

RatingsDirect®

HSBC Bank Bermuda Ltd.

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HSBC Bank Bermuda Ltd.

Major Rating Factors

Strengths:

- Strategically important subsidiary of HSBC Holdings PLC
- Formidable competitive position
- Very high capital ratios
- Adequate, albeit declining, profitability
- Conservative funding and liquidity

Weaknesses:

- Significant deterioration in loan performance
- Bermuda's small, concentrated, and weakening economy
- Relatively low loan loss reserves

Counterparty Credit Rating

A+/Negative/A-1

Outlook

Standard & Poor's Ratings Services expects that HSBC Bank Bermuda Ltd.'s (HSBC BB) loan performance could weaken further in 2012 and 2013 and that earnings could decline significantly. The outlook on HSBC BB is negative, which reflects the outlook on its parent company, HSBC Holdings PLC (HSBC). We expect that our ratings on HSBC BB will move in line with our ratings on HSBC. We may also lower our rating on HSBC BB if we no longer consider the bank to be "highly strategic" to HSBC under our group methodology criteria because, for example, we perceive its role within the group to be diminishing or we expect it to underperform over the medium to long term. Conversely, we could raise the rating on HSBC BB if we reclassify the bank as "core" to HSBC under our group rating methodology. However, this is highly unlikely, given our expectation that HSBC BB is likely to remain a relatively small proportion of the group's consolidated revenue and earnings, and we do not consider it "fully integrated" into the group, as defined in our criteria.

Rationale

The ratings on HSBC BB, the largest bank in Bermuda, primarily reflect our view of its high strategic importance to its parent company, U.K.-incorporated bank holding company HSBC Holdings PLC (HSBC; A+/Negative/A-1), and our view that it is likely that extraordinary U.K. sovereign support provided to HSBC would extend to HSBC BB if needed. As a result, the long-term rating on HSBC BB is one notch below HSBC's 'aa-' group credit profile.

The 'bbb+' stand-alone credit profile (SACP) on HSBC BB, the largest bank in Bermuda, reflects the bank's formidable competitive position, very high capital ratios, adequate profitability, and conservative liquidity position. However, HSBC BB's loan performance has deteriorated significantly in recent years, which partially mitigates these strengths. In addition, the bank's sale of its captive insurance business in 2010 permanently reduced its profitability and only slightly benefited its tangible capital ratios. Furthermore, Bermuda's economy is small and depends highly on the financial

services, real estate, and tourism industries. We view this concentration somewhat negatively in our business and risk assessments.

Standard & Poor's assessment of HSBC BB's SACP is based on our view of its "adequate" business position, "very strong" capital and earnings, "average" funding, and "adequate" liquidity (as our criteria define these terms). The bank's capital ratios are very high, but we expect them to decline slightly over the next few years, given that we see international loan growth and the continuation of its very high dividend payout policy. However, loan performance has deteriorated significantly in recent years because of large commercial loan exposures, including exposures in the hospitality sector, and we expect further weakening in 2012 and 2013, contributing to our view of its "weak" risk position.

Anchor: A small economy highly dependent on a few industries

The 'bbb+' anchor draws on our Banking Industry Country Risk Assessment (BICRA) methodology and our view of the economic and industry risk in Bermuda, where HSBC BB operates. The indicative BICRA for Bermuda is group '3', according to our criteria. One of the factors we base the BICRA score on is our evaluation of economic risk. We believe Bermuda has a small economy that is highly dependent on the financial services, real estate, and tourism industries. The local economy is experiencing a material slowdown in economic growth, in our assessment, in part because of the departure of several thousand expatriates in recent years from the island and a contraction in the real estate industry. With regard to industry risk, a high and stable share of core customer deposits and a very high concentration of banking assets underpin the Bermuda banking industry.

