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VP Bank AG

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VP Bank AG

Ratings Score Snapshot

Global Scale Ratings	
Issuer Credit Rating	A-/Negative/A-2
Resolution Counterparty Rating	A/--/A-1

SACP: a-



Support: 0



Additional factors: 0

Anchor	a-	
Business position	Constrained	-2
Capital and earnings	Very strong	+2
Risk position	Adequate	0
Funding	Adequate	0
Liquidity	Adequate	
CRA adjustment	0	

ALAC support	0
GRE support	0
Group support	0
Sovereign support	0

Issuer credit rating
A-/Negative/A-2
Resolution counterparty rating
A/A-1

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

Credit Highlights

Key strengths

Very strong capitalization, backed by solid earnings generation and a supportive shareholder structure.

Established market position in private banking, benefiting from Liechtenstein's reputation as a hub for wealth management services.

Sound funding and liquidity position.

Key risks

Execution risks related to the new strategy.

Niche player in the highly competitive private banking segment.

Legal and reputational risk inherent in its private banking model.

VP Bank AG's announced restructuring is a positive step, but the execution is key. The restructuring plan that the bank announced in late summer 2024 is a positive step on the long path to restoring profitability and stabilizing the franchise. However, the bank's management still needs to successfully implement the restructuring package. The plan foresees planned cost optimization measures totaling at least Swiss franc (CHF) 20 million. More specifically, the restructuring package entails the exit of the banks' Hong Kong subsidiary and cost-optimization measures related to its subsidiaries and its middle office function. At the same time, management plans to continue its growth path with a strong focus on its intermediary business and targeted service offering for its clients. We understand that VP Bank will maintain its Strategy 2026 and long-term ambitions for now. We believe that VP Bank might review the 2026 financial

targets over the coming months and communicate its decision alongside its medium-term financial plan toward year-end 2024.

The high recent turnover of senior management gives rise to elevated risks. The most recent departure is that of CEO Paul Arni who resigned with immediate effect in May 2024. We note that high fluctuation in senior management increases the risk of material setbacks in the bank's strategy implementation, as demonstrated in the slow progress made by the group over recent years. The strategy implementation over the past few years included investments in VP Bank's IT platform to enable more efficient processes, digital self-services, and enhancements in the bank's digital value proposition. This resulted in material cost increases and muted financials, while the benefits are still to materialize.

We project VP Bank's financial performance will remain muted and weaker than other private banks'. Besides the large investment into its IT platform, VP Bank experienced additional costs related to the review of the Russian clients portfolio and compliance with international sanction regimes. Generally, we expect larger peers can absorb investment needs better than VP Bank, because they have larger economies of scale, and therefore will continue to post stronger results. We forecast VP Bank's return on equity will be at a low 3.1%-3.3% between 2024 and 2026. Similarly, we assume the banks' cost-to-income ratio will likely stay elevated above 80% between 2024 and 2026, despite some expected improvement in fee income as assets under management increase.

Outlook

The negative outlook on our rating on VP Bank reflects our expectation that it will struggle to implement its 2026 strategy over the next 12-24 months and that revisions to its strategic plan and targets could be necessary. This strategic uncertainty could prolong the bank's subpar financial performance, compared with peers, and could lead us to revise our view on the stability of the bank's business model.

Downside scenario

We could lower the ratings on VP Bank if the bank's:

- Strategy implementation experiences material setbacks, resulting in a less stable business model or lower profitability, compared with peers. This could result from a decline in clients and net outflows in assets under management, or a further weakening operating efficiency; or
- Risk appetite increases. A sizable acquisition could also constrain the rating if it materially erodes the bank's capital buffer and reduces the risk-adjusted capital (RAC) ratio below 15%.

Upside scenario

We could revise the outlook to stable if management's actions stabilize the organization and financial performance. An upgrade would also hinge on new net asset inflows and an increase in fee income that underpin the stability of the bank's business model.

We could consider a positive rating action if VP Bank's buffer of bail-inable subordinated capacity exceeds our S&P Global Ratings-adjusted threshold of 350 basis points (bps) and if the bank is committed to maintain the buffer at this level.

