

Transaction Update: Danske Bank A/S (Cover Pool I Mortgage Covered Bonds)

Saerligt Daekkede Obligationer

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Ratings Detail

Reference Rating Level	aa	+	Jurisdiction-Supported Rating Level	aaa	+	Maximum Achievable Covered Bond Rating	aaa	=	Covered Bond Rating	
Resolution Regime Uplift	+2		Assigned Jurisdictional Support Uplift	+2		Collateral Support Uplift	+1		AAA	
Systemic Importance	Very Strong		Jurisdictional Support Assessment	Very Strong		Overcollateralization Adjustment	-1		Rating Constraints	aaa
Resolution Counterparty Rating	AA-		Legal Framework	Very Strong		Liquidity Adjustment	0		Counterparty Risk	aaa
Issuer Credit Rating	A+		Systemic Importance	Very Strong		Potential Collateral Based Uplift	+2		Country Risk	aaa
			Sovereign Credit Capacity	Very Strong						

Major Rating Factors

Strengths

- The long-term issuer credit rating (ICR) on the issuer is such that the program needs to cover 'AAA' credit risk in order to achieve a 'AAA' rating.
- Due to the covered bonds' soft-bullet maturities, six months liquidity coverage is ensured.
- The program benefits from two unused notches of uplift that would protect the ratings on the covered bonds if we were to lower the ICR on Danske Bank A/S.

Weakness

- The available overcollateralization is provided on a voluntary basis, meaning that we deduct one notch from the collateral-based uplift.

Outlook: Stable

S&P Global Ratings' stable outlook on the ratings on Danske Bank A/S' cover pool I mortgage covered bonds ("saerligt daekkede obligationer"; SDOs) reflects our view that we would not automatically lower the ratings if we were to lower our long-term ICR on Danske Bank by up to two notches. We would lower our ratings on the covered bonds if the credit enhancement needed to maintain the ratings were to exceed the available credit enhancement.

Rationale

We are publishing this transaction update following our periodic review of Danske Bank's cover pool I's mortgage covered bond program and related issuances.

Our covered bond ratings process follows the methodology and assumptions outlined in our "Covered Bonds Criteria," published on Dec. 9, 2014, and "Covered Bond Ratings Framework: Methodology And Assumptions," published on June 30, 2015.

The 'AAA' ratings reflect our reference rating level (RRL) of 'aa-' and our jurisdiction-supported rating level (JRL) of 'aaa', as well as the overcollateralization coverage of the 'AAA' credit risk.

The ratings on the program and related issuances are not constrained by legal, operational, counterparty, or country risks.

On Dec. 16, 2021, we raised the long-term ICR on Danske Bank to 'A+' from 'A' and revised the outlook to negative from stable (see "Denmark-Based Danske Bank Upgraded To 'A+'; Outlook Negative; Off UCO On Implementation Of Revised FI Criteria"). This upgrade led to one further unused notch of ratings uplift as the program now needs only two notches to reach the JRL of 'aaa' instead of the three previously.

On Dec. 16, 2022, we affirmed our 'A+' long-term ICR on Danske Bank and revised the outlook to stable from negative (see "Danske Bank Outlook Revised To Stable As Estonia Money Laundering Case Resolved; 'A+/A-1' Ratings Affirmed").

Danske Bank is domiciled in Denmark, which is subject to the EU's Bank Recovery and Resolution Directive (BRRD). We consider mortgage covered bonds to have very strong systemic importance to Denmark. These factors increase the likelihood that the issuer would continue servicing its covered bonds without accessing the cover pool or receiving jurisdictional support, even following a bail-in of its senior unsecured obligations. Therefore, under our covered bonds criteria, we assess the RRL as the higher of (i) two notches above the long-term ICR; and (ii) the resolution counterparty rating (RCR). Given Danske Bank's RCR is 'AA-', the RRL is 'aa', two notches above its ICR.

