STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Die Schweizerische Post AG

Primary Credit Analyst:
Salla von Steinaecker, Frankfurt +496933999164; salla.vonsteinaecker@standardandpoors.com

Secondary Contact:
Alois Strasser, Frankfurt (49) 69-33-999-240; alois.strasser@standardandpoors.com

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Die Schweizerische Post AG

Major Rating Factors

Counterparty Credit Rating
AA+/Stable/A-1+

Strengths:	Weaknesses:
• Legal mandate to provide national postal services and basic payment transaction infrastructure. • Very strong capitalization and strong earnings capacity. • Extremely high likelihood of extraordinary support for the group from the Swiss government.	• Narrow business model in financial services business due to restriction under Switzerland's postal law. • Structural decline in mail volumes combined with high fixed costs.

Outlook

Standard & Poor's Ratings Services' stable outlook on postal and financial services provider, Die Schweizerische Post AG (DSP), reflects that on its owner, the Swiss Confederation. DSP is the non-operating holding company (NOHC) of the Swiss Post group. The stable outlook also reflects our expectation that the Swiss Post group's very close links to the state, its ownership, and its mandate to provide key public services will not change in the foreseeable future. Moreover, the outlook reflects our view that the group will maintain a sound financial profile that is relatively resilient against increasing economic imbalances in Switzerland.

We regard core members of the Swiss Post group as government-related entities (GREs) with an "extremely high" likelihood of receiving extraordinary government support if needed, as Swiss Post group is operating essentially on behalf of the government and providing key public services to the Swiss population and it has a very strong and durable link with the Swiss government. Consequently, any change of group members' roles and links with the government could lead us to revise our assessment of their GRE status. This in turn could have negative rating implications for DSP as the group's NOHC. We consider such a scenario as remote, however.

We also view the likelihood of a positive rating action as remote at this stage.

