

Various Rating Actions Taken On Austrian Banks On Stabilization Of Operating Performance

February 24, 2023

- Austrian banks' pre-COVID-19 path of improvements in efficiency was temporarily interrupted during the pandemic, but banks are now back on track, supported by the higher interest rate environment.
- Although the economy is facing the headwinds of the secondary effects of the Russia-Ukraine war, we think the private sector will remain sufficiently resilient thanks to governmental support that we view as likely to limit the negative consequences for the banking sector.
- We now see the trend of industry risk of Austria's banking sector as stable and we continue to see a stable trend of economic risk.
- As a result, we affirmed our ratings and revised the outlooks on Hypo Vorarlberg Bank AG, Oberoesterreichische Landesbank AG, Oberbank AG, and UniCredit Bank Austria AG to stable from negative.
- We affirmed the ratings and maintained the stable outlook on HYPO NOE Landesbank fur Niederosterreich und Wien AG.
- We also revised the outlook on Hypo Tirol Bank AG to positive from negative and affirmed the ratings.
- We raised our rating on Bausparkasse Wuestenrot AG to 'BBB+' from 'BBB' and maintained the stable outlook.

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FRANKFURT (S&P Global Ratings) Feb. 24, 2023--S&P Global Ratings today took various rating actions on seven Austrian banks. Specifically, we took the following rating actions:

- Hypo Vorarlberg Bank AG: We revised our outlook to stable from negative and affirmed our 'A+/A-1' long- and short-term issuer credit ratings.
- Oberoesterreichische Landesbank AG: We revised our outlook to stable from negative and affirmed our 'A+/A-1' long- and short-term issuer credit ratings.
- Oberbank AG: We revised our outlook to stable from negative and affirmed our 'A/A-1' long-and short-term issuer credit ratings and our 'A+/A-1' resolution counterparty ratings.
- UniCredit Bank Austria AG: We revised our outlook to stable from negative and affirmed our 'BBB+/A-2' long- and short-term issuer credit ratings and our 'A-/A-2' resolution counterparty ratings.
- Hypo Tirol Bank AG: We revised the outlook to positive from negative and affirmed our 'A/A-1' long- and short-term issuer credit ratings.

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- HYPO NOE Landesbank fur Niederosterreich und Wien AG: We affirmed our 'A/A-1' long- and short-term issuer credit ratings and maintained the stable outlook.
- Bausparkasse Wuestenrot AG: We raised our long-term issuer credit rating to 'BBB+' from 'BBB', affirmed our 'A-2' short-term issuer credit rating, and maintained the stable outlook.

Our outlooks on most Austrian banks were negative because we saw them as sensitive to the pressure on structural domestic banking profitability (for details, see "Easing Economic Risks And Structural Profitability Issues Prompt Rating Actions On Seven Austrian Banks," published June 24, 2021, on RatingsDirect).

The rating actions primarily reflect our view that pressures on Austrian banks' profitability have moderated. Cost optimization measures and improving revenue have contributed to the development, which we foresee will be sustainable. However, we expect only a marginal further profitability improvement in the medium term, reflecting a weakening economy, high inflationary pressure on operational costs, and increased risk costs. In our view, the sector's return on assets should remain about 0.5% in the medium term. Our base-case scenario does not take into account the tail risks from the secondary effects of the Russia-Ukraine war on Austria's and Europe's economies.

We expect governmental measures supporting the private sector to mitigate the adverse impact on banks resulting from the economic headwinds. We expect that nonperforming loans (NPLs) will increase in 2023 as the cost of living and borrowers' debt repayment capacity are affected by high inflation and the economic slowdown. But we believe that the impact on the banking system is likely to be manageable. We expect that the private sector's financial health will not deteriorate significantly.

