

Environmental, Social, And Governance Evaluation

Swedbank AB

Summary

Swedbank AB is among the largest Nordic retail banks, with around €250 billion of assets. Headquartered in Sweden, where it is a leading retail player, the company also holds strong-to-dominant market positions in the Baltics. Half of the bank's income stems from its lending book focused on private individuals (67% of loans) and small and midsize enterprises (SMEs; 19%), with a smaller share of large corporates (14%). The rest mostly comes from payments (15%), asset management via Robur (12%), trading and capital markets (7%), and insurance (4%). Swedbank is connected with the Swedish saving banks network through cross-ownership and partnerships.

Our ESG Evaluation of 75 reflects Swedbank's established ESG integration along its value chain but is constrained by past governance deficiencies brought to light by the 2019 money laundering controversy.

Swedbank's asset management arm Robur was among the first to integrate ESG, with a particular focus on climate-related issues. The implementation of an advanced responsible investment framework has enabled Robur to reduce the carbon footprint of its portfolios and should support its commitment to align its investments with a 1.5C climate scenario by 2025. While the bank's ESG integration is comparatively less developed when it comes to its lending activities, we believe it is on track to roll out additional sector-specific ESG guidance, including on mortgages, which should facilitate systematic implementation and monitoring.

Relative to the industry average, Swedbank benefits from higher social standards in Sweden. On the other hand, along with other large banks, it faces challenges regarding customer satisfaction, partly after the material reputational damage caused by its severe 2019 money laundering case. Indeed, Swedbank is still strengthening its risk culture and governance following the controversy. While the new board and executive management have invested heavily to be among the leaders in combating financial crime, we believe those measures will take time to permeate across the entire organization.

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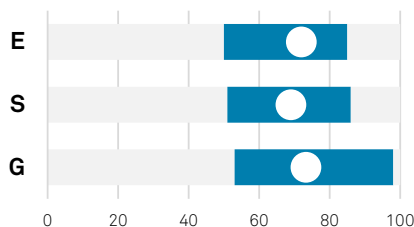
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ESG Profile Score

72/100



Company-specific attainable and actual scores

Preparedness Opinion (Scoring Impact)
















Adequate (+ 3)

ESG Evaluation



A higher score indicates better sustainability

Component Scores

Environmental Profile			Social Profile			Governance Profile		
Sector/Region Score		35/50	Sector/Region Score		36/50	Sector/Region Score		33/35
	Greenhouse gas emissions	Strong		Workforce and diversity	Strong		Structure and oversight	Good
	Waste and pollution	Good		Safety management	Good		Code and values	Good
	Water use	Good		Customer engagement	Good		Transparency and reporting	Strong
	Land use and biodiversity	Good		Communities	Good		Financial and operational risks	Neutral
	General factors (optional)	3		General factors (optional)	None		General factors (optional)	-2
Entity-Specific Score		37/50	Entity-Specific Score		33/50	Entity-Specific Score		40/65
E-Profile (30%)		72/100	S-Profile (30%)		69/100	G-Profile (40%)		73/100
ESG Profile (including any adjustments)						72/100		

Preparedness Summary

Swedbank's adequate preparedness reflects the bank's excellent awareness of potential long-term disruptions, including digitalization, climate change, and cybersecurity, and its good incorporation of these disruptions into its long-term strategy. This is balanced by the short track record of its current board and executive management team, which were largely renewed after the 2019 money laundering controversy, and our belief that it will take time for the bank to adjust its risk culture and governance fully and sustainably and avoid controversies.

Capabilities

Awareness	Excellent
Assessment	Good
Action plan	Good

Embeddedness

Culture	Good
Decision-making	Good

Preparedness Opinion (Scoring Impact)

Adequate (+ 3)

ESG Evaluation

75_{/100}

Note: Figures are subject to rounding.

Environmental Profile

72/100

Sector/Region Score (35/50)

Environmental risks for the banking and investment industry are moderate compared with those for industrial sectors, balancing lower direct exposure to environmental risks with material financed exposure from lending and investment activities. Furthermore, we see an increasing number of initiatives to introduce or deepen ESG integration into lending and investment activities. Overall, we consider physical climate risks to be limited in Sweden and the Baltics.

