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Triglav Group

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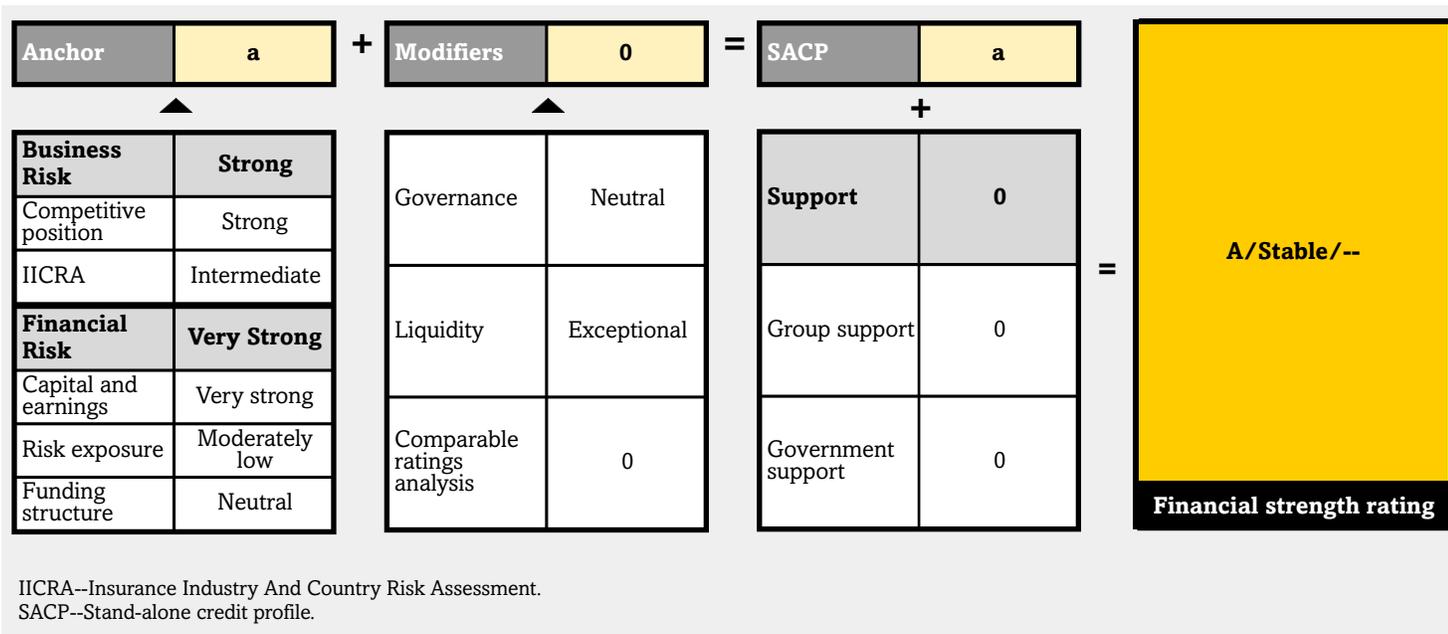
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Triglav Group



Credit Highlights

Overview

Key strengths

Market leader in insurance and asset management business in Slovenia and the Western Balkan region, with a well-diversified insurance portfolio enhanced by a large agency network and strong brand recognition.

Very robust capital buffers at the 'AAA' level, as per our risk-based capital model, supported by the group's underwriting discipline.

Sound reinsurance protection that limits the group's natural catastrophe losses.

Key risks

Lower geographical diversification of revenue and net income outside Slovenia, compared to higher-rated peers.

