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## Societe Generale

**Primary Credit Analyst:**

Philippe Raposo, Paris + 33 14 420 7377; philippe.raposo@spglobal.com

**Secondary Contact:**

Nicolas Malaterre, Paris + 33 14 420 7324; nicolas.malaterre@spglobal.com

**Research Contributor:**

Ankit Jalan, CRISIL Global Analytical Center, an S&P affiliate, Mumbai

### Table Of Contents

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Rating Score Snapshot

Credit Highlights

Outlook

Key Metrics

Environmental, Social, And Governance

Key Statistics

Related Criteria

Related Research

# Societe Generale

## Rating Score Snapshot

Global Scale Ratings	
<b>Issuer Credit Rating</b>	A/Stable/A-1
<b>Resolution Counterparty Rating</b>	A+/-/A-1

**SACP: bbb+** → **Support: +2** → **Additional factors: 0**

Anchor	bbb+	
Business position	Adequate	0
Capital and earnings	Adequate	0
Risk position	Adequate	0
Funding	Adequate	0
Liquidity	Adequate	
CRA adjustment	0	

ALAC support	+2
GRE support	0
Group support	0
Sovereign support	0

<b>Issuer credit rating</b>
<b>A/Stable/A-1</b>
<b>Resolution counterparty rating</b>
<b>A+/A-1</b>

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

## Credit Highlights

### Overview

Key strengths	Key risks
Globally systemic universal bank with well-diversified revenue by business lines and geographies.	Cost to income to remain at the high end of its peer set, with pressure from increasing funding costs and inflationary environment.
Diversified funding profile with good access to wholesale debt markets.	Inherent complexity from some capital market activities.
Comfortable bail-in-able debt cushion and a higher regulatory core capital ratio.	Pockets of risk in the loan book, including French and eastern European small and midsize enterprises (SMEs).

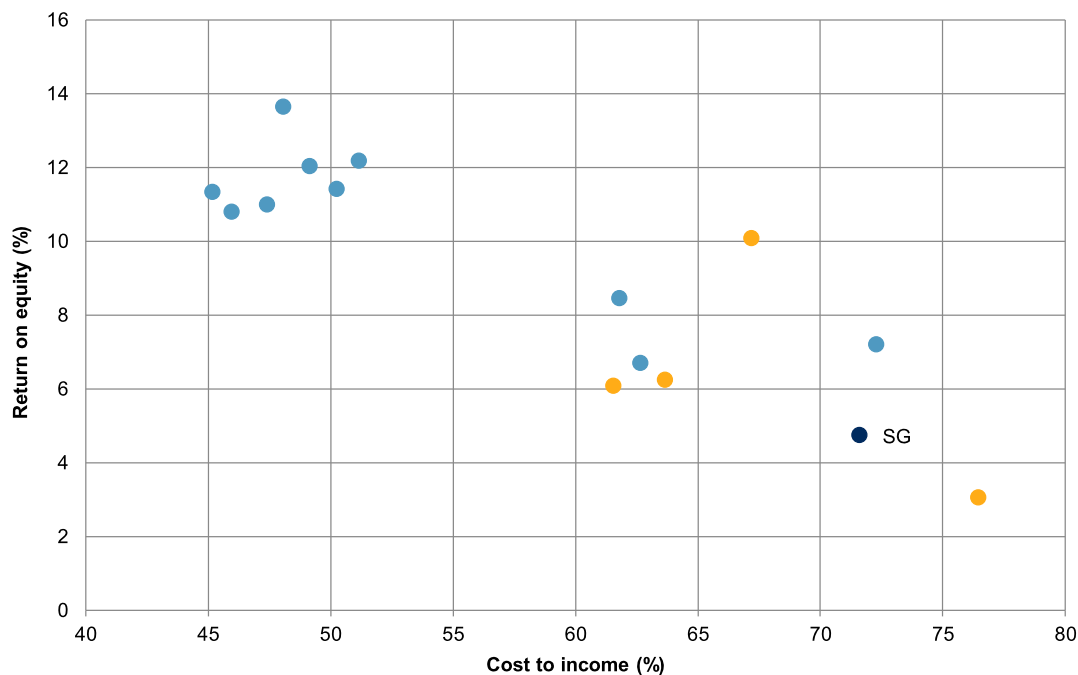
*Société Générale (SG) has made progress on delivering its strategic plan, but we expect efficiency to remain under pressure.* S&P Global Ratings recognizes that SG has taken significant strategic steps to streamline its cost base and improve efficiency. In 2022 it merged its two French physical retail networks and acquired LeasePlan, which should deliver synergies with its leasing subsidiary, ALD. The bank made good progress on the planned €450 million in cost savings as part of an overhaul of its global banking and investor solutions division.