Our jurisdictional support analysis determined the JRL of the covered bonds as 'aaa'. We considered the likelihood of jurisdictional support for mortgage covered bonds in Denmark, which we assess as very strong, resulting in a jurisdictional support uplift from the RRL of up to three notches. Danske Bank's covered bonds use two notches to achieve a JRL of 'aaa'.

Program Description

Danske Bank is a leading Danish financial services group. It operates primarily in Denmark, Finland, Sweden, and Norway.

We currently rate the category C, D, and I covered bonds issued under the €30,000,000,000 global covered bond program.

Cover pool I contains mortgage loans denominated in Norwegian krone (NOK) secured on Norwegian residential properties. Swedish mortgage loans have all been removed from the cover pool. The covered bonds are issued in euro, Norwegian krone, and Swiss franc. The transaction features interest rate swaps and cross-currency swaps on both assets and liabilities.

The mortgage covered bonds are senior-secured unsubordinated obligations. They rank pari passu with other obligations in the same cover pool register. If the issuer were to become bankrupt, the C, D, and I cover pools would be separated and independent of each other.

Table 1

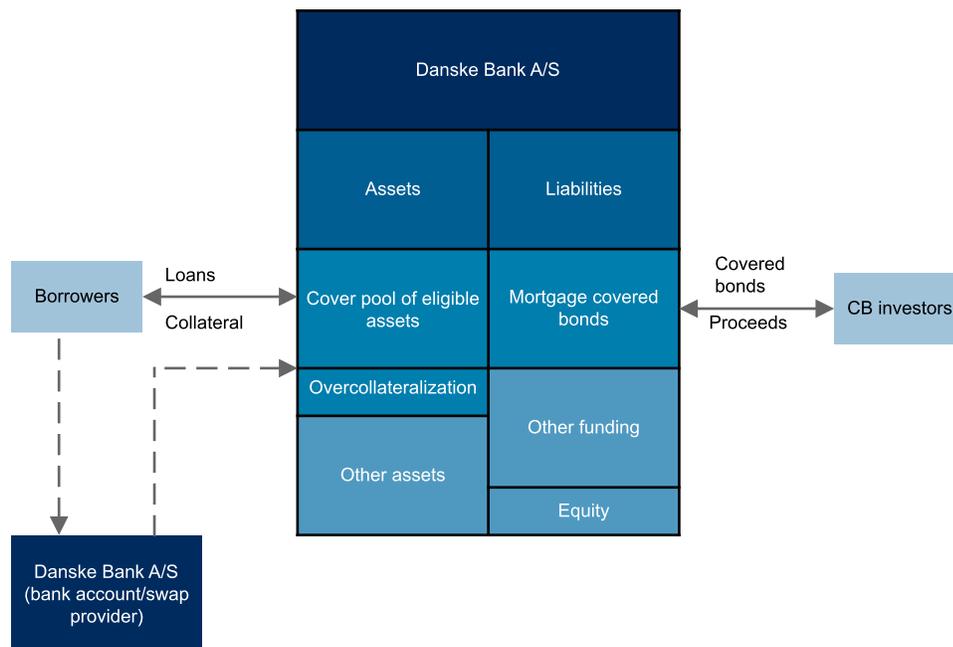
Program Description*	
Jurisdiction	Denmark
Covered bond type	Legislation-enabled
Underlying assets	Residential mortgage loans
Outstanding covered bonds (Bil. NOK)	130.10
Rating at closing	'AAA'
Extendible maturities	Yes
Assigned jurisdictional support uplift	2
Unused notches for jurisdictional support	1
Target credit enhancement (%)	18.02
Available credit enhancement (%)	11.82
Collateral support uplift	1
Unused notches for collateral support	1

*Based on data as of June 30, 2022. NOK--Norwegian krona.

