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Update: FBN Holdings PLC (Holding Company) First Bank of Nigeria Ltd. (Lead Bank)

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Update: FBN Holdings PLC (Holding Company) First Bank of Nigeria Ltd. (Lead Bank)

SACP	b-		+	Support	0		+	Additional Factors	0	
Anchor	b			ALAC Support	0			<div style="border: 2px solid black; padding: 10px; text-align: center;"> Issuer Credit Rating B-/Stable/B </div>		
Business Position	Adequate	0		GRE Support	0					
Capital and Earnings	Weak	0		Group Support	0					
Risk Position	Moderate	-1		Sovereign Support	0					
Funding	Above Average	0								
Liquidity	Adequate	0								

Credit Highlights

Overview

Key strengths	Key risks
Dominant market position in Nigeria.	Inherently high economic and industry risks.
Strong retail deposit base and low cost of funding.	Weaker asset quality metrics than top peers in Nigeria.
	High level of loan concentration and foreign currency lending.
	Weaker capitalization than top peers in Nigeria.

We view FirstBank of Nigeria (FirstBank) as core to the FBN Holdings (FBNH) group. FirstBank is the group's principal subsidiary, comprising around 95% of the group's assets. As such, the ratings on FirstBank reflect our view of the group's creditworthiness.

Strong, well-established retail banking franchise supports the credit profile, despite regulatory costs and COVID-19 induced problems. The group's expanding agency banking network, which is among the largest in Nigeria, and digital offering continue to drive funding costs to among the lowest in the sector. We believe that this, in conjunction with the group's robust corporate banking franchise, will cushion the impact on asset yields due to the high cash reserve ratio held by the Central Bank of Nigeria (CBN), and high regulatory costs. We see governance issues at the group as being resolved following the replacement of the board and note that related party exposures (<5% of assets) are being managed in conjunction with the CBN.

Although FirstBank has weak capitalization, we expect earnings capacity to be supportive. We expect FirstBank's risk-adjusted capital (RAC) ratio will remain weak at around 3.3%-3.7% through 2022, but this is neutral to the ratings. In addition, we expect earnings capacity will benefit from the group's expanded agency banking and digital banking franchise, with core earnings increasing to about 2% of average adjusted assets through 2022. We expect that FirstBank will maintain adequate capital buffers against minimum regulatory requirements supported by net profit generation and the leverage effect of its Tier 2 capital, which exceeds the CBN's one-third allowance. Our expectation

is that CAR will increase to around 17.5% by year-end 2021 from 16.8% (including unappropriated profits) at June 30, 2021.

The group still carries a large portfolio of problem exposures. Although the group has done well so far to reduce nonperforming loans (NPLs) to 8.4% at year-end 2020 and 7.2% in June 30, 2021 (from 25% in 2018), total problem loans (stage 2 plus stage 3) are higher than peers' at around a third of gross loans. Loan loss coverage remains moderate, due to a large NPL write-off in 2019; however, the bank continues to pursue recovery efforts on those loans, which should assist the group in raising coverage levels in 2022-2023. We anticipate that NPLs will reduce to around 5.5% over the next 12-18 months as the group continues remediating loans classified as stage 2 and 3. These largely comprise oil and gas exposures and we expect the higher oil prices will support recovery efforts. The effect of the end of forbearance measures on asset quality should be manageable because restructured borrowers (accounting for 14% of gross loans) have resumed payments. Concentration risks remain high. The top 20 obligors comprised 48% of gross loans. Oil and gas exposures contributed 34.5%, while foreign currency loans accounted for 47.5% of gross loans during the same period. Foreign currency loans largely stem from upstream oil- and gas-related exposures, although we note that FirstBank has not originated additional exposures to this sector over the past four years.

Short-term deposit funding is mitigated by good liquidity indicators Similar to rated domestic peers, we expect the group's funding to continue to be largely contractually short-term. This is manageable given the stability of deposits and a stable funding ratio well in excess of 100%. The group holds long positions in U.S. dollars, stemming from domiciliary accounts, a specific kind of bank account that allows receiving and making payments in foreign currencies, including U.S. dollars, and funding raised in U.S. dollars in the past four years. In addition, the group's U.S. dollar position provides a natural hedge to its capital position in the event of a devaluation of the Nigerian naira. The group operates with good liquidity metrics as net customer loans accounted for only 50% of customer deposits and net broad liquid assets amounted to short-term customer deposits at 58.9% as of June 30, 2021.