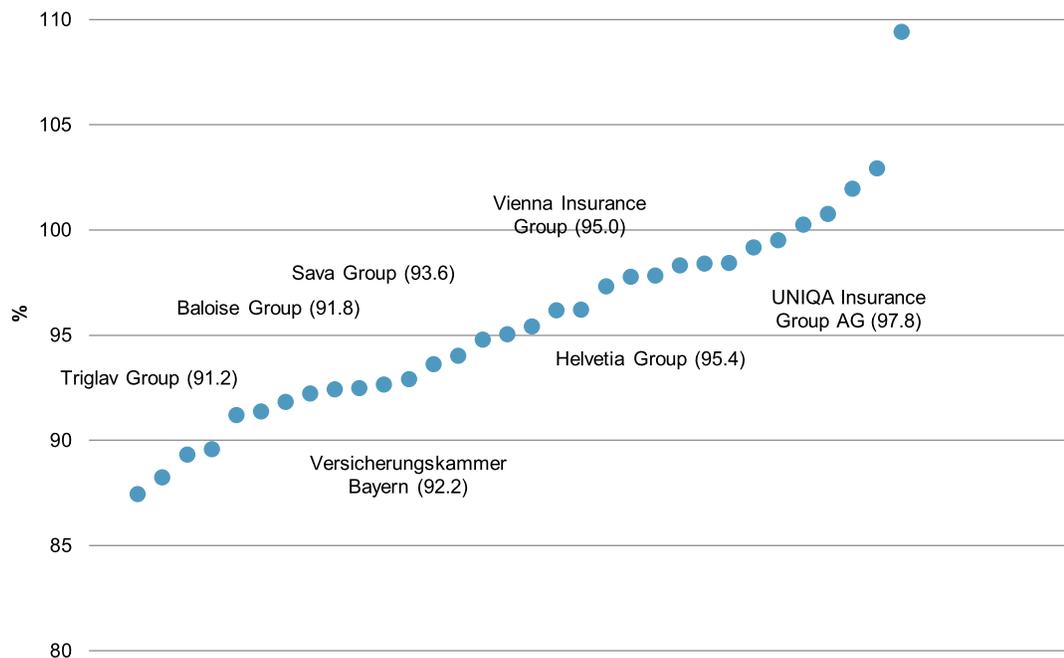
Triglav Group (Triglav) will continue to use its solid domestic and regional position to source profitable growth in insurance and asset management. The group is currently benefiting from an upswing in retail and commercial property insurance with steadily rising pricing. In addition, the group continues to observe good premium inflows for its life and pension insurance and increased inflows for asset management. S&P Global Ratings believes Triglav is well positioned to source growth, given its regional reach, broad product offerings, and good reputation. This should further support premium volumes, as demonstrated by its moderate 4% growth to €1.23 billion in 2020 and acceleration of growth to 8.6% in mid-year 2021. We expect that Triglav will continue to leverage its solid balance sheet strength to tap profitable growth opportunities in domestic and international insurance and reinsurance markets in 2021-2022.

Underwriting discipline was key for Triglav's resilient performance in 2020 and first-half 2021. This was reflected in the group's 2020 non-life combined (loss and expense) ratio of 91.2% and return on equity (ROE) of 8.9%, which were both favorable in comparison to the wider rated Europe, Middle East, and Africa (EMEA) insurance sector. The group's solid 10-year average ROE of 11.3% and combined ratio of 91.1% make it among the strongest performing European insurers, in our view. Triglav continued to generate strong earnings in first-half 2021, with net income of €47 million, which was 40% higher than the same period in 2020 and 35% above its first-half 2019 results. We expect that 2021-2022 performance will remain backed by sound underwriting results, protected by very conservative reinsurance

protection and a conservative investment portfolio. In our view, this will provide net income of about €65 million-€85 million in 2021-2022.

Chart 1

Triglav's 2020 Combined Ratio Remained Low Compared To Its Peer's
2020 P/C net combined ratio of 40 largest rated EMEA insurance companies



P/C--Property and casualty. Source: S&P Global Ratings.
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Triglav's very sound capital position at year-end 2020 and in first-half 2021 remains one of the key rating strengths. At year-end 2020, Triglav's balance sheet remained resilient and its capital position robust above the 'AAA' level, according to our risk-based capital model. Although the group suspended its 2020 dividend payment, in accordance with a cross market request from the Slovenian insurance regulator, it resumed payments in 2021 and we expect they will continue going forward. We expect that the group will maintain capitalization at least in the 'AA' range of our insurance capital model over the next two-to-three years.