Key Metrics

VP Bank AG--Key ratios and forecasts

	--Fiscal year ended Dec. 31 --				
(%)	2022a	2023a	2024f	2025f	2026f
Growth in operating revenue	2.0	8.3	(3.6)-(5.4)	-2.0-2.0	-2.0-2.0
Growth in customer loans	-7.7	-5.1	-2.0-2.0	1.0-3.0	0.0-5.0
Net interest income/average earning assets (NIM)	1.2	1.4	1.2-1.4	1.2-1.3	1.2-1.3
Cost to income ratio	79.1	75.5	79.0-82.3	79.6-82.9	80.2-83.5
Return on average common equity	3.7	4.0	2.9-3.2	3.1-3.4	3.0-3.3
New loan loss provisions/average customer loans	0.0	0.1	0.05-0.15	0.05-0.2	0-0.1
Gross nonperforming assets/customer loans	1.1	1.1	1.2-1.4	1.1-1.2	1.0-1.2
Risk-adjusted capital ratio	18.0	20.3	19.7-20.7	19.4-20.4	19.2-20.2

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

Anchor: 'a-' For A Private Bank In Liechtenstein

We use the economic risk and industry risk scores from our Banking Industry Country Risk Assessment (BICRA) to determine a bank's anchor, the starting point in assigning an issuer credit rating. In the case of VP Bank, a private bank, we use the economic and industry risk factors for the country of origin, Liechtenstein. The anchor for VP Bank is therefore 'a-', based on an economic risk score of '2' and an industry risk score of '3' for Liechtenstein. We view the economic and industry risk trends for Liechtenstein's banking industry as stable.

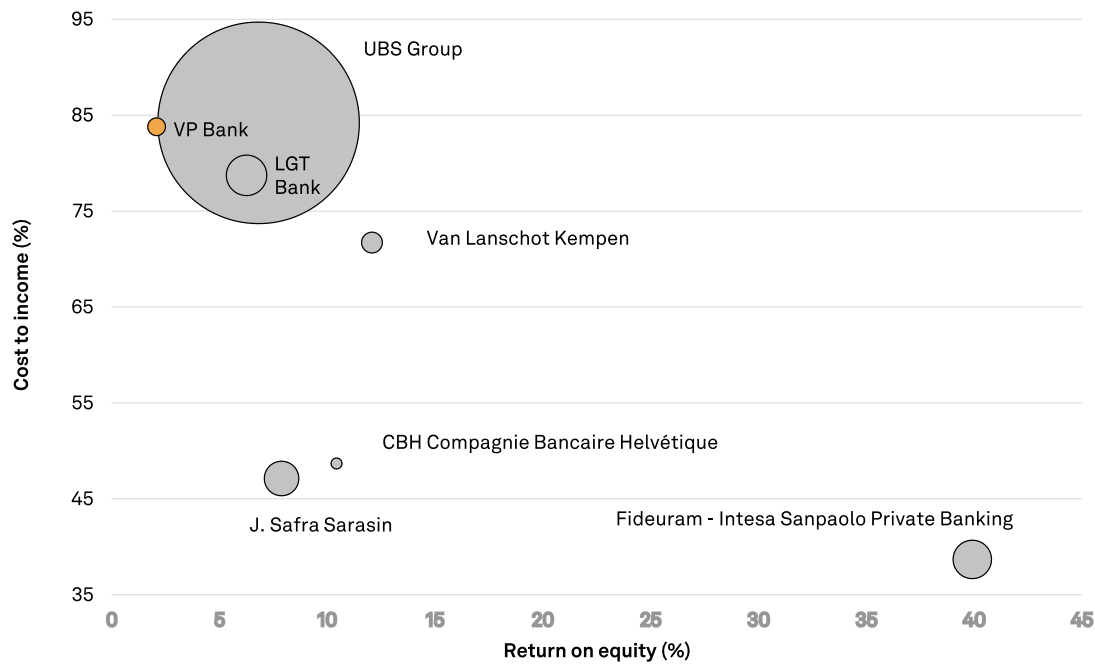
Economic risk in the Liechtenstein banking sector remains relatively low in a global context, despite its exposure to global free trade flow and economic uncertainties. Liechtenstein's wealth levels are among the highest globally. Although household debt is relatively high, risks remain average by European standards, in our view. Mirroring trends in neighboring countries such as Switzerland and Germany, house prices in Liechtenstein have risen moderately in recent years, but we see no signs of a credit-fueled asset-price bubble and expect price increases will somewhat reduce. Furthermore, we expect credit losses in Liechtenstein's retail and corporate banking will remain low in 2024-2025, as global economic growth and trade recovers.

