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## Servicer Evaluation: Banca Finanziaria Internazionale SpA

**Servicer Analysts:**

Corrado Boschi, Milan (39) 02-72111-259; corrado.boschi@spglobal.com  
Daniella Adah, London + 44 20 7176 0430; daniella.adah@spglobal.com

**Analytical Manager, Servicer Evaluations:**

Robert J Radziul, New York + 1 (212) 438 1051; robert.radziul@spglobal.com

### Table Of Contents

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Rationale

Profile

Management And Organization

Loan Administration

Related Criteria

# Servicer Evaluation: Banca Finanziaria Internazionale SpA

## Ranking Overview

Servicing category	Overall Ranking	Management and organization subranking	Loan administration subranking	Ranking outlook
Master servicer of residential mortgage loans	STRONG	STRONG	STRONG	Stable
Master servicer of commercial mortgage loans	STRONG	STRONG	STRONG	Stable
Master servicer of asset-backed securities	STRONG	STRONG	STRONG	Stable
Financial position	SUFFICIENT	N/A	N/A	N/A

## Rationale

S&P Global Ratings' overall ranking on Banca Finanziaria Internazionale SpA (Banca Finint) as a master servicer of residential mortgage loans, commercial mortgage loans, and asset-backed securities in Italy is STRONG. The outlook is stable on all rankings. The rankings were previously assigned to its former subsidiary, Securitisation Services SpA.

In October 2020, Securitisation Services SpA was incorporated into its parent company, Banca Finint, as a new securitization services area part of the corporate and investment banking unit. The master servicing operations under review are a separate department within the securitization services area. Banca Finint, in its role as a master servicer, manages and oversees subservicers of securitized portfolios comprising asset-backed securities, commercial mortgage loans, and residential mortgage loans through its securitization services department. While our rankings relate exclusively to the servicer's master servicing function, Banca Finint also offers additional services in the financial markets. We consider these other business lines to be outside the scope of our review unless they share synergies or affect the activity under assessment.

Our rankings reflect:

- The support provided by Banca Finint to the newly established securitization servicing area;
- The experienced and seasoned servicing management team and solid tenure levels among the master servicing staff;
- Effective information technology systems that support master servicing operations;
- Banca Finint's extensive internal controls (IC) framework, based on the three lines of defense model;
- Well-tested and reliable loan boarding workflow;
- Well-designed subservicer oversight program, which includes the recent enhancements to its subservicer ranking methodology; and
- The positive and regularly updated master servicing standards achieved over a growing portfolio.

Since our previous review (see "Servicer Evaluation: Securitisation Services SpA," published March 19, 2020), the following changes and/or developments have occurred within Banca Finint:

- In October 2020, the servicer previously known as Securitisation Services SpA and the master servicing operations under review were incorporated into the parent company, Banca Finint, becoming the securitization services business area of the bank;
- Banca Finint appointed the former COO of the standalone servicing entity as the head of the new servicing department and the former managing director of the standalone servicing entity as the head of the corporate and investment banking unit, maintaining a continuity in the servicing senior management team; and
- In January 2021, Banca Finint appointed a new head of internal audit after the former one took over a different role.

The outlook is stable on all rankings. The servicer has continuously boarded new business while providing robust service and it is well-positioned to continue maintaining and growing its portfolio. Similarly, the servicing operations rely on a solid leadership team and Banca Finint's shared resources.

## Profile

Banca Finint provides investment banking, corporate finance, corporate lending, and asset management services. The overall Securitisation Services area accounted for 62% of Banca Finint's revenue as of December 2021, while the master servicing function accounted for 17% on its own. This area works as a ringfenced set of operations in continuity with the past.

Banca Finint works on a rolling three-year strategic plan, including the master servicing business goals. The board of directors (BoD) mandates the CEO to review the plan every year. Under the CEO's supervision and in collaboration with the heads of each unit, the management control team produces the plan that the risk management department verifies before submitting to the BoD for their final approval.

Over the last two years, the master servicing overall portfolio increased, primarily driven by growth in the asset-backed securities portfolio. As of December 2021, the servicer managed €65.7 million in total, of which 75% by gross book value (GBV) was asset-backed securities, 22% residential mortgage loans, and 3% commercial mortgage loans. In 2021, the servicer boarded a granular commercial mortgage loan portfolio which increased the number of cases within this asset class.