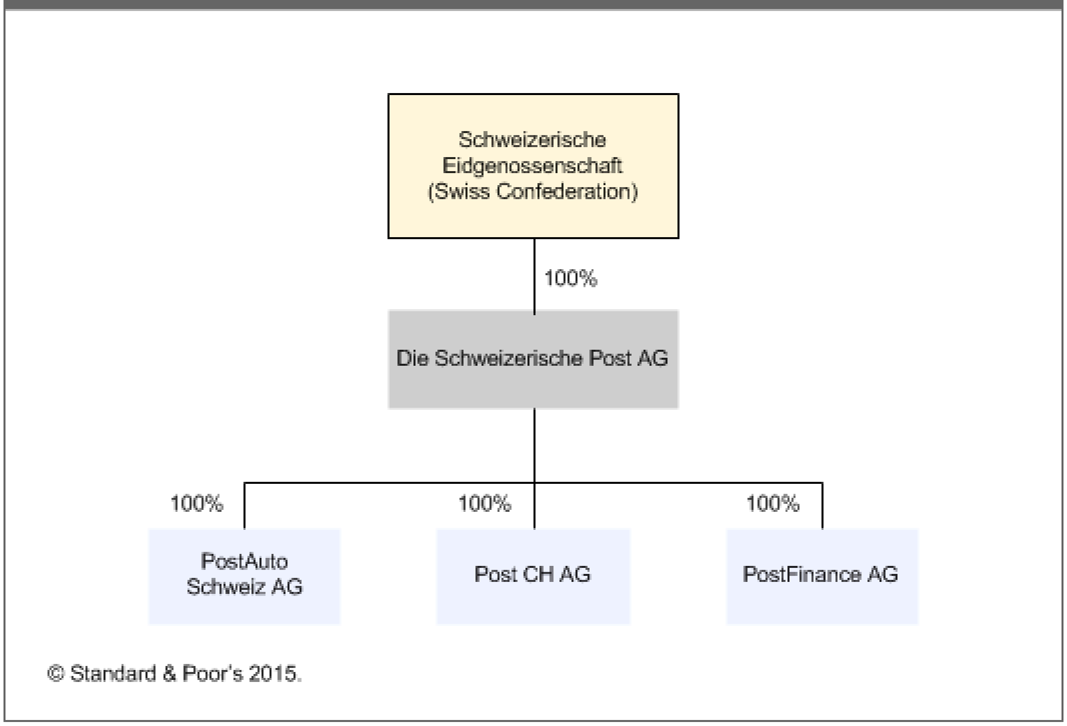
Rationale

We derive our issuer credit rating on DSP from the group credit profile (GCP). Our 'a+' unsupported GCP on the Swiss Post group, headed by DSP, stems from banking entity PostFinance AG's 'a-' anchor, the group's "adequate" business position, "very strong" capital and earnings, "moderate" risk position, "above average" funding and "strong" liquidity, as our banking criteria define these terms. The GCP is 'aa+' when we include the likelihood of support from the Swiss

Confederation (unsolicited ratings AAA/Stable/A-1+).

As of June 26, 2013, DSP's legal form changed to a special-law joint-stock company from that of a public-law institution. Simultaneously, the main operating divisions were legally segregated from DSP, which will remain their full owner. The Swiss Post group now comprises the holding company, DSP, and three main subsidiaries: PostFinance AG (financial services), Post CH AG (communication/logistic operations), and PostAuto AG (public passenger transport) (see chart 1).

Chart 1
Swiss Post Group Organization Structure



Although DSP is an NOHC, its probability of default is not materially different from that of the group's core operating subsidiaries, in our view. This is because we believe any extraordinary government support for core group members, such as PostFinance AG, would be supplied through DSP. Our view is supported by the current legal framework, under which DSP has an implicit financing agreement with the federal treasury that allows it to receive funding within very short notice if in distress. A capital injection would require approval from the Swiss parliament. We therefore don't consider DSP to be structurally subordinated to the operating entities.

As an NOHC, DSP relies on distributions from its operating subsidiaries, including dividend payments and license fees, to repay its outstanding debt (Swiss francs (CHF) 1.28 billion). The diversity of the Swiss Post group's activities supports our equalization of the rating on DSP with that on PostFinance, although PostFinance has been regulated by the Swiss Financial Market Supervisory Authority since June 2013.

We have used our bank rating methodology to determine the Swiss Post's group credit profile because the main subsidiary--PostFinance AG--is a major deposit-taking institution in Switzerland and dominates the group's balance sheet and profitability (95% and 49%, respectively as of Sept. 2014). Nevertheless, we include the group's corporate activities into our overall assessment.

Anchor: 'a-' to reflect exposures in PostFinance's investment portfolio

Our bank criteria use our Banking Industry Country Risk Assessment (BICRA) economic and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. The anchor for a commercial bank operating only in Switzerland is 'a-'.

Our 'a-' anchor for Swiss Post group draws on our BICRA methodology and our view of the weighted-average economic risk in countries PostFinance is exposed to through its large investment portfolio. About 30% of the portfolio relates to countries with comparatively higher economic risk than Switzerland. Therefore, the anchor for PostFinance is sensitive to an increase of exposures in such countries.

The Swiss banking industry is supported by its sizable and very stable customer deposit base. Pure domestic Swiss banks have not loosened credit standards in recent years, thanks to sound earnings potential from core products. We consider regulatory standards to be more stringent than in other developed countries.

Table 1

Die Schweizerische Post AG Key Figures					
	--Year-ended Dec. 31--				
	2014*	**2013**	**2012**	**2011**	**2010**
(Mil. CHF)					
Adjusted assets	124,981.0	120,032.0	119,716.0	107,958.0	93,021.0
Customer loans (gross)	13,740.0	10,018.0	8,732.0	8,823.0	8,086.0
Adjusted common equity	5,350.0	5,076.0	2,145.5	2,478.0	2,563.9
Operating revenues	3,938.0	7,926.0	7,984.0	7,966.0	8,075.0
Noninterest expenses	3,480.0	6,816.0	7,106.0	6,963.0	7,117.0
Core earnings	370.0	1,751.0	862.8	899.1	908.1

*Data as of June 30. CHF--CHF-Swiss Franc. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Business position: Sound market position as the nation's postal provider and leading deposit-taking institution.

