

Transaction Update:

DZ HYP AG (Public Sector Covered Bond Program)

February 20, 2026

| | | | | | | | |
|--------------------------------|-------------|--|-------------|------------------------------------|-----|----------------------------|-----|
| Reference rating level | aa | Jurisdiction-supported rating level | aaa | Maximum achievable CB rating | aaa | Covered bond rating | |
| Resolution regime uplift | +2 | Assigned jurisdictional support uplift | +2 | Assigned collateral support uplift | 0 | AAA/Stable/A-1+ | |
| Systemic importance | Very Strong | Jurisdictional support assessment | Very Strong | Over-collateralization adjustment | 0 | Rating constraints | aaa |
| Resolution counterparty rating | N/A | | | Liquidity adjustment | 0 | Sovereign risk | aaa |
| Issuer credit rating | A+ | | | Potential collateral-based uplift | +4 | Counterparty risk | aaa |

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Credit Highlights

Overview

Key strengths

The high issuer credit rating (ICR) on DZ HYP AG (DZ HYP; A+/ Stable/A-1) allows for 'AAA' ratings based on the jurisdiction-supported rating level (JRL) and the coverage of the legal minimum overcollateralization (2%).

The required overcollateralization equivalent to the regulatory minimum, the mitigation of short-term refinancing risk, and an available overcollateralization above the target credit enhancement (TCE) allow for four notches of collateral uplift.

The program benefits from five unused notches of ratings uplift, comprising one notch of jurisdictional support and four notches of collateral support, that would protect the covered bond ratings if we were to lower the long-term ICR on DZ HYP.

Granular and high credit quality portfolio of predominantly German public sector assets.

The application of our updated covered bonds criteria allows the covered bonds to achieve 'AAA' ratings based on the JRL and the coverage of the legal minimum overcollateralization

(2%). This is below the required 5.6% coverage of 'AAA' credit risk in our previous analysis (see ["Methodology For Rating Covered Bonds,"](#) July 25, 2025).

Our updated covered bonds criteria had limited impact on our assessment of 'AAA' credit risk and TCE. Given the well-matched asset-liability maturity profile, the application of lower target and base-case asset spreads did not affect the TCE. At the same time, the removal of the commingling risk stress benefited to a small extent both 'AAA' credit risk and TCE which we determined as 3.74% and 6.31% respectively. Our collateral support analysis is based on cover pool data as of Sept. 30, 2025, and asset-liability cash flow projections as of Dec. 31, 2025. Since our previous review, the volume of outstanding covered bonds decreased by about 9% and the cover pool notional by about 2%, increasing the available overcollateralization to 25.3% as of Dec. 31, 2025. The cover pool composition has remained stable including predominantly exposures to German local and regional governments, and to a lesser extent, sovereign exposures as well as non-LRG exposures.

The program benefits from five unused notches of ratings uplift. We derive the starting point of our analysis from the long-term ICR on DZ HYP. The unused notches of ratings uplift protect the covered bond ratings if we were to lower the ICR on DZ HYP.

The economic risk trend for Germany's banking sector is stable. After three years of near-zero growth, we project a real GDP increase of 1.1% in 2026 and 1.6% in 2027, which could be supported by additional investments in infrastructure and defense production. This forecast is balanced against a backdrop of high geopolitical uncertainty and Germany's vulnerability to tariff impacts. Additionally, a key structural risk to Germany's long-term economic outlook includes an aging population, which is more pronounced than in most European countries and will therefore likely exacerbate skilled labor shortages and strain social security systems. Our stable economic risk trend signals our expectation that, in addition to Germany's economic resilience, robust corporate balance sheets, and capital buffers provide meaningful stability to German banks. Our economic risk assessment reflects the country's wealth and its ability to absorb large economic shocks and to adapt to structural challenges. Accordingly, our base-case scenario considers that German banks can navigate through risks to the country's export-led economic model, higher trade sensitivities, and an aging population (see ["Banking Industry Country Risk Assessment: Germany,"](#) Sept. 19, 2025).

