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Lloyd's

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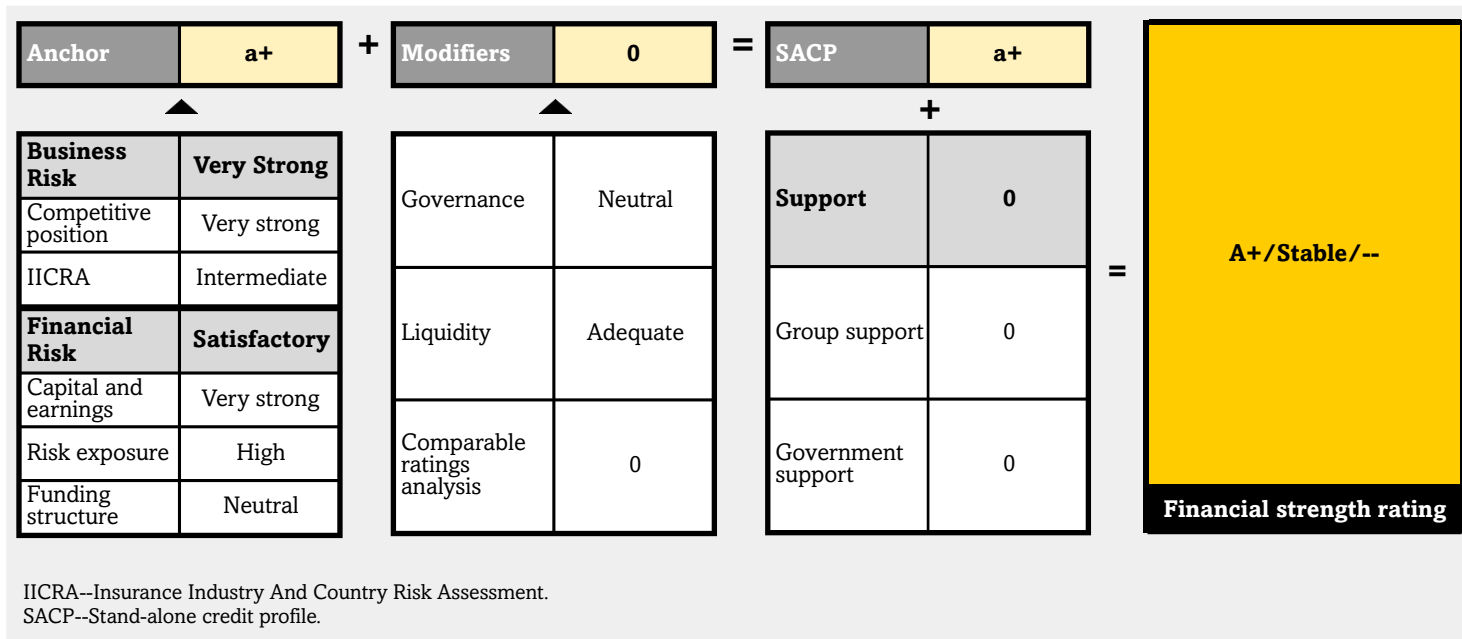
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Lloyd's



Credit Highlights

Overview

Key strengths	Key risks
Unique brand and reputation, based on its position at the center of underwriting specialist risks.	Lloyd's is still more exposed to catastrophe risk than most of its peers, according to our metrics.
Revenue comes from diverse geographic locations across several different lines.	Management is undertaking a large modernization program, which carries execution risks.
Despite the Russia-Ukraine conflict and natural catastrophes, management's appropriate intervention in the market to improve underwriting discipline is paying dividends, with a strong underwriting result in 2022.	

