

RatingsDirect®

Sharjah Islamic Bank

Primary Credit Analyst:

Mohamed Damak, Dubai + 97143727153; mohamed.damak@spglobal.com

Secondary Contact:

Dhruv Roy, Dubai + 971(0)56 413 3480; dhruv.roy@spglobal.com

Table Of Contents

Rating Score Snapshot

Credit Highlights

Outlook

Key Metrics

Anchor: 'bbb-' For Banks Operating In The UAE

Business Position: A Small Financial Institution With An Entrenched Niche

Capital And Earnings: Strong And Expected To Remain So

Risk Position: High Concentration

Funding And Liquidity: Comparable With Peers'

Support: Three Notches Of Uplift For Systemic Importance

Additional Rating Factors

Environmental, Social, And Governance

Key Statistics

Table Of Contents (cont.)

Related Criteria

Sharjah Islamic Bank

Rating Score Snapshot

Issuer Credit Rating
A-/Stable/A-2

SACP: bbb- → Support: +3 → Additional factors: 0

Anchor	bbb-		ALAC support	0	<table border="1"> <tr> <th colspan="2">Issuer credit rating</th> </tr> <tr> <td colspan="2" style="text-align: center; vertical-align: middle;"> A-/Stable/A-2 </td> </tr> </table>	Issuer credit rating		A-/Stable/A-2	
Issuer credit rating									
A-/Stable/A-2									
Business position	Moderate	-1	GRE support	0					
Capital and earnings	Strong	+1	Group support	0					
Risk position	Adequate	0	Sovereign support	+3					
Funding	Adequate	0							
Liquidity	Adequate								
CRA adjustment		0							

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

Credit Highlights

Overview

Key strengths	Key risks
Strong capitalization	Sizable lending exposure to the real estate and construction sectors
High systemic importance in the United Arab Emirates (UAE)	Limited geographic diversification
Strong relationship with the government of Sharjah	High single name concentration

The rating balances Sharjah Islamic Bank's (SIB's) status as the flagship bank of the Emirate of Sharjah against its limited but growing franchise outside Sharjah. SIB's total assets represented about 1.8% of systemwide total assets in the UAE at year-end 2021. However, it ranked fourth among local Islamic banks, with a market share of around 7%-8% in the UAE Islamic market at year-end 2021. The bank is the flagship financial institution in the emirate of Sharjah.

We view the bank's capitalization as a positive factor. This is underpinned by our forecast that our risk-adjusted capital (RAC) ratio before concentration adjustments will remain at 12.5%-13.2% over the next 12-24 months. We expect SIB will expand its financings by 5%-8% over the same period and its intermediation margin will slightly improve, thanks to higher rates, which will help the bank's overall profitability in our view. While cost of risk will normalize under our base case scenario, we still expect a marginal deterioration in the bank's asset quality indicators due to the reclassification of some of the deferred exposures, counterbalanced by recoveries and an overall improvement in operating environment. We expect cost of risk to stabilize at around 60-80 basis points (bps) over the next 12-24 months and the coverage ratio to be about 90%, compared with 91.3% at year-end 2021.

SIB's funding profile is comparable with that of peers and its liquidity is adequate. Core customer deposits dominate the bank's funding profile, contributing about 83% of the total funding base at year-end 2021. The bank's stable funding ratio stood at 117.5% and its broad liquid assets to short-term wholesale funding ratio was healthy at 3.2x on the same date.

We consider SIB as a systemically important bank in the UAE. The long-term rating on SIB is three notches above its intrinsic creditworthiness, given our view of the bank's high systemic importance in UAE, which we regard as highly supportive of the domestic banking sector.

Outlook

The stable outlook reflects our view that the bank's creditworthiness will continue to benefit from strong capitalization and exposure to the Sharjah government and its government-related entities (GREs), which together with the expected improvement in the economic environment, underpin our expectation of only a slight deterioration in asset-quality indicators.