**Table 1**

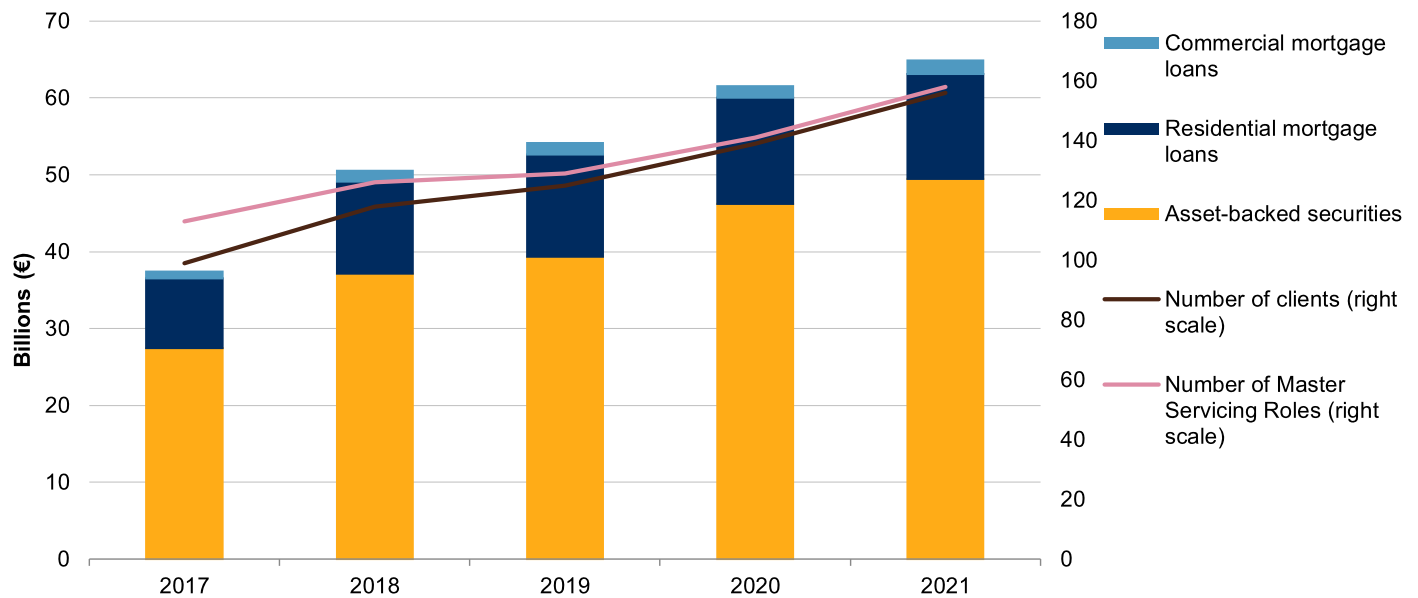
<b>Portfolio Evolution (Master servicing)</b>					
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
<b>Master servicing portfolio under assessment (GBV) (€ bil.)</b>					
Residential mortgage loans	9.07	12	13.29	13.8	13.6
Commercial mortgage loans	0.94	1.41	1.52	1.52	1.8
Asset-backed securities	27.42	37.12	39.33	46.23	49.4
Total portfolio	37.43	50.53	54.13	61.55	64.9

**Table 1**

Portfolio Evolution (Master servicing) (cont.)					
	2017	2018	2019	2020	2021
<b>Master servicing portfolio under assessment by number of cases</b>					
Residential mortgage loans	84,296	86,415	86,517	110,005	112,593
Commercial mortgage loans	335	324	295	290	2,643
Asset-backed securities	2,013,525	3,268,433	2,723,765	2,768,006	2,691,738
Total portfolio	2,098,156	3,355,172	2,810,577	2,878,301	2,806,974
<b>Clients</b>					
Master servicing clients	99	118	125	139	156
<b>Roles</b>					
Master servicing roles	113	126	129	141	158
<b>Staff</b>					
Overall staff	123	143	160	276	300
Master servicing staff	28	40	43	40	45