Real housing prices are likely to decrease in 2023 and 2024 in Austria, in line with our expectations for Europe. See "European Housing Prices Face A Sticky, Gradual Decline," Jan. 11, 2023. However, we foresee only a gradual correction, both in nominal and real terms. Over the longer term, housing prices are likely to return to the growth path, reflecting supportive structural indicators, such as limited supply, a strong labor market, and high household wealth. We expect that the decline in housing prices, despite being accompanied by a significant increase in interest rates and higher cost of living, will not materially affect the credit quality of Austrian banks' mortgage portfolios. Austrian borrowers' preference for floating rate loans may expose them to higher risk eventually, but we would only see this becoming an issue if interest rates were to quickly increase by a large margin. Our view is supported by the track record of low credit losses during previous economic downturns and high interest rate cycles, as well as banks' prudent lending practices.

Efficiency is improving, but laggards remain. Trending at about 65%, the consolidated sector's cost-to-income ratio remains mediocre in a broader international context but represents an improvement over time, backed by Austrian banks' increased focus on efficiency and digitalization. At the same time, one of the main reasons for the development are rising interest rates, which have improved operating margins. In this context, we highlight that it remains crucial that banks continue to tackle inefficiencies to remain competitive throughout the cycle. Structural sector impediments, such as still-dense branch networks, legacy information technology (IT) systems, and decentralized structures, have so far prevented banks from material improvements on the cost side. We believe these remain the key obstacles to banks' efforts to embrace scale benefits and digital opportunities to unleash the full potential of new technologies. This is also

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important in the context of changing customer preferences. Austrian banks' business models will therefore increasingly rely on further improvements in operational efficiency and lean and modular IT settings that enable them to respond quickly to changes in new technology adoption trends and expand into adjacent services. We see Austrian banks well on track with regard to the level of digital client services, competing on par with alternative financial services providers.

Hypo Vorarlberg Bank AG (Hypo Vorarlberg)

Primary analyst: Cihan Duran

We revised our outlook to stable from negative and affirmed our 'A+/A-1' long- and short-term issuer credit ratings. Receding risks to structural profitability for the Austrian banking system bode well for Hypo Vorarlberg's creditworthiness. The higher interest rate environment will boost the bank's interest income, in our view, while we expect a prudent approach toward operating costs and moderate credit losses for the next 12-24 months.

The issuer credit rating rests on the bank's unchanged 'bbb+' stand-alone credit profile (SACP). Because we regard the bank as a government-related entity (GRE) with a high likelihood of support, the ratings on the bank also depend on our view of the State of Vorarlberg's creditworthiness (AA+/Stable/A-1+). The rating on Vorarlberg would need to drop by one notch to trigger a negative rating action on the bank, assuming all bank-specific factors are unchanged. An upgrade of Vorarlberg would not directly affect the rating on the bank, all else being equal.

Outlook

The stable outlook on Hypo Vorarlberg reflects our view that the bank will maintain a resilient balance sheet and perform financially well over the next two years, despite economic challenges stemming from spillover effects from the war in Ukraine.

Downside scenario: We could lower our long-term rating on Hypo Vorarlberg if the risk-adjusted capital (RAC) ratio drops sustainably below 10%, contrary to our current expectations. This could materialize, for example, if the bank's asset quality metrics deteriorated significantly, resulting in higher credit losses and weaker after-tax earnings. We could also lower the rating if the bank is not able to uphold a resilient business model and experienced a structurally weaker level of profitability in comparison with other Austrian Hypo-type banks.

Upside scenario: We see an upgrade as remote, mainly because of Hypo Vorarlberg's regional and business-line concentration, which is greater than that of some of the market-dominating banks in Austria.

Oberoesterreichische Landesbank AG (Hypo OÖ)

Primary analyst: Anna Lozmann

We revised our outlook to stable from negative and affirmed our 'A+/A-1' long- and short-term issuer credit ratings. We think that Hypo OÖ benefits from the receding risks in the banking system. The rating action also reflects our expectations that the bank will continue to improve its efficiency and will work to decrease its profitability gap with peers, while upholding its strong

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capital buffer and good asset quality.

Outlook

Our stable outlook on Hypo OÖ takes into account the stable outlook on the State of Upper Austria (AA+/Stable/A-1+) and our expectation that the likelihood of support from the state will remain high over the next two years.

