

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

### Saerligt Daekkede Obligationer

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## Saerligt Daekkede Obligationer

### Ratings Detail

<b>Reference Rating Level</b>	<b>aa</b>	+	<b>Jurisdiction-Supported Rating Level</b>	<b>aaa</b>	+	<b>Maximum Achievable Covered Bond Rating</b>	<b>aaa</b>	=	<b>Covered Bond Rating</b>	
Resolution Regime Uplift	+2		Assigned Jurisdictional Support	+3		Collateral Support Uplift	+1		<b>AAA</b>	
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
<b>Issuer Credit Rating</b>	<b>A+</b>		Systemic Importance	Very Strong		Potential Collateral Based Uplift	+2		Country Risk	aaa
			Sovereign Credit Capacity	Very Strong						

### Major Rating Factors

#### Strengths

- The issuer credit rating (ICR) allows for a 'AAA' rating to be reached with the jurisdictional support and the coverage of 'AAA' credit risk.
- The program benefits from one unused notch of collateral uplift, which would protect the rating if we downgrade the issuer.
- Due to the covered bonds' soft bullet maturities, we consider six months liquidity covered.
- The current level of overcollateralization covers potential setoff and commingling risks.

#### Weaknesses

- The cover pool's assets comprise commercial real estate loans, which we consider to be riskier than residential real estate loans.
- The Norwegian assets have some concentration in the region of Trondelag.
- There is a risk that borrowers of certain loans included in the cover pool retain a residual right to setoff.

- The available overcollateralization is provided on a voluntary basis, reducing the amount of collateral-based uplift by one notch.

## **Outlook: Stable**

S&P Global Ratings' stable outlook on the ratings on Danske Bank A/S' cover pool C mortgage covered bonds "saerligt daekkede obligationer" (SDOs) reflects our view that we would not automatically lower the ratings on the covered bonds if we were to lower our long-term ICR on Danske Bank by a single notch.

## **Rationale**

This transaction update follows our periodic review of Danske Bank's cover pool C mortgage covered bonds. Our rating analysis for the covered bonds follows the framework set out in our criteria article "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.

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 of uplift to achieve a JRL of 'aaa'.

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

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").

## **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 C contains mortgage loans denominated in Swedish krona (SEK) and Norwegian krone (NOK), secured on Swedish and Norwegian commercial properties. The covered bonds are issued in euros and Danish kroner. The transaction features interest rate swaps and cross-currency swaps on both assets and liabilities.

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

The covered bonds rank pari passu with other covered bonds and derivatives from the same cover pool. If the issuer were to become bankrupt, Danske Bank's cover pools would be separated and managed independent of each other.

**Table 1**

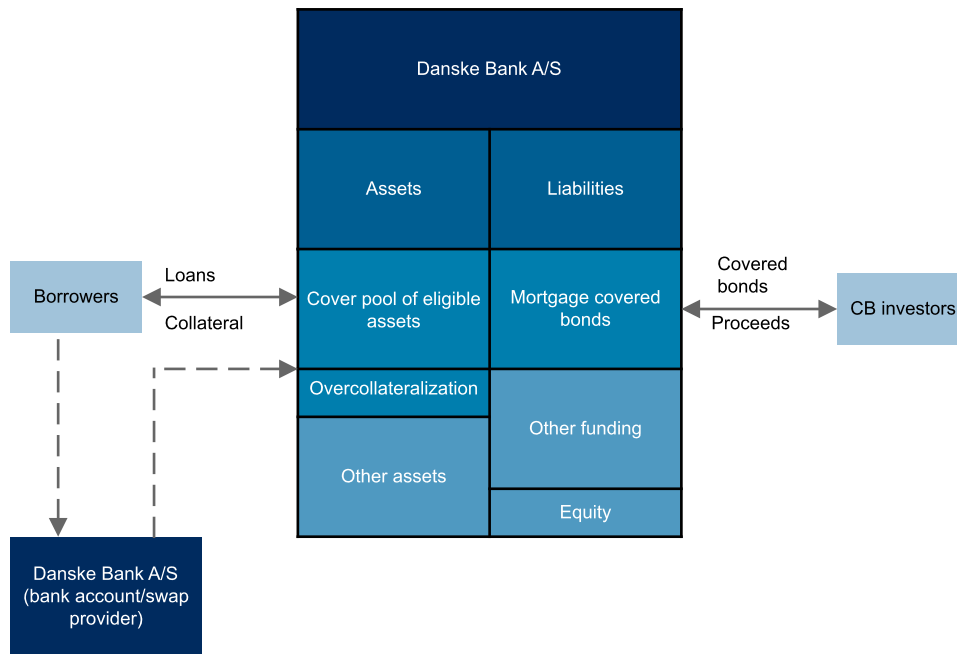
Program Description*	
Jurisdiction	Denmark
Covered bond type	Legislation-enabled
Underlying assets	Commercial mortgage loans
Outstanding covered bonds (bil. SEK)	53.51
Year of first issuance	2010
Rating at closing	'AAA'
Extendible maturities	Yes
Target credit enhancement (%)	20.07
Available credit enhancement (%)	16.37

