And Exposure To Governance Risks Constrain Our Assessment

We consider IPEX's risk profile weaker than that of most peers, reflecting inherent risks in the bank's export finance business, concentration risks in single sectors, and currency risks, which are not adequately reflected in our RAC calculation.

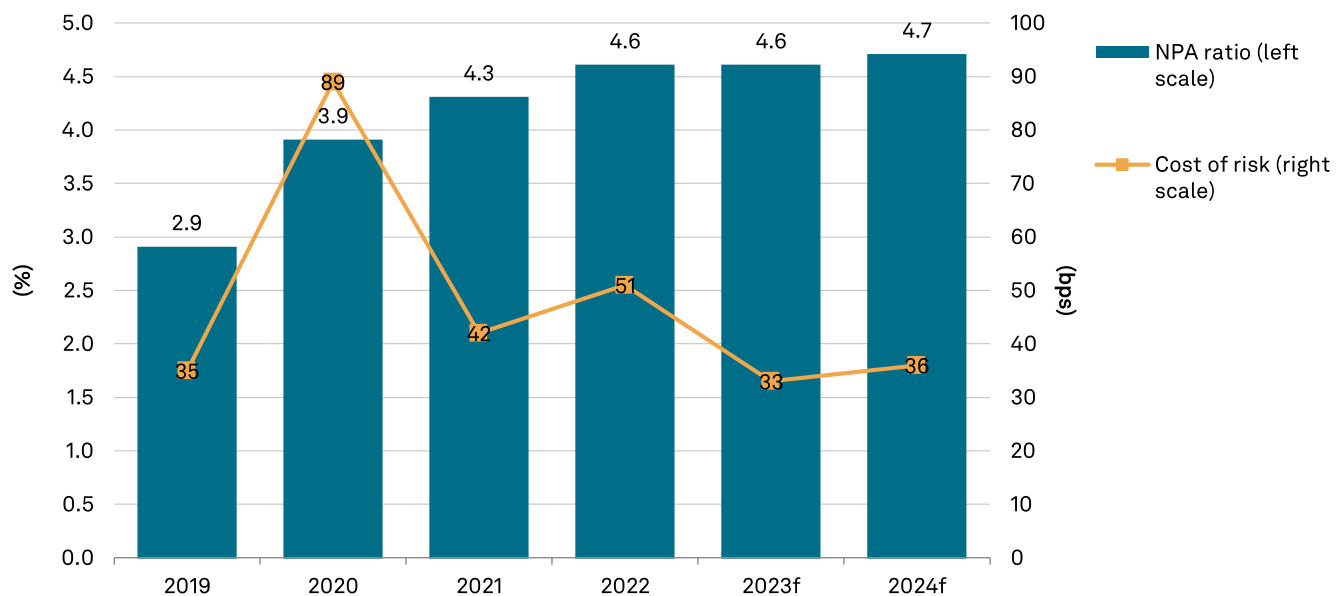
We assess concentrations in high-risk sectors as the dominant weakness in the bank's risk profile. In recent years, the bank has focused on increasing the granularity of its risk exposure, but high single-name and single-loan concentration remains intrinsic to the business model. This is also a reflection of the relatively large size of IPEX's corporate

customers. Moreover, IPEX's export finance products are typically more complex than mainstream loans, and therefore more difficult to manage. We acknowledge that the ultimate risk is largely reduced through guarantees from ECAs, especially for the more challenging projects or geographic regions. We believe that syndication and risk sharing will gain further relevance for IPEX's business model.

Chart 4

KfW IPEX-Bank's risk costs have stabilized after all-time high during pandemic

Evolution of nonperforming assets (NPA) ratio (%) and cost of risk (bps) since 2019



Cost of risk--New loan loss provisions / average customer loans. f--Forecast. Bps--Basis point. Source: S&P Global Ratings, including forecasts.

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In our view, IPEX's exposure to the engineering, automotive, maritime, and aviation sectors will remain a significant risk for asset quality. In our view, industrial output will remain at risk due to a weakening macroeconomic environment. Potential downside from Russian exposures should be contained in our view because corporate exposures (after guarantees) in Russia represent less than 1% of total corporate exposures.

IPEX's nonperforming loans (NPLs) increased slightly to 4.6% of total loans as of Dec. 31, 2022, from 4.3% at year-end 2021. We expect the bank's NPL ratio to stay elevated over the next two years since weaker growth and higher debt-servicing costs will challenge some corporates. Nevertheless, we acknowledge the high share of guaranteed exposure.

Funding And Liquidity: Material Benefits From Parent's Liquidity Support

IPEX's comfortable funding and liquidity position benefits from implicit and explicit support from the parent, which we consider a strength compared with other German banks. IPEX's funding mix comprises promissory note loans and registered covered bonds being acquired by KfW. We believe IPEX's link with KfW will allow it continued unimpeded access to funding in periods of market stress, outweighing potential risks. As part of its refinancing agreement with KfW, IPEX also has access to a €3.7 billion credit line.