We factor no additional support into our ratings, despite the bank's high systemic importance in Nigeria. We do not include any uplift in the ratings because we classify support from the Nigerian government toward its domestic banking sector as uncertain.

Our ratings on FirstBank's holding company FBNH are at the same level as the ratings on FirstBank, reflecting the absence of debt at the holding company level. Under our criteria, we generally notch down from the group credit profile to reflect the structural subordination of the nonoperating holding company (NOHC) and its exposure to potential regulatory intervention. Nevertheless, in FBNH's case, we take into account the absence of debt at the holding company level and believe that the risk of default of the NOHC is not commensurate with the 'CCC' rating category.

Environmental, Social, And Governance (ESG)

We see ESG credit factors for FirstBank to be broadly in line with industry and country peers. Governance and disclosure are in line with industry best practices. Similar to its peers, the group has exposures to the oil and gas sector, which is key to the Nigerian economy. The group is working on reducing lending to sectors with a high climate impact. The diversification process will be slow given Nigeria's reliance on hydrocarbon revenue. The group is aware of core issues impacting communities and measures its social impact as it expands its digital footprint.

Outlook: Stable

The stable outlook on FirstBank, the main operating entity, reflects our view that the bank will maintain its regulatory capital ratio above the minimum requirement of 15%, and broadly stable liquidity profile, over the next 12 months. The outlook on FBNH reflects that on FirstBank.

Downside scenario

We would lower the rating on FirstBank over the next 12 months if capital adequacy declines sharply due to a steeper depreciation of the Nigerian naira than we expect, a sharp deterioration of asset quality, or pressure builds on the bank's U.S. dollar liquidity position owing to tighter supply in the banking sector.

We would lower the rating on FBNH if we lowered the rating on FirstBank or saw significant double leverage at the holding company.

Upside scenario

A positive rating action on FirstBank over the next 12 months would depend on a similar action on Nigeria and on an improvement in FirstBank's asset quality indicators, all else being equal.

We would not raise the rating on FBNH if we raised the rating on FirstBank because of our view of the structural subordination of FBNH's creditors.