Entity-Specific Score (37/50)

Note: Figures are subject to rounding.



Swedbank is exposed to environmental issues through both its asset management activities and its loan book, comprising primarily private and corporate real estate (79% of loans) but also large corporates in carbon and water-intensive sectors such as agriculture, energy, and shipping (10%). Swedbank's integration of environmental factors is well-embedded in its asset management and increasingly so in its lending activities, and relatively more so regarding greenhouse gas (GHG) emissions. For all businesses and along its value chain, the bank excludes companies involved in certain fossil-fuel-related activities (including coal production and coal-powered generation). Swedbank aims to align its assets under management (AUM) with a 1.5C climate scenario by 2025 and expects to release an alignment target date for its property lending book in 2021. It is further improving and integrating its environmental frameworks to support these ambitious objectives, for instance by increasingly using climate risk scenarios. However, we believe the bank will focus more on carbon-related issues, and see fewer signs that it will address issues of waste, water, and biodiversity as comprehensively in its lending business.

The bank's framework to integrate environmental factors in asset management is above the industry average. Swedbank's asset management arm, Robur leverages third-party data and internal resources to systematically assess most environmental risks of investee companies. It also engages with companies to promote the transition to a low-carbon economy. Swedbank tracks the carbon footprints of all funds, discloses individual figures for about half its funds--most of which have comparable or lower carbon intensity than their respective indices--and reported a 40% reduction in carbon intensity for all its equity funds between 2018 and 2020.

Swedbank plans to further improve the environmental framework of its lending activities.

The current framework incorporates a broad assessment of material environmental factors for all corporate loans above €0.8 million, relying on the bank's sector-specific guidelines. Swedbank intends to strengthen its framework further by establishing tools and extended guidance covering most corporate sectors, as well as mortgages. It also aims to increase the share of sustainable and green products, from a still modest 1.5% of loans in 2020.

While less material, we also believe Swedbank is more advanced than the industry in managing its own environmental footprint and that of its suppliers. It has already achieved its 2030 target to reduce its GHG footprint by 60% from 2019 levels and regularly monitors its suppliers' compliance with its own environmental policies.

Social Profile

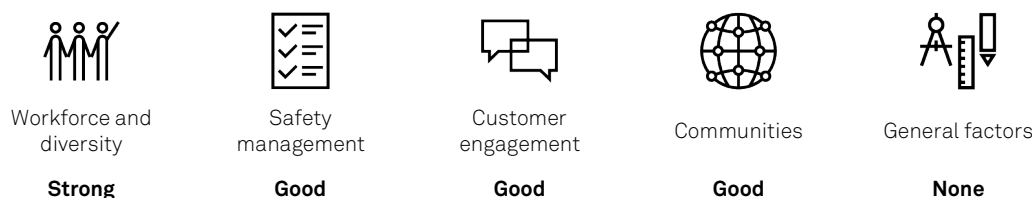
69/100

Sector/Region Score (36/50)

The most important social challenges for the banking and investment sectors are the fair treatment of employees and customers, as well as effective management of the consequences of digitalization for the workforce and customers. Swedbank also benefits from the strong social standards in Sweden, although this is somewhat offset by the higher exposure to social risks of its Baltic operations.

Entity-Specific Score (33/50)

Note: Figures are subject to rounding.



Swedbank benefits from well-formalized frameworks to manage issues related to key stakeholders, including employees, customers, and communities, and across the value chain. It has yet to integrate social factors more deeply into its asset management and lending activities, which constrains our scores. The bank excludes companies involved in products such as cannabis and controversial weapons and systematically assesses the social risks of all investee companies and corporate loans using sector-specific guidelines. Social-risk assessments as applied to investment decisions use external data and in-house tools, and drive Robur's engagement with investee companies. The integration of social factors into the lending businesses is, however, less advanced. The bank is working to establish clearer and more operational guidance covering more sectors, to better track financed social issues.