Downside scenario: The ratings are sensitive to Upper Austria's ability and willingness to support the bank. We would lower the ratings on Hypo OÖ in the event of a downgrade of Upper Austria or if we observed a weakening in Hypo OÖ's role for, or link with, Upper Austria.

We could also lower the ratings if the bank embarked on riskier lending, leading our RAC ratio to drop below 10%.

Upside scenario: A positive rating action would require an upgrade of Upper Austria, accompanied by an increase in Hypo OÖ's RAC ratio to sustainably above 15%, a scenario we see as highly unlikely over the next two years.

Oberbank AG

Primary analyst: Anna Lozmann

We revised our outlook to stable from negative and affirmed our 'A/A-1' long-and short-term issuer credit ratings and our 'A+/A-1' resolution counterparty ratings. We think that the receding risks to the structural profitability for the Austrian banking industry are reducing reduce risks to Oberbank's creditworthiness.

Outlook

The stable outlook relates to the next two years and reflects our expectation that Oberbank will maintain its competitive advantage and internal capital generation, and that expansion in foreign markets will remain contained and not weaken the bank's risk profile or deplete its strong capital buffer in the medium term.

The outlook also reflects our view that management will be able to uphold the buffer of additional loss-absorbing capital (ALAC)-eligible instruments above 2% of our risk-weighted assets (RWAs), and that the resolution scenario for Oberbank would likely be bail-in led, as we anticipate would be the case for all the larger, more systemically important banks in Austria.

Downside scenario: We would downgrade Oberbank if its capital buffer deteriorates, with our RAC ratio falling below 10% because of material unexpected risk costs or aggressive growth into regions with higher economic risks than Austria, or tail risk in its equity holdings that could harm the risk profile or materially increase its capital consumption, for example. We would also lower the rating if we expect the bank's ALAC buffer to drop below our 2% threshold.

Upside scenario: We consider an upgrade to be a remote scenario. We think Oberbank's strengths are unlikely to compensate for its regional concentrations in revenue and risks to the extent that we would consider raising the rating, thus bringing Oberbank in line with 'A+' rated peers.

UniCredit Bank Austria AG (Bank Austria)

Primary analyst: Cihan Duran

We revised our outlook to stable from negative and affirmed our 'BBB+/A-2' long- and short-term issuer credit ratings and our 'A-/A-2' resolution counterparty ratings. We think that receding risks to the structural profitability of the Austrian banking industry will support Bank Austria's creditworthiness. The outlook revision also reflects our view that the bank will benefit from rising interest rates while continuing to contain costs as part of the group-wide strategy "UniCredit Unlocked" over the next 12-24 months.

Outlook

The stable outlook on Bank Austria reflects our view that within the next 12-24 months it will continue to show sound financial performance, despite the somewhat weakening economic environment in Austria, and that its capitalization will remain strong. We expect that the parent, UniCredit SpA (BBB/Stable/A-2), will continue to downstream substantial subordinated bail-in-able capacity, and that business and financial dependencies on affiliates will not increase.

Downside scenario: We could lower the rating on the bank if we were to lower our long-term rating on UniCredit SpA. We could also lower the rating if we saw Bank Austria as potentially less resilient to parental stress. This could arise, for example, if there is deeper franchise or financial integration into the UniCredit group, or the parent decides to maintain materially smaller-than-expected buffers of capital and subordinated bail-in-able instruments in Bank Austria.

Upside scenario: We could take a positive rating action on Bank Austria if we were to take a similar rating action on UniCredit SpA. A precondition for an upgrade of Bank Austria is our RAC ratio improving sustainably above 10%, on the back of a robust financial performance, including cost containment, and sound asset quality as part of the "UniCredit Unlocked" strategy.

