

Waarborgfonds Sociale Woningbouw

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Waarborgfonds Sociale Woningbouw

Major Rating Factors

Strengths:

- Our view of "almost certain" likelihood that the State of the Netherlands and the Dutch municipalities would provide timely and sufficient extraordinary support in times of stress.
- Very strong ongoing government support for the social housing sector, including the obligation of the Dutch central government and municipalities to ensure that WSW does not suffer cash deficits at any time.
- Extremely strong operating performance and continued strong demand for WSW services.

Issuer Credit Rating

AAA/Stable/--

Weaknesses:

- Continued uncertainty surrounding definitions of eligible activities with respect to State Aid which affects the volume of business that WSW can underwrite.
- Uncertainty regarding the implementation of the New Housing Act and the powers of the Housing Authority that will replace the Central Fund.

Rationale

The rating on Waarborgfonds Sociale Woningbouw (WSW) is equalized with that on the State of The Netherlands (AAA/Stable/A-1+), reflecting Standard & Poor's Ratings Services' view of an "almost certain" likelihood that the government would provide timely and sufficient extraordinary support to WSW in the event of financial distress. The stand-alone credit profile of WSW is high investment grade.

WSW is a not-for-profit private foundation which guarantees loans provided by lenders to Dutch social housing associations. This helps keep the cost of funding low for housing associations, enabling them to invest more in social housing provision.

In accordance with our criteria for government-related entities (GREs), our view of "almost certain" likelihood of extraordinary government support is based on our assessment of WSW's:

- "Critical" role based on our view that its main purpose is to indirectly provide a key public service by keeping funding costs of housing associations at a minimum. We also believe that this role could not be readily undertaken by another private entity.
- "Integral" link with the Dutch government, demonstrated by its policy and agreement to provide support to this GRE and our view that this GRE, in providing an indirect public service, has a special public status. We are also guided by the fact that WSW is required to submit its strategy and budgets to the government annually and we expect this to continue in the long run.

Besides the likelihood of extraordinary support in times of stress, the rating also reflects the very strong three-tier security structure available to WSW. First, it benefits from housing associations' generally strong creditworthiness and ability to service debt, and, when required, from the support housing associations can receive from the Centraal

Fonds Volkshuisvesting (Central Fund), an entity set up by the central government. The second tier of support comes from WSW's own risk capital and callable committed capital from the associations. Third, the Dutch central government and municipalities, as backstop guarantors, are obliged to provide interest-free loans to WSW when its capital falls below a certain limit. The government and the municipalities have also undertaken to ensure that WSW does not suffer from cash flow deficits at any time.

The rating on WSW is also supported by the extremely strong operational performance and continued strong demand for its services with about €15.1 billion of new business written in 2010, as associations take advantage of the low interest rates that prevail. Demand for social housing remains very strong, ultimately fuelling housing associations' demand for WSW services.

In contrast to these positive influences, the housing sector as a whole faces several uncertainties, which can ultimately hamper the associations' credit profiles, which WSW depends on. First, while ministers still debate which social and nonsocial housing activities are eligible for state aid, a temporary decree is in place since Jan. 1, 2011. Among other things, the temporary decree states that associations must now ensure that 90% of dwellings are provided to families with an income of less than €33,000 per year. We understand that noncompliance with the decree could result in penalties for the association, for example, excluding it from working on certain projects. This could eventually prevent WSW from providing guarantees to any future projects undertaken by the concerned association.

Second, the terms of the New Housing Act are still under discussion. Positively, there are discussions to set up a Housing Authority which will replace the Central Fund and bestow more powers on the Authority to regulate the sector. This Authority is expected to be responsible for financial supervision of the sector and ensure that State Aid rules are followed. We consider this will be positive for the sector once it is enshrined in law. In the meantime, however, we consider these delays are causing uncertainty within the sector.