Key Metrics

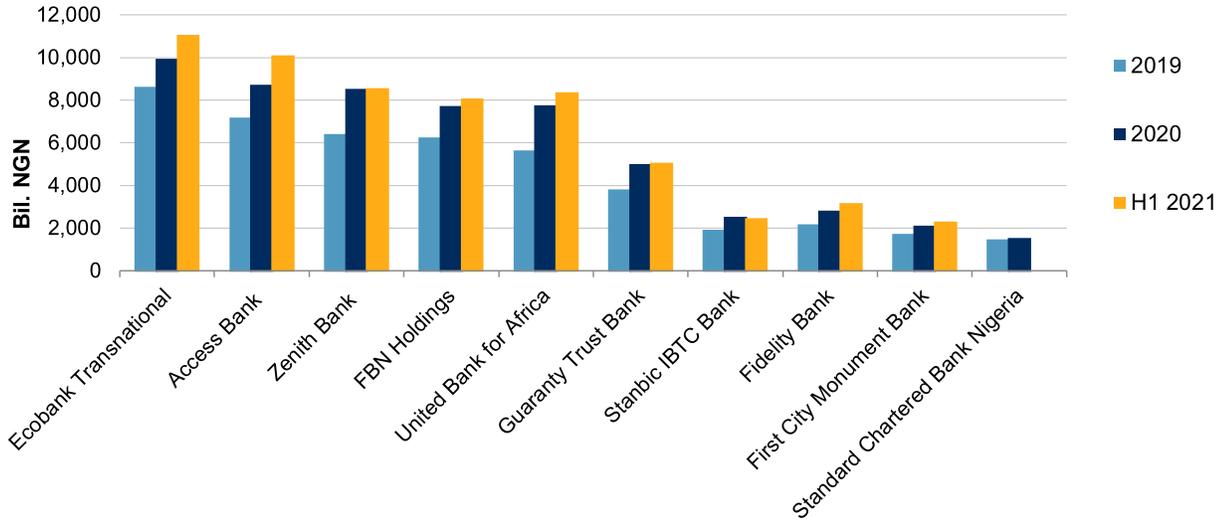
Key Ratios And Forecasts

(%)	--Fiscal year ended Dec. 31 --				
	2019a	2020a	2021f	2022f	2023f
Growth in operating revenue	6.8	(2.8)	2.6-2.8	10.1-11.2	15.4-17.1
Growth in customer loans	(6.7)	18.7	13.5-15.0	9.9-11.0	7.2-8.0
Cost to income ratio	68	66.9	59.4-66.0	57.4-63.8	52.0-57.7
Return on average common equity	12	12.6	8.4-9.3	10.8-12.0	15.2-16.9
Return on assets	1.3	1.3	0.9-0.9	1.1-1.3	1.7-1.9
New loan loss provisions/average customer loans	2.6	2.3	2.1-2.3	1.6-1.8	1.3-1.5
Gross nonperforming assets/customer loans	10.2	8.4	6.0-6.7	5.3-5.9	5.0-5.5
Risk-adjusted capital ratio	3.3	3.4	2.8-3.2	3.0-3.3	3.3-3.7

All figures are S&P Global Ratings-adjusted. a--Actual. e--Estimate. f--Forecast.

Chart 1

FBNH Is The Third Largest In Nigeria And Fourth Largest Regionally By Total Assets

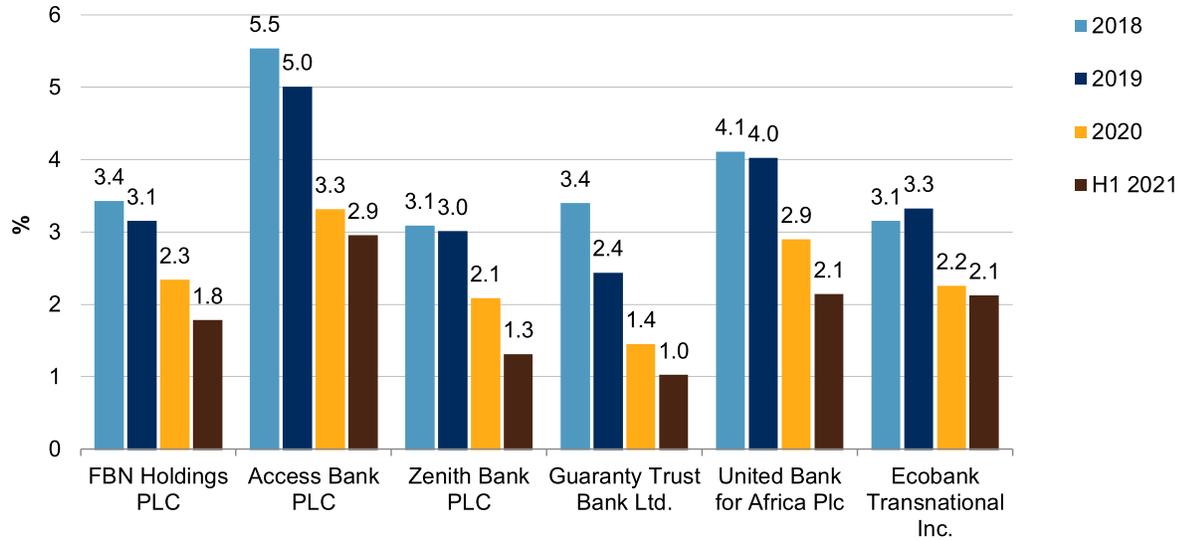


Source: S&P Global, Company Financials. Data as at June 30, 2021.