Hypo Tirol Bank AG (Hypo Tirol)

Primary analyst: Cihan Duran

We revised the outlook to positive from negative and affirmed our 'A/A-1' long- and short-term issuer credit ratings. Structural profitability pressures on Austrian banks have reduced and could further support Hypo Tirol's creditworthiness. Hypo Tirol's capital projections now face fewer downside risks than before, leading to a potential rating uplift over the next 12-24 months. We expect that the bank will maintain a sound financial performance and stable asset quality over that time, while keeping costs under control.

Outlook

The positive outlook reflects our view that within the next 12-24 months Hypo Tirol will maintain a sufficiently high capitalization, as measured by our RAC ratio, to withstand potential unexpected financial losses and support balance sheet growth, in line with the bank's strategic targets. It also

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reflects our view that the bank's NPLs will remain broadly stable despite potential spillover risks from the war in Ukraine to European economies.

We consider Hypo Tirol a GRE and our rating on the bank is supported by the owner, the State of Tyrol (AA+/Stable/A-1+). A downgrade of Tyrol by at least two notches would trigger a downgrade of the bank. Albeit a remote possibility, a change in Hypo Tirol's role for or link with the state could also lead us to reassess the bank's status as a GRE and result in a downgrade.

Upside scenario: We could raise our rating on Hypo Tirol if our RAC ratio remains sustainably above 15% in the next two years. An upgrade would be contingent on Hypo Tirol improving profitability closer to the level of other Austrian Hypo-type banks, while maintaining sound asset quality metrics.

Downside scenario: We could revise the outlook on the bank to stable if our RAC ratio drops below 15%. A setback to profitability and asset quality metrics, such as an increase of the NPL ratio and other indicators, could also prompt us to revise the outlook to stable.

HYPNOE Landesbank fur Niederosterreich und Wien AG (Hypo NOE)

Primary analyst: Anna Lozmann

We affirmed our 'A/A-1' long- and short-term issuer credit ratings and maintained the stable outlook. We consider Hypo NOE a GRE with a very strong link and important role to the State of Lower Austria (AA/Stable/A-1+). Although governmental support to the bank provides some buffers to the issuer credit rating, receding risks in the industry support the stability of the SACP.

Outlook

The stable outlook balances our view that Hypo NOE will maintain very strong capital, supported by contained loan losses, against moderate bottom-line profitability. We also expect Hypo NOE's franchise will continue to benefit from its ownership by Lower Austria and the high likelihood of receiving extraordinary support in the event of financial stress.

Downside scenario: A downgrade would require a two-notch downward revision in our view of Hypo NOE's SACP. A downgrade of the owner, Lower Austria, would also result in the downgrade of the bank. Although less likely, a change in Hypo NOE's role for or link with the state could lead us to reassess the bank's GRE status and result in a downgrade.

Upside scenario: An upgrade is a remote scenario, in our view. We could take a positive rating action on Hypo NOE if it continued to improve its operational performance while maintaining a low-risk posture in its strategy and very strong capital, including a RAC ratio sustainably above 15%. However, in such a scenario, we would only raise the rating if we considered Hypo NOE's creditworthiness to be in line with that of higher-rated peers, which is unlikely considering the bank's niche and regional focus.

Bausparkasse Wuestenrot AG

Primary analyst: Claudio Hantzsche

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We raised our long-term issuer credit rating to 'BBB+' from 'BBB', affirmed our 'A-2' short-term issuer credit rating, and assigned a stable outlook.

This rating action is primarily driven by the idiosyncratic developments in the group. At the same time, we think that Bausparkasse Wuestenrot's internal capital generation capacity will be supported by the trends in the overall banking industry. We now anticipate the bank's RAC will remain a key rating strength through 2024. Over the past two years, we observed a positive trajectory in Bausparkasse Wuestenrot's capitalization, backed by the full earnings retention and improved capital position of its insurance subsidiary.

Outlook

The stable outlook reflects our expectation of stable performance at the wider bancassurance group Wuestenrot Wohnungswirtschaft in the next two years. We expect the banking subgroup's RAC ratio will remain solidly above 10% and note that at the current rating level, some headroom exists for a deterioration in financial performance and capitalization. We further expect that the changing interest rate environment will be beneficial for the group over time and we think that the bank will maintain its prudent risk appetite and contain risk costs.