Upside scenario

A positive rating action is remote in the next 12-24 months, since it would require SIB to materially strengthen both its franchise and capitalization, with the RAC ratio sustainably exceeding 15%.

Downside scenario

We could consider a negative rating action if we observed sharper deterioration of asset quality or weaker capitalization than expected, signaled by the RAC ratio dropping below 10%, which could come from faster-than-expected growth. We could also take a negative rating action if the creditworthiness of Sharjah's government, the bank's largest counterparty, comes under pressure.

Key Metrics

Sharjah Islamic Bank--Key Ratios And Forecasts

(%)	--Fiscal year ended Dec. 31--				
	2020a	2021a	2022f	2023f	2024f
Growth in operating revenue	2.3	12.6	5.3-6.5	6.9-8.5	7.3-9.0
Growth in customer loans	16.4	(0.7)	4.5-5.5	7.2-8.8	7.2-8.8
Growth in total assets	15.5	2.5	5.0-6.1	6.5-7.9	6.5-8.0
Net interest income/average earning assets (NIM)	2.2	2.3	2.2-2.5	2.3-2.5	2.3-2.6
Cost to income ratio	45.0	41.1	39.7-41.7	38.7-40.7	36.8-38.7
Return on average common equity	7.1	8.8	10.0-11.0	10.7-11.8	11.9-13.1
Return on assets	0.8	0.9	1.0-1.2	1.1-1.3	1.2-1.5
New loan loss provisions/average customer loans	0.9	0.8	0.8-0.8	0.7-0.8	0.6-0.6
Gross nonperforming assets/customer loans	4.9	4.8	5.1-5.6	5.0-5.5	4.9-5.4
Net charge-offs/average customer loans	0.2	0.4	0.3-0.3	0.3-0.3	0.3-0.3

Sharjah Islamic Bank--Key Ratios And Forecasts (cont.)

(%)	--Fiscal year ended Dec. 31--				
	2020a	2021a	2022f	2023f	2024f
Risk-adjusted capital ratio	13.8	13.1	12.8-13.5	12.5-13.2	12.4-13.0

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

Anchor: 'bbb-' For Banks Operating In The UAE

We use our BICRA economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. The anchor for banks operating only in the UAE is 'bbb-'.

The UAE has a wealthy economy with strong fiscal and external positions. We expect the UAE economy will continue to recover from the COVID-19 pandemic, thanks to higher oil prices, supportive government policies, and normalizing non-oil activity. We expect further deterioration of banks' asset-quality indicators to be contained because regulatory forbearance measures have helped the corporate sector deal with the negative effects of the pandemic, containing the increase in nonperforming loans. We project the banking sector's Stage 3 loans will reach 7.0% of systemwide loans by the end of 2022 compared with 6.1% by the end of 2021. The UAE banking sector is set to benefit from an expected interest rate hike, assuming no significant disruption of corporates' and retail clients' capacity to fulfil their financial obligations afterward.

During the pandemic, the UAE Central Bank (CBUAE) implemented a Targeted Economic Support Scheme (TESS), which helped ease the pressure on corporate issuers and small and midsize enterprises. Banks classified TESS exposures into two groups: Group 1 (exposures to clients that are temporarily and mildly affected); and Group 2 (exposures to clients that are significantly affected and could see potential stage migrations). We view the banks' disclosure of this information as positive. In our opinion, UAE banks enjoy sound funding profiles, with stable deposits from public-sector and government entities providing about 30% of total deposits.