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Chart 2

FBNH's Comparatively Advantageous Cost Of Funds



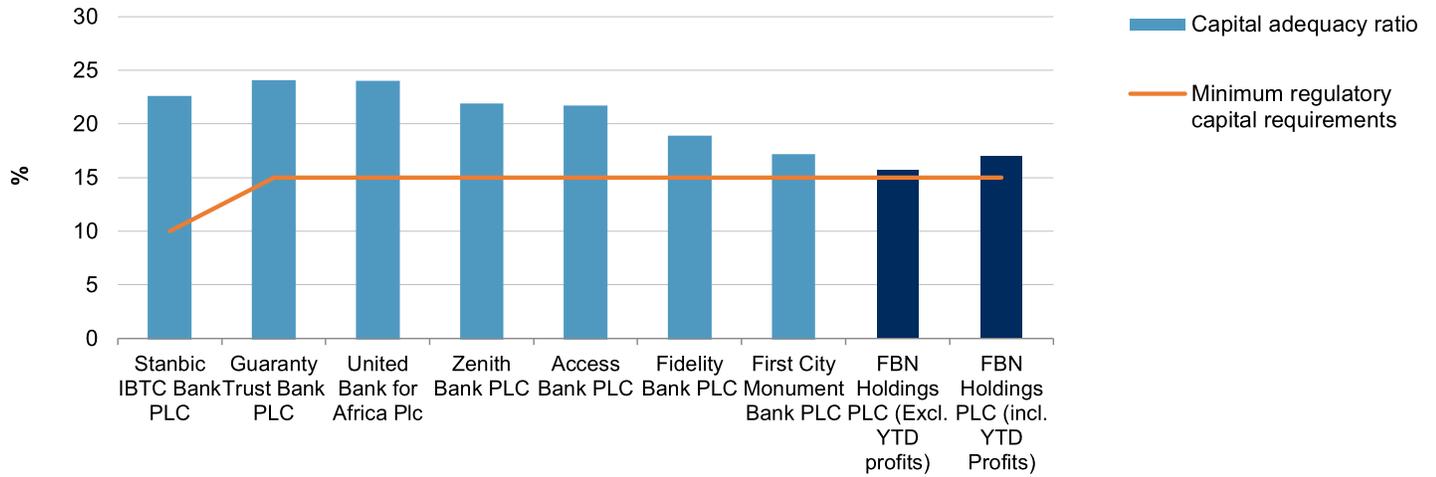
Source: S&P Global, Company Financials. Data as of June 30, 2021.

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Chart 3

Rated Nigerian Banks' Capital Adequacy Ratios Meet Minimum Regulatory Requirements

UBA demonstrates sound capitalization well above minimum

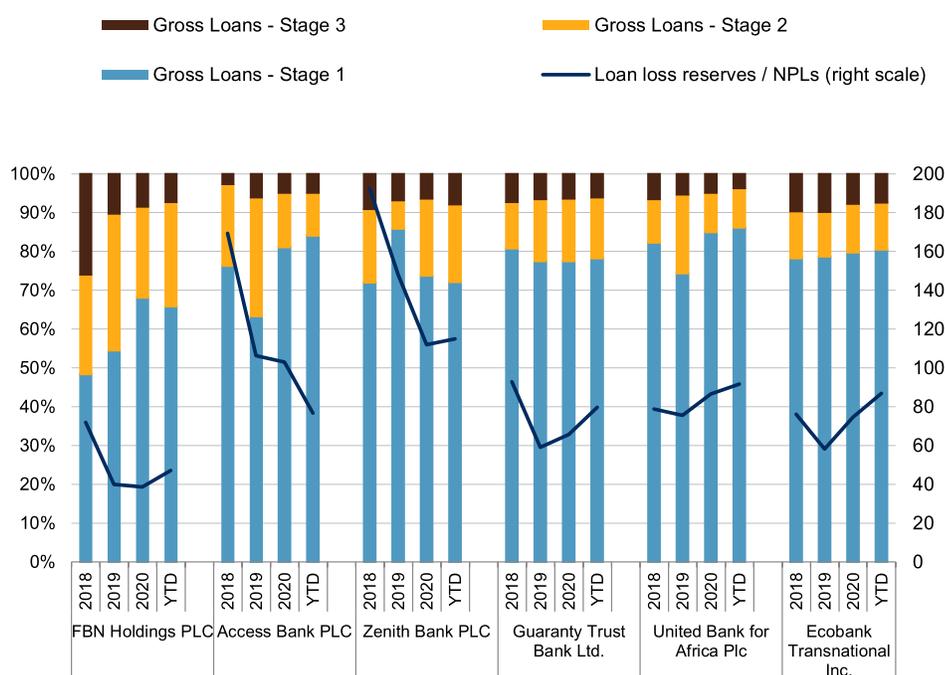


Data as of June 2021. Source: S&P Global Ratings.

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Chart 4

Nigerian Bank's Asset Quality Metrics



Source: S&P Global Ratings.