\*Based on data as of Sept. 30, 2022. SEK--Swedish krona.

**Table 2**

Program 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
Interest rate hedge provider	Danske Bank A/S	A+/Stable/A-1	Y
Bank account provider	Danske Bank A/S	A+/Stable/A-1	N

## Program Structure



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## Rating Analysis

### Legal and regulatory risks

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.

The legislation to transpose the EU Covered Bond Directive into 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. Most Danish covered bond programs are matched-funded and are exempt from this requirement. For covered bonds without a maturity match (as is the case in Danske Bank C's cover pool), the administrator may extend the covered bonds' maturity.

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.

Under certain restrictions, an SDO cover pool can include mortgage credit assets secured on residential and commercial properties within the European Economic Area (EEA), the Organization for Economic Cooperation and

Development (OECD), as well as loans granted to public bodies in the EEA and OECD. It may also include supplementary assets, such as securities from eligible financial institutions in the EEA or the OECD.

Under the law:

- The cover pool must register all derivatives used for hedging mismatches. The derivatives rank pari passu with the bonds.
- The issuer must maintain an overcollateralization of at least 2% of covered bonds outstanding on a nominal basis. The issuer must cover 180 days liquidity for bonds issued before the introduction of the law.

If Danske Bank becomes insolvent, the covered bond holders have a preferential claim on the proceeds generated by the pool. Danish covered bonds do not automatically accelerate if the issuer becomes insolvent. The cover pool is managed by a bankruptcy administrator, who is obliged to ensure timely payment. To this end, the administrator is entitled to take appropriate measures aimed at raising liquidity by selling or borrowing against unmatched assets, to repay the maturing covered bonds' principal.

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.

The amendments to the legal framework are relatively limited, and as 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.

### **Operational and administrative risks**

We analyze operational and administrative risk by applying our covered bonds framework, and consider Danske Bank's origination, underwriting, collection, and default management procedures for the cover pool assets. We also consider the cover pool management and administration.

Danske Bank actively manages the cover pool and underwriting and loan management policies are maintained centrally. We have not identified any operational or administrative risks that would affect our assessment of the program.

We believe that a replacement servicer could be found were the issuer to become insolvent. We consider Denmark to be an established covered bond market and the cover pool assets to be standard for the involved jurisdictions, hence not limiting the range of available cover pool managers or servicers.

### **Resolution regime analysis**

Denmark is part of the EU and has implemented the EU's BRRD.

Therefore, we consider the program's RRL is equal to the ICR on the issuing bank, plus up to two notches for programs

in jurisdictions with effective resolution regimes that exempt covered bond from bail-in.

Given Danske Bank's 'A+' ICR, and our very strong systemic importance assessment for covered bonds in Denmark, the RRL is 'aa', two notches above the ICR.

### Jurisdictional support analysis

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. We have assessed jurisdictional support for Danish mortgage covered bonds as very strong, under our covered bonds criteria, which means that the program can receive up to three notches of jurisdictional uplift from the RRL. This leads to a JRL of 'aaa' for Danske Bank's cover pool C mortgage covered bonds.

### Collateral support analysis

**Table 3**

<b>Cover Pool Composition*</b>				
<b>Asset type</b>	<b>As of Sept. 30, 2022</b>		<b>As of Sept. 30, 2021</b>	
	<b>Value (mil. SEK)</b>	<b>Percentage of cover pool</b>	<b>Value (mil. SEK)</b>	<b>Percentage of cover pool</b>
Residential	-	0	-	0
Commercial	63188	100	77443	100
Substitute assets	-	0	-	0
Other asset type	-	0	-	0
Total	63188	100	77443	100

\*This is based on S&P Global Ratings' classification and therefore does not necessarily equal publicly available information (e.g., we classify multifamily homes as commercial). SEK--Swedish krona.