However, we expect SG's cost to income ratio to remain elevated at over 70% in the near term. We anticipate some revenue pressure and expect costs to remain elevated, considering the persistent inflationary environment and

restructuring costs incurred over 2023–2024. Any benefit from higher interest rates will be offset by SG's interest rate hedging policy until year-end 2024, and we anticipate a slowdown in market activity following record years.

**Chart 1**

**SG's efficiency is expected to remain weaker than peers'**



Yellow dots represent French peers, blue dots represent international peers. Data are forecast for 2023.

Source: S&P Global Ratings.

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***We expect adequate capitalization, with risk-adjusted capital (RAC) remaining at 8.75%-9.25% over the next two years.*** SG's RAC ratio was 9.4% at year-end 2022, and we expect it to be within 8.75%-9.25% in the near term. The slight decline factors in the acquisition of LeasePlan and SG's partnership with Bernstein in 2023, which is expected to have a 30-35 basis point (bps) influence on our RAC ratio, against an anticipated 50 bps effect on its common equity tier 1 (CET1) ratio. SG reported a CET1 ratio of 13.5% at March 31, 2023, which is 410 bps above the minimum requirement of 9.43% and above its medium-term guidance of 12.0% CET1 under Basel IV.

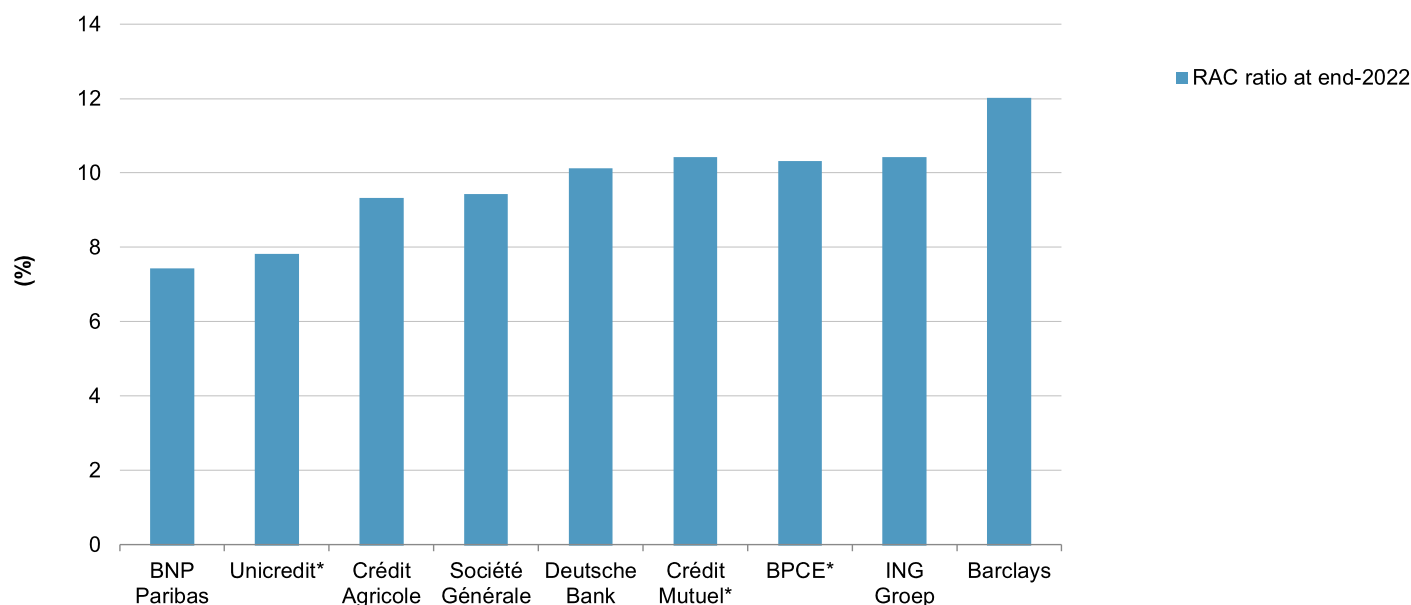
In the first quarter of 2023, SG reported €868 million in net profit, a modest 5.7% increase from €821 million in the same period of 2022. This was primarily led by a 68% year-on-year decline in cost of risk to €182 million, after the group reported a reversal in stage 1 and stage 2 provisions.

