

Various Rating Actions Taken On Irish Banks; Off Watch Neg

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OVERVIEW

- We have reviewed the ratings on several Irish banks, resolving the CreditWatch placements that dated from the end-March announcement of the results of the Prudential Capital Assessment (PCAR) and a Prudential Liquidity Assessment (PLAR).
- We consider the PCAR to be credible in bottoming potential impairment charges, and where relevant have factored into banks' stand-alone credit profiles (SACPs) the significant recapitalization due to be completed shortly.
- We consider PLAR to be useful in mapping out the deleveraging plans of several banks, but note the extended execution schedule over two and a half years. We have not yet factored the potential benefits of PLAR-related deleveraging into bank SACPs at this point.
- We are reducing to one notch from two the extraordinary government support that we factor into the ratings on Allied Irish Banks PLC (AIB), Bank of Ireland (BOI), and Irish Life & Permanent PLC (ILP), reflecting our view that the government has only moderate capacity to provide further support beyond that envisaged by PCAR.
- We are affirming the 'BB/B' ratings on AIB and the 'BB+/B' ratings on BOI. The outlooks are negative.
- We are lowering the ratings on ILP by one notch to 'BB/B'. The outlook is negative.
- We have also reconsidered the creditworthiness of foreign-owned KBC Bank Ireland (KBCI), Ulster Bank Ireland Ltd. (UBIL), and its U.K. parent Ulster Bank Ltd. (UBL) in the light of the PCAR exercise and the restructuring occurring across the sector.
- We are affirming the 'BBB+/A-2' ratings on all these banks. The outlooks

are negative.

- The negative outlooks on all the banks reflect, at least in part, our view that there is continued downside risk to our base-case expectation for the macroeconomic and funding environments, which, if it were to play out, could strain their SACPs.

LONDON (Standard & Poor's) July 11, 2011--Standard & Poor's Ratings Services said today that it has taken various rating actions on three domestically owned Irish banks and two foreign-owned banking groups operating in Ireland which it rates. This follows its consideration of the implications for these banks' creditworthiness of the Irish government's Financial Measures Programme ("the Programme"), announced on March 31, 2011. The Programme comprised a Prudential Capital Assessment (PCAR) and a Prudential Liquidity Assessment (PLAR), as well as the related restructuring of the Irish banking sector. The rating actions on the banks are as follows:

- We have affirmed the 'BB+/B' counterparty credit ratings on Bank of Ireland (BOI). At the same time, we removed them from CreditWatch with negative implications, where they were placed on April 6, 2011. We have revised upward BOI's SACP by one notch to 'bb' from 'bb-', but now factor only a single notch of uplift into the ratings for further extraordinary Irish government support. The outlook on BOI is negative.
- We have affirmed the 'BB/B' counterparty credit ratings on Allied Irish Banks PLC (AIB) and the 'BB-/B' ratings on AIB's wholly owned U.K. subsidiary, AIB Group (U.K.) PLC (AIB UK). At the same time, we removed them from CreditWatch with negative implications, where they were placed on April 6, 2011. We have revised upward AIB's SACP by one notch to 'bb-' from 'b+', but now factor only a single notch of uplift into the ratings for further extraordinary Irish government support. The outlooks on AIB and AIB UK are negative.
- We have lowered the counterparty credit ratings on Irish Life & Permanent PLC (IL&P) to 'BB/B' from 'BB+/B'. At the same time, we removed them from CreditWatch with negative implications, where they were placed on April 6, 2011. We have maintained ILP's SACP at 'bb-', but now factor only a single notch of uplift into the ratings for further extraordinary Irish government support. The outlook on ILP is negative. The 'CC' and 'D' ratings on IL&P's lower Tier 2 subordinated debt instruments are unaffected.
- Today's rating actions do not affect the ratings on debt instruments issued by AIB, BOI, and IL&P where these instruments are guaranteed by the Republic of Ireland (BBB+/Stable/A-2).
- We have affirmed the 'BBB+/A-2' counterparty credit ratings on KBC Bank Ireland PLC (KBCI), which continue to incorporate two notches of group support above KBCI's 'bbb-' SACP. At the same time, we removed them from CreditWatch with negative implications, where they were placed on April 6, 2011. The outlook is negative.
- We have affirmed the 'BBB+/A-2' counterparty credit ratings on Ulster Bank Ltd. (UBL) and core Irish subsidiary, Ulster Bank Ireland Ltd. (UBIL). At the same time, we removed them from CreditWatch with negative implications, where they were placed on April 6, 2011. We have lowered