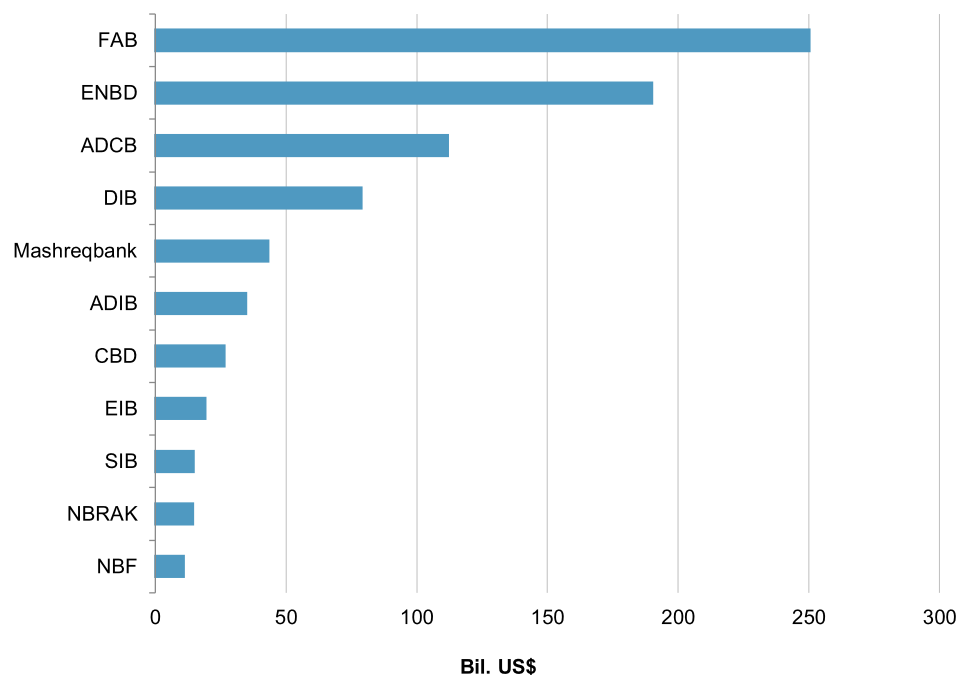
Business Position: A Small Financial Institution With An Entrenched Niche

SIB is a small institution in the UAE market with total assets representing about 1.8% of the systemwide total (see chart 1). However, it ranks fourth among local Islamic banks, with a share of about 7%-8% in the UAE Islamic market at year-end 2021 and has the role of the flagship financial institution in the emirate of Sharjah. The government owns 37.5% of SIB and the bank draws about 50% of its revenue from business in Sharjah.

Lending to Sharjah government and GREs will continue to be a key exposure. Exposure to the bank's major shareholders and other related parties (mostly various government vehicles) stands at about 30% of the bank's financings. We believe the bank will continue lending to the emirate and its GREs, further linking its intrinsic credit quality with that of the Sharjah government.

Chart 1**SIB Is A Small Institution In The UAE Market**

Top-10 UAE bank's assets, YE2021



Source: S&P Global Ratings.

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Capital And Earnings: Strong And Expected To Remain So

We see SIB's capitalization as a positive rating factor. This reflects our expectation that the bank's projected RAC ratio (before concentration adjustments) will remain at 12.5%-13.2% over the next 12-24 months, compared with 13.1% at year-end 2021. Specifically we expect:

- SIB will expand its financings by 5%-8% over the next 12-24 months as its operating environment improves.
- Margin will improve slightly as global and local liquidity becomes scarcer and more expensive. The overall increase in margin will be moderated by the large proportion of instruments that take longer to reprice on the asset side of the balance sheet.
- A cost-to-income ratio of about 40% as the bank's revenues generation improves while cost expansion is kept under control.
- Cost of risk will likely normalize at 60-80 bps as the operating environment improves and the bank maintains a stage 3 loans coverage ratio of about 90%.

- An increase in dividend distribution as the bank's profitability improves.

Based on our calculations, SIB's three-year average earnings buffer is about 70 bps, which indicates good capacity for earnings to cover expected losses over a complete economic cycle. We consider the bank's quality of capital to be satisfactory--hybrids accounted for about one-quarter of total adjusted capital (TAC) at year-end 2021. Our forecasts exclude any materialization of concentration risk or any escalation in geopolitical risk in the region, which could lead to higher pressure on the UAE economy.