SG's reported net banking income declined by 5.3% year-on-year due to margin pressure in French retail banking, as a result of higher funding costs on regulated savings accounts. Interest rates on such accounts increased to 3% on Feb. 1, 2023, and are locked in at this level until 2025. We expect this margin pressure to continue weighing on SG's operating revenue, which, in our view, may decline by about 6%-7% in 2023. However, SG's net income is expected to

increase by about 40%-45% year-on-year to €4.2 billion-4.3 billion in 2023, after an extraordinary loss of €3.3 billion in 2022 on the disposal of its Russian subsidiary, Rosbank.

**Chart 2**

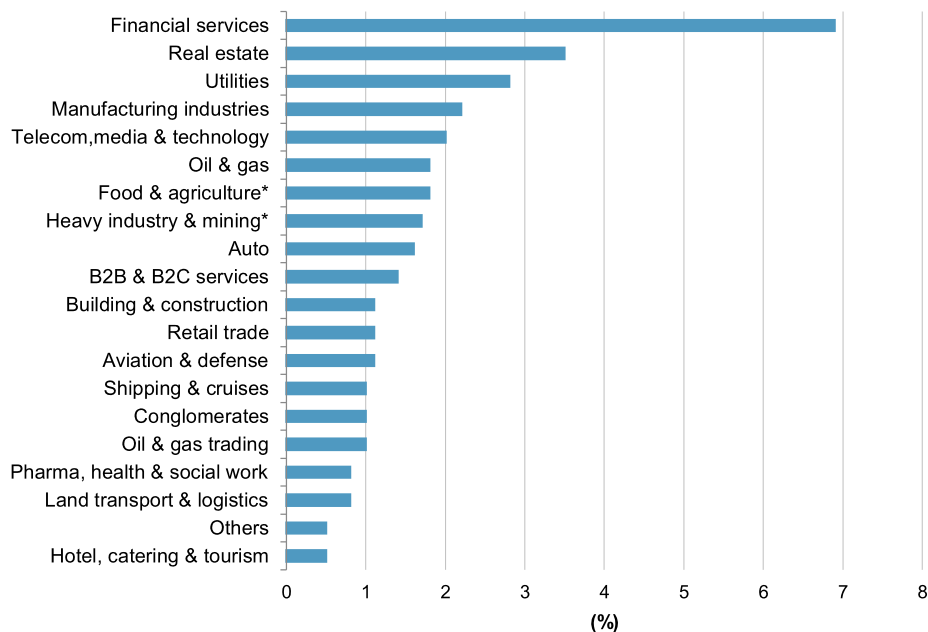
**Societe Generale's key capital ratios versus selected European peers'**



\*Estimated RAC for end-2022. RAC--Risk-adjusted capital. Source: Banks, S&P Global Ratings. Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

**Asset quality is expected to remain stable with a manageable uptick in nonperforming loans (NPL).** We see continuing geopolitical uncertainty, supply chain disruptions, persistent high inflation, and increasing refinancing costs putting pressure on some SMEs and counterparties in cyclical sectors of SG's corporate book. Conversely, we expect residential mortgages to be more resilient.