For its employees, the bank provides benefits above local standards in Sweden, which we see as among the most advanced globally, and in the Baltics. In Sweden, for example, the bank complements the government-provided parental leave by ensuring that male and female employees receive at least 80% of their salary for 360 days, irrespectively of salary level. In Latvia, it offers occupational pensions to employees that are above local standards. The bank also includes social metrics in the remuneration of its managers and executives, including on gender diversity or working conditions, which have notably resulted in higher female representation in management (55%) than most peers. Swedbank also conducts onsite visits to monitor the social practices of its suppliers, which we view as advanced practice.

In line with other large Swedish banks, Swedbank faces lower customer satisfaction than industry average. This is a common challenge for the country's large banks, which face reputational damage from several business ethics controversies, including Swedbank's recent money laundering case. The bank has been working to improve, and already achieves, positive results in digital banking, while it has maintained its high satisfaction levels in the Baltics, where 45% of its customers are.

Swedbank's community impact is supported by its partnership with local saving banks, as 15% of its capital sits with a large network of local saving banks owned by foundations redistributing their profits to their local communities. Through its partnership, Swedbank provides technical support, funding, and products allowing many of these small institutions to continue operating as full service-banks tailored to the needs of their local markets.

Governance Profile

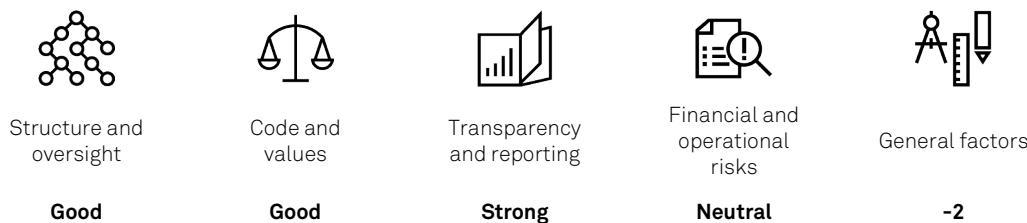
73/100

Sector/Region Score (33/35)

Although we generally see strong track records of policy making and rule of law in the Baltic regions, we factor marginally higher governance risks than in Swedbank's country of headquarters (Sweden), as shown by recent money laundering issues for banks in the region.

Entity-Specific Score (40/65)

Note: Figures are subject to rounding.



Swedbank continues to implement remediation measures in its governance structure and policies following the severe money laundering case, which was settled in March 2020.

Swedish and Baltic regulators found material deficiencies in Swedbank's anti-money-laundering (AML) framework in its Baltic operations, as well as evidence that these deficiencies had not been properly escalated and managed. As a result, Swedbank changed most of its executive team members and board of directors, and engaged in an improvement program aimed at becoming an AML leader. This has included a review of its governance structure, improved customer due diligence and transaction monitoring, and a reinforcement of AML-related competences, including at board level. In January 2021, the Estonian regulator confirmed that the correction measures implemented had been satisfactory. While this reflects the bank's progress, we believe further track-record is needed to evaluate the full effectiveness of these remediation measures.

The bank's new board has features in line with international best practices. There are 15 members on the board, of which 10 are independent. The high number of meetings (38 in 2019 and 28 in 2020) and high attendance rate (95%) reflects the mandate given to new board members to rapidly improve the bank's risk management and culture following the AML controversy. The board is now well diversified in skills, with stronger governance and compliance expertise. It has, however, average gender diversity (36% of women on the board today) and nationality diversity; all directors are Swedish while a significant portion of the operations and clients are in the Baltics.

Swedbank's disclosure aligns with international best practice. The high quality and comprehensiveness of its financial and ESG reporting enables assessments of its financial and non-financial performance at business unit and country-level. Some of its reporting aligns with best practices, including the breakdown of taxes paid per country, while others--such as the disclosure of the carbon footprint of its equity funds--go beyond industry standards. The bank publishes all its ESG policies, including its sector-specific ESG guidelines, and detailed yearly reports on the bank's engagement with investee companies. Since signing up to the Task Force on Climate-related Financial Disclosures (TCFD) in 2018, the bank has committed to adopt its recommendations. The bank's sustainability report is included in the scope of auditor's review.