Risk Position: High Concentration

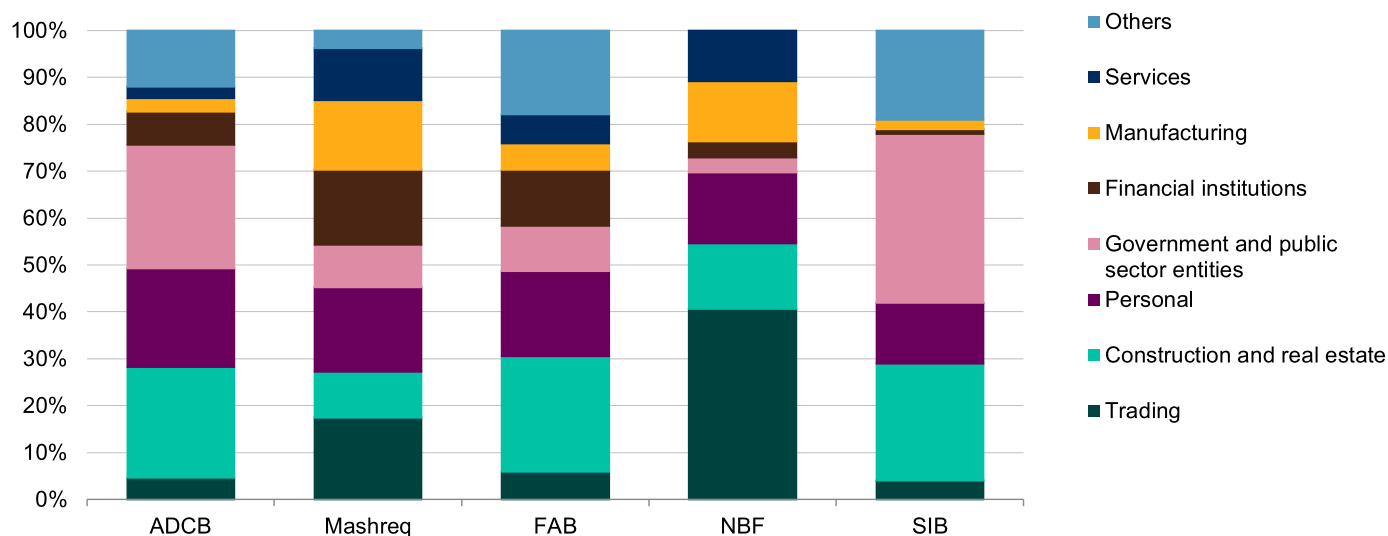
Similar to other banks in the Gulf Cooperation Council countries, a key source of risk for SIB lies in high single-party concentration. The 20-largest funded and unfunded corporate gross credit exposures represented 21.4% of the bank's loan book as of year-end 2021 (excluding those to the government of Sharjah and its GREs).

Similar to its peers, SIB exhibits high real estate and construction exposures (chart 2). At year-end 2021, financings to these sectors comprised about one-quarter of the financings book, compared with a UAE banking industry average of about 20%. This number is further inflated by the bank's exposure to high-net-worth individuals, which is frequently linked to underlying income-generating real estate risks.

Chart 2

Government And Real Estate Are SIB's Two Main Sectors Of Concentration

Data as of Dec. 31, 2021



Source: S&P Global Ratings.