SG's NPL ratio increased slightly to 2.8% of total loans at year-end 2022, after reaching a low of 2.7% at the end of September 2022. It had reached 3.3% at year-end 2020. While the NPL ratio remained stable at the end of March 2023, we expect an increase that will be contained below 3.5% in the next two years, which is a manageable deterioration.

**Chart 3****Societe Generale's share of selected corporate sectors**  
In percent of total portfolio at year-end 2022

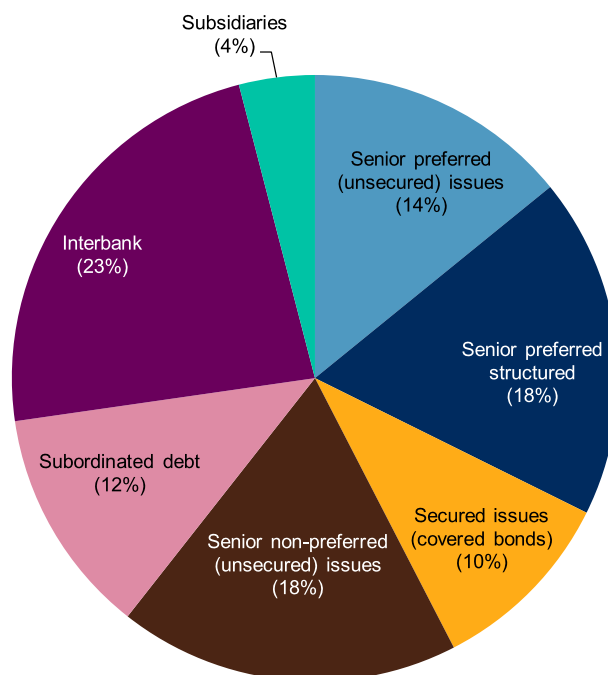
Source: SG, S&P Global Ratings. \*Including trading activities. The percentages represent the corporate exposure at default (EAD) as % of group's total EADs.

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***SG benefits from solid deposit franchises in France and the Czech Republic and is a well-known issuer in capital markets.*** Like its peers, SG relies on market access, notably for its capital market activities. By March 2023, SG had already completed more than 70% of its €24 billion funding program for 2023. SG had a comfortable additional loss-absorbing capacity (ALAC) buffer of 800 bps at year-end 2022, and we expect this to remain well above our 600 bps threshold for two notches of uplift.

Chart 4

## Societe Generale's breakdown of long-term wholesale funding at end-March 2023



Data as of end-March, 2023. Source: SG's debt investor presentation.  
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*SG's new CEO may announce some changes to its strategy, but we expect the bank to maintain its focus on cost rationalization, capital optimization and earnings stability.* Slawomir Krupa was appointed as CEO on May 23, 2023, when Frédéric Oudéa retired from his role. With Mr. Krupa taking the lead, we could see some changes in strategy as part of SG's investor day on Sept. 18, 2023. However, Mr. Krupa has been with SG for most of his professional career, and we expect the transition to be smooth, with a continued focus on capital optimization and process improvements.

## Outlook

The stable outlook on SG and its core subsidiaries reflects our expectation that the group will navigate the current macroeconomic headwinds well. We anticipate asset quality will deteriorate in the coming quarters, but believe SG will maintain manageable credit costs of 30 bps-40 bps in the next two years. We also incorporate in our projections that SG will maintain a buffer of bail-in-able securities well in excess of 6% of S&P Global Ratings' risk-weighted assets (RWA), since this is the condition for maintaining a two-notch ALAC uplift above the 'bbb+' group stand-alone credit profile (SACP).