UBL's SACP by one notch to 'bb' from 'bb+', but now incorporate four notches of group support into the ratings. The ratings on UBIL remain equalized with those on UBL. The outlook is negative.

SUMMARY

Our press release of April 6, 2011 provides considerable detail on the Financial Measures Programme, the PCAR and PLAR elements within it, and the immediate implications for the domestically owned banks on which it focused (see "Various Rating Actions Taken On Irish Banks Following Financial Measures Programme & Bank Restructuring Plan").

We continue to regard the Programme as a credible attempt to reinforce the solvency resilience of the banks, establish a plan to restore the financial health of the banks, and so instill investor confidence in them such that they can start to fund more normally.

Our base-case expectation for the macroeconomic and funding environments is broadly in line with the base case set out in the PCAR exercise. The macroeconomic scenario envisages that house prices in particular will continue to fall into 2013, but that the early signs today of economic stabilization take root, leading to modest, mainly export-driven, growth through 2013. Like PCAR, we assume that the banking sector's domestic deposit base is broadly stable, but that is unlikely to see meaningful growth through the period, and that the banks' access to wholesale funding, particularly on an unguaranteed basis, will remain very limited right through the 2011-2013 period.

The negative outlooks on the banks reflect our view that there is meaningful downside risk to this base-case expectation. For the three domestically owned banks, we also see significant challenges:

- The banks' restructuring and deleveraging has made modest progress so far, and will not be easy. It remains possible that progress could be delayed, and so end up backloaded toward the end of the 2013 horizon; and
- Even if the banks delever as planned, they may continue to rely on monetary authority borrowings.

However, we do not consider that the three banks are in an identical position. Indeed, if the pace of deleveraging and restoration of earnings diverges, we would reflect this in our ratings on the banks.

DOMESTICALLY OWNED BANKS

Government support notches

We notch up the rating on a bank for extraordinary future government support where:

1. The bank is in a state of temporary distress and we feel that its SACP will revert to a higher ICR within a reasonable timeframe; and
2. The government is both willing and able to provide such support.

In our view, point 1 continues to apply to AIB, BOI, and ILP. If the nascent economic recovery establishes itself, the banks execute on their deleveraging plans, and wholesale funding markets do not deteriorate further, then we

expect that all three banks could see their stand-alone creditworthiness improve, leading to a modest improvement in their SACPs within the two-year rating horizon.

Over the past three years, the Irish government has provided significant financial support to the domestic banking sector. This has included: capital injections, the purchase of the bank's weakest property-related loans by the National Asset Management Agency (NAMA), government-backed funding programs, and access to liquidity from the monetary authorities. Its capacity to provide capital support was bolstered by the November 2010 EU-IMF assistance package, which earmarked €35 billion for future extraordinary support to the banking system.

After taking account of burden-sharing by subordinated bondholders and the likely future sale of Irish Life Assurance PLC (ILA; BBB-/Watch Dev/--) by ILP, we expect that the post-PCAR capital injections by the government will consume up to €19 billion of the €35 billion available. In theory, the balance remains available, but could be consumed by other purposes, e.g., funding the fiscal deficit. While the government's capacity to support has evidently diminished, based on support already provided, we see continued moderate capacity to provide capital support to the banks, as well as continuing capacity to provide liquidity support via the central bank.

We also consider that the Irish government remains willing to provide such support. In forming this view, we note the statements by the Minister for Finance regarding current government policy, i.e., that burden-sharing by senior unsecured and unguaranteed bondholders of the government-supported banks should be restricted to banks that it does not consider to be viable--that is, Anglo Irish Bank Corp. Ltd. (Anglo; CCC/Negative/C) and Irish Nationwide Building Society, which has just been merged into Anglo.