We regard the Swiss Post group's business position as "adequate" as we expect the very stable business generation and its position as the legally mandated provider of postal, financial, and payment services through the post office network in Switzerland to remain unchanged for the time being.

DSP is the incumbent postal operator in Switzerland. It has a dense branch network and its revenues totaled about CHF6.18 billion in the first nine months of 2014, compared with CHF8.6 billion in the full year 2013. DSP's assets totaled CHF124 billion as of September 30, 2014, and it is the second largest employer in Switzerland with slightly more than 44,600 employees (full-time equivalents).

DSP's banking subsidiary PostFinance is one of the country's largest retail banks. As of Sept. 30, 2014, it had total assets of CHF118 billion, and about 2.9 million retail and business clients. PostFinance has a legal mandate to provide basic services for payment transactions in Switzerland according to Swiss postal law, which we expect will continue over the medium term. We expect the bank to build on its leading position in domestic payment transactions; it is effectively party to two-thirds of non-cash payments in Switzerland with more than 965 million transactions annually. The banking operations should, in our view, further benefit from very strong customer confidence, shown by high client penetration, especially in retail and business customers, and its solid market share in domestic customer deposits (estimated at 14%) as demonstrated by the customer asset inflow in the first nine months of 2014. However, Swiss postal law prohibits PostFinance from lending; therefore it invests its excess liquidity at the Swiss National Bank (SNB) and in the international capital markets. We do not expect this restriction to change any time soon. As we understand, PostFinance has no intention to expand its business outside Switzerland (apart from payment services).

Swiss Post's nonbanking activities contributed 78% of its revenues and 51% of its operating profit as of Sept. 30, 2014, providing positive revenue diversification, in our view. These activities are supported by Swiss Post's strong competitive position as Switzerland's national postal provider, and the profitability and favorable growth prospects of the logistics business. Swiss Post's market leading position is also supported by Switzerland's conservative market liberalization policy compared with that in other EU countries. We do not expect any significant competitor to enter the market over the next few years. Furthermore, we view as positive Swiss Post's business diversification and granular customer base, which allows it to maximize the use of its large distribution network. We consider that regulatory or legislative changes pose the key risk for the group's business stability, although we do not expect such a scenario over the medium term.

The group's strengths are somewhat mitigated by structurally declining mail volumes and the high fixed costs of maintaining the postal branch network which will translate into decreasing revenues from the non-banking activities. Furthermore, geographic revenue diversification remains low, with 90% generated domestically. We believe that the fairly stable cash flows from the mail business will erode over time which Swiss Post will not be able to fully compensate with income from the logistics business. In addition, we view Swiss Post's operating structure as fairly inflexible, hampering its declining profitability (operating margins are forecast to decline to 4%-5% by 2016 from 5.4% in 2013). We note, however, that the company is implementing restructuring measures to gradually improve operating efficiency.

We consider DSP's management and strategy to be prudent, led by the public mandate. The financial targets set by the Swiss Federal Council guarantee sustainable profitability and, in our view, are not overly ambitious. The legal restructuring has laid a foundation for a more modern group, regulated by competent authorities which we consider essential in light of the evolving postal market and strong growth of the retail bank's activities over the past five years.

Table 2

Die Schweizerische Post AG Business Position					
	--Year-ended Dec. 31--				
	2014*	**2013**	**2012**	**2011**	**2010**
(%)					
Total revenues from business line (mil. CHF)	3,938.0	7,926.0	7,993.0	7,971.0	8,077.0
Commercial & retail banking/total revenues from business line	N/A	29.1	29.3	30.6	N/A
Other revenues/total revenues from business line	100.0	70.9	70.7	69.4	100.0

Table 2

Die Schweizerische Post AG Business Position (cont.)					
Return on equity	13.5	31.1	16.4	19.9	23.5

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

Capital and earnings: Very strong capitalization and stable operating profitability

We view the Swiss Post group's capital and earnings as "very strong," primarily because our projected risk-adjusted capital (RAC) ratio for the group over the next 18-24 months is in the 16%-18% range, compared with 16.8% as of Dec. 31, 2013.