Despite mark-to-market losses in 2022, we expect Lloyd's management to maintain a 'AAA' level capital adequacy, measured by S&P Global Ratings' risk-based capital model. Lloyd's incurred £3.1 billion in net investment losses for the full year 2022, driving an overall loss of £769 million for the market. Mark-to-market losses across the wider (re)insurance sector were the main driver of investment losses. On an economic basis, however, we expect that an increased discount rate on Lloyd's insurance liabilities will offset the potential pressure on Lloyd's capital adequacy. Therefore, we expect Lloyd's will maintain a 'AAA' level of capital through 2023-2024.

Lloyd's profitable underwriting momentum is expected to continue through year-end 2023. We forecast the combined ratio will be 92%-94% over 2023-2024, considering annual major losses of close to 10-12 percentage points in terms of the combined ratio. Lloyd's 2022 net combined ratio improved to 91.9% (2021: 93.5%) even after reserving for excess inflation, £1.4 billion for Russia-Ukraine-related losses and £2 billion for Hurricane Ian, which added 12.7 percentage points to the combined ratio. An improved underlying additional loss ratio of 48.4% (2021: 48.9%) and a favorable development of 3.6% in 2022 (2021: 2.1%) counterbalanced the reserves set aside for the losses from the

Russia-Ukraine conflict. Lloyd's continues to achieve positive rate increases, which led to strong top-line growth in 2022. Lloyd's is in a good position to navigate the challenges the insurance sector faces in 2023, including elevated inflation and uncertainty around the Russia-Ukraine conflict.

Lloyd's has a unique brand and place in the insurance industry. It enjoys worldwide recognition and is considered a leading center for the writing of specialist insurance risks. We expect the market will continue to attract business and loyalty from brokers, due to the depth of its underwriting expertise and face-to-face culture. The Corporation's Blueprint Two aims to improve its competitiveness, compared with other major reinsurance hubs like Bermuda. While we believe the program is essential for Lloyd's to maintain and improve its competitive position, we also recognize the significant execution risk involved and that it is on track so far.

Outlook: Stable

In line with our stable outlook, we expect management to continue to focus on Lloyd's underwriting performance and address its overall cost structure, which has hindered the market over the years. We also expect the market to continue to hold capital exceeding our 'AAA' level.

Downside scenario

We could lower our ratings by one notch if Lloyd's cannot maintain capital above our 'AA' requirement over 2023-2024, or if its competitive strength significantly weakens. This could follow a deterioration in underlying performance, compared with similarly rated reinsurers and insurers.

Upside scenario

We could raise the ratings by one notch if Lloyd's demonstrates that it can maintain a strong underwriting performance.

Key Assumptions

- Current conditions indicate an economy that is still resilient. We forecast global GDP growth of 2.7% in 2023, a 40-basis-point (bps) increase relative to our previous update. For 2024, we expect 3.1% growth, in line with our previous update.
- Inflation is still a concern and major central banks have continued to hike policy rates, despite market turbulence. With an eye on financial stability, they will proceed cautiously.
- We expect 10-year U.S. government bond yields will increase to 3.9% in 2023 and 2024, respectively, from 3.0% in 2022 and 1.4% in 2021.
- We believe global reinsurers will likely assume about 50% of the potential specialty insurance losses arising from the Russia-Ukraine conflict. Losses from specialty lines are likely to be an earnings event for most reinsurers but could become a capital event for a few outliers.

- Improving underwriting earnings, increasing investment income, prudent capital management, and sophisticated levels of risk management should sustain the industry's capital adequacy, and we expect it to remain a strength for the sector.

Lloyd's--Key metrics							
	2024f	2023f	2022	2021	2020	2019	2018
GPW (mil. £)	~50,000	~48,000	46,705.0	39,216.0	35,466.0	35,905.0	35,527.0
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent	Very strong
Net combined ratio (non-life, %)	~92.0	~92.0	91.9	93.5	110.3	102.1	104.5
Net investment yield (%)	~2.3	~2.3	(0.5)	1.8	2.2	3.5	1.4
Net income (mil. £)	~3,000	~3,000	769	2,277.0	-887	2,532.0	-1,001
Financial leverage ratio (%)	~3.5	~3.5	2.5	3.5	N/A	N/A	N/A
Fixed-charge coverage (x)	>30.0	>30.0	35.7	52.2	(23.3)	31.7	(12.1)
Return on shareholders' equity (%)	~9.0	~9.0	(2.0)	6.6	(2.8)	8.8	(3.7)

f--Forecast. GPW--Gross premium written. N/A--Not applicable.