Credit and investment decision-making processes factor in governance aspects, such as corruption or bribery, which are the most common issues Robur engages with investee companies. However, in our view, the integration of governance factors would need clearer operational guidance for lending activities.

Preparedness Opinion

Adequate
(+ 3)

Preparedness

Low

Emerging

Adequate

Strong

Best in class

Swedbank has an advanced digital and sustainability strategy, which should support its preparedness for technological and ESG-related disruptions. However, we believe its new leadership team is still demonstrating its ability to strengthen the bank's long-term resilience, including by improving business ethics, risk management, and culture following the AML controversy in the Baltics.

Sustainability and digitalization are well embedded in Swedbank's long-term strategy. The bank was one of the industry's first to anticipate the growing customer appetite for digital financial solutions. It introduced online banking services in 1996. It has invested heavily in customer-facing applications and partnerships with start-ups, and engages in constant dialogue with its network of local banks to remain ahead of customers' needs. The bank benefits from relatively high customer satisfaction with its digital services, which partly compensates for lower satisfaction in other activities. As part of its strategic objectives, the bank has committed to further develop its digital offering, while maintaining its network of retail branches. Swedbank also started integrating ESG into its asset management activities ahead of many industry peers, and benefits from a solid ESG framework that it is now expanding to its lending activities. The bank conducts climate scenarios to assess the long-term resilience of its loan portfolio and factors climate risks into its internal capital adequacy assessment process, which we view as advanced practice. We believe this will support its ambition to build a "Paris Aligned" portfolio by 2025 and improve its resilience to climate-related disruptions.

That said, we believe Swedbank's strategic execution will depend on its ability to continue strengthening some of its foundations. The AML controversy revealed significant weaknesses in the bank's compliance framework, risk management, and culture. Swedbank conducted an assessment of its corporate culture to identify potential areas of improvement and has implemented new procedures and trainings as a result, aiming to foster a culture of accountability and transparency across its employee base. While we recognize the rapid and extensive measures implemented since the controversy surfaced in 2019, we believe it will take time for these to permeate the entire organization fully and sustainably.

Swedbank's new leadership demonstrates a solid awareness of emerging trends and potential disruptions, but still needs to build a track record given its relatively short tenure. The board and executive team have identified some of the most material potential future disruptions, including regulatory and technological developments, cybersecurity, declines in real estate markets where the bank has concentrated lending exposure, and climate change. Swedbank identifies potential disruptions through a materiality assessment involving multiple stakeholders such as employees, customers, shareholders, and local authorities. In the near term, we anticipate the bank will continue to focus on preventing financial crime and maintaining adequate levels of customer satisfaction in its domestic market.

Climate-Related Financial Disclosure

TCFD Recommendations Alignment Assessment:



We assessed to what extent the entity has adopted the Financial Stability Board’s Taskforce on Climate-related Financial Disclosures’ (TCFD) recommendations. We do not opine on the quality of the entity’s disclosure or the climate change scenario assumptions, if any, but rather comment on the number of disclosures made, based on the TCFD’s suggested disclosure list.

Based on the entity’s publicly available information, in our opinion, Swedbank AB has partially adopted the recommendations of the TCFD. The entity provides a description of its risk management process and governance structure. However, it does not disclose detailed information regarding the monitoring of climate-related risks by the bank’s board, management, and risk function, or more generally on how climate-related risks fit into the broader risk management framework and strategy formulation process. The bank discloses climate-related issues and opportunities over various time horizons, leveraging on climate-related scenario analyses against the bank’s lending and investment portfolios, although it does not define those time horizons. In addition, Swedbank publishes several of its own environmental footprint parameters, including waste statistics, water data and GHG emissions--Scopes 1, 2, and 3-- including historical performance and its progress against targets. It also discloses the GHG footprint of its equity funds.