Table 2

Participants			
Role	Name	Rating	Rating dependency
Issuer	Danske Bank A/S	A+/Stable /A-1	Y
Swap provider	Danske Bank A/S	A+/Stable /A-1	Y
Bank account provider	Danske Bank A/S	A+/Stable /A-1	N
Originator	Danske Bank A/S	A+/Stable /A-1	N

Program Structure



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Rating Analysis

Legal and regulatory risks

The Danish Covered Bond Act provides the legal framework for the issuance of the Danish covered bonds. It also outlines eligibility criteria for the inclusion of assets in the cover pool. The issuer needs to obtain a general covered bond issuing license from the Danish Financial Supervisory Authority.

In our view, the Danish covered bond framework sufficiently addresses the relevant legal aspects of our covered bonds criteria and our legal criteria (see "Asset Isolation And Special-Purpose Entity Methodology," published on March 29, 2017). This enables us to assign ratings to the covered bonds that exceed the long-term ICR on the issuer.

Danske Bank adheres to the general balancing principle (in contrast to the specific balancing principle) to manage market risk exposure. The issuer may issue covered bonds that are delinked from the mortgage assets, and the mortgage collateral acts as overcollateralization.

Danske Bank's cover pool I covered bond investors have a primary secured claim against all assets in the cover pool. The ratings on the covered bonds issued from cover pool I rely on the issuer's active management of the overcollateralization to support the current ratings.

To become eligible as collateral, mortgage loans must be entered in the Danish land register. The registration is legally

binding and will form the basis of any bankruptcy proceedings. If bankruptcy proceedings have been initiated, a trustee appointed by the bankruptcy court will administer the cover pool assets. The trustee is ordered by law to meet all payment obligations as they fall due.

The issuer must maintain an overcollateralization of at least 2% of covered bonds outstanding on a nominal basis and 8% of risk-weighted assets. Banking supervision is carried out by the Danish Financial Supervisory Authority (DFSA, or "Finanstilsynet"). The DFSA has the authority to issue an order with which the issuer must comply. In case of severe or multiple breaches, the DFSA may revoke the license.

All Danish covered bonds that match the maturity of the mortgage may be extended in the instance of a failed refinancing. The issuer or administrator must attempt to refinance the extended bonds in yearly intervals. For covered bonds without a maturity match (as is the case in Danske Bank I's cover pool), the administrator may extend the maturities of the covered bonds.

The legislation to transpose the EU Covered Bond Directive in the Danish legal framework was passed in May 2021 and became effective on July 8, 2022. The amendments introduced a nominal statutory overcollateralization requirement of 2%. This does not include the cost of managing a cover pool that is winding down. It also introduced a formal requirement for coverage of 180 days of liquidity needs. Most Danish covered bond programs are matched-funded and are exempt from this requirement. The amendments are essentially refinements and, given that the Danish legislation was already well aligned to the requirements of the directive, the new legislation does not affect our analysis of the Danish legal framework.

Under Danish law, collateral added to a cover pool less than three months before the bankruptcy of the issuer may be "clawed back" or challenged by other creditors if the covered bondholders received preferential treatment at the expense of the issuer's ordinary creditors. If such a challenge were to succeed, fewer assets would be available for covered bondholders from the relevant cover pool. We continuously monitor the transfer of collateral and consider the credit rating on the issuer in determining the size of a potential clawback. As Danske Bank has shown a pattern of providing sufficient overcollateralization to maintain a 'AAA' rating, any increase in the asset pool to maintain this rating would likely be considered ordinary, and therefore not subject to clawback, in our view.

Operational and administrative risks

In June 2022, we conducted a review of Danske Bank's origination, underwriting, collection, and default management procedures for the cover pool assets. We also reviewed the cover pool management and administration. We consider that Danske Bank actively manages the cover pool and has strict underwriting and loan management policies. We have not identified any operational or administrative risks that would affect our assessment of the program.

We believe that a replacement cover pool manager would be available if the issuer were to become insolvent. We consider Denmark to be an established covered bond market and believe that the mortgage assets in the cover pool do not comprise product features that would materially limit the range of available replacement cover pool managers.