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Key Statistics

Table 1

FBN Holdings PLC--Key Figures

	--Year-ended Dec. 31--				
(Mil. NGN)	2021*	2019	2018	2017	2016
Adjusted assets	8,006,230	7,673,688	6,181,484	5,549,479	5,218,674
Customer loans (gross)	2,626,936	2,291,545	1,931,322	2,069,286	2,280,393
Adjusted common equity	600,520	578,135	495,094	413,341	567,728
Operating revenues	222,320	426,601	438,936	411,165	441,140
Noninterest expenses	148,449	285,263	298,359	253,653	229,774
Core earnings	42,201	83,820	79,685	65,052	50,485

*Data as of June 30. NGN--Nigerian naira.

Table 2

FBN Holdings PLC--Business Position					
	--Year-ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017
Total revenues from business line (currency in millions)	222,326	440,938	439,284	411,188	441,224
Commercial banking/total revenues from business line	94.6	90.5	87.8	87.1	86.7
Asset management/total revenues from business line	5.2	5.8	4.5	7.1	8.8
Other revenues/total revenues from business line	0.2	3.7	0.3	0.5	0.4
Return on average common equity	9.9	12.6	12.0	9.8	6.9

*Data as of June 30.

Table 3

FBN Holdings PLC--Capital And Earnings					
	--Year-ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017
Tier 1 capital ratio	N/A	12.5	12.5	14.0	13.9
Double leverage	98.3	91.6	89.8	92.5	92.5
Net interest income/operating revenues	46.7	59.0	66.1	69.1	75.2
Fee income/operating revenues	25.8	22.0	19.1	18.3	14.1
Market-sensitive income/operating revenues	19.9	17.2	12.7	8.6	7.9
Cost to income ratio	66.8	66.9	68.0	61.7	52.1
Provision operating income/average assets	1.9	2.0	2.4	2.9	4.2
Core earnings/average managed assets	1.1	1.2	1.4	1.2	1.0

*Data as of June 30. N/A--Not applicable.

Table 4

FBN Holdings PLC--Risk-Adjusted Capital Framework Data					
(Mil. NGN)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global RWA	Average S&P Global RW (%)
Credit risk					
Government & central banks	3,302,402.7	0.0	0.0	3,116,333.9	94.4
Of which regional governments and local authorities	0.0	0.0	0.0	0.0	0.0
Institutions and CCPs	1,025,666.4	0.0	0.0	1,337,279.7	130.4
Corporate	3,277,027.3	2,481,188.0	75.7	7,903,440.7	241.2
Retail	99,963.1	0.0	0.0	214,954.1	215.0
Of which mortgage	0.0	0.0	0.0	0.0	0.0
Securitization§	0.0	0.0	0.0	0.0	0.0
Other assets†	411,745.7	0.0	0.0	1,319,866.8	320.6
Total credit risk	8,116,805.2	2,481,188.0	30.6	13,891,875.1	171.1
Credit valuation adjustment					
Total credit valuation adjustment	--	0.0	--	0.0	--
Market Risk					
Equity in the banking book	229,922.0	0.0	0.0	2,582,972.5	1,123.4

Table 4

FBN Holdings PLC--Risk-Adjusted Capital Framework Data (cont.)					
Trading book market risk	--	78,876.0	--	221,838.8	--
Total market risk	--	78,876.0	--	2,804,811.3	--
Operational risk					
Total operational risk	--	602,751.0	--	823,005.0	--
(Mil. NGN)	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global RWA	% of S&P Global RWA
Diversification adjustments					
RWA before diversification	--	3,162,815.0	--	17,519,691.3	100.0
Total Diversification/ Concentration Adjustments	--	--	--	5,066,710.2	28.9
RWA after diversification	--	3,162,815.0	--	22,586,401.5	128.9
(Mil. NGN)		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global RAC ratio (%)
Capital ratio					
Capital ratio before adjustments		370,935.0	11.7	578,135.0	3.3
Capital ratio after adjustments†		370,935.0	11.7	578,135.0	2.6

*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. NGN -- Nigerian naira . Sources: Company data as of 'Dec. 31 2020', S&P Global Ratings.