Business position: A formidable local market position

Despite its formidable local market position, HSBC BB's business position is only "adequate," in our view, relative to the banks we compare it to. HSBC BB, a wholly owned subsidiary of HSBC, is the largest bank in Bermuda, with nearly \$14.9 billion in total assets as of Dec. 31, 2011. Established in 1889 and incorporated in 1891, HSBC BB provides retail and corporate banking, global markets, investment and wealth management, trust, custody, and insurance services. We estimate that HSBC BB has a deposit market share of roughly 45% in Bermuda--slightly more than its nearest competitor.

We believe that HSBC BB's management is primarily focused on its core businesses and regions, given limited opportunities for loan growth in the bank's local market and its excess of customer deposits relative to loans. However, the bank is increasing its international loan exposures, which has aided its margins and geographic diversification but also increased credit risk, in our opinion.

Since HSBC acquired the bank, HSBC BB has reorganized its businesses through several acquisitions and disposals. In 2006, HSBC BB transferred two businesses in Hong Kong to HSBC-affiliated entities. HSBC BB also disposed of its Singapore fund administration business in 2008. In 2010, HSBC BB sold HSBC Insurance (Bermuda) Ltd., one of the largest captive insurance subsidiaries globally, to an affiliate of its parent, thereby recognizing a small capital gain and removing a capital guarantee. The captive had previously generated about one-third of the bank's total profits, a proportion that had grown in previous years as the subsidiary increased its penetration within HSBC and among its various affiliates.

Bermuda. Bermuda's economy has weakened in recent years, in our view, partly as a result of the departure of several thousand expatriates. Furthermore, the economy is relatively small and highly dependent on the financial services, real estate, and tourism industries. The unemployment rate also has risen dramatically. However, home prices have appreciated considerably over the past decade, resulting in generally high collateral values despite the sharp decrease in home prices in recent years. Residential homes in Bermuda are typically expensive and often have attached apartments, which are rented. The Bermuda government has imposed very high sales taxes and several restrictions on who can own property in Bermuda. We believe that these taxes and restrictions have hurt residential property values in recent years.

Bermuda is a popular tourist destination and has a significant financial services industry--primarily because of the country's large insurance and reinsurance markets. These markets include several hundred captive insurance companies that are located on the island because of its favorable tax and regulatory conditions. Bermuda has its own currency, which is pegged one-to-one to the U.S. dollar. The Bermuda government earns a foreign-exchange currency purchase tax each time Bermuda dollars are exchanged for a foreign currency, and, similarly, banks earn foreign-exchange transaction fees when foreign currencies are bought or sold against Bermuda dollars.

HSBC BB's major business segments include the following:

Commercial banking. This segment provides commercial loans, payments and cash management, and investment management services to international and domestic corporations, small businesses, partnerships, and sole proprietorships. In Bermuda, HSBC BB has relationships with the majority of all licensed captive insurance companies and the majority of fund managers and fund administrators. HSBC BB uses the HSBC network to emphasize its global capabilities to its international client base.

Global banking and markets. HSBC BB provides payments and cash management services, foreign exchange and capital markets, strategic advisory, and investment solutions to corporate, institutional, private, and government clients through its global banking and markets segment. This segment serves international reinsurance and insurance clients in conjunction with HSBC and other affiliates. HSBC BB competes with several large global banks, and we believe that it has a competitive advantage as a result of its global reach, strong local presence, and expertise in multicurrency cash management and sweep products.

Global private banking. HSBC BB provides wealth management and wealth preservation services including private banking, credit, treasury, trust and fiduciary, company incorporation and management services, philanthropy, investment management, and private family office services for corporations and wealthy individuals. This segment recently consolidated the Cayman business into the Bermudan business.

Retail banking and wealth management. HSBC BB provides day-to-day banking services, including savings and checking accounts, credit cards, investment products, insurance, mortgage loans, and personal loans. In 2005, the bank introduced its premier banking products and services, which target affluent customers and require \$200,000 in investable assets. In 2010, the bank launched its advance banking products and services, which require \$50,000 in investable assets. HSBC BB has further integrated its technology platform with those of HSBC by offering customers services, such as Global View, cash transfers, and worldwide emergency cash services.