Resolution regime analysis

As part of our covered bonds criteria, our analysis considers the resolution regime in place in Denmark to determine the RRL. The RRL on the issuer, which is the starting point for any further uplift in our analysis, is 'aa'. We consider the

following factors:

- The issuer is domiciled in Denmark, which is subject to the EU's BRRD.
- Our very strong assessment of the systemic importance of Danish mortgage covered bonds, which allows for two notches of uplift from the ICR on Danske.

These factors recognize that resolution regimes like the BRRD increase the probability that an issuer could service its covered bonds even following a default on its senior unsecured obligations, because the law exempts covered bonds from bail-in. We consider this an internal form of support, because the bail-in of certain creditors does not require direct government support.

Jurisdictional support analysis

The JRL on Danske Bank's covered bonds is 'aaa'. Under our analysis of jurisdictional support in our covered bonds criteria, we determine a JRL--which is our assessment of the creditworthiness of a covered bond program--once we have considered the level of jurisdictional support, but before giving credit to the amount of collateral.

In our jurisdictional support analysis, we assess the likelihood that a covered bond program facing stress would receive support from a government-sponsored initiative, instead of from the liquidation of collateral assets in the open market. Our assessment of the expected jurisdictional support for Danish mortgage covered bond programs is very strong. Under our covered bonds criteria, this means that the program can receive up to three notches of jurisdictional uplift from the RRL. Two notches are used to achieve a "AAA" rating resulting in one unused notch for jurisdictional support.

Collateral support analysis

Table 3

Cover Pool Composition					
Asset type	As of June 30, 2022		As of June 30, 2021		
	Value (Mil. NOK)	Percentage of cover pool (%)	Value (Mil. NOK)	Percentage of cover pool (%)	
Residential	146,953.0	100.0	163,696.2	100.0	
Commercial	0.0	0.0	0.0	0.0	
Substitute assets	0.0	0.0	0.0	0.0	
Other asset type	0.0	0.0	0.0	0.0	
Total	146,953.0	100.0	163,696.2	100.0	

NOK--Norwegian krone.

Table 4

Key Credit Metrics: Norwegian Assets		
	As of June 30, 2022	As of June 30, 2021
Weighted-average loan-to-value ratio (%)	56.5	59.8
Balance of loans in arrears (%)	0.1	0.1
Credit analysis results		
Weighted-average foreclosure frequency (%)	11.7	13.8
Weighted-average loss severity (%)	32.0	34.8

Table 5

Loan-To-Value Ratios		
	As of June 30, 2022	As of June 30, 2021
(%)	Percentage of cover pool (%)	
0 to 60	55.6	49.1
60 to 70	19.4	18.9
70 to 80	14.9	18.1
80 to 90	7.6	9.4
90 to 100	1.3	2.5
More than 100	1.2	2.0
Weighted-average loan-to-value ratios	56.5	59.8

Table 6

Loan Seasoning Distribution		
	As of June 30, 2022	As of June 30, 2021
	Percentage of cover pool (%)	
Less than 5 years	69.4	72.4
5-6	6.6	7.2
6-7	5.8	5.9
7-8	5.0	1.9
8-9	1.7	1.5
9-10	1.4	2.2
More than 10 years	10.0	8.8
Weighted-average loan seasoning (years)	4.4	3.9

*Seasoning refers to the elapsed loan term.