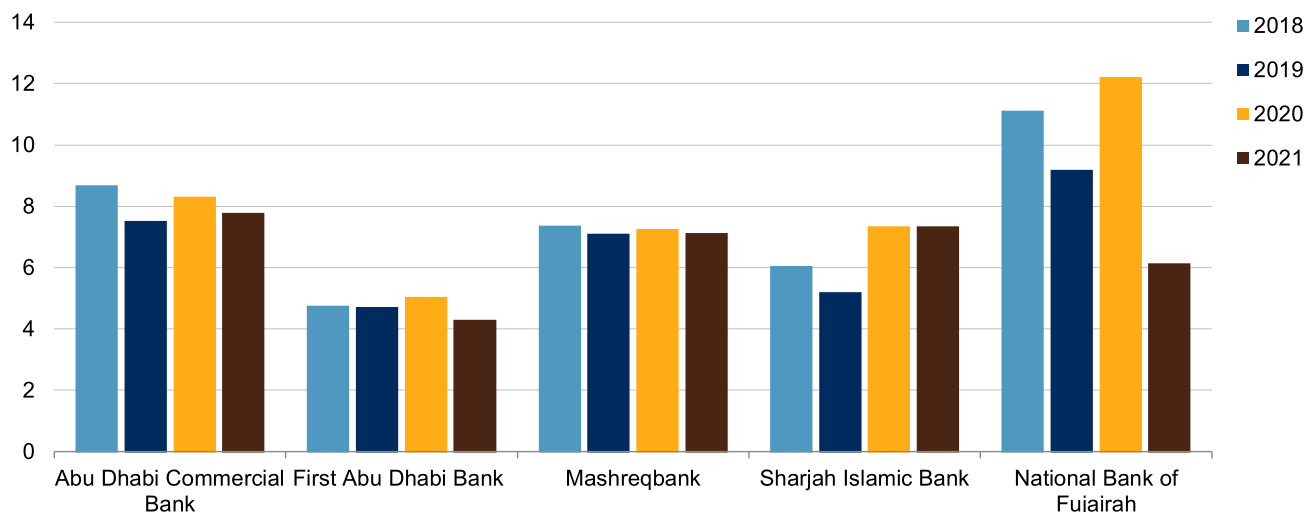
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SIB's stock of problematic financings (Stage 2 and Stage 3, as per IFRS 9) as a share of total financings is broadly commensurate with the systemwide average (chart 3). At year-end 2021, Stage 3 financings accounted for 4.8% of total

financings and were 91.3% covered by provisions. Stage 2 loans contributed another 7.3% of total financings and Group 2 added 2.3% at the same date. We expect a marginal deterioration in the bank's asset quality indicators over the next 12-24 months due to the reclassification of some of the deferred exposures, counterbalanced by recoveries and an overall improvement in operating environment.

Chart 3

SIB's Asset Quality Is Comparable With Peers' Stage 2 loans (% total loans)



Source: S&P Global Ratings.

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With 38% of the financing book being to government departments and authorities (mostly the government of Sharjah), SIB's credit quality is tightly linked to that of the government of Sharjah. Any deterioration in the government's financial profile would likely put pressure on the bank's stand-alone credit profile (SACP).

Funding And Liquidity: Comparable With Peers'

SIB's funding profile is in line with its domestic peers. The bank funds itself predominantly from domestic customer deposits. As of Dec. 31, 2021, SIB's loan-to-deposit ratio stood at 75.4% and the ratio of stable funding resources to funding needs was a healthy 117.5%, according to our calculations. SIB enjoys steady access to deposits from the government of Sharjah and its cash-rich related entities, thanks to its privileged relationship. Like most banks in the GCC, SIB exhibits funding concentrations. Its ratio of top-20 depositors to total deposits remained high, at 36% at year-end 2021, and mainly comprised deposits from government and public-sector entities.

The bank has a relatively liquid balance sheet. Broad liquid assets covered short-term wholesale funding needs by a healthy 3.3x and net broad liquid assets covered 22.1% of short-term customer deposits as of Dec. 31, 2021.

Support: Three Notches Of Uplift For Systemic Importance

The issuer credit rating on SIB is three notches higher than its SACP, reflecting our view of a high likelihood of extraordinary government support for SIB if needed. This is in line with the bank's high systemic importance in the UAE. SIB is the fourth-largest Islamic bank in the UAE, with a market share of 7%-8% in terms of Islamic loans and deposits. The assessment also reflects the bank's strong relationship with the government of Sharjah, which owns 37.5% of SIB. We also consider the UAE authorities as highly supportive toward their banking system, with a strong track record of support provision.