Outlook

The stable outlook reflects our opinion that there will be no deterioration in the likelihood of extraordinary support from the government in times of stress. We also believe that there will be no significant shifts in WSW's proven ability to monitor housing associations and to take immediate action as and when required, or any significant deterioration in the financial profile of housing associations.

Our downside scenario, which is a significant weakening of government support that could arise from a change in the current legal agreements or the setting up of a competitor by the government, could lead us to revise our opinion of the likelihood of timely and sufficient extraordinary support in times of stress, and may lead to a downgrade. We do not believe that this is likely at this time, however.

Government Support And Application Of GRE Methodology

In accordance with our criteria for GREs (see "Related Criteria And Research"), our view of a "almost certain" likelihood of timely and sufficient extraordinary government support in times of stress is based on our assessment of WSW's "critical" role and "integral" link to the Dutch government. We have also had discussions with the Ministry of the Interior and Kingdom Relations, which has informed our judgment.

In our opinion, WSW plays a critical role in providing a key service which cannot be easily provided by another private sector entity. WSW aims to keep funding costs to a minimum for housing associations that are key to delivering the housing policy mandate for the Dutch government. Although WSW is an independent foundation, it has a long history of working closely with the Central Fund, the Ministry of Finance, and the Ministry of the Interior and Kingdom Relations (formerly Ministry of Housing, Spatial Planning and the Environment), which is responsible for social housing in The Netherlands. This critical role is further demonstrated by the central role that WSW plays in helping housing associations fund their operations successfully and thereby helping the government in its implementation of key national social housing policy. Further, the central government and municipalities have agreed to provide interest free loans to WSW, if its capital falls below a certain level. We also believe that a default by this GRE could eventually raise the cost of funding for all housing associations, and this could eventually reduce investment in the housing sector. In our conversations with the government in May 2011, the government asserted the importance of WSW's role and re-iterated its intention to support the organization, if and when required.

Despite being an independent private foundation, our view of the integral link between WSW and the Dutch government is driven by the extremely strong backstop agreement that is in place, and which evidences its intention to provide timely credit support in all circumstances. As a result, although the government does not have any representation on WSW's board, it is able to exercise control over WSW's operations by requiring certain information be provided on a regular basis and by providing approvals for certain resolutions taken by the executive board. WSW needs to provide budget and cash flow forecasts annually to the central government. Further executive board resolutions relating to amendments to WSW's constitution, adoptions of the investment policy, or resolutions regarding the setting of discount fee rates need to be approved by the central government and the association of Dutch municipalities.

Business Description

Created in 1983 by the Federation of Dutch Housing Associations, WSW is a not-for-profit private foundation set up to guarantee the debt of Dutch social housing providers taken to fund social housing projects. From 1994, its guarantees have been extended to cover many of the housing association liabilities previously guaranteed directly by both central and local governments and referred to as "indemnified loans". Today, WSW guarantees the loan obligations of 96% of Dutch housing associations (387 of a total of 401 associations), a proportion that is expected to increase further. The value of its guaranteed portfolio stands at €85.3 billion at December 2010 (€75.8 billion in 2009; a figure that is forecast to increase to about €99 billion by 2015). Loans guaranteed to the top-10 associations amount to about €22.13 billion or about 26% of the portfolio. This concentration does not cause immediate concern for us as WSW has demonstrated a proven ability to manage its portfolio and take quick and decisive action when needed.

Business Performance

Despite the uncertainty surrounding definitions of permitted activities within the envelop of State Aid and the ongoing discussions on expected amendments to the Housing Act, in 2010 WSW provided €15.1 billion of new guarantees, compared with €9.8 billion in 2009. Some of this business is directly linked to the refinancing of loans that were originally guaranteed by municipalities ("indemnified loans"). Housing associations have also taken advantage of low interest rates to build up funding resources. As liquidity in the bank markets improved in 2010,

associations have also been able to extend the average maturity of loans to seven years from about five. Credit spreads have declined to about 53 basis points down from 61 and spreads on interest rate swaps have also reduced. This tightening of credit spreads reduces the stress on WSW, as interest costs that are guaranteed each year also come down. However, bullet loans remain the favored option, increasing WSW's exposure to the refinancing risk faced by associations, when compared with the risk faced by WSW if all loans were amortizing.