IPEX's stable funding ratio of 79% as of Dec. 31, 2022, remained significantly below the 100% that usually signals a well-balanced funding profile. About 20% of IPEX bank funding is short term (maturing within one year), which we do not treat as available stable funding in calculating our stable funding ratio. However, IPEX's short-term funding is provided by its parent, and therefore we do not consider this a source of concern.

Our assessment of IPEX's liquidity position as strong is mainly based on ongoing liquidity support provided by KfW, mitigating the bank's weak and continuously shrinking ratio of broad liquid assets to total assets of 1.5% on Dec. 31, 2022.

Support: Six Notches Of Uplift Due To GRE Support

We regard IPEX as a government-related entity (GRE) in relation to the German sovereign. The long-term issuer credit rating is six notches higher than the SACP because, in our view, there is an extremely high likelihood of timely and sufficient extraordinary government support for IPEX from KfW. Our assessment is based on IPEX's:

- Very important role for KfW, and ultimately for Germany, in supporting public policy as a major export finance institution; and
- Integral link with its sole owner, KfW, which is also a GRE.

We do not envisage that the bank's GRE status or our view of an extremely high likelihood of extraordinary government support will change in the near future. Promotion of export financing is a key economic and political objective for the German government, and we see IPEX's promotional lending business in the name of KfW as pivotal.

Environmental, Social, And Governance (ESG)

ESG credit factors have an overall neutral influence on our credit rating analysis of KfW IPEX-Bank. Its governance and oversight, mainly managed by state-owned KfW and prospectively supervised by the European Central Bank, complies with the wide range of regulations it is subject to and address the complex legal risks associated with its export-finance business. We believe that this oversight minimizes, but does not eliminate, the risks of being caught up in money-laundering scandals or of violating rules applicable in countries with lower governance standards, as also evident in the past.

Despite KfW IPEX's interlinkages with the German export industry, we see the bank as relatively less exposed to

environmental risks, given its strategic shift toward renewables and government guarantees on its existing portfolio. However, we believe that the financing of heavily fossil fuel-dependent businesses such as aviation, cruise lines, and construction materials bears some reputational risks.

Key Statistics

Table 1

KfW IPEX-Bank GmbH--Key figures					
	--Year ended Dec. 31--				
(Mil. €)	2022	2021	2020	2019	2018
Adjusted assets	25,533	27,529	25,581	23,652	26,900
Customer loans (gross)	24,909	26,586	26,580	24,204	24,141
Adjusted common equity	3,559	3,508	3,482	3,424	3,268
Operating revenues	523	534	472	504	502
Noninterest expenses	272	261	229	227	244
Core earnings	117	160	N/A	192	254

N/A--Not applicable.

Table 2

KfW IPEX-Bank GmbH--Business position					
	--Year ended Dec. 31--				
(%)	2022	2021	2020	2019	2018
Total revenues from business line (mil. €)	522.5	533.8	501.2	504.3	502.4
Commercial banking/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Commercial & retail banking/total revenues from business line	100.0	100.0	100.0	100.0	100.0

Table 3

KfW IPEX-Bank GmbH --Capital and earnings					
	--Year ended Dec. 31--				
(%)	2022	2021	2020	2019	2018
Tier 1 capital ratio	24.4	19.6	17.5	20.7	20.5
S&P Global Ratings' RAC ratio before diversification	16.0	14.6	13.7	16.5	14.6
S&P Global Ratings' RAC ratio after diversification	14.8	13.7	13.0	15.2	14.4
Adjusted common equity/total adjusted capital	85.6	85.4	94.6	91.9	89.1
Double leverage	N.M.	N.M.	N.M.	N.M.	N.M.
Net interest income/operating revenues	66.2	65.3	70.5	61.8	58.1
Fee income/operating revenues	26.5	32.3	39.2	39.8	33.4
Market-sensitive income/operating revenues	(1.1)	(5.3)	(11.0)	(3.3)	2.6
Cost to income ratio	52.0	48.9	48.5	45.0	48.6
Preprovision operating income/average assets	0.9	1.0	0.9	1.0	1.0
Core earnings/average managed assets	0.4	0.6	N/A	0.7	1.0

N/A--Not applicable. N.M.--Not meaningful. RAC--Risk-adjusted capital.