Downside scenario: We could lower our rating over the next 12-24 months if we expected Bausparkasse Wuestenrot's RAC ratio to fall substantially, leading us to revise down our assessment of the group credit profile. This could be the case if the bank's profitability does not improve as expected or if the deteriorated economic environment in Austria turns out to be less supportive for Bausparkasse Wuestenrot's business generation and weakens its asset quality.

Upside scenario: We consider a positive rating action on Bausparkasse Wuestenrot remote at this stage. An upgrade would depend on an above-average performance of the wider bancassurance group.

That said, we could revise up the banking subgroup's SACP assessment if a successful launch of its new universal bank leads to a significantly more diversified business model and if the banking subgroup's profitability and operating efficiency are sustainably improved.

Other Considerations

Our rating actions exclude groups like Erste Group Bank AG (A+/Stable/A-1) and Raiffeisen Bank International AG (A-/Negative/A-2), because our outlooks on those banks are currently primarily driven by risks in their foreign operations. Our base-case expectation for the resilience of these two groups is unchanged and the ratings and outlooks are outside the scope of this review. The same applies to the ratings on Kommunalkredit Austria AG (BBB-/Stable/A-3). Also out of scope are ratings on KA Finanz AG (AA+/Stable/A-1+) and ICBC Austria Bank GmbH (A-/Stable/A-2), given that these ratings are primarily driven by the respective support considerations.

Austria BICRA

	To	From
BICRA group	2	2
Economic risk	2	2
Economic resilience	Very low risk	Very low risk
Economic imbalances	Low risk	Low risk

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Austria BICRA (cont.)

	To	From
Credit risk in the economy	Intermediate risk	Intermediate risk
Trend	Stable	Stable
Industry risk	3	3
Institutional framework	Intermediate risk	Intermediate risk
Competitive dynamics	Intermediate risk	Intermediate risk
Systemwide funding	Low risk	Low risk
Trend	Stable	Negative
Government support	Support uncertain	Support uncertain

Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores are on a scale from 1 (lowest risk) to 10 (highest risk). For more details on our BICRA scores on banking industries across the globe, please see "Banking Industry Country Risk Assessment Update," published monthly on RatingsDirect.

Ratings List

	To	From
Hypo Vorarlberg Bank AG	A+/Stable/A-1	A+/Negative/A-1
Oberoesterreichische Landesbank AG	A+/Stable/A-1	A+/Negative/A-1
Oberbank AG	A/Stable/A-1	A/Negative/A-1
UniCredit Bank Austria AG	BBB+/Stable/A-2	BBB+/Negative/A-2
Hypo Tirol Bank AG	A/Positive/A-1	A/Negative/A-1
HYPONOE Landesbank fur Niederosterreich und Wien AG	A/Stable/A-1	A/Stable/A-1
Bausparkasse Wuestenrot AG	BBB+/Stable/A-2	BBB/Stable/A-2

NB: This list does not include all the ratings affected.

ESG credit indicators: E2, S2, G2 for all banks in this rating action release

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019

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- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Austria-Based Bausparkasse Wuestenrot AG Upgraded To 'BBB+' On Improved Capitalization; Outlook Stable, Feb. 24, 2023
- Hypo Tirol Bank Outlook Now Positive On Resilient Operating Performance, Upward Capital Trend; 'A/A-1' Ratings Affirmed, Feb. 24, 2023
- UniCredit Bank Austria Outlook Revised To Stable From Negative On Resilient Operating Performance; 'BBB+/A-2' Affirmed, Feb. 24, 2023
- Global Macro Update: Post-Davos, We Reaffirm Our View, Jan. 26, 2023
- European Housing Prices Face A Sticky, Gradual Decline, Jan. 11, 2023
- Easing Economic Risks And Structural Profitability Issues Prompt Rating Actions On Seven Austrian Banks, June 24, 2021

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914

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