Our assessment of industry risk mainly reflects banks' off-balance-sheet business models focused on private banking and wealth management. We consider Liechtenstein banks' risk appetites to be restrained, with a conservative risk culture, but the high confidence sensitivity of their business models exposes the financial industry to reputational risk. Liechtenstein has implemented international best practices for tax compliance and information exchange. The financial supervisory authority banking regulation and supervision is in line with EU standards. Banks' funding structures are driven by ample private banking deposits, which we consider neutral for Liechtenstein's banking sector.

Business Position: A Niche Position In Private Banking Limits Diversity

VP Bank's business franchise is weaker than that of larger and better diversified peers, for example domestic peer LGT Bank AG or some Swiss private banks. The banks' peers operate generally at a larger scale, along with better efficiency and profitability (see chart 1).

Chart 1
Relatively weak profitability metrics compared with peers



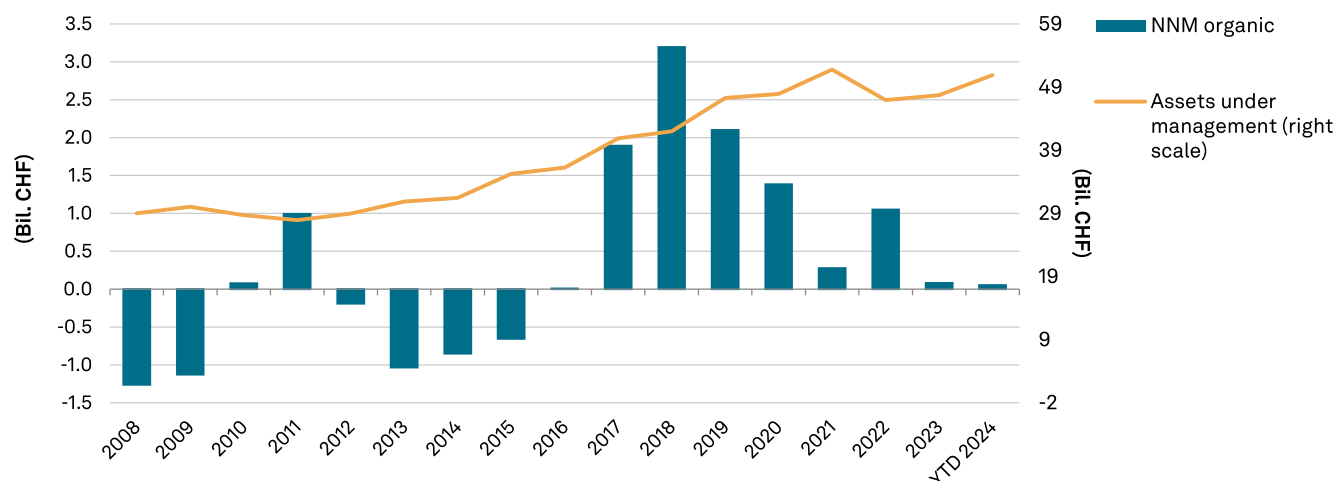
Bubble size represents total assets. Data as of June 2024. Source: S&P Global Ratings. Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

Moreover, despite being a universal bank with retail and commercial lending activities in Liechtenstein and adjacent parts of Switzerland, VP Bank lacks business diversification and scale compared with most of its commercial and private banking peers. We project VP Bank to focus on its core competencies in private banking and its financial intermediaries business in its target markets in Liechtenstein, Switzerland, Germany, Luxembourg, and the Nordics.

The bank reported organic net new money inflow of only CHF0.5 billion in the first six months of 2024, compared to CHF83 million over 2023, leading to assets under management (AUM) of CHF50.4 billion at end-June 2024. We note that the banks' net new money development can be sensitive to single clients.