Additional Rating Factors

We apply the sovereign stress test for SIB at the UAE level and not at the level of Sharjah, where the bank has material exposure. This is because we view the UAE as the relevant level of jurisdiction for Sharjah's banks.

Environmental, Social, And Governance

ESG Credit Indicators



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

We believe environmental, social, and governance (ESG) credit factors influence SIB's credit quality to a similar extent as industry and country peers. Although we estimate that the bank has relatively limited direct lending to sectors exposed to energy transition risk, the indirect exposure (via the overall dependence of the UAE economy on hydrocarbons) is higher. Social risks are not significantly different from those of its industry peers. Sharjah's government directly and indirectly owns 37.5% of the bank, which helps SIB maintain key account relationships with the Sharjah government and GREs. In the past few years, SIB has not been involved in any material reputational controversies, has not experienced any incident related to noncompliance with laws and regulations, and has not been subject to any significant legal or regulatory fines or settlements. Finally, we believe that bank regulation in the UAE is less focused on consumer protection than in more developed economies, meaning SIB's exposure to mis-selling penalties or other retail conduct risks is limited.

Key Statistics

Table 1

Sharjah Islamic Bank--Key Figures					
--Year ended Dec. 31--					
(Mil. AED)	2021	2020	2019	2018	2017
Adjusted assets	54,956.8	53,600.8	46,390.5	44,745.5	38,288.5
Customer loans (gross)	30,340.3	30,556.4	26,261.3	25,580.5	22,837.8
Adjusted common equity	5,559.2	5,405.6	5,389.8	5,173.7	5,260.1
Operating revenues	1,404.5	1,247.4	1,219.9	1,156.4	1,155.1
Noninterest expenses	576.8	561.5	585.4	614.2	556.2
Core earnings	583.2	430.1	537.7	505.3	450.1

AED--UAE dirham.

Table 2

Sharjah Islamic Bank--Business Position					
--Year ended Dec. 31--					
(%)	2021	2020	2019	2018	2017
Total revenues from business line (currency in millions)	1,427.5	1,259.2	1,227.7	1,161.4	1,182.7
Commercial banking/total revenues from business line	54.6	52.9	45.6	51.1	61.6
Retail banking/total revenues from business line	24.6	28.2	30.9	26.3	23.8
Commercial & retail banking/total revenues from business line	79.2	81.1	76.5	77.4	85.4
Other revenues/total revenues from business line	20.8	18.9	23.5	22.6	14.6
Return on average common equity	8.8	7.1	9.8	9.4	9.2

Table 3

Sharjah Islamic Bank--Capital And Earnings					
--Year ended Dec. 31--					
(%)	2021	2020	2019	2018	2017
Tier 1 capital ratio	19.7	19.5	21.6	16.5	19.5
S&P Global Ratings' RAC ratio before diversification	13.1	13.8	15.6	12.3	15.7
S&P Global Ratings' RAC ratio after diversification	10.2	7.9	11.9	9.5	11.1
Adjusted common equity/total adjusted capital	75.2	75.2	75.2	100.0	100.0
Net interest income/operating revenues	77.9	78.1	73.6	51.8	55.1
Fee income/operating revenues	16.1	14.9	15.3	17.2	17.9
Market-sensitive income/operating revenues	2.7	3.6	4.8	25.7	21.7
Cost to income ratio	41.1	45.0	48.0	53.1	48.2
Preprovision operating income/average assets	1.5	1.4	1.4	1.3	1.7
Core earnings/average managed assets	1.1	0.9	1.2	1.2	1.3

RAC--Risk-adjusted capital.