Table 7

Geographic Distribution Of Loan Assets		
	Percentage of cover pool (%)	
	As of June 30, 2022	As of June 30, 2021
East	60.2	60.2
West	9.4	9.8
Trondelag	14.5	14.0
North	5.1	5.3
South	10.7	10.8
Total	100.0	100.0

Table 8

Collateral Uplift Metrics		
	As of June 30, 2022	As of June 30, 2021
Asset WAM (years)	12.01	11.80
Liability WAM (years)	4.06	4.40
Maturity gap (years)	7.95	7.40
Available credit enhancement	11.82	10.11

Table 8

Collateral Uplift Metrics (cont.)		
	As of June 30, 2022	As of June 30, 2021
AAA' credit risk	4.55	4.90
Credit enhancement for first notch of collateral uplift (%)	7.92	7.70
Credit enhancement for second notch of collateral uplift (%)	11.29	10.49
Credit enhancement for third notch of collateral uplift (%)	14.65	13.29
Credit enhancement for maximum uplift (%)	18.02	16.08
Potential collateral-based uplift (notches)	2	1
Adjustment for liquidity (Y/N)	N	N
Adjustment for committed overcollateralization (Y/N)	Y	Y
Collateral support uplift (notches)	1	0

WAM--Weighted-average maturity.

We base our analysis on the loan-level data and asset and liability cash flow projections provided by the issuer as of June 30, 2022. The cover pool comprises residential mortgage loans solely backed by Norwegian assets. Swedish residential mortgages have entirely been removed from the pool.

The pool's current weighted-average foreclosure frequency (WAFF) improved and decreased to 11.7% from 13.8% previously. The pool's weighted-average loss severity (WALS) also improved and decreased to 32.0% from 34.8%. The main reason for the lower WAFF and WALS is a reduction in the loan-to-value (LTV) ratios. The weighted-average current LTV, based on our calculations, is 56.5%, lower compared to 59.8% previously.

By applying our credit and cash flow stresses, we calculate a target credit enhancement (TCE), which would allow the program to receive four notches of collateral-based uplift. The TCE calculated on June 2022 data is 18.0%. This is higher than the 16.1% resulting from our previous review. The main reason for the higher TCE is an increase in asset-liability mismatch.

Our global RMBS criteria identifies basis risk in relation to standard variable rate (SVR) mortgage loans given that the lender may change the SVR at any time and for a variety of reasons (for example, changes in the cost of funding or to retain borrowers). As the current SVR rates in Danske Bank's cover pool I reflect a competitive environment, we have not applied a haircut to these SVR rates in our analysis. However, we may apply a stress in the future if the SVR dynamics were to change.

Given the JRL of 'aaa', under our covered bonds criteria, only coverage of the 'AAA' credit risk, at 4.6%, is required to maintain the current 'AAA' rating, based solely on jurisdictional support. The available credit enhancement, which is 11.8% after applying a haircut to account for set-off risk, is sufficient to cover this requirement. As the available credit enhancement (11.8%) exceeds the second notch of collateral based uplift, the potential collateral-based uplift above the JRL is two notches. We reduce these two notches by one because there is no commitment to maintain overcollateralization at the current rating level. We make no deductions for the lack of 180 days of liquid assets because the covered bonds' soft-bullet maturities satisfy the liquidity coverage requirement under our criteria. Therefore, the maximum collateral uplift above the JRL is one notch. None is currently needed to achieve a 'AAA' rating.

Counterparty risk

We have identified several counterparty risks to which the covered bonds are exposed. However, these are either structurally addressed in line with our current counterparty criteria or taken into account in our cash flow modeling (see "Counterparty Risk Framework: Methodology And Assumptions," published on March 8, 2019). Therefore, we believe that they do not constrain the ratings from a counterparty risk perspective.

Commingling risk. Pre-insolvency, principal proceeds are either reinvested or immediately used to repay the bondholders. Post-insolvency, proceeds from the borrowers are identified and promptly segregated for the benefit of the bondholders. We size a small amount to account for the potential disruption that might affect payments in a post-insolvency scenario.

Swaps. Danske Bank is the sole swap counterparty for this program. Hedging addresses interest rate and currency mismatches between the pool's mortgage loans and the payments due to covered bondholders. To derive the maximum potential rating on the covered bonds under our counterparty criteria we consider various factors, including whether the counterparties are related to the issuer, the seniority of termination payments, the replacement commitment, and the collateral posting framework.