Our trend for banking industry risks in Germany is stable. This reflects that German banks will likely remain behind peers in terms of structural profitability, despite materially improved earnings. We expect high competition to continue to weigh on the sector's longer-term profitability. We believe German banks operate in a highly competitive and structurally overbanked market and consider weaknesses in revenue diversification and digitalization while maintaining an outstanding strength in funding from deposits and covered bonds.

Outlook

S&P Global Ratings' stable outlook on DZ HYP's public sector covered bonds ("Öffentliche Pfandbriefe") reflects the cushion of five unused notches, comprising one notch of jurisdictional support and four notches of collateral-based support, that would protect the ratings on the covered bonds if we were to lower the long-term ICR on DZ HYP.

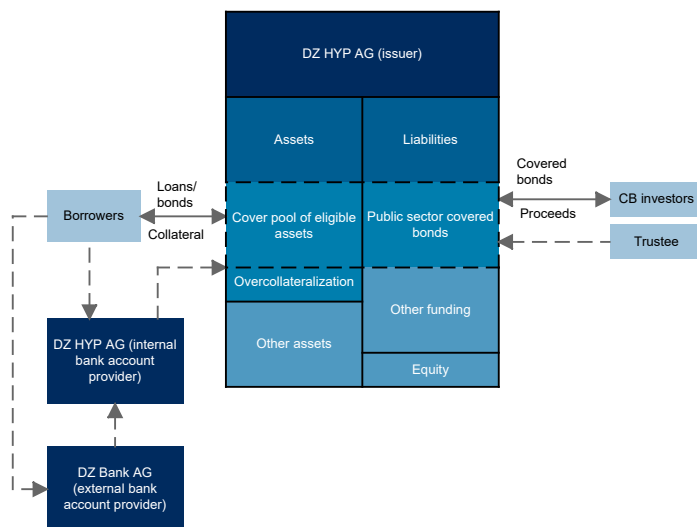
Program Description

DZ HYP AG (Public Sector Covered Bond Program)

DZ HYP is a majority-owned subsidiary of DZ BANK AG Deutsche Zentral-Genossenschaftsbank (DZ BANK) and a core member of the German cooperative banking sector. Its core activities are in commercial and residential real estate, and to a lesser extent public sector lending.

DZ HYP issues public sector covered bonds under Germany's covered bond legislation. The covered bonds are issued directly by the bank, and the cover pool assets are segregated from the issuer's remaining assets through entry in a cover pool register. Covered bond investors have recourse to DZ HYP and to a portfolio of public sector assets assigned to the cover pool as collateral.

Program structure



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Table 1

Program overview*

| | |
|---|--|
| Jurisdiction | Germany |
| Legal framework | German Covered Bond Act |
| Redemption profile | Hard bullet, extendable by up to 12 months subject to certain conditions |
| Underlying assets | Public sector assets |
| Outstanding covered bonds (bil. €) | 8.98 |
| Available credit enhancement (%) | 25.25 |
| Credit enhancement commensurate with current rating (%) | 2.00 |
| Legal overcollateralization (%) | 2.00 |
| Number of unused notches | 5 |

*As of Dec. 31, 2025.

Table 2

Program Participants

| Role | Name | Rating | Rating dependency |
|------------------|---|---------------|-------------------|
| Issuer | DZ HYP AG | A+/Stable/A-1 | Yes |
| Account provider | DZ HYP AG | A+/Stable/A-1 | No |
| Account provider | DZ Bank AG Deutsche Zentral-Genossenschaftsbank | A+/Stable/A-1 | No |

Our quarterly surveillance reports for this cover pool can be found [here](#).

Rating Analysis

Legal and regulatory risks

We base our legal risk analysis on our "[Asset Isolation And Special-Purpose Entity Methodology](#)," May 29, 2025.