Taking these points together, we are reducing to one notch from two the extraordinary government support that we factor into the ratings on AIB, BOI, and ILP, reflecting our view that the government has only moderate capacity to provide further support beyond that envisaged post-PCAR.

Bank of Ireland

Along with AIB, BOI is viewed by the Irish government as a "pillar" of the Irish banking sector and in our view remains a highly systemically important institution. We expect that the bank will pursue a structured plan to delever through 2013, with the aim of refocusing its activities more squarely on its domestic market and materially reducing its reliance on wholesale and monetary authority funding. In our view, this deleveraging will lead to a moderate narrowing in the bank's business profile, but not overly weaken its strong domestic position, nor interfere with the useful niche activities of its U.K. subsidiary, Bank of Ireland (UK) PLC (not rated). Given the challenges noted above to achieving the deleveraging and the extended execution schedule, we do not yet factor the potential benefits of related actions into BOI's SACP. In view of that and BOI's continued reliance on monetary authority borrowings, very restricted access to the wholesale funding markets, and high

loan-to-deposit ratio, we continue to regard its funding position as a key weakness.

In light of the PCAR, BOI is bolstering its capitalization with €4.2 billion of equity and €1.0 billion of contingent capital by end-July 2011. Of the €4.2 billion, the ongoing liability management exercise (LME) is set to raise at least €2.0 billion, leaving the balance to be raised via a rights issue, underwritten by the Irish government. Depending on the uptake of the rights issue, this could leave the bank up to 69% government-owned (currently 36%).

We take account of the recapitalization in BOI's SACP. On a pro forma basis, we calculate that BOI's end-2010 Core Tier 1 ratio rises to 16% from 9.7% and its pre-diversification risk-adjusted capital (RAC) ratio rises to 8.1% from 4.9%. Financial flexibility will additionally be enhanced by the €1 billion of contingent capital instruments. However, our view of capitalization is also colored by:

- The continued pressure on asset quality and revenues, which in our view will leave the bank challenged to return to profitability within the two-year rating horizon;
- Planned divestments through this period, which may well be at below book value; and
- The change to the Irish BICRA in February 2011, when we revised the economic risk score, a subcomponent of the BICRA, to 7 from 4. As a result, risk-weighted assets on Irish exposures calculated under our RAC framework will rise markedly for subsequent reporting dates.

We therefore consider BOI's enlarged capitalization to be only adequate.

As noted above, the negative outlook reflects continued downside risks to the macroeconomic and funding environment compared with our base-case expectation. It also reflects a degree of execution risk as regards deleveraging.

A negative rating action could be triggered if the environment is weaker than our base case, with the consequent likely impact on BOI's asset quality and earnings. It could also arise from renewed outflows of deposits, such as those seen in the second half of 2010, or a change of stance by the Irish government regarding burden-sharing by senior unsecured and unguaranteed bondholders of the viable government-supported banks.

A positive rating action would be most likely to arise from clearly stabilizing asset quality that shows evidence of diminishing downside earnings risk, combined with clear evidence that deleveraging is being achieved and that the bank's funding position is improving as a result.

Allied Irish Banks PLC

AIB is positioned as the industry's other "pillar" bank and remains, in our view, a highly systemically important institution. Similar to BOI, the bank is preparing to delever through 2013, which will leave it more focused on the domestic market. The objective is to reduce its reliance on wholesale and

monetary authority funding and so bring its loan-to-deposit ratio within the 122.5% target set under PLAR. As with BOI, we consider that the deleveraging will lead to a narrowing of the business profile, but not weaken its strong domestic position. Given the challenges noted above to achieving the deleveraging and the extended execution schedule, we do not yet factor the potential benefits of related actions into the bank's SACP. In view of that and the bank's continued reliance on monetary authority borrowings, very restricted access to the wholesale funding markets, and high loan-to-deposit ratio, we continue to regard its funding position as a key weakness.