WSW guaranteed about 96% of the total borrowing of Dutch housing associations in 2010. Looking forward, WSW expects to guarantee a further €40.4 billion between 2011 and 2016, and €26.7 billion of this will relate to refinancing. In 2011, annual interest payments that are guaranteed amount to €3.5 billion while refinancing amounts to a further €6 billion.

WSW is dependent on the strength of housing associations to service their own debt, so that it can avoid calls to honor its obligations. Although the temporary rules governing the definition of State Aid have been in force since Jan. 1, 2011, some uncertainty persists, which in our view could impact strategic decisions taken by housing associations, in turn affecting WSW's business. Further government measures, for example, capping rents to inflation for a large proportion of the association's rental portfolio and charging associations for the benefit they gain through the guarantee, could result in additional pressure on association cash flows. This could also increase the likelihood of a call on WSW's guarantee.

During 2010, it has become apparent that while under State Aid rules the threshold set for dwellers whose rent is capped by increases in inflation is €33,000, under the coalition agreement this threshold is set at €43,000. In our view, this could mean that associations lose the ability to earn more income from those dwellings where the family income is between €33,000-€43,000, which could be a disadvantage for those associations. In addition, the new Dutch parliament has insisted that the housing sector contribute €600 million in order to decrease spending and reduce the pressure on public funds. In our view, this is another drain on cash flow, which also increases the likelihood of a call on WSW's guarantee.

WSW's revenue comprises fees paid by participating housing associations and returns from the investments that it holds. The fees and investments help maintain WSW's capital base and supports the level of risk capital. While fee income has declined in recent years, investment income has generally risen. However, the market remains volatile and we expect to see continued volatility in investment income in the short term. Expenditure levels remain broadly stable and net profits continue to support the capital base, which is positive. From 2008, WSW has been liable for corporation tax. While returns have now been filed with the relevant authorities, it remains to be seen what the final tax liability will actually be.

Table 1

Waarborgfonds Sociale Woningbouw Financial Statistics, 2004-2015f												
(Mil. €)	2015f	2014f	2013f	2012f	2011f	2010	2009	2008	2007	2006	2005	2004
Profit and loss account												
Contributions from participants	19.4	17.2	14.9	12.5	9.7	9.2	7.0	6	14	22	20	18
Results on investments	23.2	22.1	21.0	20.1	20.1	6.4	26.0	32	9	1	19	26
Expenditures	10.2	10.0	9.7	9.6	9.4	8.9	9.4	9	7	7	7	8
Result for the year	32.4	29.3	26.2	23.0	20.4	6.7	23.6	29	16	17	28	35
Balance sheet												
Long term investments	602	569	540	513	490	465	462	440	404	371	380	349

Table 1

Waarborgfonds Sociale Woningbouw Financial Statistics, 2004-2015f (cont.)												
Current assets and cash	12	12	12	13	13	16	13	12	19	37	13	13
Fixed assets	1	1	1	1	1	2	1	1	2	1	1	1
Current liabilities	1	1	1	1	1	1	0	1	1	2	3	1
Capital	614	581	552	526	503	482	476	452	423	407	391	362

f--Forecast. Numbers are rounded.

Peer Analysis

WSW does not have a rated peer that it can be compared with. We have therefore chosen to compare it with two other entities where we also believe that the likelihood of extraordinary support in times of financial stress is "almost certain". These entities are Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO) and Export-Import Bank of Korea (KEXIM). As such, the ratings on these entities are equalized with those on their respective sovereign.