Table 5

FBN Holdings PLC--Risk Position					
	--Year-ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017
Growth in customer loans	29.3	18.7	-6.7	-9.3	-4.8
New loan loss provisions/average customer loans	2.0	2.3	2.6	4.0	6.4
Net charge-offs/average customer loans	1.9	2.3	17.9	8.6	8.5
Gross nonperforming assets/customer loans + other real estate owned	7.2	8.4	10.2	25.9	22.8
Loan loss reserves/gross nonperforming assets	47.0	38.6	40.1	72.0	53.7

*Data as of June 30.

Table 6

FBN Holdings PLC--Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017
Core deposits/funding base	76.5	77.4	78.2	76.2	74.3
Customer loans (net)/customer deposits	50.0	45.3	46.1	48.3	63.7
Long-term funding ratio	84.2	84.4	82.8	84.5	84.9
Stable funding ratio	160.0	163.7	157.2	161.9	145.2
Short-term wholesale funding/funding base	17.6	17.4	19.4	17.3	17.5
Broad liquid assets/short-term wholesale funding (x)	3.5	3.6	3.2	3.7	3.2
Net broad liquid assets/short-term customer deposits	58.9	61.3	55.5	63.1	54.8

Table 6

FBN Holdings PLC--Funding And Liquidity (cont.)					
(%)	--Year-ended Dec. 31--				
	2021*	2020	2019	2018	2017
Short-term wholesale funding/total wholesale funding	75.2	77.0	88.8	72.6	68.0
Narrow liquid assets/3-month wholesale funding (x)	5.2	5.3	3.8	4.3	3.6

*Data as of June 30.

Related Criteria

- Environmental, Social, and Governance Principles in Credit Ratings, Oct. 11, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- 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
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Principles of Credit Ratings, Feb. 16, 2011

Related Research

- Bulletin: Central Bank Of Nigeria's Digital Currency Launch Is An Evolution, Not A Revolution, Oct. 28, 2021
- Nigeria, Aug. 16, 2021
- Bulletin: CBN-Directed Board Changes At First Bank of Nigeria Ltd. And FBN Holdings PLC Address Governance Issues, May 10, 2021
- Nigerian Banks Face Struggles On Many Fronts, March 11, 2021
- Banking Industry Country Risk Assessment: Nigeria, Nov. 30, 2020

Regulatory Disclosures

Regulatory disclosures applicable to the most recent credit rating action can be found at "First Bank of Nigeria Ltd. 'B-/B' Ratings Affirmed; Outlook Stable," Sept. 22, 2020, on RatingsDirect.

Glossary

- Adjusted assets: Total assets less nonservicing intangibles.
- Adjusted common equity: Common shareholders' equity plus minority interest, minus dividends (not yet distributed), minus revaluation reserves, minus nonservicing intangibles, minus interest only strips, minus tax-loss carry forwards, minus postretirement benefit adjustments.
- Anchor: The starting point for assigning a bank a long-term rating, based on economic and industry risk.
- Asset quality: A key measure of the quality and performance of the assets of a bank.
- Available stable funding: Core deposits, plus deposits due to banks (net of those that mature within one year), plus other borrowings (net of maturities within one year), plus total equity, minus intangibles.
- Business position: A measure of the strength of a bank's business operations.
- Broad liquid assets: cash (net of restricted cash) and reserves at central bank, plus other cash and money market, plus bank loans and reverse repos that mature in less than one year, plus total liquid assets.
- Capital and earnings: A measure of a bank's ability to absorb losses.
- Core deposits: Total deposits minus noncore deposits (such as deposits due to banks and certificates of deposits).
- Core earnings over average managed assets: Annualized core earnings, over average assets of current period and last fiscal year.
- Core earnings: Net income before minority interest, minus nonrecurring income, plus nonrecurring expenses, plus/minus tax impact on adjustments, plus amortization/impairment of goodwill/intangibles, minus preferred dividends.
- Cost of funds: Interest expense as a percentage of average interest-bearing liabilities.
- Cost of risk: As a percentage of total loans, the charge for bad and doubtful debts.
- Issuer credit rating: A forward-looking opinion about an obligor's overall creditworthiness.
- Credit losses: Losses arising from credit risk.
- Credit risk: Risk that a borrower will default on its payment obligations.
- Customer loans (gross): Total customer loans before loan loss reserves.
- Customer loans (net) over customer deposits: Gross customer loans net of loan loss reserves, over core deposits.
- Earning capacity: The capacity of a bank to generate sufficient earnings against losses and the primary way that a bank builds or maintains its capitalization.
- Funding and liquidity: A combined assessment of the strength and stability of a bank's funding mix and its ability to manage its liquidity needs in adverse market and economic conditions over an extended period.
- Funding base: Total deposits, plus acceptances, repurchase agreements, and other borrowings (including commercial papers, short- and long-term debt, subordinated debt, and minimal equity content hybrids).
- Gross nonperforming assets over customer loans plus other real estate owned over customer loans: Nonaccrual loans, plus restructured loans, plus repossessed assets plus loans 90-days past due; over gross customer loans plus