The German Covered Bond Act (Pfandbriefgesetz; "PfandBG") and the relevant secondary legislation provide the legal framework for the issuance of German covered bonds ("Pfandbriefe"). We consider that the German covered bond legal framework satisfies the relevant legal aspects of our covered bonds criteria, specifically the cover pool assets' isolation from the issuer's bankruptcy or insolvency risk, so that covered bond payments continue on their scheduled dates (see "[Methodology For Rating Covered Bonds](#)," July 25, 2025). This allows us to rate the covered bonds above the long-term ICR on DZ HYP.

Covered bond investors have a preferential claim to a cover pool of assets. For public sector covered bonds, these assets may comprise exposures to state, regional, and local public sector authorities of EU/European Economic Area countries, as well as exposures to public sector entities in the U.K., Canada, the U.S., Japan, and Switzerland. Additionally, the cover pool can also comprise other eligible substitute assets.

According to the legal framework, the issuer must maintain overcollateralization of at least 2% on both nominal and a net present value basis for the outstanding covered bonds and ensure that 180 days of liquidity needs are always covered by liquid assets.

An independent trustee is responsible for monitoring the cover pool (cover pool monitor) until an independent cover pool administrator is appointed in case of the issuer's insolvency. BaFin, the German supervisory authority for financial institutions, appoints and supervises the cover pool monitor and cover pool administrator. It also regularly conducts a covered bond audit.

The cover pool administrator can extend all outstanding covered bonds' maturity, subject to certain conditions, including avoiding imminent insolvency of the ringfenced Pfandbriefe, confirming it is not overindebted, and having no reason to believe it will not be solvent when the extension period ends. In addition, the extension cannot affect the ranking of covered bond investors or invert the sequencing of the covered bond programs' original maturities.

Resolution regime analysis

Our analysis considers whether the applicable resolution regime in Germany increases the likelihood that the issuer will continue servicing its covered bonds even following a default on its senior unsecured obligations.

DZ HYP AG (Public Sector Covered Bond Program)

DZ HYP is domiciled in Germany, which is subject to the EU's Bank Recovery and Resolution Directive. We assess the systemic importance of German public sector covered bonds as very strong. Under our covered bonds criteria, we determine the reference rating level (RRL) as the greater of (i) two notches above the long-term ICR; and (ii) the resolution counterparty rating (RCR) on the issuing bank, where applicable. Given the 'A+' long-term ICR on DZ HYP and absent an assigned RCR, the RRL is 'aa'.

Jurisdictional support analysis

Our jurisdictional support analysis assesses the likelihood that a covered bond program facing stress would receive support from a government-sponsored initiative instead of from the liquidation of collateral assets in the open market. For banks in countries that are members of a monetary union, we also consider support from supranational entities such as the European Central Bank in the eurozone. Our assessment of the expected jurisdictional support for German public sector covered bonds is very strong, resulting in a jurisdictional support uplift from the RRL of 'aa' up to three notches. DZ HYP's covered bonds use two notches to achieve a 'aaa' JRL, resulting in one unused notch of jurisdictional support.

The cover pool is granular without major asset concentration and specific risk factors. The covered bonds achieve 'AAA' ratings based on the JRL and the coverage of the legal minimum overcollateralization (2%).

Operational and administrative risks

We review operational risk according to our covered bonds criteria. We have considered the procedures used by the issuing bank in the origination and monitoring of cover pool assets.

In our opinion, there are no operational risks from the cover pool's management and loan origination that would constrain the covered bond ratings to the same level as the long-term ICR on the issuer. DZ HYP voluntarily maintains overcollateralization levels that exceed the legal minimum requirement, and the overcollateralization level, which we deem commensurate with the maximum potential collateral-based uplift of four notches.

In our view, potential backup servicers would be available, if DZ HYP became unable to manage the program considering that Germany is an established covered bond market and the cover pool does not comprise product features that would materially limit the range of available servicers.

Collateral support analysis

While we assign our 'AAA' ratings based on the JRL and the coverage of the legal minimum overcollateralization (2%), we performed a collateral support analysis to determine the number of unused notches. This analysis is based on loan data as of Sept. 30, 2025, and asset and liability cash flow projections as of Dec. 31, 2025.