HSBC Securities Services (HSS). This division provides fund administration services to a wide array of investment organizations, including hedge funds, fund of funds, and private equity funds (many of these organizations' managers are located in North America). The bank's investor services business has significantly reduced its headcount in Bermuda by using its affiliated office in New York. HSS also provides traditional global custody services to insurance, reinsurance, and captive insurance companies, and it has a small custody and clearing business.

Capital and earnings: A very strong assessment, but we expect capital ratios to decline

Capital and earnings are "very strong," in our opinion. We expect the risk-adjusted capital (RAC) ratio to decline over the next few years given our forecast of strong corporate loan growth and the continuation of its very high dividend payout ratio (the bank pays roughly all of its earnings in dividends). Specifically, we project that HSBC BB's RAC ratio before adjustments will decline to less than 30% by the end of 2013. This projected RAC ratio is one of the highest of the banks we rate globally. The bank's quality of capital is also high given that it has no outstanding hybrid issues. Although we expect loan performance to weaken further and loan loss provisions to rise, we expect the bank to remain profitable as a result of a stable net interest margin (NIM), significant fee-based revenues, and a continued focus on cost management.

HSBC BB had a Tier 1 capital ratio of 32.6% as of Dec. 31, 2011, according to its Pillar 3 disclosures. The bank compares very favorably to similarly rated U.S. banks in our RAC framework. However, its more-limited segment and geographic diversification relative to similarly rated banks somewhat tempers our positive view of its capital position.

Despite pressures on net earnings in recent years, the bank is still profitable, partly because of low loan loss provisions and prudent expense management. A large portion of the bank's earnings are from fee-based businesses, which, although lower in recent years, have contributed to its good earnings performance. The sale of the bank's captive insurance business reduced its net earnings and overall revenue diversification. Despite this, we expect the bank to remain profitable in 2012 and 2013.

Risk position: A weakening local economy could further pressure loan performance

HSBC BB's loan performance has deteriorated significantly in recent years because of a weaker economy in Bermuda, challenges within its commercial loan portfolio (including large, single-name exposures to the hospitality sector), and increasing pressure on residential home prices and rental income. For example, total renegotiated loans and advances to customers rose to \$293 million as of Dec. 31, 2011, from \$157 million as of Dec. 31, 2010. We expect further deterioration in loan performance in 2012 and 2013, notably within the company's commercial and residential mortgage loan portfolios. However, the bank's loan portfolio, which mainly consists of secured residential mortgages, has had extremely low losses historically. This partly resulted from the significant appreciation in home prices in Bermuda over the past decade, in our opinion. Furthermore, growth in the bank's international loan exposures has increased its risk-weighted assets, as well as its credit risk, in our opinion.

The loan portfolio, which we estimate was less than half of the bank's earning assets as of Dec. 31, 2011, has deteriorated significantly in recent years. Real estate generally secures the bank's residential mortgages, and we believe that most of its commercial loans are guaranteed. The loan loss reserves are small relative to the total nonperforming loans. We view loan loss reserves as weak because we expect net charge-offs to rise even though they have been extremely low historically.

The loan portfolio is concentrated in residential mortgages, which represented nearly half of the bank's gross loans and advances to customers as of Dec. 31, 2011. The average loan balances are relatively large because residential homes and land are generally expensive in Bermuda. However, loan losses have historically been extremely low, given the appreciation in residential property values over the past decade, the low loan-to-value ratios at the time of origination, and the conservative debt-to-income ratios among borrowers. Residential foreclosures have historically been

extremely rare in Bermuda, although we expect them to increase in 2012 and 2013.

The bank's total loans include loans to other financial institutions and the Bermuda government. Consumer loans include loans to individuals (including auto, student, and secured personal loans). The bank's credit scoring analysis on its consumer portfolio is largely based on income data because FICO scores on individuals are not available in Bermuda. Finally, we also expect that the bank will invest some of its maturing available-for-sale securities into international loans.