### Downside scenario

We could lower the ratings in the next two years if, contrary to our current expectations, profitability deteriorates sharply. This could happen if credit losses are far higher than our projections, or if the group cannot sustainably improve its efficiency ratio to be at least in line with historical standards. Although less likely, the long-term issuer credit rating could also come under pressure if the bank cannot maintain a sufficient ALAC buffer.

### Upside scenario

An upgrade, although unlikely in the next 12 months, could come at a later stage if SG improves its efficiency and profitability, and achieves a sustainable business model on par with banks with an 'a-' SACP. We would also expect better operating conditions in SG's retail markets, good results from the merger of its two French networks, and solid performance from investment banking activities.

## Key Metrics

### Société Générale--Key ratios and forecasts

(%)	--Fiscal year ended Dec. 31--				
	2021a	2022a	2023f	2024f	2025f
Growth in customer loans	10.5	1.5	4.5-5.5	2.7-3.3	2.7-3.3
Net interest income/average earning assets (NIM)	1.3	1.3	1.2-1.4	1.2-1.5	1.3-1.6
Cost to income ratio	66.7	64.1	69.8-73.4	69.3-72.9	69.7-73.3
Return on assets	0.5	0.2	0.3-0.4	0.3-0.4	0.3-0.4
New loan loss provisions/average customer loans	0.1	0.3	0.3-0.3	0.3-0.3	0.3-0.3
Risk-adjusted capital ratio	9.2	9.4	8.8-9.3	8.9-9.3	8.9-9.4

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin.

## Environmental, Social, And Governance

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

The group is exposed to a range of nonfinancial risks, notably reputational, compliance, and operational. Most of these risks lie in the markets and asset-gathering operations. SG, like many large European and U.S. banks, in the past decade has not been immune to large-scale litigation. This mainly stemmed from shortcomings in control/monitoring, but also from a historically high-risk appetite in certain investment banking activities. We note the decisive steps taken in 2018 leading to the settlement of the most recent large litigation cases, eliminating this material risk. We also note SG's exposure to markets where governance practices could be weaker than in France. This can expose the bank more to know-your-customer or compliance risks. So far, SG has managed these risks well.

Furthermore, one of SG's main social challenges is the management of its large branch network, which should reduce over time following the merger of its two French retail networks. We will monitor how the group adapts its workforce to a more digitally advanced model, while remaining customer centric. We have not observed any material conduct cases or misselling with the retail clientele in France, but we are closely monitoring how the group maintains high underwriting standards, including consumer loans, to avoid any emerging social risks.

## Key Statistics

**Table 1**

Société Générale--Key figures					
--Year ended Dec. 31--					
(Mil. €)	2022	2021	2020	2019	2018
Adjusted assets	1,298,540.0	1,260,277.0	1,272,370.0	1,169,875.0	1,141,510.0
Customer loans (gross)	507,004.0	499,313.0	451,923.0	441,430.0	432,586.0
Adjusted common equity	49,987.0	47,251.6	42,988.4	44,187.0	41,336.0
Operating revenues	28,074.0	25,804.0	22,116.0	24,542.0	25,261.0
Noninterest expenses	17,991.0	17,211.0	16,504.0	17,411.0	17,595.0
Core earnings	4,935.1	5,627.1	481.0	3,685.0	4,209.7

**Table 2**

Société Générale--Business position					
--Year ended Dec. 31--					
(%)	2022	2021	2020	2019	2018
Total revenues from business line (currency in millions)	28,074.0	26,439.0	22,116.0	24,542.0	25,261.0
Commercial banking/total revenues from business line	22.6	19.2	19.4	18.0	17.8
Retail banking/total revenues from business line	50.1	48.5	55.2	54.3	53.3