Danske Bank is a related swap counterparty, derivative termination costs are not subordinated to payments due to covered bond holders. Because Danske Bank is a related counterparty, we consider the RRL (currently "aa") as the applicable counterparty rating when assessing counterparty risk. According to the swap documentation, Danske Bank has committed to post collateral and to replace itself within 90 calendar days if their RRL falls below 'A'. We categorize the current collateral-posting framework in the derivative contracts as adequate.

The collateral framework assessment, combined with the current RRL on the issuer ('aa') and the replacement trigger, support a maximum potential rating of 'AAA' under our counterparty risk assessment.

Set-off risk. There is a risk that borrowers of certain loans contained in the cover pool retain a residual right under the relevant local legislation to set-off claims against the outstanding amount of their loans. In order to mitigate this risk the issuer will include additional assets in the cover pool, up to a value that is equal to the set-off risk as calculated quarterly. We deduct this amount from the cover pool balance when calculating the transaction's available overcollateralization. As of June 2022, the amount at risk is equal to roughly DKK 500 million.

Sovereign risk

We consider country risk in line with our criteria (see "Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions," published on Jan. 30, 2019).

The assets are domiciled in Norway (unsolicited), which is rated 'AAA/Stable'. The issuer is domiciled in Denmark, which is also rated 'AAA/Stable' (unsolicited). Therefore, our rating on the program is not limited by the application of these criteria.

Environmental, Social, And Governance (ESG)

ESG Credit Indicators

E-1	E-2	E-3	E-4	E-5	S-1	S-2	S-3	S-4	S-5	G-1	G-2	G-3	G-4	G-5
- N/A					- N/A					- Risk management, culture, and oversight				

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumeric 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

We view Danske Bank's cover pool I's exposure to environmental and social factors in line with other Danish issuers. In its cover pool I, Danske Bank issues the covered bonds under the Danish SDO framework backed solely by Norwegian residential properties. SDO programs must ensure continuous LTV compliance on an individual loan basis and not just at origination, meaning that if collateral values drop the issuer must pledge additional assets to the cover pool. Governance factors are a negative consideration in our ICR analysis of Danske Bank. Moreover, the issuer does not commit to maintain a minimum level of overcollateralization in the program that is commensurate with a 'AAA' rating, which reduces by one the unused notches of uplift.

We consider liquidity coverage to be addressed as all outstanding issues are soft-bullet bonds with a one-year maturity extension.

Related Criteria

- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Global Methodology And Assumptions: Assessing Pools Of Residential Loans, Jan. 25, 2019
- Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Covered Bonds Criteria, Dec. 9, 2014
- Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Global Covered Bond Insights Q4 2022, Dec. 16, 2022
- Danske Bank Outlook Revised To Stable As Estonia Money Laundering Case Resolved; 'A+/A-1' Ratings Affirmed, Dec. 16, 2022
- Covered Bonds Outlook 2023, Dec. 6, 2022
- Danish Covered Bond Market Insights 2022, Nov. 22, 2022
- Denmark 'AAA/A-1+' Ratings Affirmed; Outlook Stable, Aug. 26, 2022
- European Covered Bonds Reach Harmonization Milestone As The Journey Continues, July 12, 2022
- ESG Credit Indicator Report Card: Covered Bonds, April 7, 2022
- Denmark-Based Danske Bank Upgraded To 'A+'; Outlook Negative; Off UCO On Implementation Of Revised FI Criteria, Dec. 16, 2021
- S&P Global Ratings Definitions, Nov. 10, 2021
- Various Rating Actions Taken On Five Danish Banks As Denmark's Banking Market Offers Mixed Blessings, Oct. 23, 2019
- Glossary Of Covered Bond Terms, April 27, 2018
- Credit FAQ: The Danish Covered Bond Market Explained, July 15, 2014

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