Chart 2

Muted net new money growth, also driven by outflow of Russian client money



CHF--Swiss franc. NNM--New net money. Sources: S&P Global Ratings, VP Bank AG. Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

Under its Strategy 2026, VP Bank aims to transition toward an open wealth management platform. It intends to strengthen its franchise with intermediaries, expanding its product range to nondirect customers, and allowing its own clients to make purchases from third-party providers in asset classes where it has limited offerings of its own.

VP Bank's management board has had an almost complete overhaul over the recent past. Although the bank remains fully committed to implementing its formulated strategy measures, we believe that the recent management changes could cause some delays to their implementation as the new team settles in.

Capital And Earnings: Very Strong Capitalization Is A Key Strength

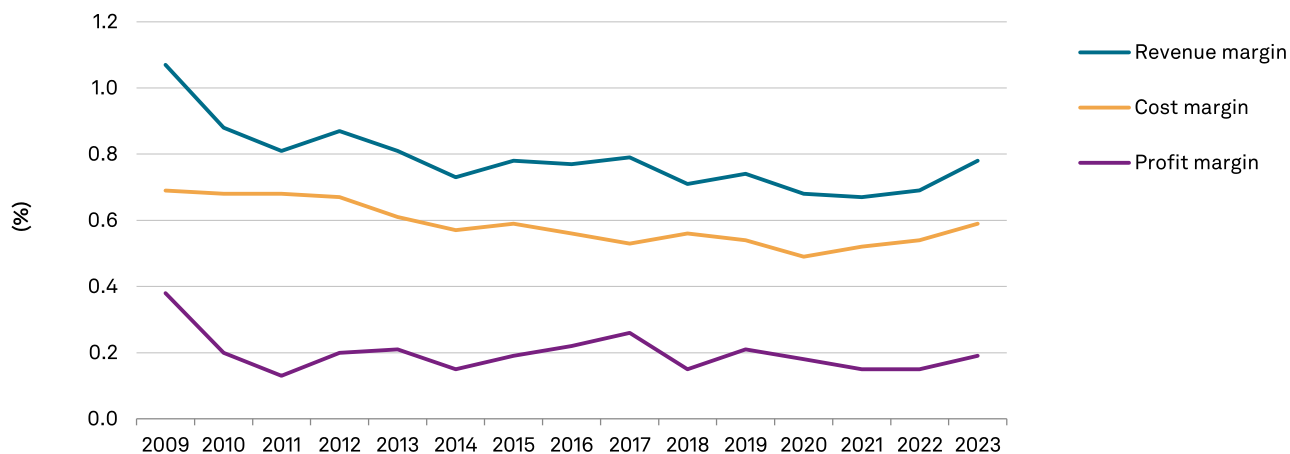
We consider VP Bank's capital and earnings as a key rating strength. We estimate a RAC ratio of around 20% until year-end 2026, compared with 20.3% at year-end 2023 and up from 18.0% year-end 2022. The increase in 2023 mainly resulted from the bank's low lending activity and the related drop in exposures and risk-weighted assets. Overall, we expect the bank's RAC ratio to remain below its regulatory Tier 1 capital ratio, which was 26.1% at end-June 2024. This reflects S&P Global Ratings' higher risk weights compared with the regulatory approach, especially for market and operational risk. In case of attractive acquisition opportunities in the private banking sector, we expect that VP Bank would not jeopardize its capitalization. We also project VP Bank's quality of capital, consisting solely of core capital, to remain high.

We project VP Bank's financial performance to remain muted over our forecast horizon, with low efficiency and relatively low profitability. This leaves the bank weaker than many other private banks. The muted performance is based on the bank's high investment needs under its Strategy 2026 and outflow of assets from Russian clients. Some cost reductions will come from the planned cost optimization measures from its restructuring package.

We forecast the cost base will likely remain elevated but will not materially expand from next year onward. In our base-case scenario, we expect net income to remain muted between CHF34 million-CHF36 million over 2024-2026. Despite a comparatively low number of discretionary wealth-management mandates, we expect that the bank will largely maintain adequate margins on its AUMs. However, we anticipate the competitive pressure will remain strong, with an increasing trend.