Business Risk Profile: Very Strong

In our opinion, Lloyd's benefits from its unique brand. It is the world's largest subscription market and has a broad geographic presence from which it distributes its wide product offering. The expense of doing business at Lloyd's slightly offsets these strengths.

We believe the company's brand and reputation will continue to be key differentiators for the rating. The availability of one-stop shopping for various niche and standard products, the expertise of Lloyd's market underwriters, and the strong face-to-face culture will continue to attract policyholder and broker loyalty. We view this as a competitive strength.

We expect Lloyd's will continue to enjoy a leading position in the global specialty and reinsurance market. It consistently ranks among the top five global reinsurers, alongside peers Munich Re, Swiss Re, Hannover Re, and Scor, and among U.S. primary insurers like AIG and Chubb. Lloyd's has been the leading excess and surplus writer in the U.S. since 2011 and we expect it to retain this position. In addition, the Lloyd's market is the leading (re)insurer for global marine and aviation business. Most of its revenue (about 70%) comes from the U.S., Canada, and the U.K., which are more credit-sensitive than markets in continental Europe.

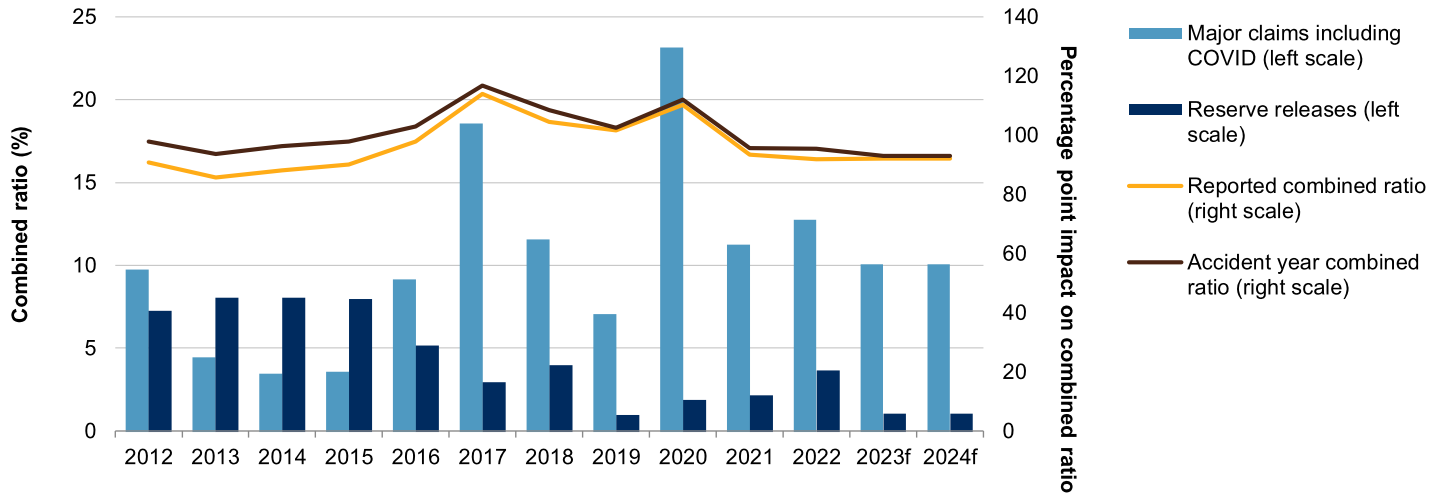
Lloyd's strong year-end 2022 underwriting results reflect its focus on underwriting controls and positive price increases. Lloyd's reported a net combined ratio of 91.9% for 2022 (versus 93.5% in 2021), which compares well with European reinsurance peers. This was despite provisions of £1.4 billion for claims relating to the Russia-Ukraine conflict and £2.0 billion losses from Hurricane Ian--key contributors to major losses that added 12.7 percentage points to the combined ratio. We expect Lloyd's will continue its profitable underwriting momentum into 2023, with a similar combined ratio to that in 2022.