In all cases, we believe that the role of the respective governments is critical. In the case of WSW, we believe that by ensuring that housing associations can raise funds at lower-than-market rates, it indirectly allows them to fulfill key economic and public policy objectives for the government. We consider FMO's role as critical as the Dutch government uses it to promote private sector growth in developing countries. Finally, KEXIM is Korea's legally mandated credit agency.

Although WSW is a private foundation, we understand that its agreements with the central government and the municipalities will help to prevent cash flow deficits. In addition, we understand from discussions with the government that it will support WSW in all circumstances. In the case of FMO and KEXIM, both are fully owned by their respective governments. FMO, however, has very specific legal protections while KEXIM receives capital injections and increases in its paid-in capital that support our view of the integral link to the Korean government.

Table 2

Peer Comparison			
Issuer Name	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.	Waarborgfonds Sociale Woningbouw	Export-Import Bank of Korea
Sector of activity	Financials	Financials	Financials
Key line of Business	Providing finance to private companies in the Developing world	Providing guarantees to lenders of housing associations in the Netherlands	Korea's export credit agency
Related Government	State of The Netherlands	State of The Netherlands	Republic of Korea
Country	Netherlands	Netherlands	South Korea
Role	Critical	Critical	Critical
Link	Integral	Integral	Integral
Likelihood of Support	Almost Certain	Almost Certain	Almost Certain
Rating*	AAA/Stable/A-1+	AAA/Stable/--	A/Stable/A-1¶

*At June 17, 2011. ¶Foreign currency rating.

Security Framework For WSW

The three-tier security support structure of WSW

To ensure that WSW can honor its obligations, there are three tiers of support that are available to it. First, if a housing association is in serious financial difficulty and the problem is structural rather than an issue with liquidity, the Central Fund for Social Housing will be expected to provide timely financial support. The Central Fund is a public body and acts on behalf of the Dutch Ministry of the Interior and Kingdom Relations, which in turn is responsible for Social Housing. Further, the housing associations have capital and assets that may be sold to repay any short-term liquidity loans that WSW may provide.

Second, WSW has its own risk capital comprising net fees and investments amounting to €482.4 million (as at December 2010). If this should be insufficient and additional capital is required, WSW can call on the associations to contribute additional capital, up to the level that the participating association has committed to pay, which is generally up to 3.85% of their current outstanding debt. WSW will call for the additional capital to be paid if the fund's own capital falls to less than 0.25% of the total guaranteed capital. Thus, in theory, about €3.2 billion can be made available, if required, based on guaranteed obligations as at December 2010. However, we believe this amount would take time to gather.

The third and final tier of support for WSW is provided by the two backstop agreements--one, signed between the central government and WSW, and the second signed by the municipalities and WSW. If WSW's capital remains at less than 0.25% of total guaranteed obligations, after the participants' committed capital contributions have been called and collected the central government and the municipalities are contractually bound to contribute equally to provide interest-free loans to WSW to meet this capital requirement. The backstop guarantee is an ongoing agreement that requires no reconfirmation. A central government decision to terminate the guarantee would only affect new loans after that decision (and after a specified termination period).

While we believe that this support will be timely, due to technicalities involved there can be several days (up to 45 days) between the time when the request is made and before the loan must be provided. Regardless, we note that the government and the municipalities, as per their individual agreements with WSW, have agreed to ensure that WSW does not suffer any cash deficits at any time. Discussions with the Ministry of the Interior have also made it clear that they would view it as a slur on their reputation should WSW suffer cash deficits due to delays on their part.

The role of the central housing fund

The Central Fund, set up by the Dutch government in 1988, provides assistance to any housing association in financial difficulty and whose difficulties stem from structural rather than liquidity issues. Assistance may be via interest-free loans or lump-sum payments to help associations implement reorganization plans.