**Table 4a**

<b>Key Credit Metrics</b>		
	<b>As of Sept. 30, 2022</b>	<b>As of Sept. 30, 2021</b>
Weighted-average foreclosure frequency (%)	24.13	24.17
Weighted-average loss severity (%)	42.61	43.33

**Table 4b**

<b>Key Credit Metrics: Norwegian Assets</b>		
	<b>As of Sept. 30, 2022</b>	<b>As of Sept. 30, 2021</b>
Weighted-average loan-to-value ratio (%)	43.48	47.44
Balance of loans in arrears (%)	0	0
Credit analysis results		
Weighted-average foreclosure frequency (%)	25.06	26.8
Weighted-average loss severity (%)	41.01	46.26

**Table 4c**

<b>Key Credit Metrics: Swedish Assets</b>		
	<b>As of Sept. 30, 2022</b>	<b>As of Sept. 30, 2021</b>
Weighted-average loan-to-value ratio (%)	47.17	46.27
Balance of loans in arrears (%)	0	0

**Table 4c**

<b>Key Credit Metrics: Swedish Assets (cont.)</b>		
	<b>As of Sept. 30, 2022</b>	<b>As of Sept. 30, 2021</b>
Credit analysis results		
Weighted-average foreclosure frequency (%)	23.99	23.59
Weighted-average loss severity (%)	42.84	42.69

**Table 5a**

<b>Loan-To-Value Ratios: Norway</b>		
	<b>Percentage of cover pool</b>	
<b>(%)</b>	<b>As of Sept. 30, 2022</b>	<b>As of Sept. 30, 2021</b>
0 to 60	93.41	90.43
60 to 70	4.65	2.29
70 to 80	0.08	1.53
80 to 90	1.86	5.75
90 to 100	0	0
More than 100	0	0
Weighted-average loan-to-value ratios	43.38	47.44

**Table 5b**

<b>Loan-To-Value Ratios: Sweden</b>		
	<b>Percentage of cover pool</b>	
<b>(%)</b>	<b>As of Sept. 30, 2022</b>	<b>As of Sept. 30, 2021</b>
0 to 60	76.82	78.41
60 to 70	17.82	20.6
70 to 80	3.86	0.87
80 to 90	0.92	0.12
90 to 100	0.27	0
Above 100	0.31	0
Weighted-average loan-to-value ratios	47.17	46.27

**Table 6a**

<b>Geographic Distribution Of Loan Assets: Norway</b>		
	<b>Percentage of cover pool</b>	
	<b>As of Sept. 30, 2022</b>	<b>As of Sept. 30, 2021</b>
East	54.78	56.35
West	17.23	17.17
Trondelag	19.96	19.99
North	7.26	6.36
South	0.77	0.13
Total	100	100



**Table 6b**

<b>Geographic Distribution Of Loan Assets: Sweden</b>		
	<b>Percentage of cover pool</b>	
	<b>As of Sept. 30, 2022</b>	<b>As of Sept. 30, 2021</b>
West Sweden	23.05	23.56
Stockholm	23.09	24.37
East Middle Sweden	22.49	22.6
South Sweden	12.47	12.75
Smaland and the islands	10.55	9.97
North Middle Sweden	5.84	4.69
Middle Norrland	1.43	1.27
Upper Norrland	1.08	0.79
Total	100	100

**Table 7**

<b>Collateral Uplift Metrics</b>		
	<b>As of Sept. 30, 2022</b>	<b>As of Sept. 30, 2021</b>
Asset WAM (years)	1.84	1.9
Liability WAM (years)	3.01	3.57
Maturity gap (years)	-1.17	-1.67
Available credit enhancement	16.37	18.75
'AAA' credit risk	12.26	11.73
Credit enhancement for first notch of collateral uplift (%)	14.21	13.44
Credit enhancement for second notch of collateral uplift (%)	16.17	15.15
Credit enhancement for third notch of collateral uplift (%)	18.12	16.86
Target credit enhancement for maximum uplift (%)	20.07	18.57
Potential collateral-based uplift (notches)	1	4
Adjustment for liquidity (Y/N)	N	N
Adjustment for committed overcollateralization (Y/N)	Y	Y
Collateral support uplift (notches)	1	3

WAM--Weighted-average maturity.