The main factors for Swiss Post group's risk-weighted assets (RWA), according to our criteria, are credit risk in PostFinance's large investment portfolio (32% of Standard & Poor's RWA figure) and operational risk (50% of Standard & Poor's RWA), mainly in the nonbanking business lines, based on their large revenue contribution.

Furthermore, we consider the Swiss Post group's quality of capital--consisting of paid-in capital and reserves--to be very strong. We understand that the group manages the capital at the holding level i.e. excess capital will be held by DSP. The group operations are self-financed and the priority of DSP is in repaying the existing external funding out of dividends and cash flow from operating subsidiaries. The group's earnings quality is, in our view, also very strong, reflecting the high share of stable net interest and net commission income from the financial services business and the relatively robust revenues from the non-banking activities.

We believe the Swiss Post group's earnings will remain stronger than the industry average, despite likely subdued profitability at the postal operations. We forecast pretax profits of CHF750 million-CHF800 million annually in 2015-2016. We estimate that the group's three-year average earnings buffer will be above 200 basis points (bps), which indicates that its earnings have a very strong capacity to cover normalized losses. However, we believe operating efficiency will remain weak, based on our projected cost-to-income ratio of 85bps-90bps which is not directly comparable with other Swiss financial institutions due to the cost-demanding postal and logistic operations of Swiss Post group.

Table 3

Die Schweizerische Post AG Capital And Earnings					
	--Year-ended Dec. 31--				
	2014*	**2013**	**2012**	**2011**	**2010**
(%)					
Tier 1 capital ratio	N/A	N/A	N/A	N/A	N/A
S&P RAC ratio before diversification	N.M.	16.8	7.6	N.M.	N.M.
S&P RAC ratio after diversification	N.M.	17.8	8.1	N.M.	N.M.
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	0.0	12.5	13.1	14.1	13.3
Fee income/operating revenues	N/A	7.1	6.8	6.9	6.5
Market-sensitive income/operating revenues	N/A	2.3	2.1	1.8	1.5
Noninterest expenses/operating revenues	88.4	86.0	89.0	87.4	88.1
Preprovision operating income/average assets	0.7	0.9	0.8	1.0	1.1
Core earnings/average managed assets	0.6	1.5	0.8	0.9	1.0

Table 3

Die Schweizerische Post AG Capital And Earnings (cont.)

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

Table 4

Die Schweizerische Post AG RACF [Risk-Adjusted Capital Framework] Data					
	Exposure*	**Basel II RWA**	**Average Basel II RW (%)**	**Standard & Poor's RWA**	**Average Standard & Poor's RW (%)**
Credit risk					
Government and central banks	35,816,870,603	0	0	2,184,646,799	6
Institutions	25,837,367,256	0	0	3,168,045,557	12
Corporate	2,973,067,806	0	0	1,934,739,376	65
Retail	0	0	0	0	0
Of which mortgage	0	0	0	0	0
Securitization	24,000,000	0	0	4,800,000	20
Other assets	2,470,000,000	0	0	2,223,000,000	90
Total credit risk	67,121,305,665	0	0	9,515,231,732	14
Market risk					
Equity in the banking book¶	897,400,000	0	0	5,663,625,000	631
Trading book market risk	--	0	--	0	--
Total market risk	--	0	--	5,663,625,000	--
Insurance risk					
Total insurance risk	--	--	--	0	--
Operational risk					
Total operational risk	--	0	--	14,970,000,000	--
		Basel II RWA		**Standard & Poor's RWA**	**% of Standard & Poor's RWA**
Diversification adjustments					
RWA before diversification		0		30,148,856,732	100
Total adjustments to RWA		--		(1,619,992,399)	(5)
RWA after diversification		0		28,528,864,334	95
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**Standard & Poor's RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		0	0.0	5,076,000,000	16.8
Capital ratio after adjustments§		0	0.0	5,076,000,000	17.8

*Exposure at default. € Securitisation Exposure includes the securitisation tranches deducted from capital in the regulatory framework. ¶Exposure and Standard & Poor's 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. CHF--Swiss Franc. Sources: Company data as of Dec. 31, 2013, Standard & Poor's.