Outlook: Stable

The stable outlook on Triglav's core operating entities reflects our expectation that the group's management will continue to implement its strategy of profitable growth while further diversifying premiums and income streams. Despite the impact of the pandemic and the turn in the economic cycle, we expect Triglav will sustain a strong balance sheet with at least very strong capitalization and strong and stable earnings over the next two years. This will enable it to continue developing its domestic and foreign operations.

Downside scenario

We could lower the ratings if Triglav incurs very large losses, for example, due to severe combined global and domestic financial market stress, and at the same time external economic conditions derail sound macroeconomic developments in Slovenia.

Upside scenario

We currently consider a positive rating action remote. We could raise the rating over the longer term if:

- Triglav further diversifies its operations, materially improves its performance and the scale of its core foreign operations, and retains sound overall profitability and at least very strong capital adequacy; or
- Sustainable economic growth propels Slovenia's GDP per capita further toward the eurozone average, strengthening Triglav's prospects for profitable domestic growth opportunities and solidifying its risk profile.

Key Assumptions

- After a contraction in 2020, the Slovenian economy expands 4%-5% over 2021-2022.
- Unemployment to remain low at about 4%-5% through 2021-2022.
- Inflation to remain at about 2% over 2021-2022.
- Ongoing low interest rates in the eurozone.

Triglav Group--Key Metrics

| | 2022f | 2021f | §H1 2021 | 2020 | 2019 | 2018 | 2017 | 2016 |
|-------------------------------------|---------|---------|----------|--------|--------|--------|-------|-------|
| Gross premiums written (mil. €) | ~ 1300 | ~ 1300 | 731.1 | 1233.8 | 1184.2 | 1068.4 | 999.9 | 936.0 |
| Net premiums earned (mil. €) | ~ 1100 | ~ 1100 | 544.1 | 1066.8 | 1027.6 | 951.8 | 891.2 | 849.6 |
| Net income (mil. €) | 65 - 85 | 65 - 85 | 47.0 | 73.7 | 83.9 | 80.8 | 69.7 | 82.3 |
| Total shareholders' equity (mil. €) | > 870 | > 870 | 871.9 | 870.2 | 792.0 | 746.9 | 756.6 | 744.3 |
| Return on shareholder equity (%) | 8 - 10 | 8 - 10 | 10.3 | 8.9 | 10.9 | 10.8 | 9.3 | 11.4 |
| P/C net combined ratio (%) | < 95 | < 95 | 89.8 | 91.2 | 91.5 | 91.8 | 93.1 | 92.9 |

Triglav Group--Key Metrics (cont.)

| | 2022f | 2021f | §H1 2021 | 2020 | 2019 | 2018 | 2017 | 2016 |
|----------------------------------|----------------------|----------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Net investment yield (%) | 1,6 - 1,8 | 1,6 - 1,8 | N/A | 1.1 | 1.9 | 2.0 | 1.9 | 2.6 |
| EBITDA fixed-charge coverage (x) | 32 - 40 | 32 - 40 | N/A | 39.4 | 40.0 | 81.7 | 60.9 | 83.3 |
| Financial leverage (%) | ~ 6 | ~ 6 | N/A | 6.5 | 8.7 | 2.8 | 2.8 | 2.9 |
| Dividend payout ratio (%)* | > 50 | > 50 | N/A | 52 | 0 | 70 | 82 | 69 |
| S&P capital adequacy | At least Very Strong | At least Very Strong | Excellent | Excellent | Excellent | Excellent | Excellent | Excellent |

*Dividends in 2020 for fiscal year 2019 were not paid because the local insurance regulator (AZN) requested Slovenian insurers halt dividend payments due to high uncertainties from the COVID-19 pandemic. §Return on equity and property/casualty (P/C) net combined ratio are based on the trailing 12 months. f--Forecast under S&P Global Rating's base-case scenario.