The Central Fund is itself funded by mandatory fees paid by housing associations. It is responsible for the financial supervision of the housing sector and individual housing associations, and, according to recent indications, with the Dutch parliament; there are moves to designate it as a housing authority with wide powers to ensure the financial stability of these associations. This financial monitoring is intended to provide a warning system for the Ministry of the Interior and Kingdom Relations, which has the power to act on the advice of the Central Fund in cases of financial distress, including the ability to replace board members and appoint interim managers to a troubled association.

In 2010, no association has been referred to the Central fund.

Creditworthiness of Dutch municipalities

The statutory and institutional framework that regulates the interaction between the central government and municipalities results in high credit quality for Dutch municipalities. We consider that the local government sector in The Netherlands benefits from the stable and supportive financial and legal framework that has been established by the central government. This is likely to be reflected in high investment-grade ratings for most of the sector.

Dutch municipalities have a wide range of responsibilities under the Social Support Act that came into force in 2007. We believe that there will be adequate financing and sufficient support provided to municipalities to fulfill their obligations and to provide interest-free loans when required to prevent WSW from suffering cash flow deficits.

Risk Management

WSW has a good framework against which it identifies and manages the risks in its daily operations. These risks are divided into four types: Strategic, credit, investment, and operating. Identification and management of these risks is crucial to its existence and WSW has a proven ability in this area.

Strategic risk is identified as the risk that could detract WSW from achieving its mission. To ensure that WSW can deliver on its mission, it manages its relationships with its backstop providers and continues to ensure that it will work within the boundaries of the State Aid directive. At all times WSW seeks to protect its reputation and ensure that the business it writes will also be supported by the backstop providers. Managing its strategic risk has taken precedence in the last year, with the EU decision that designated WSW's guarantee as State Aid, and the detail of the Housing Act, which could eventually strain housing association resources and therefore increase the likelihood of guarantees being called.

Credit risk, which we believe is well managed, is a crucial part of its activity. Insufficient monitoring can result in unexpected calls for WSW to honor its obligations. As a significant number of loans have bullet maturities, should there be an unexpected default, the amount required to honor an obligation could be quite large. WSW focuses on cash flow analysis and applies various stress tests which inform WSW's judgment on likely calls on the guarantees provided. So far, WSW has been extremely good and has been proactive at managing problem credits. The effectiveness of this system is illustrated by the fact that WSW has not had to make a single payment in respect of any loan guarantee that it has provided over its 25-year history.

If an association is deemed to be structurally weak or at risk, WSW will not issue any further guarantees and will refer the association to the Central Fund. No new associations were referred in 2010, and the association which was referred in 2009 has now merged with another association. WSW follows a system of monitoring its borrowers and places them in different categories between 1 (strongest) and 5 (weakest), depending on the credit risk assessed. There have been movements between categories in 2010: of the 398 participants, 46 were assigned a lower profile while 40 were assigned a higher profile in view of the improvement in their creditworthiness. WSW assesses creditworthiness by tracking cash flow performance very carefully and assessing the likelihood that an association will not be able to generate sufficient cash flows to service its debt. In its base-case assumptions, WSW assumes that an association will need to amortize 2% of its debt annually. In some cases, WSW has found that this will not be possible and pays special attention to those associations. This risk-based approach allows for more targeted risk management of the portfolio.

Table 3

Risk Profile Distribution Of Waarborgfonds Sociale Woningbouw Members, 2006-2010					
	2010	2009	2008	2007	2006
Monitoring profile 1	169	188	229	271	300
Monitoring profile 2	180	177	163	140	140
Monitoring profile 3	48	44	41	22	20
Monitoring profile 4	1	0		0	0
Monitoring profile 5	0	1		0	2
Total	398	410	433	433	462

WSW pays stringent attention to investment risk to protect the value of its risk capital, which needs to be available to honor its obligations at short notice. It pursues a conservative investment policy, where between 80% and 90% of assets must be available as security for cash advances and other capital needs to be held as cash or very liquid securities. WSW invests solely in fixed income securities and at December 2010 at least 49% were held in 'AAA' rated paper.