**Chart 1**

**Overall Master Servicing Portfolio Evolution (GBV) vs Number Of Clients and Master Servicing Roles (€ MM)**

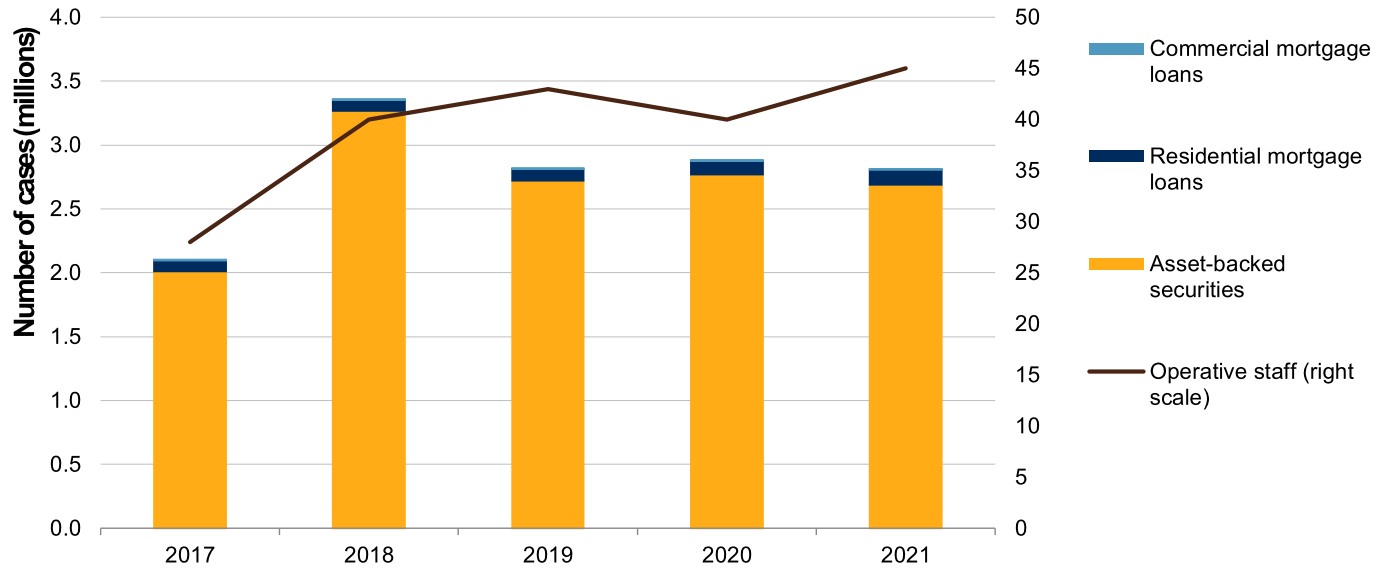


Source: S&P Global Ratings.

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Chart 2

**Overall Master Servicing Portfolio Evolution (number of cases) vs Operative Staff**



\*The commercial mortgage loans portfolio represents a small portion of the overall portfolio, hence unshown in the chart. Source: S&P Global Ratings. Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

## Management And Organization

The management and organization sub-ranking is STRONG for all rankings.

### Organizational structure, staff, and turnover

Banca Finint has an effective organization fostering specialization among its employees and a well-designed governance model.

The bank's organizational structure effectively addresses operational needs. The bank's CEO leads the executive team including the heads of supporting functions and the heads of business line units. The master servicing department is part of the corporate and investment banking unit. The IC units are independent of the bank's and master servicing operations, reporting directly to the BoD, which we view favorably. Furthermore, Banca Finint's BoD includes seven directors, of which three are independent.

As a response to the COVID-19 pandemic, the bank transitioned to remote working and provided laptops to all employees in March 2020. The staff have continued with remote work since 2021, fluctuating overtime to follow government guidelines.

The bank's overall and the master servicing staff turnover rates have remained low over the past five years in line with similar ranked peers.

**Table 2**

<b>Staff turnover rate</b>					
<b>Overall staff</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Staff at beginning of period	113	123	143	160	276
Number of joiners	26	40	37	28	62
Number of staff leaving voluntarily	16	20	20	17	38
Number of staff leaving not voluntarily	-	-	-	-	-
Number of expired contracts	-	-	-	-	-
Number of staff deemed redundant	-	-	-	-	-
Staff at end of period	123	143	160	276	300
Turnover rate (%)	14	16	14	11	14

\*Overall total in 2020 differ due to the merge.