**Table 2**

<b>Société Générale--Business position (cont.)</b>					
	<b>--Year ended Dec. 31--</b>				
<b>(%)</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Commercial and retail banking/total revenues from business line	72.7	67.7	74.6	72.4	71.1
Trading and sales income/total revenues from business line	23.9	21.3	18.8	21.2	20.6
Insurance activities/total revenues from business line	3.6	3.6	4.0	3.7	3.5
Asset management/total revenues from business line	N/A	3.6	4.1	3.9	3.8
Other revenues/total revenues from business line	-0.2	3.7	-1.5	-1.1	0.9
Investment banking/total revenues from business line	23.9	21.3	18.8	21.2	20.6
Return on average common equity	2.5	9.1	-1.6	4.7	6.1

N/A--Not applicable.

**Table 3**

<b>Société Générale--Capital and earnings</b>					
	<b>--Year ended Dec. 31--</b>				
<b>(%)</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Tier 1 capital ratio	16.3	15.9	16.0	15.1	13.4
S&P Global Ratings' RAC ratio before diversification	9.4	9.2	9.1	9.1	8.0
S&P Global Ratings' RAC ratio after diversification	11.2	11.1	10.9	11.0	9.4
Adjusted common equity/total adjusted capital	86.6	86.2	84.2	85.0	84.0
Net interest income/operating revenues	40.2	41.5	47.4	45.6	43.6
Fee income/operating revenues	18.4	20.6	22.2	21.4	21.9
Market-sensitive income/operating revenues	23.8	22.2	12.9	18.0	20.4
Cost to income ratio	64.1	66.7	74.6	70.9	69.7
Preprovision operating income/average assets	0.7	0.6	0.4	0.5	0.6
Core earnings/average managed assets	0.3	0.4	0.0	0.3	0.3

RAC--Risk-adjusted capital.

**Table 4**

<b>Société Générale--Risk-adjusted capital framework data</b>					
<b>(Mil. €)</b>	<b>Exposure*</b>	<b>Basel III RWA</b>	<b>Average Basel III RW(%)</b>	<b>S&amp;P Global Ratings' RWA</b>	<b>Average S&amp;P Global Ratings' RW (%)</b>
<b>Credit risk</b>					
Government and central banks	345,879.1	9,232.8	2.7	6,573.1	1.9
Of which regional governments and local authorities	18,327.7	1,370.4	7.5	933.9	5.1
Institutions and CCPs	178,369.4	19,149.9	10.7	42,217.4	23.7
Corporate	359,251.8	156,621.6	43.6	273,494.4	76.1
Retail	136,420.9	52,476.2	38.5	81,305.3	59.6
Of which mortgage	43,473.4	11,247.8	25.9	14,071.1	32.4
Securitization§	51,042.6	7,801.0	15.3	36,857.9	72.2
Other assets†	37,076.7	28,932.1	78.0	62,574.4	168.8
Total credit risk	1,108,040.5	274,213.5	24.7	503,022.5	45.4

Table 4

Société Générale--Risk-adjusted capital framework data (cont.)					
<b>Credit valuation adjustment</b>					
Total credit valuation adjustment	--	2,800.0	--	7,619.7	--
<b>Market risk</b>					
Equity in the banking book	2,499.0	3,350.0	134.1	21,441.2	858.0
Trading book market risk	--	13,750.0	--	20,385.0	--
Total market risk	--	17,100.0	--	41,826.2	--
<b>Operational risk</b>					
Total operational risk	--	46,025.0	--	60,574.0	--
	<b>Exposure</b>	<b>Basel III RWA</b>	<b>Average Basel II RW (%)</b>	<b>S&amp;P Global Ratings' RWA</b>	<b>% of S&amp;P Global Ratings' RWA</b>
<b>Diversification adjustments</b>					
RWA before diversification	--	361,327.5	--	613,042.4	100.0
Total diversification/ Concentration adjustments	--	--	--	-98,583.8	-16.1
RWA after diversification	--	361,327.5	--	514,458.7	83.9
		<b>Tier 1 capital</b>	<b>Tier 1 ratio (%)</b>	<b>Total adjusted capital</b>	<b>S&amp;P Global Ratings' RAC ratio (%)</b>
<b>Capital ratio</b>					
Capital ratio before adjustments		58,727.0	16.3	57,745.0	9.4
Capital ratio after adjustments†		58,727.0	16.3	57,745.0	11.2

\*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. Sources: Company data as of Dec. 31, 2022, S&P Global Ratings.