Funding and liquidity: Excess deposits in Bermuda benefit the bank's funding profile

HSBC BB's funding and liquidity are strong in our opinion, but we score them as "average" and "adequate," respectively, under our criteria. HSBC BB has a strong funding position, in our opinion, given the bank's material core customer deposits, which significantly exceed the size of its loan portfolio. The bank's large deposit base benefits from its captive insurance clients--which provide a relatively stable and inexpensive source of funding. Customer deposits easily exceed loan balances, and the bank invests these excess deposits primarily in financial instruments and loans to banks. However, the majority of the bank's customer deposits have very short maturities, typically one month or less, in part as a result of corporate clients depositing working capital. We view this as a minor concern given that deposits have been relatively stable historically, in part because of the strength of the HSBC franchise.

There is currently no deposit insurance in Bermuda, but we expect that it could be put in place sometime in 2013. Furthermore, although the bank does not have a lender of last resort, such as the Federal Reserve Board for banks in the U.S., we believe that HSBC, with its substantial financial resources, would likely provide support to HSBC BB, if needed.

External support: Three notches for high strategic importance to parent company

Under our group methodology criteria, we view HSBC BB a "highly strategic" subsidiary of HSBC, its parent company. In making our determination, we considered the following points. HSBC BB is a wholly owned subsidiary of HSBC (purchased on Feb. 18, 2004), it changed its legal name in 2010 to include "HSBC," it has a solid track record of earnings and dividends, and it receives support for dealing with all back-office and administrative functions. We also note that HSBC BB plays a wider role in the group, using some of its excess capital to support aspects of HSBC's corporate lending elsewhere in the Americas. As a result, the 'A+' rating on HSBC BB is one notch below the 'AA-' ratings on the group's "core" operating entities and three notches above our stand-alone credit assessment of the bank.

Additional rating factors: None

No additional factors affect this rating.

Ratings Score Snapshot	
Issuer Credit Rating	A+ / Negative / A-1
SACP	bbb+
Anchor	bbb+
Business Position	Adequate (0)
Capital and Earnings	Very Strong (+2)
Risk Position	Weak (-2)
Funding and Liquidity	Average and Adequate (0)
Support	3

Ratings Score Snapshot (cont.)

GRE Support	0
Group Support	3
Sovereign Support	0
Additional Factors	0

Related Criteria And Research

- Outlook On HSBC Holdings PLC & Certain Subs Revised To Negative On Reported Control Failings; 'A+/A-1' Ratings Affirmed, Aug. 23, 2012
- HSBC Bank Bermuda Ltd. Ratings Lowered To 'A+/A-1' From 'AA-/A-1+'; Outlook Is Stable, Nov. 30, 2011
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Group Rating Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Commercial Real Estate Remains A Problem For U.S. Banks, But The Worst Could Be Over, March 28, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

Ratings Detail (As Of September 28, 2012)**HSBC Bank Bermuda Ltd.**

Counterparty Credit Rating A+/Negative/A-1

Counterparty Credit Ratings History

23-Aug-2012 A+/Negative/A-1
 29-Nov-2011 A+/Stable/A-1
 13-Oct-2011 AA-/Negative/A-1+
 18-Oct-2010 AA-/Stable/A-1+
 19-Dec-2008 AA-/Negative/A-1+
 14-Nov-2007 AA-/Stable/A-1+

Sovereign Rating

Bermuda AA-/Stable/A-1+

Related Entities**Banco HSBC Salvadoreno S.A.**

Issuer Credit Rating BB-/Stable/B

Certificate Of Deposit

Local Currency

BB-/B

Hang Seng Bank (China) Limited

Issuer Credit Rating AA-/Stable/A-1+

Greater China Regional Scale

cnAAA/--/cnA-1+

Certificate Of Deposit

AA-/A-1+

Hang Seng Bank Limited

Issuer Credit Rating AA-/Stable/A-1+

Greater China Regional Scale

cnAAA/--/cnA-1+

Ratings Detail (As Of September 28, 2012) (cont.)