Experience metrics are stable across middle management and staff and in-line with peers. In the last two years, the securitization services area reported slightly lower experience and tenure because senior managers were redefined to include only employees with a director title or higher. This change in classification, along with several members who transferred out of the master servicing department into other parts of the bank, resulted in the servicer reporting significantly lower senior management experience and tenure levels since 2019. The current senior management figures are similar with their peers.

**Table 3**

	<b>Experience</b>			<b>Tenure</b>		
	<b>Senior management</b>	<b>Middle management</b>	<b>Staff primary/ master servicing</b>	<b>Senior management</b>	<b>Middle management</b>	<b>Staff primary/ master servicing</b>
2021	21	16	7	13	11	5
2020	20	17	5	12	11	4
2019	30	15	6	20	12	3
2018	29	14	6	19	12	3
2017	28	13	6	18	11	4

## Training

The bank has a HR team of 11 supporting the entire bank, including one HR officer dedicated to the servicing team who manages the recruitment of new staff, trains and develops new and current employees, runs the annual performance assessments, and is responsible for improving the working environment. The servicing HR officer plans the annual training based on input from senior and middle managers, the compliance department, and the anti-money laundering (AML) department.

Banca Finint records employee training hours in a HR platform and requires staff to complete a minimum of 10 training hours on regulatory topics per year. As of December 2021, existing master servicing staff completed an average of 57 hours of training, compared to the annual 61 hours in 2020. The bank was able to transition from

external and on-the-job training to online training at the beginning of the pandemic, which resulted in similar levels of training hours provided in 2021 with respect to 2020.

The master servicing department's induction program differs according to the experience of new hires. The servicer delivered 712 hours per employee in 2021 compared to 430 hours in 2020 and fewer hours in prior periods as the company reprioritised training new hires. The rapid increase of training hours during this period was driven by on-the-job training. The servicer deemed it necessary to offer an extended amount of on-the-job training hours during the Covid-19 pandemic as it was learning to train new hires from a distance.

Line managers conduct mid-year and year-end meetings with their staff to review performance against the goals they jointly established at the beginning of the year. The head of the securitization services area together with the heads of each department oversee staff performance and propose bonuses and promotions annually, in consultation with each line manager.

### **Systems and technology**

The bank's IT team has 4.5 full time employees (FTEs) who work exclusively in the securitization services area on developing and maintaining its proprietary SARA loan-management system and other applications.

Furthermore, the bank receives support from an external IT provider, Fin.IT, which is fully owned by the FIH Group. There are 7.5 FTE who support the securitization services area with IT projects and hold periodic meetings with the head of this area to discuss the status of each project.

The bank is ISO:27001 information security management certified. The criteria to obtain this certification outlines the requirements for establishing, implementing, maintaining and continually improving an information security management framework. Finally, the bank has a well-designed data backup routine and disaster recovery preparedness.

### **Servicing system applications**

SARA is the core master servicing IT platform supporting oversight of subservicers. The platform offers a wide range of functions and level of automation to support the servicing activities under review.

Staff can access SARA remotely, if necessary, and its level of automation reduces the need for manual input and fosters efficiency. A well-tested mapping process facilitates the boarding of new portfolios into SARA. Moreover, the master servicing platform facilitates detailed monitoring activity of subservicer facilities, checking of transaction documents, uploading subservicer reports and monthly collection data, analysing performance against business plans, performing trigger analysis, and providing regulatory reports.

The servicer continues to enhance SARA and since our prior review, it improved the interconnectivity with other applications used for different servicing purposes and upgraded the functionality of payment reconciliation checks.

### **Business continuity and disaster recovery**

The bank regularly updates its business continuity (BC) and disaster recovery (DR) plans based on business impact analyses and tests them annually.

The CEO, BC manager, and the heads of IT, HR, internal audit, and the purchase function, who is responsible for

physical security, collectively form a crisis team to address any BC or DR events. The final decision on whether to activate any plan is up to the CEO.