Governance	Strategy	Risk management	Metrics and targets
Description of the board’s oversight of climate-related risks and opportunities.	Description of the climate-related risks and opportunities identified over the short, medium, and long term.	Description of the organization’s processes for identifying and assessing climate-related risks.	Disclosure of the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
Partially adopted	Partially adopted	Partially adopted	Partially adopted
Description of management’s role in assessing and managing climate-related risks and opportunities.	Description of the impact of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning.	Description of the organization’s processes for managing climate-related risks.	Disclosure of scope 1, 2 and, if appropriate, 3 GHG emissions, and the related risks.
Partially adopted	Partially adopted	Partially adopted	Adopted
	Description of the resilience of the organization’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Description of how processes for identifying, assessing, and managing climate-related risks are integrated into the organization’s overall risk management.	Description the targets used by the organization to manage climate-related risks and opportunities and performance against targets.
	Partially adopted	Adopted	Adopted

Sector And Region Risk

Primary sector(s)	Banks
Primary operating region(s)	Sweden, Estonia, Lithuania, Latvia

Sector Risk Summary

Environmental exposure

Environmental risks for the banking sector balance the low use of physical infrastructure and facilities needed to operate, against the large indirect exposure from lending and investment activities. In addition, the rising use of IT services in banking (digitization, cloud computing, and big data) could increase CO2 emissions, even though banks' physical infrastructure is reducing. Regulators, investors, customers, and activists are increasingly looking at the banking sector's contribution and exposure to environmental risks. These medium- to long-term risks are significant and will be proportionate to the impact of climate change on the economy. While banks have good expertise in managing traditional risks, they currently lack standard measurement tools, data, and human resources to properly deal with the climate transition. Banks are also exposed, through their borrowers, to physical climate risks from increasing chronic hazards (such as increasing temperatures leading to a rise in sea levels or droughts) and acute perils (like floods or storms). On a positive note, we see the increasing integration of ESG criteria in banks' underwriting and investment policies, alongside a generally high level of diversification of their loan and securities portfolios, as important mitigating factors.

Social exposure

Human capital management in the banking sector's typically labor-intensive business, as well as customer relationship management, are of paramount importance and pose material social risks. Evolving customer preferences, greater use of digitization, automation, and AI bring new challenges and threats that require banks to adjust their business models. These include continuously training employees in new distribution channels, products, and regulations. Since banks are also outsourcing and offshoring an increasing number of tasks to trim costs and reduce the workforce and branch network, responsible management of their supply chains will become more important. Another challenge for banks is how to keep and attract talent, especially the younger generation, which tends to favor innovative and agile companies. Positively, bank employees typically benefit from safe and healthy working conditions relative to many other sectors. Banks rely on customers' trust to maintain their franchises. Issues regarding conduct with retail customers, such as misselling; or fraudulent activities like money laundering or tax evasion, can cause serious financial and reputational damage. IT issues that disrupt customers' access to banking services, risks of data leaks, and concerns over the treatment or privacy of data are important franchise risks, since open banking in many parts of the world makes it easier for customers to switch banks. Nevertheless, the industry benefits from significant regulation and supervision, which in recent years have been increasingly focusing on ESG risks to support stability and enhance customer confidence.

Regional Risk Summary

Our regional risk analysis is based on Swedbank's operations, which are principally located in Sweden (79%), Estonia (9%), Lithuania (7%), and Latvia (5%) based on revenue breakdown.

Sweden

Sweden benefits from a long track record of very strong institutional and governance effectiveness. Transparency and accountability are high. It is considered one of the least corrupt countries in the world and there is an unbiased enforcement of contracts through a robust legal system. Relatively strong ESG regulations complement institutional governance. These rules are not limited to corporate disclosure requirements and governance rules but also include legislation that mandates the large AP (Allmänna Pensionsfonder) public pension funds to consider environmental and ethical issues in their investment decisions. An updated version of the Swedish Code of Corporate Governance came into effect on Jan. 1, 2020, following the transposition into law of the EU Shareholder Rights Directive II. The new code establishes standards on executive remuneration disclosure and board independence. However, corporate ownership is still extremely concentrated. Nearly all listed companies have a controlling shareholder, often using dual-class share structures with unequal voting rights to maintain control. Over two-thirds of Swedish companies have multiple share classes, far more than any other European country. Members of the nomination committee are elected directly by the general meeting and, while this is positive for shareholder rights, large shareholders wield a greater influence over the composition of these committees and therefore the overall board.