Finally, operational risk management is crucial to ensure that WSW is able to process all the data, monitor its portfolio, and process claims in a timely manner. It invests significant amounts in its business processes and monitors these closely.

Management And Governance

The Supervisory Board is responsible for supervising the work and policies pursued by the Executive Board, of which risk management forms an extremely important part. The supervisory board comprises five members. The chairman resigned during the year, after being appointed as a government minister. Two of the five members continue to be nominated by AEDES--the trade association for Dutch housing associations--and one member has been appointed by the Participants Council. The other two are publicly recruited, thus ensuring that there are a wide range of skills on the Supervisory Board. The close connection between WSW and housing associations is maintained via its links to AEDES. Further, the board encourages its executive to maintain close links with the Ministry of the Interior and Kingdom Relations, the associations of Netherlands municipalities, and the Central Fund.

WSW has also had a controller whose role was to report to the supervisory board and keep it informed of developments in the organization. Owing to differing opinions between the supervisory board and the controller, the controller's contract was terminated in 2010 and a new controller has now been appointed. At this time, we do not believe that this in itself will affect or has affected the credit quality of WSW.

The executive team remains largely the same, with Mr. Roland van der Post as chief executive. The team has been in place for several years now, providing what we view as excellent direction and stability.

WSW's Capitalization And Collateral Support

WSW's capital comprises the investments that it holds and the cumulative sum of the net profits that it generates each year. Its profits are mainly driven by fees and net gains made by the investment portfolio. This is also referred to as the risk capital and has generally been equal to about 0.65% of the guaranteed obligations over the past five

years (see table 3). WSW holds its capital base in a mixture of cash, liquid government securities, and other liquid investments. It is restricted to investing in fixed-income instruments with a rating of at least 'AA' when the security is purchased. While WSW's own capital remains low in absolute terms, we consider it to be of a sufficient level to reflect the low level of risk associated with the Dutch social housing sector. We also take comfort from WSW's ability to call capital from participants, and most importantly from the backstop mechanism from Dutch municipalities and the central government.

As at December 2010, WSW had risk capital of about €482.4 million and committed capital (callable from housing associations) of €3.2 billion to cover repayment commitments, as well as access to interest free loans from the government and municipalities in equal measure to ensure that it is able to meet its obligations.

Besides the fees that WSW charges, additional support is provided by the floating charge that WSW has over all property of the housing association for which it provides its guarantees. The security is in the form of a legal permission, granted by associations, to claim mortgage certificates if WSW needed them (a positive mortgage pledge in assets). Furthermore, associations also provide an undertaking not to pledge their own properties to other interested parties. In actual fact, the value of security that WSW holds far exceeds the value of the guaranteed obligations, standing at around €375 billion in 2010.

Table 4

Waarborgfonds Sociale Woningbouw Capitalization Structure, 2005-2013f									
	2013	2012f	2011f	2010	2009	2008	2007	2006	2005
Guaranteed loan obligations (Mil. €)	91,500	89,300	87,600	85,300	75,800	71,700	64,900	59,700	56,000
WSW risk capital (Mil. €)	552	526	503	482.4	475.7	452	423	407	390
Committed capital of participants (Mil. €)	3,523	3,438	3,373	3,284	2,918	2,760	2,498	2,224	2,026
Total capital (Mil. €)	4,075	3,964	3,876	3,766	3,369	3,212	2,921	2,631	2,416
Capital/ guaranteed loan obligations (%)	0.6	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7
Total capital/guaranteed loan obligations (%)	4.5	4.4	4.4	4.4	4.4	4.5	4.5	4.4	4.3

f--Forecast.

Related Criteria And Research

Enhanced Methodology And Assumptions For Rating Government-Related Entities, June 29, 2009

Ratings Detail (As Of June 24, 2011)*

Waarborgfonds Sociale Woningbouw

Issuer Credit Rating AAA/Stable/--

Issuer Credit Ratings History

02-Jun-1997 AAA/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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