Since the beginning of the COVID-19 pandemic all employees have a laptop and can work from home if needed, but the bank maintains two backup sites: one two kilometers away from the bank's headquarters where the master servicing department is located, and the other two hours away in Milan, totalling 40 operative desks. The BC plan requires two hours to switch over to the closest BC site. The most recent BC test took place in October 2021 with no material issues reported.

From a DR perspective, all data is backed up daily. In addition, there is an eight-hour recovery time objective for critical data. The most recent DR test was performed in June 2021 with no identified issues.

### **Cybersecurity**

The bank continues using a Palo Alto Networks Next-Generation Firewalls and Security Operating Platform to protect its network and maintains up-to-date virus and system monitoring software.

An external company performs an intrusion detection test annually, with the most recent test in December 2021 and no issues reported.

Also, the servicer places great emphasis on providing cybersecurity training, carried out primarily through online training. In addition, the bank runs quarterly phishing campaigns.

### **Internal controls**

The bank has sound IC in place which adhere to the "three lines of defense" model. Moreover, the IC functions meet quarterly to discuss periodic findings on their respective area of responsibility facilitating effective organizational communication. Finally, the IC functions provide quarterly reports and a semi-annual summary to the BoD, which the bank includes in the periodic documentation submitted to Bank of Italy (BoI).

### **Policies and procedures**

The master servicing department follows the bank's generic policies and procedures (P&Ps) and also has comprehensive master servicing P&Ps.

The bank's organization unit collaborates with the operational business units to develop and maintain P&Ps content while the compliance function reviews them before submitting them for approval. The BoD approves all the policies, whilst the approval of the procedures falls within the remit of the CEO or one of their designees.

Master servicing employees can access the operative manuals directly through the servicing platform. This feature facilitates the accessibility to the operative procedures and, consequently, helps employees work more effectively.

### **Compliance and quality control**

Four staff compose the bank's compliance function, including the head who reports directly to the BoD. This team identifies laws and regulations applicable to the servicer, verifies whether the internal procedures are compliant with them, and advises operations about their application.

The bank has an AML function team that ensures that the servicer is complying with AML regulations and coordinates



AML annual training for employees. Finally, it prepares quarterly, semi-annual, and annual reports for the BoD on AML-related activities.

### **Risk management**

The bank has a risk management function which associates each risk with its potential impact on operations and the probability of occurrence, before and after remedial actions. The risk management team summarizes the results in a risk map, which the BoD reviews and approves annually.

Furthermore, the risk function supervises the Internal Capital Adequacy Assessment Process (ICAAP), which determines the internal capital requirements necessary to manage the risks of the business. The BoD approves the ICAAP report annually.

Finally, in accordance with Circolare 288/2015, the risk management team performs and delivers semi-annual reviews of the risks related to the performance of securitized transactions to the BoD, before the bank submits it to BoI.

### **Internal and external audits**

The bank's internal audit function reports directly to the BoD and it is fully independent from operations. It applies a risk-based audit methodology to draft the audit plan which focuses on areas associated with key risks. It also incorporates BoI directives, suggestions from heads of operational units and the BoD, as well as statutory auditors' requests.

The IA function reviews the master servicing department whenever it is in scope of their annual plan. Last year, the IA function conducted 15 audits, including two completed on areas that are supporting master servicing operations but not exclusively. The IA function reported three high-risk findings outside the area in scope of our analysis, which the bank has resolved. Some aspects of the master servicing operations are in scope of the audit plan designed for the period 2021-2023.

The internal audit team track control activities through the Tableau de Bord duly filled by the bank's corporate affairs unit.

There were no external audits performed on the master servicing operations since our prior review.

Each audit report is sent to the relevant process owner for collecting their comments and in general discussing the potential findings.

BOI inspected the servicer between the end of 2019 and the beginning of 2020 and management confirmed that there were no exceptions highlighted.

### **Complaint management**

The master servicing department monitors subservicers' complaints management through semi-annual key performance indicator (KPI) reporting and dedicated inspections of this activity. The head of the legal team, part of the master servicing department, reports on the complaints monitoring activity to the quarterly complaints committee. In addition, five lawyers who are part of the legal team can assist subservicers in handling complaints and attend the above-mentioned committee meetings as additional members, if required.

## **Insurance and legal proceedings**

Banca Finint has represented that its directors and officers and its errors and omissions insurance coverage is in line with the requirements of its portfolio size. As of the date of this report, there were no material servicing-related pending litigation items.