Like some of its peers, Lloyd's year-end 2022 earnings suffered from mark-to-market losses on its bond and equity

portfolios during the year. The net loss was £769 million. We expect mark-to-market losses on the bond portfolio will unwind as the portfolio reaches maturity, keeping in mind that the average duration of the bond portfolio is less than three years. We expect Lloyd's net earnings will recover to about £3.0 billion in 2023, on the back of strong underwriting and higher investment income due to increased interest rates.

Chart 1

Lloyd's underwriting has turned the corner with improvements in headline and AY combined ratios

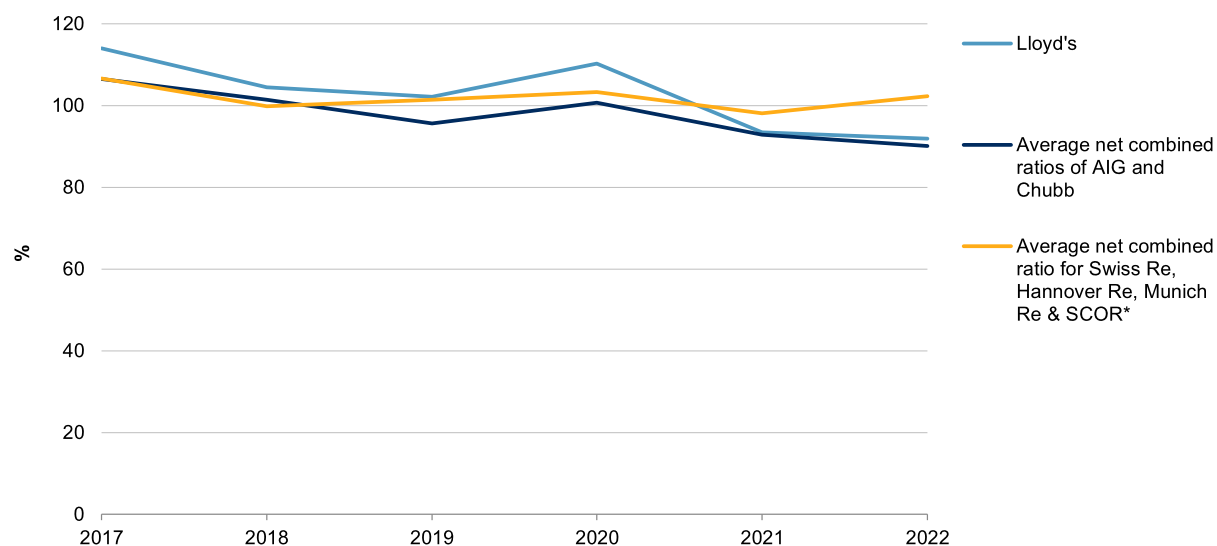


f--Forecast. Source: S&P Global Ratings.