Hang Seng Insurance Co. Ltd.

Financial Strength Rating

Local Currency

AA-/Stable/--

Issuer Credit Rating

Local Currency

AA-/Stable/--

Greater China Regional Scale

cnAAA/--/--

Hongkong and Shanghai Banking Corp. Ltd. (Sydney Branch)

Senior Unsecured

AA-

HSBC Bank A.S.

Issuer Credit Rating

BB/Stable/B

Turkish National Scale

trAA/--/trA-1

Certificate Of Deposit

BB/B

HSBC Bank Australia Ltd.

Issuer Credit Rating

AA-/Stable/A-1+

Commercial Paper

Foreign Currency

A-1+

Local Currency

AA-/A-1+

Senior Unsecured

A-1+

Senior Unsecured

AA-

Short-Term Debt

A-1+

Subordinated

A

HSBC Bank Brasil S.A.

Issuer Credit Rating

BBB/Stable/A-2

Certificate Of Deposit

BBB/A-2

HSBC Bank Canada

Issuer Credit Rating

AA-/Negative/A-1+

Certificate Of Deposit

AA-/A-1+

Preference Stock

Canadian Preferred Stock Rating Scale

P-1(Low)

Preference Stock

A-

Preferred Stock

Canadian Preferred Stock Rating Scale

P-1(Low)

Preferred Stock

A-

Senior Unsecured

A-1+

Senior Unsecured

AA-

Subordinated

A

HSBC Bank Capital Funding (Sterling 1) L.P.

Preferred Stock

A-

HSBC Bank Kazakhstan JSC

Issuer Credit Rating

BBB/Stable/A-2

Kazakhstan National Scale

kzAA+/--/--

HSBC Bank (Panama) S.A.

Issuer Credit Rating

BBB/Stable/A-2

HSBC Bank PLC

Issuer Credit Rating

AA-/Negative/A-1+

Ratings Detail (As Of September 28, 2012) (cont.)

Commercial Paper	A-1+
Junior Subordinated	A-
Preferred Stock	A-
Senior Unsecured <i>Greater China Regional Scale</i>	cnAAA
Senior Unsecured	AA-
Short-Term Debt	A-1+
Subordinated	A
HSBC Bank (Taiwan) Ltd.	
Issuer Credit Rating <i>Greater China Regional Scale</i> <i>Taiwanese Rating Scale</i>	A+/Stable/A-1 cnAAA/--/cnA-1+ twAAA/Stable/twA-1+
Senior Unsecured <i>Taiwanese Rating Scale</i>	twAAA
HSBC Bank USA N.A.	
Issuer Credit Rating	AA-/Negative/A-1+
Certificate Of Deposit	AA-/A-1+
Senior Unsecured	AA-
Subordinated	A
HSBC Canada Asset Trust	
Preferred Stock <i>Canadian Preferred Stock Rating Scale</i>	P-1(Low)
Preferred Stock	A-
HSBC Capital Funding (Dollar 1) L.P.	
Preferred Stock	BBB+
HSBC Capital Funding (Dollar 2) L.P.	
Preferred Stock	BBB+
HSBC Capital Funding (Sterling 1) L.P.	
Preferred Stock	BBB+
HSBC Finance Corp.	
Issuer Credit Rating	A/Negative/A-1
Commercial Paper <i>Local Currency</i>	A-1
Junior Subordinated	BBB+
Preferred Stock	BBB+
Senior Unsecured	A
Short-Term Debt	A-1
Subordinated	A-
HSBC France	
Issuer Credit Rating	AA-/Negative/A-1+
Certificate Of Deposit	AA-/A-1+
Senior Unsecured	AA-
Short-Term Debt	A-1+
Subordinated	A

Ratings Detail (As Of September 28, 2012) (cont.)