In April, AIB finalized the sale of its majority stake in Polish bank Bank Zachodni WBK S.A., which generated a €1.6 billion boost to capital. AIB then merged with the Educational Building Society (EBS) on July 1, 2011. The enlarged group is due to complete the PCAR-prescribed capital raise--€13.2 billion of equity and €1.6 billion of contingent capital instruments--by end-July 2011. Of the €13.2 billion, AIB has said that its recent LME will raise at least €1.6 billion. The Irish government will then inject €5.0 billion as equity. It will further provide AIB with a capital contribution to make good any shortfall arising after the actions above and any capital generated from ongoing LME at EBS and AIB. We expect that, as a result, the government will own more than 99% of AIB. We take account of all of these factors in AIB's SACP.

We calculate that the capital raising actions and the EBS merger would together push AIB's pro forma end-2010 Core Tier 1 ratio beyond 20%, from the 4.0% that it originally reported. We calculate that AIB's pre-diversification RAC ratio at the same date would rise to about 13% from about 2.4%. Financial flexibility will additionally be enhanced by the €1.6 billion of contingent capital instruments. However, noting the same considerations as for BOI, we consider AIB's post-injection capitalization to be adequate, but nevertheless the strongest element in its SACP.

As noted above, the negative outlook reflects continued downside risks to the macroeconomic and funding environment compared with our base-case expectation. It also reflects a degree of execution risk as regards deleveraging, and the likely need for AIB to deliver material restructuring to better align the cost base with a smaller revenue base.

A negative rating action could be triggered if the environment is weaker than our base case, with the consequent likely impact on BOI's asset quality and earnings. It could also arise from renewed outflows of deposits, such as those seen in the second half of 2010, or a change of stance by the Irish government regarding burden-sharing by senior unsecured and unguaranteed bondholders of the viable government-supported banks.

A positive rating action would be most likely to arise from clearly stabilizing asset quality and cost efficiency improvements resulting in a clear prospect of improved earnings and lessened downside risk, as well as clear evidence that deleveraging is being achieved and that the bank's funding position is improving as a result.

Irish Life & Permanent PLC

ILP's recapitalization of €3.6 billion, plus an additional €0.4 billion in contingent capital, is centered on the proceeds of a sale of ILA, with the remainder coming from the May 2011 LME (which raised €0.2 billion), the ongoing LME, and an injection of equity by the government. ILP has said that this will be phased, so taking into account the expected timing of the ILA sale in late 2011. We therefore expect that the government will subscribe to €2.3 billion equity and the contingent capital instruments in late July, so taking nearly 99% ownership of ILP, prior to ILP selling ILA and completing its ongoing LME. If the ILA sale and ongoing LME fail to raise the remaining €1.1 billion between them, the government would make good the shortfall.

We have factored the recapitalization into ILP's SACP. ILP has said that the injection will raise the bank's pro forma end-2010 Core Tier 1 ratio to over 32% from the 10.6% that it reported. We calculate that the bank's pre-diversification RAC ratio rises to about 14% from about 4.7%. Financial flexibility will additionally be enhanced by the €0.4 billion of contingent capital. Noting the same considerations as for BOI and AIB, we consider ILP's post-injection capitalization to be adequate, despite the high pro forma ratios, but nevertheless that it will provide a robust buffer against future losses, deleveraging costs, and poor profitability in the core mortgage book.

Through end-2013, ILP is set to undertake radical deleveraging--nearly 45% of its end-2010 balance sheet--as it seeks to reduce its heavy reliance on wholesale and monetary authority funding and to remedy a loan-to-deposit ratio, which was in excess of 200% even after February's acquisition of €3.6 billion in deposits from Irish Nationwide Building Society. The deleveraging is set to see the sale of its U.K. residential and Irish commercial mortgage books, as well as a reduction in its core Irish residential mortgage book. We have not factored the benefits of deleveraging into ILP's SACP, and continue to regard the bank's funding position as its main weakness.