Table 5

Société Générale--Risk position	--Year ended Dec. 31--				
	2022	2021	2020	2019	2018
(%)					
Growth in customer loans	1.5	10.5	2.4	2.0	3.8
Total diversification adjustment/S&P Global Ratings' RWA before diversification	-16.1	-17.2	-16.3	-17.2	-15.8
Total managed assets/adjusted common equity (x)	29.7	31.0	34.0	30.7	31.7
New loan loss provisions/average customer loans	0.3	0.1	0.7	0.3	0.2
Net charge-offs/average customer loans	0.0	0.0	0.0	0.0	0.0
Gross nonperforming assets/customer loans + other real estate owned	3.1	3.3	3.8	3.9	4.4
Loan loss reserves/gross nonperforming assets	66.9	66.6	68.6	61.7	60.0

RWA--Risk-weighted assets.

Table 6

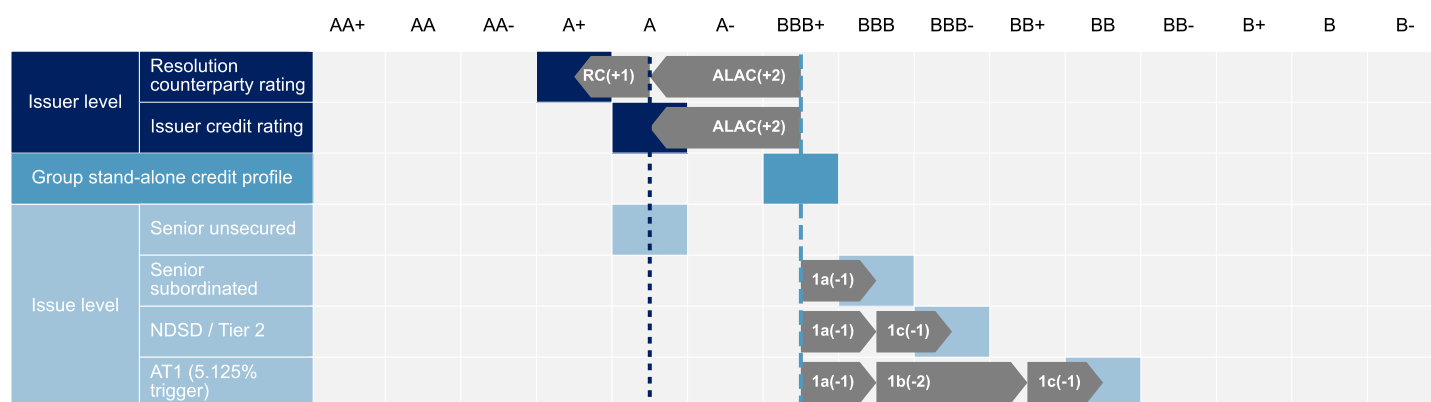
Société Générale--Funding and liquidity	--Year ended Dec. 31--				
	2022	2021	2020	2019	2018
(%)					
Core deposits/funding base	48.6	48.8	44.9	44.6	44.2

