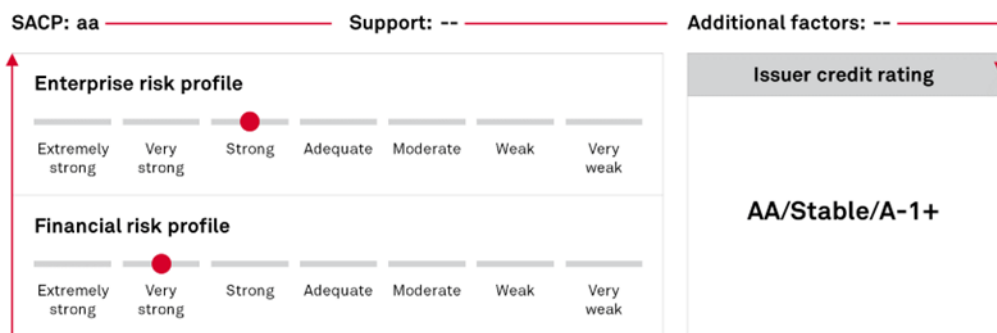


Corporacion Andina de Fomento

July 19, 2024

This report does not constitute a rating action.

Ratings Score Snapshot



SACP--Stand-alone credit profile.

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Overview

Enterprise risk profile	Financial risk profile
Strong shareholder commitment reflects support for CAF's role in the Latin American region.	Robust liquidity and funding profile.
-- Extensive track record of shareholder support, including the most recent US\$ 7 billion capital increase.	--Increased capital will contribute to resiliency in CAF's RAC ratio of 17.9% despite vulnerabilities in the region.
--Strong preferred creditor treatment, despite expected arrears from Venezuela in 2025.	--Strong liquidity buffers.
-- Risk management practices partly offset constraints to governance due to the absence of a set of nonborrowing member countries.	--Diversified access to the global capital markets, including the issuance of benchmark bonds.

We expect CAF's balance-sheet growth from continued expansion in Latin America and the Caribbean will be accompanied by paid-in capital. The institution has doubled in size over the past 10 years and intends to sustain its pace of growth underpinned by strong membership support. CAF is also expanding its reach into new markets with the incorporation of Central American countries and recent approval of the allocation of shares for Caribbean countries. This reinforces our view of CAF's policy relevance and important multilateral role in the region.

The rating captures the risk of a nonaccrual event of Venezuela and its impact to CAF's preferred creditor treatment (PCT) assessment, which is contained given the reduced exposure following the implementation of the extraordinary liquidity mechanism. In March

2020, CAF's shareholders approved a support program that allowed CAF to repurchase Venezuela's shares and apply the proceeds to the countries' debt service. Given that equity does not entirely cover the remaining loan balance, we expect that Venezuela is likely to reach nonaccrual status by 2025, as we assume the sovereign will be unable to service its remaining debt in the short term. Venezuela currently represents a small proportion of CAF's balance sheet, at 6.3% of the loan book as of 2023 (from 14% in 2018), limiting the risk to PCT beyond our current assessment that already incorporates this expected event, and the rating.

CAF's risk management practices continue to strengthen. The institution has made efforts to diversify its portfolio and recently implemented enhancements to its risk management practices under a new chief risk officer, including changes in the risk management organizational structure and processes, as well as enhancing ways to measure and quantify different risks.

Outlook

The stable outlook reflects our expectation that over the next two years CAF will continue supporting member countries and strengthen its presence in the region following its recent membership expansion and capital increase, which will also underpin its capital adequacy. We assume that members will continue to treat CAF as a preferred creditor and that it will maintain robust shareholder support through timely capital payments, and hold high levels of liquidity. We also expect that CAF will prudently manage its exposure to Venezuela once its liquidity mechanism expires in 2024, without increasing risk on its balance sheet.