Estonia

Estonia has a generally strong track record of policies that deliver sustainable public finances, with unbiased enforcement of contracts and respect for the rule of law and broadly effective checks and balances between institutions despite frequent changes of government. The country has navigated previous macroeconomic and financial crises well and its bureaucratic processes are relatively efficient, mostly because of its e-governance focus. Information flows freely through society, with open debate on policy decisions. Estonia is a small capital market with only a few listed companies on the NASDAQ Tallinn. Checks and balances between institutions are generally effective. Governance best practice is based on the recommendations of the 2006 Corporate Governance Code (Hea Ühingujuhtimise Tava) of the Tallinn Stock Exchange and Financial Supervision Authority. These operate on a comply-or-explain basis and companies must include it in their annual reports. Companies operate a two-tier system with a management board (aktiaselts) and a supervisory board. Boards tend to be relatively small, typically five-to-seven members, and must be at least 50% independent, with no executive or employee representatives. Directors are appointed for a maximum of five years. Despite some recent modest improvements, female participation on boards significantly lags global and European peers. While audit committees are required by law, separate board-nomination or remuneration committees are not common practice. Overall levels of disclosure remain limited. Estonia ranks 17 of 180 on Transparency International's 2020 Corruption Perceptions Index, which is in the top half of European countries and significantly better than the rest of the Baltics.

Lithuania

Lithuania has generally effective policy making, with reliable data and free information flows. Despite frequent political shifts, there has been high cross-party consensus on important issues over the years. These include maintaining a business-friendly environment, delivering sound public finances, and preserving strong relations with EU and NATO partners. Following Lithuania's accession to the OECD in 2018, the country made good progress regarding corporate governance.

It enacted legislative reforms to improve shareholder rights and transparency, and better define board responsibilities, to better align with OECD standards and best practices. It undertook a significant reform program to improve the governance of state-owned enterprises (SOEs). This led to notable improvements in SOEs' transparency, better director-nomination processes, and greater board independence. The Code of Corporate Governance of the NASDAQ Vilnius, last updated in January 2019, is the main reference for best practice. It operates on a comply-or-explain basis and listed companies are required to disclose compliance with it in their annual reports. Its recommendations include the separation of CEO and chair roles, independent board chairs, and the creation of nomination and remuneration committees, on top of the legal requirement to have an audit committee. Boards can be either one or two tiered, with at least 33% independent directors on the supervisory board. Lithuania ranks 35 of 180 on Transparency International's 2020 Corruption Perceptions Index.

Latvia

Latvia has generally effective policymaking, promoting sustainable public finances and balanced economic growth. Although previous governments were often unstable, this rarely prevented effective policymaking in times of crisis. The country has successfully addressed its financial and economic challenges, including a severe economic and financial contraction after the 2007-2009 financial crisis. In 2010, the NASDAQ OMX Riga issued Principles of Corporate Governance and Recommendations On Their Implementation. These recommendations operate on a comply-or-explain basis. Latvian companies use a two-tier system with a supervisory board and a management board, the latter appointed by the former. Boards have between five and 20 members, appointed for up to five years. The stock exchange recommends that boards be at least 50% independent and have no employee representatives. Audit committees are the only legally required bodies and must be chaired by, and comprise, a majority of independent directors. Executive and board remuneration are submitted to shareholder votes, and decisions are binding. There is no mandated or required minimum for female representation on boards; overall Latvia performs relatively well on this measure, averaging nearly 30%. The country ranks 42 of 180 on Transparency International's 2020 Corruption Perceptions Index.

Related Research

- Environmental, Social, And Governance Evaluation: Analytical Approach, Dec. 15, 2020
- The ESG Risk Atlas: Sector And Regional Rationales And Scores, July 22, 2020
- Our Updated ESG Risk Atlas And Key Sustainability Factors: A Companion Guide, July 22, 2020
- How We Apply Our ESG Evaluation Analytical Approach: Part 2, June 17, 2020

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