## **Loan Administration**

The loan administration subranking is **STRONG** for all rankings.

### **New loan boarding**

Although the new loan boarding process remained largely unchanged since our prior review, the servicer rolled out specific training to increase the number of employees capable of working on the new loan boarding process. There are 30 staff trained to board new loans who sit across the securitization services area, an increase from eight in 2020, which we view favorably.

Before boarding, Banca Finint obtains comprehensive information from the subservicer on how data will be received. The servicer can either propose its standard template to the subservicer or map the subservicer's template to its own. Both options enable automation of the boarding process and allow the direct boarding of loans from the subservicer platform onto SARA.

The electronic boarding of new master-serviced portfolios onto SARA takes two days, on average, upon receiving the minimum data set required. In exceptional cases, such as a subservicer replacement, the servicer can create a task force if the boarding activity requires particular attention. To date, no subservicer has been replaced.

Beyond the boarding of portfolio data, the servicer performs further actions, such as a review of transaction documentation, a preliminary assessment of the subservicer, and production of a due diligence report. The servicer only accepts a master servicing role if it deems the relevant subservicer to satisfy a minimum set of features, subject to approval by an internal committee consisting of the heads of securitizations services, subservicer monitoring, data management, and master servicing.

After portfolio information is uploaded onto the servicing system, the subservicer monitoring team performs portfolio checks within three to six months from the date of the subservicing agreement, which is longer than what other peers typically report. The servicer utilizes a specific boarding checklist. In conjunction with this review, an onboarding report is generated on SARA and filled by the monitoring team as a tool to monitor the performance of the sub-servicer in six specific areas:

- Legal network (completeness of legal procedures);
- Documentation (completeness of paper documents acquisition process);
- Reports to investors (quality and accuracy of info reported to investors);
- Loan-management system (quality of the application system);
- Loan identification (accuracy of loan by loan information); and

- Electronic data (quality and accuracy of the boarding process).

The servicer committee, which meets on an ad-hoc basis at least semi-annually and is comprised of master servicing managers, reviews the onboarding report as soon as it is available.

### **Payment processing**

Banca Finint has limited responsibilities for payment processing in its role as master servicer as they are only responsible for overseeing the subservicers' performance. The servicer performs monthly reviews of payment reconciliation to ensure that sub-servicers have correctly reconciled collections through the relevant SPE's bank account.

### **Client management and investor reporting**

The servicer has a three FTE sales team, which sits within the Securitisation Services area, that is responsible for attracting new clients and managing the relationship with existing clients. Banca Finint meets regularly with its clients to solicit timely feedback regarding service quality.

Banca Finint has several reporting duties. On a semi-annual basis, it reports the results of its monitoring activity internally to the BoD and externally to the BoI, as required by law. The servicer also reviews and/or assists subservicers with the production of reports for BoI.

The servicer has increased the number of trained staff in investor reporting to 38 from 15 at the time of our prior review, which we view favorably. All 38 staff sit within the master servicing area.

The reporting process is automated through SARA, which is linked to the general ledger accounting system. This facilitates timely reporting of payment reports, investor reports, semi-annual schedules for the BoD, monthly and quarterly BoI reports, and monthly Centrale dei Rischi reports. Also, some transactions require the production of a servicer report that highlights portfolio evolution and collections. The servicer produces reports based on standard formats that can be tailored to meet client needs. Investor reports are freely available for all public transactions and restricted for private transactions on the servicer's online portal.

### **Master servicing**

Banca Finint has a long track record as a master servicer over a highly diverse and ever-growing portfolio. The master servicing function relies on well-designed processes, controls, and a reliable platform that the servicer reviews, updates and improves regularly.

As of December 2021, the servicer monitored 60 subservicers, up from 51 in December 2020, and 158 portfolios, up from 140 over the same period.

There are 56 staff that are split into six teams that compose the master servicing department:

- Five staff work in transaction management and master servicer contracts;
- Six employees work in data management, which carries out data related responsibilities;
- Eight in legal deal with complaints;
- Nine in monitoring are responsible for subservicer oversight;

- Twenty-four in operations perform administrative tasks; and
- Four staff work in functions that are outside the scope of our ranking analysis.