We based our analysis on our criteria "[Methodology And Assumptions For Assessing Portfolios Of International Public Sector And Other Debt Obligations Backing Covered Bonds And Structured Finance Securities](#)", Dec. 9, 2014.

Since our previous review, the cover pool's composition by asset type remained broadly stable with about 85% comprising loans to LRGs, of which around 80% are in Germany. Sovereigns make up about 10% of the cover pool, and the remaining share is loans backed by non-LRG international public finance entities. The exposure to German sovereign assets increased as the share of loans originated by DZ BANK and refinanced by DZ HYP has grown.

DZ HYP AG (Public Sector Covered Bond Program)

Since our last review we have revised downwards our creditworthiness assumptions for German municipalities. This has resulted in a one notch reduction of the cover pool's weighted-average rating as determined by our CDO evaluator to 'A-' from 'A' previously and an increase in the cover pool's 'AAA' scenario default rate (SDR) to 19% from 17% previously.

We determined a weighted-average cover pool recovery rate of 80.4% (81.5% previously) and a weighted-average time-to-recovery of 3.4 years (3.5% previously). The reduction in both credit metrics is driven by a slightly higher sovereign exposure for which we assume lower recoveries and a lower time-to-recovery than we assume for LRGs (see table 6).

The German LRGs are well-diversified across federal states, but the share of LRG assets in Rhineland-Palatine and Saarland exceed these states' share in the German GDP. However, as these exposures have remained stable over the past several years (currently at about 11% combined) and do not represent a material portion of the cover pool, we continue applying our standard correlation assumption (15%) among the LRGs, under our public sector criteria.

DZ HYP's parent bank, DZ BANK, grants export credits, guaranteed by Euler Hermes in the name of the German sovereign, and refinances these credits via DZ HYP's covered bond program (refinancing credit). DZ HYP's cover pool does not have a direct claim on the underlying export credits granted by DZ BANK, only the guaranteed refinancing credit to DZ BANK is registered in the cover pool. Both the export credit and the refinancing credit are guaranteed by Euler Hermes in the name of the German sovereign. Therefore, in our view, the ultimate credit risk behind the refinancing credit in the cover pool is related to the German sovereign.

To capture the strong relationship between sovereign credit risk and the concentration risk in this program, we applied a criteria exception to the public sector criteria. The criteria exception modifies the application of the largest obligor test (LOT) in the analysis of the pool: The exposure to the German sovereign is excluded from the LOT when it is applied at covered bond rating levels at or below the sovereign rating as is the case currently. Accordingly, the LOT test result after giving credit to excess spread is 3.74%. The exposure to the German sovereign will be included in the LOT when it is applied at covered bond rating levels above the sovereign rating.

Table 3

Key credit metrics

| | As of Sept. 30, 2025 | As of Sept. 30, 2024 |
|---|----------------------|----------------------|
| Weighted-average cover pool asset rating | A- | A |
| Weighted-average life (years) | 7.40 | 7.51 |
| Largest obligor (% of the cover pool) | 4.95 | 3.63 |
| 20 largest obligors (% of cover pool) | 28.32 | 24.54 |
| Credit analysis results 'AAA' stress | | |
| Scenario default rate (%) | 18.99 | 17.09 |
| Weighted-average recovery rate (%) | 80.36 | 81.54 |
| Weighted-average time to recovery (years) | 3.38 | 3.46 |
| Largest obligor test result (%)* | 3.74§ | 4.27 |
| Largest sovereign test result (%) | 2.71 | 2.69 |
| Stressed refinancing spread (basis points) | 104.20 | 178.23 |

*Excluding German sovereign exposures. § After giving credit to excess spread.