Business Risk Profile: Strong

Triglav is the largest insurer and asset manager in Slovenia, and has significant insurance operations throughout the Adria region. Triglav Re, the group's internal reinsurance entity, which is also active in the international reinsurance market, complements the group's overall business strength. Triglav has a proven track record of profitable business growth, with an average five-year combined ratio of 92.1%, which compares favorably to that of domestic and international peers. Strong and prudent underwriting results have enabled the group to continue generating strong earnings. That said, Triglav's premiums and net income from foreign operations are only gradually expanding. This means the group remains more reliant on the development of its domestic market compared to some higher-rated international peers.

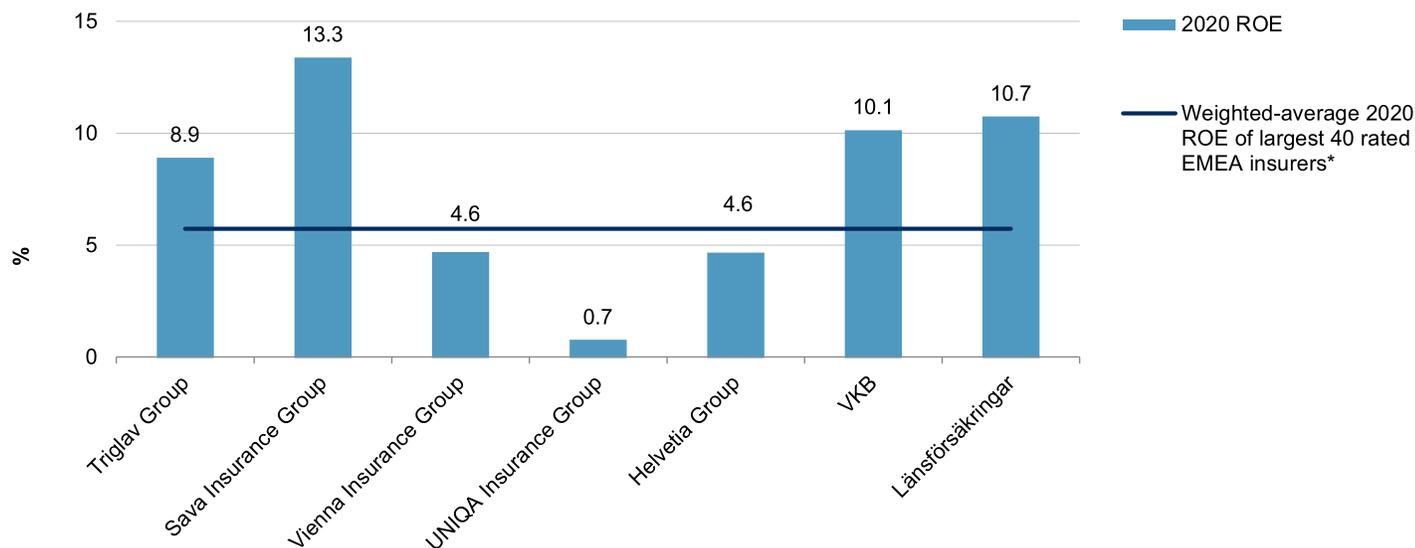
In our view, the insurance sector in Slovenia remained resilient with healthy profits in 2020. We believe the life and property/casualty (P/C) sectors continue to benefit from a track record of prudent underwriting and robust capitalization at rated companies, despite the effects of the COVID-19 pandemic in 2020 and a moderate reduction in investment returns. Triglav's leading positions in Slovenia, with a market share of about 36% in insurance and 33% in asset management through its entities Zavarovalnica Triglav (A/Stable/--) and Triglav Skladi, enable attractive performance in both sectors. We believe that the group's large market share allows some scale advantages against direct domestic competitors. In addition, its competitive edge is further driven by an established domestic reputation, with a strong brand and regional distribution relationships with members of its tied-agent network.