In our view, as a result of deleveraging, ILP's business profile will become rather undiversified, being essentially a pure mortgage and savings provider in a small market that will likely have limited growth prospects even in 2014. In view of this, and ILP's structural weak pre-provision profitability caused by the weight of its uneconomic tracker mortgage book, we consider that the bank's business model will remain challenged. Nevertheless, noting its still quite important position in the mortgage market and the government's stance regarding support, we continue to consider that the bank remains highly systemically important to the Irish banking system.

The negative outlook reflects continued downside risks to the macroeconomic and funding environment compared with our base-case expectation. Furthermore, given the scale of the deleveraging and the nature of the assets to be sold, it also factors in our view that ILP faces significant execution risk to achieving the deleveraging plan.

A negative rating action could be triggered if the environment is weaker than

our base case, with the consequent likely impact on ILP's asset quality and earnings. It could also arise from renewed outflows of deposits, such as those seen in the second half of 2010, or a change of stance by the Irish government regarding burden-sharing by senior unsecured and unguaranteed bondholders of the viable government-supported banks.

A positive rating action would be most likely to arise from clearly stabilizing asset quality and cost efficiency improvements resulting in a clear prospect of improved earnings and lessened downside risk, as well as clear evidence that deleveraging is being achieved and that the bank's funding position is improving as a result.

FOREIGN-OWNED, DOMESTICALLY ACTIVE BANKS

We have also reconsidered the creditworthiness of foreign-owned KBC Bank Ireland (KBCI), Ulster Bank Ireland Ltd. (UBIL), and its U.K. parent, Ulster Bank Ltd. (UBL), in light of the PCAR exercise and the restructuring occurring across the sector. While not supported by the Irish government, we rate these banks higher than their domestically owned peers due in large part to our views on the likelihood of parental support.

KBC Bank Ireland PLC

We have reviewed KBCI's SACP and have left it unchanged at 'bbb-'. This reflects our view that, notwithstanding KBCI's more modest (but sustainable) market position than larger domestic peers and its reported loss in 2010, we regard it as being better placed to weather the adverse environment than its peers, by virtue of its low reliance on external wholesale funding and adequate earnings prospects. We still regard KBCI as strategically important to KBC Bank N.V. (A/Stable/A-1), a parent that is itself government-supported, and continue to factor two notches of parental support into the rating. We continue to regard KBCI as being of low systemic importance to the Irish banking system.

We expect that KBCI may continue to modestly deleverage through 2011 in the face of a weak demand for credit and a still unsupportive funding environment. We expect that impairment losses will remain elevated through 2011 and 2012, albeit at a much reduced level than 2010, but that they will be absorbed by preprovision earnings and that KBCI's capitalization will be adequate. The negative outlook reflects downside risk to this expectation, however.

A negative rating action could be triggered if we consider that the links between KBCI and KBC are weakening, or if we lower KBCI's SACP. This could arise, for example, if KBCI materially underperforms our earnings expectations and losses are not offset by recapitalization. In line with our criteria for rating EMU-domiciled banks, we would not rate KBCI above the Irish sovereign. Therefore, a downgrade of the Irish sovereign rating would likely trigger a similar rating action on KBCI.

A positive rating action would be most likely to arise from a material increase in capitalization, or a marked improvement in asset quality that shows evidence of diminishing downside earnings risk.

Ulster Bank Ltd., Ulster Bank Ireland Ltd.

We have lowered UBL's SACP by a notch to 'bb'. This principally reflects our view that UBL is likely to experience a persistent very high level of impairments through the two-year rating horizon, albeit diminishing through this period, which will likely require the parent, Royal Bank of Scotland PLC (RBS; A+/Stable/A-1), to provide further material capital support. This impairment expectation reflects the general weak outlook for domestic credit quality but also the fact that, unlike domestically owned peers, UBL has not transferred out its weakest property-related loans. As a result, we consider it unlikely that UBL will be profitable for several years. We expect that UBL will continue to deleverage through the two-year horizon and beyond, but that it will remain a solid third-placed, broadly-based competitor to the two "pillar" banks.