We base our credit analysis on the loan-level data provided by the issuer as of Sept. 30, 2022. The cover pool comprises only commercial mortgage loans backed by Swedish (87.3%) and Norwegian (12.7%) assets. We analyze these pools under our commercial real estate criteria (see "Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds," published on March 31, 2015).

The pool's weighted-average foreclosure frequency (WAFF) is 24.13% (24.17% as of the September 2021 analysis). The pool's weighted-average loss severity (WALS) is 42.61% (43.33% as of the September 2021 analysis).

The WAFF and WALS slightly improved due to decreased weighted-average loan-to-value (LTV) ratio, which is partly offset by the Swedish pool's increasing operational properties.

We have performed the cash flow analysis as of September 2022, and calculated the target credit enhancement (TCE),

which would allow the program to receive four notches of collateral-based uplift. The TCE is 20.07%, which slightly exceeds 18.57% resulting from our September 2021 analysis, due to slightly lower excess spread, and higher asset-liability mismatch.

We adjust the maximum collateral-based uplift depending on whether the issuer covers six months of liquidity and overcollateralization is committed. Due to the covered bonds' soft bullet maturities, we consider liquidity to be covered. The available credit enhancement is provided on a voluntary basis, which reduces the amount of collateral-based uplift by one notch.

Given the JRL of 'aaa' under our covered bonds criteria, coverage of the 'AAA' credit risk, at 12.26%, maintains the current 'AAA' rating. The available credit enhancement, which is 16.37% after applying a haircut to account for setoff risk, is sufficient to cover two notches of collateral-based rating uplift.

Under our commercial real estate criteria, we apply the largest obligor test to address portfolio concentration risk. Our largest obligor test, currently at 5.58%, is lower than the aforementioned 'AAA' credit risk, meaning that it does not floor the overcollateralization requirements.

### **Counterparty risk**

We analyze counterparty risk by applying our counterparty criteria (see "Counterparty Risk Framework: Methodology And Assumptions," published on March 8, 2019).

**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 above the minimum eligible overcollateralization in a pre-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. Termination costs are not subordinated, and we consider the collateral posting framework as adequate.

The swap agreements contain a replacement trigger set at a RRL of 'A', which refers to the 'BBB+' ICR on the issuer. As the counterparty is related to the issuer, the counterparty criteria consider the trigger at the corresponding RRL. This translates to a replacement trigger of 'a', which combined with an adequate collateral framework, is supportive of a 'AAA' rating on the program.

**Setoff risk.** There is a risk that borrowers of certain loans included in the cover pool retain a residual right under the relevant local legislation to set off claims against the outstanding amount of their loans. To mitigate this risk, the issuer will include additional assets in the cover pool, up to a value that is equal to the setoff risk as calculated quarterly. We reduce the available overcollateralization due to setoff risk accordingly to 16.37%.

### **Sovereign risk**

We assess country risk by applying our structured finance sovereign risk criteria (see "Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions," published on Jan. 30, 2019).

The assets are domiciled in Norway and Sweden (unsolicited), which are both 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) credit factors

### ESG Credit Indicators

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

N/A--Not applicable. 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 alphanumerical 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 Indicators: Definition And Applications," published Oct. 13, 2021.

Danske Bank's cover pool C's exposure to environmental and social factors is in line with other Danish issuers we rate. Danske Bank's cover pool C issues SDOs backed by mainly commercial real estate in Norway and Sweden. SDO programs must ensure continuous LTV ratio compliance on an individual loan basis and not just at origination. If collateral values drop during the loan maturity, the issuer must pledge additional assets to the cover pool. Governance factors are a negative consideration in our ratings 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 - unused notch of uplift. We consider liquidity coverage to be covered 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
- Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds, March 31, 2015
- Covered Bonds Criteria, Dec. 9, 2014
- Principles Of Credit Ratings, Feb. 16, 2011

## **Related Research**

- Danske Bank Outlook Revised To Stable As Estonia Money Laundering Case Resolved; 'A+/A-1' Ratings Affirmed, Dec. 16, 2022
- Global Covered Bond Insights Q4 2022, 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
- S&P Global Ratings Definitions, Nov. 10, 2021
- Glossary Of Covered Bond Terms, April 27, 2018
- Credit FAQ: The Danish Covered Bond Market Explained, July 15, 2014

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