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Chart 2

Lloyd's improved underwriting performance in 2022 is in between top U.S. primary insurers' performance and average performance of top global reinsurers

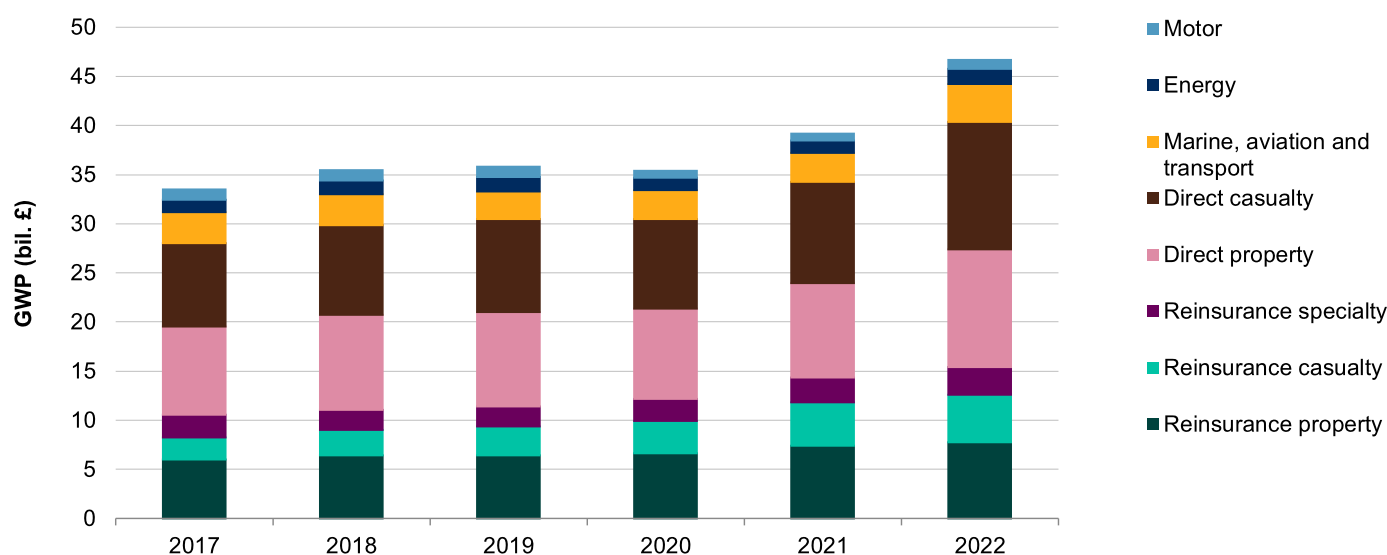


Combined ratio for Munich Re and Swiss Re includes entire business for 2022. f--Forecast. Source: S&P Global Ratings. Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

We believe that Lloyd's management will maintain strict discipline in syndicate underwriting, with a focus on technical rates. It will ensure that market participants are addressing the potential erosion of margins due to higher-than-expected inflation. The market has continued its positive rate momentum in 2022 and has now seen 20 consecutive quarters of rate improvement. We expect this momentum will likely continue in 2023. For year-ends 2023 and 2024, we expect the gross written premiums base to grow to about £48.0 billion and £50.0 billion, respectively.

Chart 3

Positive pricing momentum leads Lloyd's toward top line growth



GWP--Gross written premium. Source: S&P Global Ratings.

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We believe the expenses associated with doing business at Lloyd's will likely remain a challenge for its growth strategy. Although the Corporation's expense ratio reduced to 34.4% in 2022 (2021: 35.5%, 2020: 37.2%), it is still higher than that of most peers. Management has been working on improving the market's efficiency by introducing initiatives such as electronic placement and simplifying claims handling. So far, we consider that these programs have been more successful than previous attempts to modernize the market. We forecast the expense ratio will be close to, or below, 35% in 2023-2024.

Lloyd's has work to do to ensure that the market can maintain, and improve, its competitiveness against other major (re)insurance hubs, such as Bermuda, Zurich, and Singapore. Blueprint Two lays out six initiatives that management hopes will make the Corporation "the most advanced marketplace in the world." We believe the program is essential for Lloyd's to maintain and improve its competitive position but recognize the significant execution risk involved and the strain it might place on the management team. Although the pandemic slowed the pace of change in some areas, it also accelerated the market's use of electronic placement and proved business is possible without a physical market. We expect management to work on the modernization program while maintaining recent progress in improving underwriting performance.