Notwithstanding the weak performance at UBL, we note the strong commitment that RBS has shown to UBL, evident from its large capital injections, funding support, and continued investment. We continue to regard UBL as strategically important to RBS, a parent that is itself government-supported, and factor four notches of parental support into the rating. (The closer proximity of UBL's SACP and the sovereign rating had previously prevented us from being able to reflect all four notches in the rating.) We continue to regard UBIL as core to UBL and so equalize the ratings. We consider UBL and UBIL to be of moderate systemic importance to the U.K. and Irish banking systems, respectively.

We expect that impairment losses will remain elevated through 2011 and 2012, further delaying the bank's return to profitability. The negative outlook reflects the downside risk to this expectation, however.

A negative rating action could be triggered if we consider that the links between UBL and RBS are weakening, or if we revise UBL's SACP further downward. This could arise, for example, if UBL fails to meet our already bearish expectations for earnings performance. In line with our previously explained approach, we would not rate UBL or UBIL above the Irish sovereign. Therefore, a downgrade of the sovereign rating would likely trigger a similar rating action on UBL and UBIL.

A positive rating action would be most likely to arise from a material increase in capitalization, or a marked improvement in asset quality that shows evidence of diminishing downside earnings risk.

OTHER BANKS

The following domestically focused Irish banks were not part of this review, but we comment on them for completeness.

Anglo Irish Bank Corp. Ltd.

We consider Anglo's circumstances to be different from its domestically owned peers, given the government's plans to run it down and, in our view, its clearly stated desire to enforce burden-sharing on Anglo's senior unsecured

and unguaranteed bondholders. On June 23, 2011, we lowered the long-term counterparty credit rating on Anglo, which we consider a government-related entity (GRE) under our criteria, by one notch to 'CCC' from 'CCC+'. The outlook is negative.

Barclays Bank Ireland PLC (BBI)

On April 6, 2011, we assigned a stable outlook to the 'A-' long-term rating on BBI because, unlike its peers, we felt that it was reasonably well positioned, saw no reason to change our view of its 'bbb-' SACP or its "core" group status, and because a stable outlook mirrors that on the Irish sovereign (we rate BBI a maximum of one notch above the sovereign). We subsequently affirmed the ratings on BBI on May 20, 2011.

RELATED CRITERIA AND RESEARCH

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Republic of Ireland, June 30, 2011
- Anglo Irish Bank Corp. Ltd., July 5, 2011
- Anglo Irish Bank Downgraded To 'CCC' On Reduced Government Support; Outlook Negative, June 23, 2011
- Ratings Affirmed On Irish Bank Subsidiaries Rated Above The Sovereign After Criteria Update, May 20, 2011
- Various Rating Actions Taken On Irish Banks Following Financial Measures Programme & Bank Restructuring Plan, April 6, 2011
- S&P Comments On Irish BICRA Revision To Group 6 From Group 4 On Heightened Economic And Industry Risks, Feb. 2, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- Group Methodology, April 22, 2009
- How Systemic Importance Plays A Significant Role In Bank Ratings, July 3, 2007
- Bank Rating Analysis Methodology Profile, March 18, 2004

RATINGS LIST

Downgraded; CreditWatch Action; Ratings Affirmed

	To	From
Allied Irish Banks PLC		
Counterparty Credit Rating	BB/Negative/B	BB/Watch Neg/B
AIB Group (U.K.) PLC		
Counterparty Credit Rating	BB-/Negative/B	BB-/Watch Neg/B
Irish Life & Permanent PLC		
Counterparty Credit Rating	BB/Negative/B	BB+/Watch Neg/B
Bank of Ireland		
Counterparty Credit Rating	BB+/Negative/B	BB+/Watch Neg/B
KBC Bank Ireland PLC		
Counterparty Credit Rating	BBB+/Negative/A-2	BBB+/Watch Neg/A-2

Ulster Bank Ireland Ltd.

Ulster Bank Ltd.

Counterparty Credit Rating BBB+/Negative/A-2 BBB+/Watch Neg/A-2

NB: This list does not include all ratings affected.

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