Risk position: Operational risks in nonbank activities and concentration risks in PostFinance's large investment portfolio

We consider the Swiss Post group's overall risk position as "moderate," mainly reflecting the single-name and sector concentrations in PostFinance's investment portfolio. In addition, although we incorporate the nonbanking activities in our RAC ratio, we consider that our RAC framework can't fully capture the risks in these operations.

PostFinance is not permitted to lend, according to Swiss postal law. Consequently, it invests most of its excess liquidity in the international capital markets or places it with the central bank. PostFinance's investments totaled almost CHF70 billion as of June 30, 2014, and comprised covered bonds and public-sector bonds of high credit quality: 57% rated 'AAA' and 96% at least 'A'. We expect PostFinance to maintain its conservative investment rules (also with anticipated increased investment activity in 2015) which, in our view, will continue to be reflected in the good quality of the portfolio, despite risks from high single-name and sector exposures. It should be noted that PostFinance records more than 90% of its financial assets as "held to maturity," which reduces reported earnings volatility. PostFinance has no trading book, but is marginally exposed to market risk from foreign currency positions in international payment transactions.

The Swiss Post group's large pension deficit, which is vulnerable to interest rate movements, poses an additional risk for the group. However, Swiss Post started applying the revised International Accounting Standard No. 19 in 2013, so unrecognized actuarial losses will in future be recognized in the balance sheet under equity. This resulted in a retroactive negative equity adjustment of CHF2.5 billion as of Dec. 31, 2012.

Table 5

Die Schweizerische Post AG Risk Position					
	--Year-ended Dec. 31--				
	2014*	**2013**	**2012**	**2011**	**2010**
(%)					
Growth in customer loans	N.M.	14.7	(1.0)	9.1	27.8
Total diversification adjustment / S&P RWA before diversification	N.M.	(5.4)	(6.8)	N.M.	N.M.
Total managed assets/adjusted common equity (x)	23.4	23.7	55.9	43.7	36.4
New loan loss provisions/average customer loans	N.M.	(0.6)	(0.3)	1.0	0.3
Gross nonperforming assets/customer loans + other real estate owned	N/A	0.1	0.1	0.1	0.8
Loan loss reserves/gross nonperforming assets	N/A	185.7	133.3	81.8	30.8

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

Funding and Liquidity: One of the largest deposit-taking institutions in Switzerland, and with ample liquidity

We consider the Swiss Post group's funding "above average" and its liquidity position "strong", mainly reflecting PostFinance's operations and DSP's close ties to the Swiss government. Furthermore, we consider the nonbanking activities, which are based on cash flows, to be neutral to our funding and liquidity assessment. Consequently, our funding and liquidity metrics for the group, although outstanding compared with those of banks we rate globally, do not fully reflect the group's funding and liquidity profile.

With customer deposits in excess of CHF110 billion, the group is a cash provider in the domestic interbank market. Customer deposits comprise equal shares of granular and very stable retail and business accounts. The group doesn't rely on wholesale funding and so far has a limited amount of debt at holding company level (CHF1.28 billion). We therefore expect our stable funding ratio to remain superior to 350% in 2015-16 compared with 380% as of June 30, 2014 (PostFinance stood at 650% as of June 30, 2014).