Financial Risk Profile: Satisfactory

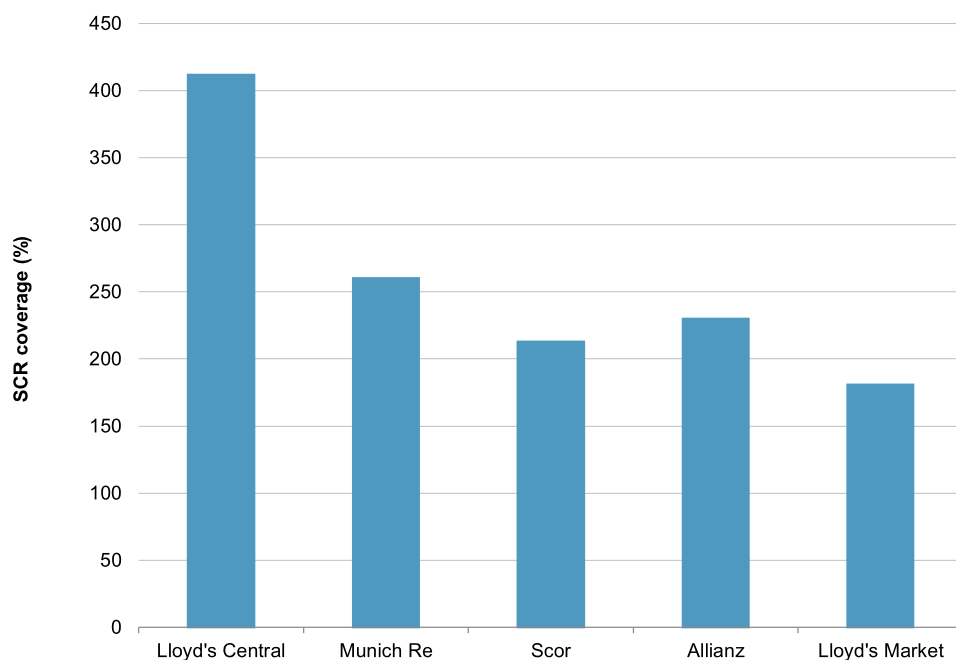
Lloyd's has a very strong capital position, based on its excess of capital at the 'AAA' benchmark as per our risk-based

model.

In regulatory terms, Lloyd's holds comfortable capital surpluses in both its 2022 market-wide regulatory solvency ratio of 181% and its central solvency ratio of 412%. The company's resilient solvency ratio, both market wide and central, in the recent past has also led us to raise our ratings on its subordinated Tier 2 notes, to 'A-' from 'BBB+' (see "Lloyd's Subordinated Debt Rating Raised To 'A-' On Strong And Sustainable Solvency," published Jan. 13, 2023). While negative earnings have weakened Lloyd's fixed-charge coverage levels in 2022, we anticipate coverage will recover with improvement in earnings in 2023. In recent years, Lloyd's has acted quickly to address large claims events by accelerating capital collection from members. Should another significant claims event occur, like the 2017 hurricanes or COVID-19, we expect management will again seek to quickly address any capital shortfalls.

Chart 4

Although Lloyd's central solvency ratio is stronger than peers', its market wide solvency ratio is lower



As of YE 2022. Source: Annual Reports

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Not all capital held by the Corporation is fungible--only the central fund and Corporation assets are available to pay all claims. However, the Corporation's strong history of managing capital appropriately at the syndicate level offsets this risk. The most recent central fund loss was from the 2007 year of account. Lloyd's has also proved its ability to ask the market to recapitalize. This was the case in 2017 when the market injected £3 billion following hurricanes Harvey, Irma, and Maria, and in 2020, when it injected a further £3.5 billion following pandemic-related losses.