Each special-purpose entity [SPE], or the investor usually, proposes the subservicer for their transaction but Banca Finint can refuse to accept the master servicing mandate if the proposed subservicer doesn't meet its minimum standards. Banca Finint runs preliminary due diligence on new sub-servicers before the signing of the servicing agreement.

The official master servicing activity begins when the servicer boards a new master servicing portfolio. If the subservicer is new, Banca Finint performs an initial on-site visit and produces a first report, which is discussed in Banca Finint's servicing committee.

The monitoring of existing subservicers follows an established process. The servicer monitors subservicers' activities by performing regular reviews (desk-based with remote access to the subservicer's IT system and/or on-site), audits on collection activity, and data checks of the portfolio under management.

Banca Finint has a policy of performing an on-site review every two years and desktop reviews annually. If the servicer notes any significant findings, it shortens its on-site review cycle further. However, during the pandemic on site reviews were put on hold and substituted with video calls. The servicer expects to revert to the typical review frequency this year.

The desktop reviews for each subservicer involves:

- Monthly checks on portfolio information;
- Quarterly checks on complaints;
- Semi-annual reports (schedules) to the BoD and to the statutory auditors about the subservicer's performance in relation to each portfolio (compiled through SARA), including subservicer KPI analysis; and
- Annual analysis based on financial highlights, assets under management, company overview, and reputational risk.

During the COVID-19 pandemic, Banca Finint, like its peers, primarily conducted remote reviews instead of on-site visits. The servicer performed 29 desktop reviews in 2020 and 34 in 2021. The servicer explained that during the initial phase of the pandemic, they launched a campaign to find out how the subservicers were re-organising their servicing activities. Moreover, the servicer offered more support to subservicers on AML and Credit Bureau related topics during the pandemic period.

It is company practice to assign an internal ranking to each subservicer and update it throughout the transaction's life. Six pillars underpin the subservicer ranking methodology, including company overview, financial highlights, processes and procedures, loan administration, IT systems, and reputational risk. The servicer conducts compliance reviews of the sub-servicers policies and procedures and strengthened the reputational risk pillar by checking for any negative information about subservicers on the websites of regulatory bodies, i.e BOI, antitrust authority & the Italian data protection authority.

Banca Finint reviews and scores all six pillars in a due diligence report as part of their periodic reviews. SARA calculates an average score for each pillar based on the information available in the system. Scores relating to company overview, processes and procedures, loan administration, and IT can range from insufficient to excellent, while financial results and reputational risk scores can be sufficient or insufficient. The servicer also reviews the company overview, financial highlights, and reputational risk annually for subservicers.

The subservicer monitoring unit presents the due diligence report results to the servicer committee, which confirms the score and decides whether a subservicer is or remains eligible to manage a transaction. If the servicer deems a subservicer as ineligible to act on a transaction (at boarding or during the transaction's life), it flags it to the SPE/investor who has the authority to find a replacement.

Banca Finint regularly tracks KPIs and service level agreements. In accordance with Circolare 288/2015, the servicer conducts semi-annual KPI reporting for subservicers that feeds the servicer schedules, which are also used for internal monitoring purposes. The servicer reviews the KPI reporting in the servicer committee and reports the same to the BoD.

The ongoing surveillance activity also includes the control and checks of the subservicer's performance in terms of collections against its business plan, the accuracy of the monthly report, and the reconciliation of the flow of funds. SARA automatically processes those actions.

## **Related Criteria**

- [Select Servicer List, July 26, 2022](#)
- [Banca Finanziaria Internazionale SpA STRONG Master Servicer In Italy Rankings Affirmed; Ranking Outlook Stable, July 12, 2022](#)
- [Servicer Category Descriptions Expanded And Revised, Feb. 28, 2022](#)
- [European Servicers Confident About Managing LIBOR Exposure Risk, But Structured Finance Transactions Pose Challenges, July 15, 2021](#)
- [Servicer Evaluation Spotlight Report: Environmental, Social, And Governance Factors Have Consistently Powered Our Servicer Evaluation Rankings, Nov. 16, 2020](#)
- [Servicer Evaluation: Securitisation Services SpA, March 19, 2020](#)
- [Analytical Approach: Global Servicer Evaluations Rankings, Jan. 7, 2019](#)

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