Table 6

Société Générale--Funding and liquidity (cont.)					
--Year ended Dec. 31--					
(%)	2022	2021	2020	2019	2018
Customer loans (net)/customer deposits	99.1	101.0	101.3	108.9	109.4
Long-term funding ratio	70.3	69.7	70.2	68.4	69.1
Stable funding ratio	108.0	102.1	110.4	97.7	100.3
Short-term wholesale funding/funding base	31.6	32.3	31.6	33.7	32.9
Regulatory net stable funding ratio	113.6	110.4	N/A	N/A	N/A
Broad liquid assets/short-term wholesale funding (x)	1.5	1.4	1.5	1.2	1.3
Broad liquid assets/total assets	33.6	30.3	31.7	27.2	29.2
Broad liquid assets/customer deposits	99.9	91.9	106.6	93.3	99.1
Net broad liquid assets/short-term customer deposits	36.5	27.0	38.0	19.0	27.9
Regulatory liquidity coverage ratio (LCR) (x)	141.4	129.0	N/A	N/A	N/A
Short-term wholesale funding/total wholesale funding	60.5	62.1	56.5	59.9	58.1
Narrow liquid assets/3-month wholesale funding (x)	2.1	1.6	2.0	1.5	1.7

N/A--Not applicable.

## Société Générale: Notching



## Key to notching

- Group stand-alone credit profile
- Issuer credit rating
- RC Resolution counterparty liabilities (senior secured debt)
- ALAC Additional loss-absorbing capacity buffer
- 1a Contractual subordination
- 1b Discretionary or mandatory nonpayment clause and whether the regulator classifies it as regulatory capital
- 1c Mandatory contingent capital clause or equivalent

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 2 of our "Hybrid Capital: Methodology And Assumptions" criteria, published on March 2, 2022.

AT1--Additional Tier 1. NDS--Non-deferrable subordinated debt.

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## Société Générale--Rating component scores

Issuer credit rating	A/Stable/A-1
SACP	bbb+
Anchor	bbb+
Economic risk	3
Industry risk	4
Business position	Adequate
Capital and earnings	Adequate
Risk position	Adequate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0
Support	+2
ALAC support	+2
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

## Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions , Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology , Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- ARCHIVE | General Criteria: Hybrid Capital: Methodology And Assumptions , July 1, 2019
- 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
- General Criteria: Guarantee Criteria , Oct. 21, 2016
- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011

## Related Research

- ESG Evaluation: Societe Generale S.A., Feb. 7, 2023

## Ratings Detail (As Of July 31, 2023)\*

**Societe Generale**

Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/-/A-1
Commercial Paper	
<i>Foreign Currency</i>	A/A-1
<i>Local Currency</i>	A-1
Junior Subordinated	BB
Junior Subordinated	BB+
Senior Subordinated	BBB
Senior Unsecured	A
Senior Unsecured	A-1
Subordinated	BBB-

**Issuer Credit Ratings History**

24-Jun-2021	A/Stable/A-1
15-May-2020	A/Negative/A-1
03-Apr-2020	A/Stable/A-1
23-Oct-2018	A/Positive/A-1

**Sovereign Rating**

France	AA/Negative/A-1+
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**Related Entities****ALD S.A.**

Issuer Credit Rating	A-/Stable/A-2
Senior Unsecured	A-
Short-Term Debt	A-2

**Komercni Banka A.S.**

Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/-/A-1

**SG Americas Securities LLC**

Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A/-/A-1

**Societe Generale Luxembourg S.A.**

Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/-/A-1

**Societe Generale (New York Branch)**

Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/-/A-1

**Societe Generale SCF**

Senior Secured	AAA/Stable
Short-Term Secured Debt	A-1+

**Societe Generale (Sydney Branch)**

Senior Unsecured	A
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## Ratings Detail (As Of July 31, 2023)\*(cont.)

**Societe Generale, Taipei Branch**

Issuer Credit Rating

*Taiwan National Scale*

twAA+/Stable/twA-1+

**Sogecap S.A.**

Financial Strength Rating

*Local Currency*

BBB+/Stable/--

Issuer Credit Rating

*Local Currency*

BBB+/Stable/--

Subordinated

BBB-

\*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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