The group's insurance operations remained resilient in terms of premiums development and operating performance during 2020 and first-half 2021. In 2020, it maintained strong underwriting profitability with a combined ratio of 91.2%--well below Triglav's target strategic range of 95%. We consider that Triglav's resilient performance relates to its track record of prudent underwriting, which safeguarded the group against any larger COVID-19-related losses. Like peers, during movement restrictions the group observed lower claims frequency, mainly in motor and health lines that together represented more than 44% of its premiums in 2020. During first-half 2021, underwriting performance further improved to slightly below 90%, on the back of lower natural catastrophe claims, no material COVID-19 claims, continued lockdown-related frequency benefits in some retail lines, and good cost control. We expect that the group's performance will remain resilient due to prudent underwriting. We note that during 2020 lockdowns, Triglav

prudently built additional reserves to help smoothen the impact of expected recovery in claims frequency. As a result, we consider that Triglav is well positioned to maintain its strong and stable performance even if claims increase in 2021-2022. We expect that Triglav will generate a ROE of about 10% in 2021-2022. Moreover, with reported net income of €47 million at mid-year 2021, the group is on a good track to achieve net income toward the higher end of our expected €65 million-€85 million range for fully-year 2021.

Chart 2

Triglav's 2020 ROE Remained Materially Above The Profitability Of The Largest 40 EMEA Insurers



*Weighted-average 2020 ROE of top-40 rated EMEA insurers was 5.7%. ROE--Return on equity.

EMEA--Europe, Middle East, and Africa. Source: S&P Global Ratings.

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Triglav's premium growth continued with favorable developments in 2020. This was the result of organic premium expansion in its own primary and reinsurance operations, driven mainly by rates hardening in property, health, and international reinsurance. In addition, despite several lockdowns in Slovenia, the life insurance segment remained resilient on account of new inflows into capital-light life and pension insurance. These trends continued in first-half 2021, when Triglav reported strong organic growth of 8.6%. The growth was widespread and came from almost all business lines and most countries where the group has operations. Notably, on top of price increases in property lines, Triglav added new clients--mainly in international markets--and saw generally higher inflows into life and pension insurance. Although we expect that premium growth will moderate in the coming quarters, to 2%-4% in 2021-2022, we expect the group will continue to leverage its customer-centric approach and best-in-class digital capabilities on its extensive pool of commercial and retail clients. Notably, we expect that Triglav will, as before, source profitable growth through expansion in its core Adria region markets. In addition, the group is developing new offers to tap changes in policyholders' preferences toward digitalized client engagement, and new health, life, and pension products

to spur growth.

Financial Risk Profile: Very Strong

Triglav's balance sheet and its capital adequacy position remained above 'AAA', according to our risk-based capital model, at year-end 2020. This was further supported by a robust Solvency II ratio of 240% at Dec. 31, 2020, based on a standard formula and no use of transitional adjustments. The group mainly depends on hard forms of capital like shareholders' equity, supported by prudent margins on its P/C loss reserves. In our view, the unpaid dividend in 2020, under regulatory guidance, provided further buffers but did not materially affect our assessment of the capital position. The group resumed dividend payments in 2021, in accordance with its strategy, and we expect this to continue in the coming years. That said, we expect that Triglav's continued strong and stable earnings will provide some capital generation. In our view, the group will maintain capitalization at least in the 'AA' range of our insurance capital model over the next two-to-three years, even in case of higher capital markets volatility, a higher-than-expected increase in claims frequencies on the domestic market, faster-than-expected organic growth, or the emergence of inorganic growth opportunities.