Table 4

KfW IPEX-Bank GmbH--Risk-adjusted capital framework data					
	Exposure*	Basel III RWA	Average Basel III RW (%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk					
Government & central banks	9,535,069,555	229,979,310	2	464,117,495	5
Of which regional governments and local authorities	0	0	0	0	0
Institutions and CCPs	30,476,740	54,945,905	180	25,920,777	85
Corporate	27,680,870,766	15,213,404,314	55	23,894,805,107	86
Retail	0	0	0	0	0
Of which mortgage	0	0	0	0	0
Securitization§	0	0	0	0	0
Other assets†	36,693,814	36,688,064	100	33,024,432	90
Total credit risk	37,283,110,875	15,535,017,593	42	24,417,867,812	65
Credit valuation adjustment					
Total credit valuation adjustment	--	0	--	0	--
Market Risk					
Equity in the banking book	63,744,482	419,347,737	658	687,379,323	1,078
Trading book market risk	--	0	--	0	--
Total market risk	--	419,347,737	--	687,379,323	--
Operational risk					
Total operational risk	--	793,334,463	--	808,559,931	--
	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global Ratings RWA	% of S&P Global Ratings RWA
Diversification adjustments					
RWA before diversification	--	16,846,000,000	--	25,913,807,066	100
Total diversification/ Concentration adjustments	--	--	--	2,238,555,909	9
RWA after diversification	--	16,846,000,000	--	28,152,362,975	109
	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings RAC ratio (%)	
Capital ratio					
Capital ratio before adjustments	4,113,000,000	24.4	4,159,047,000	16.0	
Capital ratio after adjustments‡	4,113,000,000	24.4	4,159,047,000	14.8	

*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. CCPs--Central counterparty clearing house. Sources: Company data as of Dec. 31, 2022. S&P Global Ratings.

Table 5

KfW IPEX-Bank GmbH--Risk position					
	--Year ended Dec. 31--				
(%)	2022	2021	2020	2019	2018
Growth in customer loans	(6.3)	0.0	9.8	0.3	8.1
Total diversification adjustment/S&P Global Ratings' RWA before diversification	8.6	6.9	4.8	8.4	1.4
Total managed assets/adjusted common equity (x)	7.3	8.0	8.1	7.6	8.3
New loan loss provisions/average customer loans	0.5	0.4	0.9	0.4	0.0
Net charge-offs/average customer loans	N.M.	N.M.	0.3	0.2	0.2
Gross nonperforming assets/customer loans + other real estate owned	4.6	4.3	3.9	2.9	2.4
Loan loss reserves/gross nonperforming assets	41.6	27.0	36.2	42.6	51.7

RWA--Risk-weighted assets. N.M.--Not meaningful.

Table 6

KfW IPEX-Bank GmbH--Funding and liquidity					
	--Year ended Dec. 31--				
(%)	2022	2021	2020	2019	2018
Core deposits/funding base	2.0	0.6	0.5	0.5	0.9
Customer loans (net)/customer deposits	5,768.6	18,230.5	22,890.5	20,381.6	12,214.7
Long-term funding ratio	82.5	83.6	71.4	76.4	72.2
Stable funding ratio	79.5	82.2	65.6	69.8	76.1
Short-term wholesale funding/funding base	21.0	19.4	33.1	27.8	32.3
Regulatory net stable funding ratio	109.0	110.5	N/A	N/A	N/A
Broad liquid assets/short-term wholesale funding (x)	0.1	0.2	0.1	0.2	0.3
Broad liquid assets/total assets	1.5	2.7	4.0	4.4	8.7
Broad liquid assets/customer deposits	89.5	523.9	970.8	979.3	1,209.1
Net broad liquid assets/short-term customer deposits	(976.4)	(2,592.7)	(5,952.6)	(4,783.0)	(2,708.3)
Regulatory liquidity coverage ratio (LCR) (x)	845.9	1,306.3	N/A	N/A	N/A
Short-term wholesale funding/total wholesale funding	20.9	19.0	32.9	27.5	32.0

N/A--Not applicable.

KfW IPEX-Bank GmbH--Rating component scores	
Issuer Credit Rating	AA+/Stable/A-1+
SACP	bbb+
Anchor	bbb+
Economic risk	3
Industry risk	4
Business position	Moderate
Capital and earnings	Strong
Risk position	Moderate
Funding	Strong
Liquidity	Strong
Comparable ratings analysis	0
Support	+6

KfW IPEX-Bank GmbH--Rating component scores (cont.)

Issuer Credit Rating	AA+/Stable/A-1+
ALAC support	0
GRE support	+6
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

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- 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
- 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: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Banking Industry Country Risk Assessment: Germany, June 6, 2023

Ratings Detail (As Of January 5, 2024)*

KfW IPEX-Bank GmbH	
Issuer Credit Rating	AA+/Stable/A-1+
Issuer Credit Ratings History	
27-May-2016	AA+/Stable/A-1+
25-Jan-2012	AA/Stable/A-1+
08-Dec-2011	AA/Watch Neg/A-1+
Sovereign Rating	
Germany	AAA/Stable/A-1+
Related Entities	
KfW	
Issuer Credit Rating	AAA/Stable/A-1+

Ratings Detail (As Of January 5, 2024)*(cont.)

Commercial Paper

Foreign Currency

A-1+

Senior Unsecured

AAA

*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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