Chart 3

Continuing pressure on margins is unlikely to reverse



Source: S&P Global Ratings.

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Risk Position: Risk-Management Has Improved Over Recent Years, But Operational Risks Remain Inherent To Its Business Model

We consider VP Bank's risk management and governance systems as adequate. By now the bank has eliminated all deficiencies in its risk management and governance systems that surfaced in 2020.

VP Bank's credit risk from its loan portfolio--totaling about CHF5.8 billion at end-June 2024--is contained, in our view. The loan book is generally granular and adequately collateralized, and the bank maintains prudent underwriting standards overall. This should limit the risk of further losses, in our view, also during extreme market volatility. We forecast the cost of risk will remain at about 3-4 bps over 2024-2026 as we understand that VP Bank is conservatively hedging its market and foreign-exchange risks.

However, compared with the private banking business, we consider Lombard lending to legal entities, such as funds or trusts, as higher risk. In these cases, we usually observe no recourse to the beneficial owners in the case of collateral shortfalls. We also note that VP Bank is sensitive to global wealth levels and capital market levels, and vulnerable to reputational risks because of its business model on confidence-sensitive private banking. Sanctions against companies and individuals from Russia and Belarus put a spotlight on VP Bank as Russia used to be a target market for VP Bank.

We expect VP Bank to remain fully committed to the swift implementation of these sanctions.

Generally, we expect VP Bank to remain sensitive to inherent legal, operational, and reputational risks from its private banking activities. We reflect those risks mainly in our starting point for the rating, because we see this as an industrywide characteristic for all Liechtenstein private banking players. We also believe that our RAC model captures the operational and reputational risks inherent in VP Bank's business model through market and operational risk charges.

Funding And Liquidity: The Banks' Funding Profile Is Focused On Deposits

The bank's liabilities mainly reflect its private banking-related deposit base and the use of Lombard and mortgage loans by clients, with excess deposits invested in cash, money market, and fixed-income instruments. The deposit base accounted for about 96% of its funding base as of end-June 2024, resulting in a strong stable funding ratio of 154%. A customer loan-to-deposit ratio of 59% underlines the liquidity of its balance sheet. However, we view private banks' customer deposits as generally more confidence-sensitive and dependent on clients' investment behavior. They are largely uncovered by deposit insurance and we envisage greater volatility of private banks' client deposits. As such, strong finding ratios are more a necessity driven by the business model than a strength.

VP Bank holds roughly CHF3.0 billion of its excess deposits in cash and money market instruments and has a securities portfolio of CHF2.6 billion as of June 2024, largely constituting generally highly liquid assets. This results in good coverage of short-term customer deposits by net broad liquidity assets of 41%. Nevertheless, as for our funding assessment, we consider the high liquidity metrics as a mitigant to absorb potential volatile deposit flows, rather than a strength in their own right.

Support: No Uplift To The Stand-Alone Credit Profile

We consider VP Bank systemically important and subject to a resolution process, in which we expect the bank would likely be sold.

VP Bank's existing CHF155 million senior subordinated bond is minimum requirements for own funds and eligible liabilities (MREL)- and additional loss-absorbing capacity (ALAC)-eligible. We understand that the bank already meets its subordinated MREL with its very high common equity tier 1 ratio of 26.1% as of first-half 2024.

We adjust our ALAC threshold for rating uplift by 50 bps (net) to 350 bps of S&P Global Ratings risk-weighted assets (RWAs), balancing VP Bank's maturity concentration and equity investments that would likely not be recapitalized. For the maturity concentration, with only one bond maturing in 2029, we increase our threshold by 100 bps, but for the adjustment for equity in the banking book, we reduce our adjusted threshold by 50 bps. The existing senior subordinated bond results in an ALAC buffer, based on the resolution perimeters' RWAs, of only about 300 bps over the next few years, below our threshold for a higher rating.