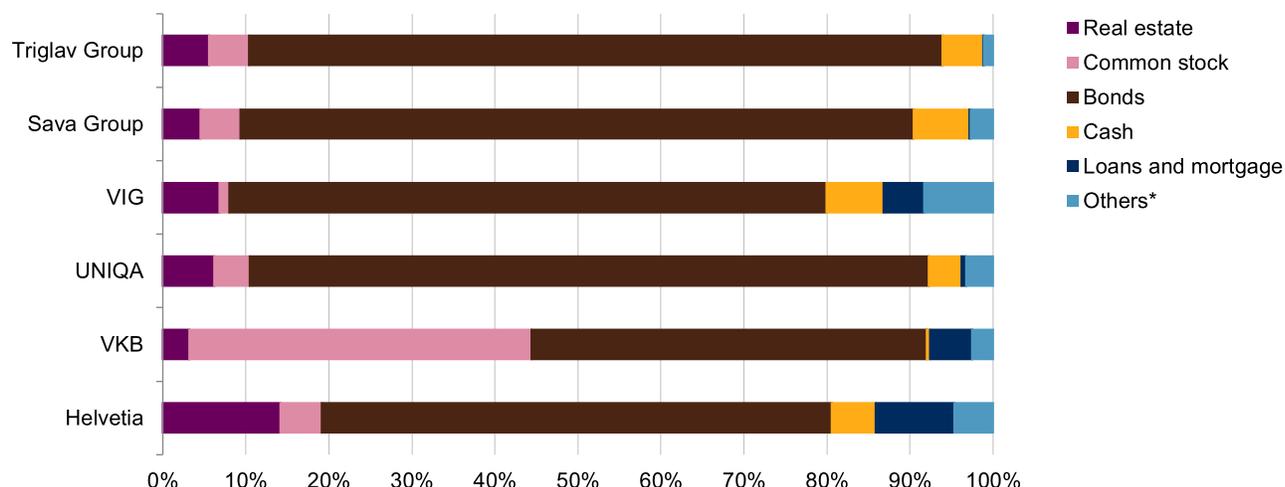
Triglav's risk profile has remained stable and supportive of its very strong financial profile. In our view, the group's risk profile benefits from its conservative investment portfolio and reinsurance protection strategy. We consider that the group has built a track record of stable and effective reinsurance protection, which is combined with conservative underwriting. This was retested by a very intense 2020 natural catastrophe season with two severe earthquakes in Croatia--Triglav's second largest market--and several large hail storms. Combined, these events did not lead to larger underwriting losses outside the company's risk tolerance. We expect the group to retain strong and effective reinsurance protection, which will remain a key factor for its stable capital and earnings.

Although capital markets rebounded quickly in second-half 2020 and remained favorable in first-half 2021, we believe that asset risks remain elevated for the international insurance sector in 2021 and beyond. In our view, Triglav's balance sheet remains less sensitive to market stresses than European peers', as evidenced during first-half 2020 market volatility. Triglav's invested assets are mainly in fixed-income securities with a relatively high creditworthiness in the 'A' range and are broadly diversified across the eurozone. Exposure to higher-risk assets remains modest. Although, the group has more life insurance business with guarantees than direct domestic peer Sava, the amount is comparably lower than that of Austrian and German peers. The group has continued to actively limit the risk of these policies by strengthening additional life reserves to mitigate the low interest rate environment. Due to this, we consider that the investment risk appetite will remain stable, even if interest rates remain lower for longer.

Chart 3

Triglav Maintains A Conservative Investment Portfolio

2020 invested assets breakup



*Investment in affiliates, investment funds, and other investments. Source: S&P Global Ratings.
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We believe the group's very robust capital position, good liquidity, and conservative capital structure help safeguard its funding capacity in case of need. Moreover, we consider that Triglav has adequate access to other sources of capital, if needed. That said, Triglav's year-end 2020 financial leverage remained at about 6%. Continued good performance and low interest payments resulted in very favorable fixed-charge coverage ratio of about 39x at year-end 2020. At current levels, the group retains ample debt capacity, if needed.

Other Key Credit Considerations

Governance

We consider Triglav's governance to be stable and comparable with that of its international peers. Governance and disclosure standards in Slovenia are comparable with the rest of the eurozone. Triglav has clear and credible strategic planning and conservative financial management. Management is focused on consistent strategic goals and building core capacities. The board is experienced and capable of executing the group's business strategy, as shown in its business development and performance.

Liquidity

We regard Triglav's liquidity as exceptional and don't expect any liquidity constraints will keep it from meeting its obligations, given the substantial amount of liquid assets held by the group. In addition, expanding operations are providing constant cash inflows. Although most of the P/C business is short tail, larger risks are heavily reinsured, so that larger claims are not a significant drag on the cash position.