Table 4

Asset distribution by geography

| | Cover pool (%) | |
|-------------|----------------------|----------------------|
| | As of Sept. 30, 2025 | As of Sept. 30, 2024 |
| Germany | 89.39 | 89.18 |
| Austria | 3.87 | 3.85 |
| Spain | 2.71 | 2.69 |
| Canada | 0.73 | 0.95 |
| Switzerland | 0.94 | 0.92 |
| Other | 2.36 | 2.41 |
| Total | 100.00 | 100.00 |

Table 5

Asset distribution by rating*

| | Cover pool (%) | |
|------------|---------------------|---------------------|
| | As of Sept 30, 2025 | As of Sept 30, 2024 |
| AAA | 9.04 | 7.63 |
| AA | 13.96 | 32.86 |
| A | 70.22 | 54.35 |
| BBB | 5.06 | 4.08 |
| BB | 0.66 | 0.67 |
| B or lower | 1.06 | 0.41 |
| Total | 100.00 | 100.00 |

*According to S&P Global Ratings' stressed assumptions.

Table 6

Recovery assumptions for cover pool assets*

| Borrower type | 'AAA' recovery rate (%) | Time to recovery (years) | Cover pool (%) | |
|----------------------------------|-------------------------|--------------------------|----------------------|----------------------|
| | | | As of Sept. 30, 2025 | As of Sept. 30, 2024 |
| Category A LRGs | 90 | 4 | 81.59 | 83.61 |
| Category B LRGs | 75 | 4 | 3.02 | 2.99 |
| Sovereigns and sovereign-related | 37 | 0 | 9.94 | 8.59 |
| Non-LRG IPF assets | 18 | 0 | 5.45 | 4.79 |
| Total | | | 100.00 | 100.00 |

*According to our criteria for pools of public sector assets. LRG--Local and regional governments. IPF--International public finance.

The application of our updated covered bonds criteria had a very limited impact on our cash flow results. Considering the well-matched asset-liability maturity profiles, our lower refinancing cost assumptions do not affect TCE, which we determined as 6.3% down from 7.3% previously. The reduction in the TCE results from higher excess spread in the program compared to our last review which more than offset the negative effect of the increase in the 'AAA' SDR.

DZ HYP AG (Public Sector Covered Bond Program)

We determined 'AAA' credit risk of 3.74% which is driven by the LOT. The removal of the commingling risk stress previously applied also had a small positive impact on both 'AAA' credit risk and the TCE.

With an available overcollateralization of 25.25% above the TCE, the maximum potential collateral-based uplift above the JRL is four notches. We do not reduce the total collateral-based uplift owing to the availability of at least 180 days of liquidity coverage and the possibility of maturity extension of the covered bonds. Additionally, as 'AAA' ratings are reached based on jurisdictional support with a required overcollateralization equal to the legal minimum, we do not adjust for the lack of an overcollateralization commitment. As a result, the covered bonds benefit from four unused notches of collateral-based uplift.

Table 7

Collateral uplift metrics

| | As of Dec. 31, 2025 | As of Dec. 31, 2024 |
|---|---------------------|---------------------|
| Asset WAM (years) | 7.49 | 7.66 |
| Liability WAM (years) | 7.87 | 7.83 |
| Maturity gap (years) | (0.38) | (0.17) |
| Available credit enhancement (%) | 25.25 | 16.23 |
| 'AAA' credit risk (%) | 3.74 | 5.58 |
| Required credit enhancement for first notch of uplift (%) | 3.74 | 6.02 |
| Required credit enhancement for second notch uplift (%) | 3.74 | 6.46 |
| Required credit enhancement for third notch of uplift (%) | 5.02 | 6.89 |
| Target credit enhancement for maximum uplift (%) | 6.31 | 7.33 |
| Credit enhancement commensurate with rating (%) | 2.00 | 5.58 |
| Potential collateral-based uplift (notches) | 4 | 4 |
| Adjustment for liquidity (Y/N) | N | N |
| Adjustment for committed overcollateralization (Y/N) | Y | Y |
| Collateral support uplift (notches) | 3 | 3 |

WAM--Weighted-average maturity. JRL--Jurisdiction-supported rating level.

Counterparty risk

We analyze counterparty risk under our covered bonds criteria. The ratings on the program and related issuances are not constrained by counterparty risk.