Since midyear 2011, Swiss Post group's retail finance segment has been placing excess liquidity with the SNB, where it now holds a liquidity buffer of more than CHF40 billion. We do not expect a significant reduction in PostFinance's liquidity position at the SNB in the short term, despite the negative interest on sight deposits at the SNB and the anticipated increase in its investment activity in the capital market, under its conservative policy. In addition, the group has a substantial portfolio of assets eligible for sale-and-repurchase transactions with the SNB, access to bank lines, and a financing agreement with the federal treasury. We therefore consider the group able to continue operating for more than 12 months in the event of sudden customer withdrawals at PostFinance, without resorting to the debt capital markets.

Table 6

Die Schweizerische Post AG Funding And Liquidity

	--Year-ended Dec. 31--				
	2014*	**2013**	**2012**	**2011**	**2010**
(%)					
Core deposits/funding base	97.7	98.8	98.8	100.0	99.6
Customer loans (net)/customer deposits	12.2	9.2	7.9	8.8	9.4
Long term funding ratio	100.0	100.0	100.0	100.0	99.7
Stable funding ratio	380.8	422.7	487.8	446.1	394.7
Short-term wholesale funding/funding base	0.0	0.0	0.0	0.0	0.4
Broad liquid assets/short-term wholesale funding (x)	N.M.	3,086.0	2,390.2	10,528.7	226.9
Net broad liquid assets/short-term customer deposits	83.4	85.0	86.6	83.9	81.9
Short-term wholesale funding/total wholesale funding	0.0	2.3	3.0	100.0	99.7

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

External support: Swiss Post group benefits from extraordinary government support

Because DSP is an NOHC we do not assess its stand-alone credit profile; rather, we derive the ratings on DSP from the Swiss Post group's GCP, including potential government support. The supported GCP of 'aa+' mainly reflects the operations of PostFinance, which we regard as a government-related entity. The GCP is three notches higher than the unsupported GCP of 'a+' because of our view of an "extremely high likelihood" of government support for the core subsidiaries in the event of stress.

We equalize the ratings on DSP with the supported GCP because, in our view, the probability of default of DSP--the parent and holding company--is the same as that of the core operating companies. This follows our understanding that any potential financial support from the Swiss government will likely be directed to DSP instead of to the subsidiaries, in accordance with the legal framework in place. DSP would then allocate such support to its operating subsidiaries, as necessary.

The Swiss Confederation is DSP's sole owner, and DSP reports quarterly to the government, who also appoints its management and supervisory boards. Two regulatory boards supervise the company's adherence to its public service mandate. We regard the possibility of a full or even partial privatization of DSP as very remote in the medium term.

Additional rating factors: None

No other factors affect the ratings.

Related Criteria And Research

Related Criteria

- Group Rating Methodology, Nov. 19, 2013
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Principles of Credit Ratings, Feb. 16, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

Related Research

- Banking Industry Country Risk Assessment Update, Feb. 6, 2015
- PostFinance AG, Jan. 30, 2015
- Banking Industry Country Risk Assessment: Switzerland, Jan. 7, 2015
- Various Ratings Actions On Swiss Banking Groups On Rising Economic Imbalances, Dec. 1, 2014
- Swiss Confederation ‘AAA/A-1+’ Ratings Affirmed; Outlook Stable, Nov. 21, 2014
- Outlook Revised To Stable On Switzerland's Die Schweizerische Post AG; 'AA+/A-1+' Ratings Affirmed, June 28, 2013
- Swiss Confederation, Feb. 20, 2013

Ratings Detail (As Of February 27, 2015)	
Die Schweizerische Post AG	
Counterparty Credit Rating	AA+/Stable/A-1+
Counterparty Credit Ratings History	
28-Jun-2013	AA+/Stable/A-1+
21-Mar-2013	AA+/Negative/A-1+
Sovereign Rating	
Swiss Confederation	AAA/Stable/A-1+
Related Entities	
PostFinance AG	
Issuer Credit Rating	AA+/Stable/A-1+
Swiss Confederation	
Issuer Credit Rating	AAA/Stable/A-1+
Transfer & Convertibility Assessment	AAA

*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. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

Additional Contact:

Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com

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