Table 4

Sharjah Islamic Bank--Risk-Adjusted Capital Framework Data					
(Mil. AED)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk					
Government & central banks	13,729.1	--	--	2,701.3	19.7
Of which regional governments and local authorities	--	--	--	--	--
Institutions and CCPs	13,002.9	--	--	6,402.2	49.2
Corporate	17,602.2	--	--	23,887.6	135.7
Retail	5,141.6	--	--	5,276.9	102.6
Of which mortgage	1,522.1	--	--	907.6	59.6
Securitization§	--	--	--	--	--
Other assets†	5,848.5	--	--	10,590.0	181.1
Total credit risk	55,324.3	--	--	48,858.0	88.3
Credit valuation adjustment					
Total credit valuation adjustment	--	--	--	--	--
Market Risk					
Equity in the banking book	504.6	--	--	4,868.2	964.8
Trading book market risk	--	--	--	--	--
Total market risk	--	--	--	4,868.2	--
Operational risk					
Total operational risk	--	--	--	2,633.4	--
	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global Ratings RWA	% of S&P Global Ratings RWA
Diversification adjustments					
RWA before diversification	--	--	--	56,359.7	100.0
Total diversification/ concentration adjustments	--	--	--	16,420.2	29.1
RWA after diversification	--	--	--	72,779.9	129.1
		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings RAC ratio (%)
Capital ratio					
Capital ratio before adjustments		--	--	7,393.8	13.1
Capital ratio after adjustments‡		--	--	7,393.8	10.2

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions.

‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. AED--UAE dirham. CCPs--Counterparty clearing house. Sources: Company data as of Dec. 31, 2021, S&P Global Ratings.

Table 5

Sharjah Islamic Bank--Risk Position					
	--Year ended Dec. 31--				
(%)	2021	2020	2019	2018	2017
Growth in customer loans	(0.7)	16.4	2.7	12.0	26.1
Total diversification adjustment/S&P Global Ratings' RWA before diversification	29.1	75.0	31.4	29.8	42.0
Total managed assets/adjusted common equity (x)	9.9	9.9	8.6	8.6	7.3
New loan loss provisions/average customer loans	0.8	0.9	0.4	0.2	0.7
Net charge-offs/average customer loans	0.4	0.2	1.6	(0.1)	(0.3)
Gross nonperforming assets/customer loans + other real estate owned	4.8	4.9	5.1	5.5	5.0
Loan loss reserves/gross nonperforming assets	91.3	86.2	82.8	104.0	99.8

RWA--Risk-weighted assets.

Table 6

Sharjah Islamic Bank--Funding And Liquidity					
	--Year ended Dec. 31--				
(%)	2021	2020	2019	2018	2017
Core deposits/funding base	83.0	74.5	72.0	68.7	70.0
Customer loans (net)/customer deposits	75.4	87.1	92.1	91.2	97.3
Long-term funding ratio	93.1	87.5	88.7	89.2	93.3
Stable funding ratio	117.5	104.2	107.2	106.1	106.4
Short-term wholesale funding/funding base	8.1	14.6	13.5	12.3	7.9
Broad liquid assets/short-term wholesale funding (x)	3.3	1.4	1.7	1.7	2.2
Broad liquid assets/total assets	22.2	17.6	19.1	17.8	14.7
Broad liquid assets/customer deposits	31.7	28.0	32.5	30.1	25.2
Net broad liquid assets/short-term customer deposits	22.1	8.4	13.7	12.2	13.9
Short-term wholesale funding/total wholesale funding	38.4	49.5	41.2	39.4	26.3
Narrow liquid assets/3-month wholesale funding (x)	N/A	1.7	1.9	2.5	2.1

N/A--Not applicable.

Related Criteria

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Methodology For Rating Sukuk, Jan. 19, 2015

- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (As Of April 4, 2022)*

Sharjah Islamic Bank

Issuer Credit Rating A-/Stable/A-2

Issuer Credit Ratings History

25-Mar-2021 A-/Stable/A-2

26-Mar-2020 A-/Negative/A-2

27-May-2019 A-/Stable/A-2

Sovereign Rating

Sharjah (Emirate of) BBB-/Stable/A-3

Related Entities

SIB Sukuk Co. III Ltd.

Senior Unsecured A-

*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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