repossessed assets.

- Loan loss reserves over gross nonperforming assets: General plus specific reserves, over adjusted nonperforming assets (nonaccrual loans plus restructured loans plus repossessed assets plus 90-day past due loans).
- Long-term funding ratio: Available stable funding, over funding base plus total equity, minus intangibles.
- National scale rating: An opinion of an obligor's creditworthiness or overall capacity to meet specific financial obligations, relative to other issuers and issues in a given country or region.
- Net interest income over operating revenues: Net interest income (including net interest income on loans, securities, and other assets), over operating revenues.
- New loan loss provisions over average customer loans: Credit loss provisions (including specific loan provisions and general and other provisions) minus recoveries, over average gross customer loans of current period and last fiscal year.
- Noninterest expenses: Salaries and general administrative expenses (including depreciations and amortizations).
- Operating revenues: Net interest income, plus operating non-interest income (that mainly includes fees and commissions and trading gains).
- Preprovision operating income over average assets: Operating revenues minus noninterest expenses, over average assets.
- Return on equity: Net income before extraordinary results minus preferred dividends over average common (average between current period and last fiscal period).
- Risk position: Our view of the specific risk characteristics of a particular bank.
- Risk-adjusted capital (RAC) ratio before diversification: This is calculated according to S&P Global Ratings' methodology as total adjusted capital over risk-adjusted assets.
- Short-term wholesale funding: Debt securities that mature in less than one year (of commercial papers, debt and senior and subordinated bonds), plus bank deposits that mature in less than one year.
- Sovereign support: An assessment of the likelihood that the government would provide extraordinary support to a bank.
- Short-term wholesale funding: Debt securities that mature in less than one year (of commercial papers, debt and senior and subordinated bonds), plus bank deposits that mature in less than one year.
- Stable funding needs: Restricted cash and reserves at the central bank, plus interbank deposits, plus loans to banks (net of maturities within one year), plus reverse repurchase agreements, plus gross customer loans net of loan-loss reserves, plus securities, minus total liquid securities, plus equity participations in nonfinancial entities, plus fixed assets, plus other assets (considering foreclosed assets, tax loss carry forwards, and deferred assets).
- Stable funding ratio: Available stable funding over stable funding needs.
- Stand-alone credit profile (SACP): An interim step in assessing a bank's overall creditworthiness. It includes government support, but not extraordinary government support.
- Total adjusted capital (TAC): adjusted common equity plus admissible preferred instruments and hybrids.
- Total wholesale funding: Noncore deposits, plus acceptances, repurchase agreements, other borrowings (including commercial papers, debt and senior and subordinated bonds, minimal equity content hybrids), and total equity,

minus minority interest and common shareholders' equity.

Anchor Matrix										
Industry Risk	Economic Risk									
	1	2	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of November 25, 2021)*

FBN Holdings PLC

Issuer Credit Rating B-/Stable/B
Nigeria National Scale ngBBB-/--/ngA-3

Issuer Credit Ratings History

21-Jun-2017 B-/Stable/B
 18-Apr-2017 B-/Negative/B
 22-Sep-2016 B-/Negative/C
 02-Jul-2018 *Nigeria National Scale* ngBBB-/--/ngA-3
 21-Jun-2017 ngBB+/--/ngB
 22-Sep-2016 ngBB/--/ngB

Sovereign Rating

Nigeria B-/Stable/B
Nigeria National Scale ngBBB/--/ngA-2

Related Entities

First Bank of Nigeria Ltd.

Issuer Credit Rating B-/Stable/B
Nigeria National Scale ngBBB-/--/ngA-3
 Senior Unsecured B-

*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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