Government

We regard Triglav as a government-related entity (GRE), mainly because Slovenia is its main shareholder. Under Slovenia's asset management strategy, Triglav is classified as a strategic asset, implying a higher commitment from the state in maintaining its 62.56% stake in the group. Moreover, in our view, Triglav plays a key role in protecting Slovenians in a structured way from the impact of catastrophe events, to which the country is exposed. We consider that there is a moderately high likelihood that the government of Slovenia (AA-/Stable/A-1+) would provide timely and sufficient extraordinary support to Triglav in the event of financial distress. Due to Triglav's already high stand-alone credit profile, we do not include any rating uplift derived from the insurer's status as a GRE.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria | Insurance | Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Comparative Statistics: Top 40 EMEA Insurers Remain Resilient To Lingering Pandemic Risks, Aug. 26, 2021
- Slovenia, June 14, 2021
- Insurance Industry And Country Risk Assessment: Slovenia: Property/Casualty, Nov. 4, 2020
- Insurance Industry And Country Risk Assessment: Slovenia Life, Nov. 4, 2020
- Research Update: Slovenia 'AA-/A-1+' Ratings Affirmed; Outlook Stable, June 12, 2020
- Slovenia-Based Triglav Insurance Co PLC's Proposed Junior Subordinated, Deferrable Notes Rated 'BBB+', April 11, 2019

Appendix

| Triglav Group--Credit Metrics History | | | |
|---------------------------------------|-----------|-----------|-----------|
| Ratio/Metric | 2020 | 2019 | 2018 |
| S&P Global Ratings capital adequacy* | Excellent | Excellent | Excellent |
| Total invested assets (mil. €) | 3,664.6 | 3,480.2 | 3,251.2 |

Triglav Group--Credit Metrics History (cont.)

| Ratio/Metric | 2020 | 2019 | 2018 |
|--|---------|---------|---------|
| Total shareholder equity (mil. €) | 870.2 | 792.0 | 746.9 |
| Gross premiums written (mil. €) | 1,233.8 | 1,184.2 | 1,068.4 |
| Net premiums written (mil. €) | 1,073.8 | 1,047.7 | 961.8 |
| Net premiums earned (Mil. €) | 1,066.8 | 1,027.6 | 951.8 |
| Reinsurance utilization (%) | 13.0 | 11.5 | 10.0 |
| EBIT (mil. €) | 93.8 | 104.0 | 98.8 |
| Net income (attributable to all shareholders) (mil. €) | 73.7 | 83.9 | 80.8 |
| Return on shareholders' equity (reported) (%) | 8.9 | 10.9 | 10.8 |
| P/C: Net combined ratio (%) | 91.2 | 91.5 | 91.8 |
| P/C: Net expense ratio (%) | 25.5 | 26.9 | 27.8 |
| P/C: Return on revenue (%) | 7.3 | 7.6 | 8.3 |
| Life: Net expense ratio (%) | 15.5 | 15.2 | 15.6 |
| EBITDA fixed-charge coverage (x) | 39.4 | 40.0 | 81.7 |
| EBIT fixed-charge coverage (x) | 31.9 | 33.6 | 71.4 |
| Financial obligations / EBITDA adjusted (x) | 0.5 | 0.6 | 0.2 |
| Financial leverage including pension deficit as debt (%) | 6.5 | 8.7 | 2.8 |
| Net investment yield (%) | 1.1 | 1.9 | 2.0 |
| Net investment yield including investment gains/(losses) (%) | 2.7 | 5.6 | 0.8 |

P/C--Property/casualty.

Business And Financial Risk Matrix

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

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

Ratings Detail (As Of September 13, 2021)*

Operating Companies Covered By This Report

Triglav Insurance Co. Plc

Financial Strength Rating

Local Currency

A/Stable/--

Ratings Detail (As Of September 13, 2021)*(cont.)

| | |
|--|-------------|
| Issuer Credit Rating | |
| <i>Local Currency</i> | A/Stable/-- |
| Junior Subordinated | BBB+ |
| Triglav Re, Reinsurance Co. Plc | |
| Financial Strength Rating | |
| <i>Local Currency</i> | A/Stable/-- |
| Issuer Credit Rating | |
| <i>Local Currency</i> | A/Stable/-- |
| Domicile | Slovenia |

*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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