Environmental, Social, And Governance

Governance factors are a moderately negative consideration in our credit rating analysis of VP Bank. The bank is currently in a transformation period and experienced material management turnover over the past years that might delay its strategy implementation. At the same time, we consider past weaknesses in risk-management that led to a large single loss in its Lombard book in 2020, to be remediated. Social and environmental factors remain neutral in our analysis.

Key Statistics

Table 1

VP Bank AG--Key figures				
		--Year ended Dec. 31--		
Mil. CHF	Year to date June 2024	2023	2022	2021
Adjusted assets	11,578	11,372	12,540	13,112
Customer loans (gross)	5,752	5,489	5,782	6,264
Adjusted common equity	1,032	1,014	1,001	984
Operating revenues	163	364	336	330
Noninterest expenses	136	275	266	256
Core earnings	23	75	65	68

CHF--Swiss franc.

Table 2

VP Bank AG--Business position				
		--Year ended Dec. 31--		
Mil. CHF	Year to date June 2024	2023	2022	2021
Total revenues from business line (currency in millions)	163	364	336	330
Commercial & retail banking/total revenues from business line	110.48	104.71	90.75	90.38
Other revenues/total revenues from business line	(10.48)	(4.71)	9.25	9.62
Return on average common equity	2.08	4.00	3.67	4.80

CHF--Swiss franc.

Table 3

VP Bank AG--Capital and earnings				
		--Year ended Dec. 31--		
Mil. CHF	Year to date June 2024	2023	2022	2021
Tier 1 capital ratio	26.10	24.90	21.70	22.40
S&P Global Ratings' RAC ratio before diversification	N/A	20.34	17.97	17.98
S&P Global Ratings' RAC ratio after diversification	N/A	17.76	15.58	15.79
Adjusted common equity/total adjusted capital	100.00	100.00	100.00	100.00
Net interest income/operating revenues	32.28	36.77	36.41	33.59
Fee income/operating revenues	41.97	37.84	41.50	47.44

Table 3

VP Bank AG--Capital and earnings (cont.)					
Mil. CHF	Year to date June 2024	--Year ended Dec. 31--			
		2023	2022	2021	
Tier 1 capital ratio	26.10	24.90	21.70	22.40	
Market-sensitive income/operating revenues	25.56	24.95	21.97	18.39	
Cost to income ratio	83.80	75.50	79.08	77.51	
Preprovision operating income/average assets	0.46	0.74	0.54	0.56	
Core earnings/average managed assets	0.40	0.63	0.51	0.51	

CHF--Swiss franc. N/A--Not available.

Table 4

VP Bank AG--Risk-adjusted capital framework data					
(CHF 000s)	Exposure*	Basel III RWA	Average Basel III RW(%)	Standard & Poor's Ratings RWA	Average Standard & Poor's Ratings RW (%)
Credit risk					
Government & central banks	2,224,525.5	8,828.2	0.4	33,973.2	1.5
Of which regional governments and local authorities	160,906.2	1,602.1	1.0	5,908.7	3.7
Institutions and CCPs	2,012,759.5	403,379.4	20.0	356,415.9	17.7
Corporate	3,592,202.9	1,330,489.7	37.0	1,725,299.8	48.0
Retail	3,799,861.1	1,395,130.2	36.7	890,474.7	23.4
Of which mortgage	3,536,161.9	1,348,341.8	38.1	802,089.6	22.7
Securitization§	0.0	0.0	0.0	0.0	0.0
Other assets†	169,035.0	157,928.5	93.4	203,764.9	120.5
Total credit risk	11,798,383.9	3,295,756.1	27.9	3,209,928.6	27.2
Credit valuation adjustment					
Total credit valuation adjustment	--	8,176.1	--	0.0	--
Market Risk					
Equity in the banking book	155,636.6	231,853.6	149.0	1,014,940.6	652.1
Trading book market risk	--	43,764.3	--	65,646.5	--
Total market risk	--	275,617.9	--	1,080,587.1	--
Operational risk					
Total operational risk	--	645,321.0	--	694,864.8	--
	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global Ratings RWA	% of S&P Global Ratings RWA
Diversification adjustments					
RWA before diversification	--	4,242,745.2	--	4,985,380.5	100.0
Total Diversification/ Concentration Adjustments	--	--	--	723,165.8	14.5
RWA after diversification	--	4,242,745.2	--	5,708,546.3	114.5
		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings RAC ratio (%)
Capital ratio before adjustments		1,057,737.0	24.9	1,013,838.0	20.3

Table 4

VP Bank AG--Risk-adjusted capital framework data (cont.)				
Capital ratio after adjustments†	1,057,737.0	24.9	1,013,838.0	17.8

*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. CHF -- Swiss Franc. Sources: Company data as of 'Dec. 31 2023', S&P Global Ratings.