DZ HYP is the bank account provider for the covered bond program. While we understand that under the German covered bond law cash collections received post-issuer insolvency will be isolated for the covered bondholders' benefit, cash collections received pre-issuer insolvency could be exposed to commingling risk if they are not reinvested into cover pool assets or used for covered bond payments.

As part of our analysis of operational and administrative risks, we apply a forward-looking assessment of the issuer's maintenance of credit support. Since rating inception, DZ HYP has maintained overcollateralization levels well above the level required for 'AAA' ratings. We expect DZ HYP to continue maintaining credit support for its covered bonds and therefore currently do not stress commingling risk in our cash flow analysis.

DZ HYP AG (Public Sector Covered Bond Program)

DZ HYP's public sector covered bonds also rely on bank accounts, which DZ BANK provides. Accounts held at DZ BANK are swept intraday eliminating overnight exposure. Furthermore, under our updated criteria, when an issuer's RRL is at least 'bbb-', we rely on the issuer's ability to manage the counterparty risk associated with its bank account providers and do not constrain the covered bond rating.

No derivatives are registered in the cover pool. We model any interest and foreign exchange risks in our cash flow model .

Sovereign risk

We analyze sovereign risk under our structured finance sovereign risk criteria (see "[Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions](#)," Jan. 30, 2019).

This is a multi-jurisdictional pool of loans to public sector entities in Germany (about 89%) and other developed countries. The issuer is in Germany, which is part of a monetary union, and liquidity risk is covered for 12 months via the potential maturity extensions of the covered bonds. This results in a low sensitivity to refinancing risk, which implies a maximum rating differential of five notches between the covered bonds and the issuer's host sovereign.

In multijurisdictional cover pools, asset sensitivity to sovereign default risk is captured through the largest sovereign default test and the largest transfer and convertibility default test. Both tests are passed at a 'AAA' level. Therefore, sovereign default risk does not constrain the rating on the covered bond program.

As a result of the above, and based on our unsolicited long-term rating on Germany, our structured finance sovereign risk criteria do not constrain our ratings on the covered bonds.

Environmental, Social, And Governance

Social factors are a positive consideration in our credit rating analysis of DZ HYP's public sector covered bonds. DZ HYP funds public infrastructure with social goals, which benefit from guarantees from German municipalities. Governance factors are now a neutral consideration in our credit analysis of DZ HYP's public sector covered bonds. The 'AAA' ratings are reached based on jurisdictional support and the required overcollateralization corresponds to the legal minimum. Additionally, we do not adjust the number of notches of potential collateral-based uplift or the number of unused notches of collateral-based uplift due to the lack of an overcollateralization commitment. Furthermore, the bonds' 12 months maturity extension and the provisions of the German covered bond legislation mitigate liquidity risk. Environmental considerations are neutral factors in our ratings analysis.

Related Criteria

- [Methodology For Rating Covered Bonds](#), July 25, 2025
- [Asset Isolation And Special-Purpose Entity Methodology](#), May 29, 2025
- [Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities](#), Dec. 22, 2020
- [Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021

DZ HYP AG (Public Sector Covered Bond Program)

- [Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumption](#), Jan. 30, 2019
- [Criteria - Structured Finance - Covered Bonds: Methodology And Assumptions For Assessing Portfolios Of International Public Sector And Other Debt Obligations Backing Covered Bonds And Structured Finance Securities](#), Dec. 9, 2014
- [Principles Of Credit Ratings](#), Feb. 16, 2011

Related Research

- [S&P Global Ratings Definitions](#), Dec. 16, 2025
- [Global Covered Bond Insights Q1 2026](#), Dec. 11, 2025
- [Covered Bonds Outlook 2026: Rating Trends Broadly Balanced](#), Dec. 2, 2025
- [Banking Industry Country Risk Assessment: Germany](#), Sept. 19, 2025
- [Covered Bonds Primer](#), Sept. 2, 2025
- [DZ HYP AG](#), July 25, 2025
- [Glossary Of Covered Bond Terms](#), April 27, 2018

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