Lloyd's has a fairly conservative approach to investments and, as such, we expect future returns to increase marginally, reflecting increasing interest rates. According to our base-case scenario, Lloyd's will see net investment income of about 2.0%-2.3% over the next two years. Its recently launched investment platform may provide an opportunity to reduce investment expense and increase returns.

Lloyd's holds minimal levels of leverage. It has subordinated debt of £603 million and £300 million of senior notes, which do not qualify as capital in our model. These comprise just over 3% of the market's capital. We do not expect Lloyd's capital structure to change significantly over the next two to three years.

Capital structure and equity content							
Issuer	Issuance amount (mil. £)	Coupon (%)	Issue date	Maturity date		Equity content	ISIN
Senior							
Society of Lloyd's	60	2.48	2020	2030		No equity content	Private placement
Society of Lloyd's	40	2.48	2020	2031		No equity content	Private placement
Society of Lloyd's	70	2.61	2020	2035		No equity content	Private placement
Society of Lloyd's	130	2.81	2020	2045		No equity content	Private placement
Subordinated							
Society of Lloyd's	300	4.875	2017	2047		Intermediate equity content	XS1558089261
Society of Lloyd's	500	4.75	2014	2024		No equity content	XS1130913558

Other Key Credit Considerations

Governance

Our positive view of the market's governance reflects the significant expertise and experience of Lloyd's managing agents and the market's overall governance. Under the guidance of chairman Bruce Carnegie-Brown, the management team has made a positive impact. It demonstrated its willingness to address Lloyd's key challenges, as evidenced by the above-mentioned 2021 and 2022 strong underwriting performance.

We view the Corporation's robust strategic planning process, which performance management and finance directorates have established and improved in recent years, as positive. Initiatives, including a stringent business planning process and benchmarking exercises, have fueled significant improvements in performance standards and measurement. In particular, Lloyd's introduced Blueprint Two in 2020, a key program building on its "Future at Lloyd's" plans to digitize the Lloyd's market. The company also partnered with Schroders Solutions on a new investment platform in March 2022. These initiatives are in addition to the reinsurance cover purchased to protect the central fund.

Liquidity

Lloyd's premium income flow provides readily available liquidity. The market also has a highly liquid asset portfolio that contains more than £65 billion in marketable securities. Liquidation of most securities is possible within 90 days. We also credit the market's ability to call on members for capital injections throughout the year and withhold profits to ensure claims are paid as a positive factor for its liquidity assessment.

Environmental, social, and governance

ESG Credit Indicators

E-1	E-2	E-3	E-4	E-5	S-1	S-2	S-3	S-4	S-5	G-1	G-2	G-3	G-4	G-5
- Physical risk					- N/A					- N/A				

N/A--Not applicable. 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 alphanumerical 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.

In our view, Lloyd's is more exposed to environmental risks than the insurance industry average because it writes significant amounts of property reinsurance and insurance. However, Lloyd's catastrophe exposure is in line with that of most property and casualty reinsurance or specialty writers. Lloyd's exposure to environmental risks mainly stems from the prospect of increased claims from climate change-induced extreme weather events, including storms, wildfires, or floods. That said, we recognize Lloyd's, just like its peers, has the option to reprice its catastrophe contracts annually or cede the risks to help it absorb a gradual increase in claims.

Accounting considerations

Although the Lloyd's market itself is not a legal entity, the Corporation provides an audited pro forma set of financial statements that combine the financial results of the Lloyd's syndicates, members funds at Lloyd's, and results of the Society of Lloyd's. This allows comparison with other insurance companies. Where practicable, these accounts will continue to adhere to generally accepted U.K. accounting principles. We view the market's financial communication and disclosure as sound and transparent.

Hybrid and senior debt issue ratings

We rate Lloyd's debt instruments according to their respective features (see chart below).