HSBC Holdings Luxembourg S.A.

Issuer Credit Rating	A+/Negative/A-1
Certificate Of Deposit	A+/A-1
Senior Unsecured	AA-/A-1+
Subordinated	A-

HSBC Holdings PLC

Issuer Credit Rating	A+/Negative/A-1
Certificate Of Deposit	A+/A-1
Junior Subordinated	BBB+
Preference Stock	BBB+
Preferred Stock	BBB+
Senior Unsecured	A+
Senior Unsecured	AA-
Short-Term Debt	A-1
Subordinated	A-

HSBC Insurance (Asia) Ltd.

Financial Strength Rating	
<i>Local Currency</i>	A+/Watch Neg/--
Issuer Credit Rating	
<i>Local Currency</i>	A+/Watch Neg/--
<i>Greater China Regional Scale</i>	cnAAA/Watch Neg/--

HSBC Insurance (Bermuda) Ltd.

Financial Strength Rating	
<i>Local Currency</i>	AA-/Negative/--
Issuer Credit Rating	
<i>Local Currency</i>	AA-/Negative/--

HSBC Insurance (Singapore) Pte. Ltd.

Financial Strength Rating	
<i>Local Currency</i>	A+/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	A+/Stable/--

HSBC Life (International) Ltd.

Financial Strength Rating	
<i>Local Currency</i>	AA-/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	AA-/Stable/--
<i>Greater China Regional Scale</i>	cnAAA/--/--

HSBC Mexico S.A.

Issuer Credit Rating	BBB/Stable/A-2
<i>Caval - Mexican Rating Scale</i>	mxAAA/Stable/mxA-1+
Certificate Of Deposit	BBB/A-2
Senior Unsecured	
<i>Caval - Mexican Rating Scale</i>	mxAAA

Ratings Detail (As Of September 28, 2012) (cont.)

HSBC Private Bank (C.I.) Ltd	
Issuer Credit Rating	AA-/Negative/A-1+
HSBC Private Banking Holdings (Suisse) S.A.	
Issuer Credit Rating	A+/Negative/A-1
HSBC Private Bank (Monaco) S.A.	
Issuer Credit Rating	AA-/Negative/A-1+
Certificate Of Deposit	AA-/A-1+
HSBC Private Bank (Suisse) S.A.	
Issuer Credit Rating	AA-/Negative/A-1+
HSBC Securities (USA) Inc.	
Issuer Credit Rating	AA-/Negative/A-1+
HSBC SFH (France)	
Senior Secured	AAA/Stable
HSBC USA Capital Trust I	
Preferred Stock	BBB+
HSBC USA Capital Trust II	
Preferred Stock	BBB+
HSBC USA Inc.	
Issuer Credit Rating	A+/Negative/A-1
Commercial Paper	
<i>Foreign Currency</i>	A+/A-1
<i>Local Currency</i>	A-1
Preferred Stock	BBB+
Senior Unsecured	A+
Subordinated	A-
Republic New York Capital I	
Preferred Stock	BBB+
Republic New York Capital II	
Preferred Stock	BBB+
The Hongkong and Shanghai Banking Corp. Ltd.	
Issuer Credit Rating	AA-/Stable/A-1+
<i>Greater China Regional Scale</i>	cnAAA/--/cnA-1+
Certificate Of Deposit	
<i>Foreign Currency</i>	AA-/NR
Senior Unsecured	
<i>Greater China Regional Scale</i>	cnAAA
Senior Unsecured	A-1+
Senior Unsecured	AA-
Senior Unsecured	AAA
The Saudi British Bank	
Issuer Credit Rating	A/Stable/A-1
Certificate Of Deposit	A/A-1
Senior Unsecured	A
Senior Unsecured	A-1

Ratings Detail (As Of September 28, 2012) (cont.)

Short-Term Debt	A-1
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*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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McGRAW-HILL