Table 5

	--Year ended Dec. 31--			
	Year to date June 2024	2023	2022	2021
Growth in customer loans	9.58	(5.06)	(7.69)	(0.76)
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	14.51	15.37	13.87
Total managed assets/adjusted common equity (x)	11.29	11.29	12.62	13.41
New loan loss provisions/average customer loans	0.03	0.13	(0.00)	(0.01)
Net charge-offs/average customer loans	N.M.	0.11	0.03	0.00
Gross nonperforming assets/customer loans + other real estate owned	N/A	1.14	1.13	1.04
Loan loss reserves/gross nonperforming assets	N/A	35.01	35.44	40.83

CHF--Swiss franc. N.M.--Not meaningful. N/A--Not available.

Table 6

Mil. CHF	--Year ended Dec. 31--			
	Year to date June 2024	2023	2022	2021
Core deposits/funding base	93.23	93.88	95.62	96.58
Customer loans (net)/customer deposits	59.26	57.52	53.16	54.43
Long-term funding ratio	95.76	96.43	98.46	99.29
Stable funding ratio	153.53	160.90	175.00	178.70
Short-term wholesale funding/funding base	4.66	3.93	1.68	0.77
Regulatory net stable funding ratio	143.00	156.80	158.40	179.00
Broad liquid assets/short-term wholesale funding (x)	9.11	11.70	29.23	64.62
Broad liquid assets/total assets	37.96	40.68	43.93	44.91
Broad liquid assets/customer deposits	45.57	49.01	51.22	51.72
Net broad liquid assets/short-term customer deposits	40.57	44.82	49.47	50.92
Regulatory liquidity coverage ratio (LCR) (%)	309.50	305.80	232.60	160.20
Short-term wholesale funding/total wholesale funding	68.87	64.24	38.30	22.61
Narrow liquid assets/3-month wholesale funding (x)	6.37	7.64	28.43	80.36

CHF--Swiss franc.

VP Bank AG--Rating component scores	
Issuer Credit Rating	A-/Negative/A-2
SACP	a-
Anchor	a-
Economic risk	2

VP Bank AG--Rating component scores (cont.)

Issuer Credit Rating	A-/Negative/A-2
Industry risk	3
Business position	Constrained
Capital and earnings	Very strong
Risk position	Adequate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0
Support	0
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

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

Related Criteria

- [General Criteria: Hybrid Capital: Methodology And Assumptions](#), March 2, 2022
- [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
- [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: Principles Of Credit Ratings](#), Feb. 16, 2011

Related Research

- [Banking Industry Country Risk Assessment: Liechtenstein](#), Sept. 16, 2024
- [Principality of Liechtenstein](#), May 27, 2024
- [Bulletin: VP Bank's Announced Restructuring Is A Positive Step, But The Execution Is Key](#), Aug 20, 2024
- [VP Bank AG Outlook Revised To Negative; 'A-/A-2' Ratings Affirmed](#), May 17, 2024
- [Liechtenstein-Based LGT Bank AG And VP Bank AG Ratings Affirmed On Resolution Strategy Evolution](#), Jan. 24, 2024

Ratings Detail (As Of October 15, 2024)*

VP Bank AG

Issuer Credit Rating	A-/Negative/A-2
Resolution Counterparty Rating	A/--/A-1
Senior Subordinated	BBB+

Issuer Credit Ratings History

17-May-2024	A-/Negative/A-2
19-Jul-2023	A-/Stable/A-2
17-Jul-2020	A/Negative/A-1

Sovereign Rating

Liechtenstein	AAA/Stable/A-1+
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*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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