Society of Lloyd's: Notching

		AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-
Issuer level	Financial strength rating				A+											
	Issuer credit rating				A+											
Stand-alone credit profile					A+											
Issue level	Subordinated				A+	Sub(-1)	Pmt(-1)									
	Junior subordinated				A+	Sub(-1)	Pmt(-1)									

Key to notching

- Group stand-alone credit profile
- Issuer credit rating
- Sub Contractual subordination
- Pmt Payment risk for example deferral of coupon or witedown or conversion

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 3 of our "Hybrid Capital: Methodology And Assumptions" criteria, published on March 2, 2022.

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Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions , March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology , July 1, 2019
- General Criteria: Group Rating Methodology , July 1, 2019
- Criteria | Insurance | Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves , Nov. 26, 2013
- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model , June 7, 2010

Related Research

- Lloyd's Market's Strong Underwriting Momentum Continues Into 2023, March 8, 2023
- Lloyd's Subordinated Debt Rating Raised To 'A-' On Strong And Sustainable Solvency, Jan. 13, 2023
- Insured Losses From Hurricane Ian Will Likely Be Substantial But Manageable, Sept. 30, 2022
- Global Macro Update: Many Routes To The Bottom, Sept. 28, 2022
- Economic Outlook U.S. Q4 2022: Teeter Totter, Sept. 26, 2022
- Lloyd's Market Strong Underwriting Performance Overshadowed By Mark-To-Market Losses, Sept. 8, 2022
- Is The Global Reinsurance Sector About To Turn A Corner?, Sept. 6, 2022

- Lloyd's Market 2022 Review: Let The Good Times Roll?, Aug. 24, 2022
- Global Economic Outlook Q3 2022: Rates Shock Puts The Economy On A Slower Path, June 29, 2022
- Russia-Ukraine Conflict Adds To A Bumpy Start To 2022 For Global Reinsurers, March 31, 2022
- Lloyd's Strong 2021 Results Set It Up Well For 2022, March 24, 2022

Appendix

Lloyd's--Credit metrics history				
(Mil. £)	2022	2021	2020	2019
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent
Total invested assets	95,761.0	83,970.0	79,835.0	73,098.0
Total shareholder equity	39,602.0	35,757.0	33,146.0	29,844.0
Gross premium written	46,705.0	39,216.0	35,466.0	35,905.0
Net premium written	34,570.0	28,439.0	25,826.0	25,659.0
Net premium earned	32,458.0	26,657.0	25,876.0	25,821.0
Reinsurance utilization (%)	26.0	27.5	27.2	28.5
EBIT	-722	2,327.0	-828	2,583.0
Net income (attributable to all shareholders)	-769	2,277.0	-887	2,532.0
Return on revenue (%)	6.2	10.1	(5.1)	5.7
Return on assets (excluding investment gains/losses) (%)	1.7	2.7	(1.4)	1.7
Return on shareholders' equity (%)	(2.0)	6.6	(2.8)	8.8
Property/casualty: Net combined ratio (%)	91.9	93.5	110.3	102.1
Property/casualty: Net expense ratio (%)	34.4	35.5	37.2	38.7
Property/casualty: Return on revenue (%)	6.9	11.4	(3.6)	7.1
EBITDA fixed-charge coverage (x)	35.7	52.2	(23.3)	31.7
EBIT fixed-charge coverage (x)	35.5	52.0	(23.9)	31.5
EBIT fixed-charge coverage including realized and unrealized gains/losses (x)	(12.9)	42.5	-14	50.6
Financial obligations/adjusted EBITDA (x)	0.5	0.4	(0.9)	0.6
Financial leverage including pension deficit as debt (%)	2.5	3.5	N/A	N/A
Net investment yield (%)	(0.5)	1.8	2.2	3.6
Net investment yield including investment gains/(losses) (%)	(3.5)	1.2	3.0	4.9

N/A--Not available.

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of May 9, 2023)*

Operating Company Covered By This Report

Lloyd's

Financial Strength Rating

Local Currency

A+/Stable/--

Domicile

United Kingdom

*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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