Downside scenario

We could lower the ratings if CAF expands its balance sheet significantly beyond our expectation, leading to a weaker capital position. Signs of weakening support from shareholders through delays in capital payments or signs of weaker policy execution could also lead to a downgrade.

Upside scenario

We could raise the ratings if CAF incorporates highly rated shareholders, which could enhance its capital ratio and create more diversity in its governance structure. This assumes members would continue to treat CAF as a preferred creditor amid robust shareholder support as the institution continues to fulfil its countercyclical lending role in the region and maintains high liquidity. An upgrade would also depend on CAF prudently managing its exposure to Venezuela without increasing risk on its balance sheet.

Enterprise Risk Profile

Policy importance: Strengthening its role as a key source of financing in the Latin American and Caribbean region.

We expect CAF will continue to strengthen its position in the Latin America and the Caribbean region following its most recent capital increase and continued expanding membership.

Although CAF's scope is more limited than that of larger institutions, members see CAF's value in its proximity to the region and agility in loan approval and disbursements. Additionally, a

reflection of CAF's role as a key partner to its members was the institution's response as the region experienced increased credit stress exacerbated by COVID-19 (\$2.5 billion emergency credit line, among other forms of support).

CAF was created in 1970 as a regional development bank serving Latin America. CAF's five original members founded the bank in 1968 by its constitutive agreement, and it has grown from a subregional Andean institution to an important infrastructure lender throughout Latin America, owned by 21 countries--of which 19 are in Latin America and the Caribbean. This underscores our view of its strong role and public policy mandate.

It is a key source of multilateral financing in the region in the form of loans, guarantees, letter and lines of credit, and equity investments. CAF's main areas of focus are infrastructure (43% of the loan book as of 2023); transport warehousing and communications (27%); and electricity, gas, and water supply (16%). Loans to the public sector represent 96% of total loans and the remaining are to the private sector. The bank aims to gradually regain exposure to the private sector, but for it to remain below 20% of its total loan portfolio. Exposure to the private sector is mainly focused on Colombia, Peru, Panama, and Chile.

During 2023, CAF increased its lending book by 9.3%, reaching \$33.3 billion. At the same time, it has been strengthening its role in promoting green growth in the region. The institution targets ramping up approvals for green financing to 40% by 2026 (from about 23% in 2023).

With the most recent increase in capital, CAF aims to focus on four areas: become the green bank of Latin America and the Caribbean, support subnational governments, promote regional integration, and strengthen the role of the non-sovereign sector.

Although not its main role, CAF has also been supporting member countries Argentina and Ecuador through an exceptional short-term facility, acting as a bridge before receiving funds agreed with the International Monetary Fund (IMF). Conditions for eligibility depend on a short-term established repayment source, typically from the IMF. CAF approved a loan for \$800 million with Ecuador under this framework in April 2024, which was repaid with the \$1 billion disbursement to the country approved by the IMF on May 31, 2024. Although this creates marginal downward pressure and volatility on the risk-adjusted capital (RAC) ratio, we believe it is neutral for the rating as long as CAF manages these exposures prudently.

CAF began experiencing recurrent payment delays from Venezuela since 2017, which, given its high exposure at the time, weighed on CAF's rating. While the payment delays never exceeded 180 days, we viewed this as a precursor to a protracted arrears event, which weighed on the rating.

On March 3, 2020, CAF's shareholders assembly approved a support program for liquidity management in exceptional situations. This effectively allows CAF to repurchase specific member countries' shares and apply the proceeds to the countries' debt service if it shows three consecutive years of two of the following conditions:

- A decrease of more than 15% per year in GDP,
- International reserves at six months of imports, or
- Three years of inflation above 100%.

Countries under the program continue to participate in the board of directors--although to receive new loans, countries would need to acquire the shares repurchased under the program.

This has allowed CAF to begin repurchasing Venezuela's shares and use its paid-in capital to pay down its debt coming due from the sovereign and, in our view, removed the risk of a nonaccrual event and limited the downside risk to its PCT and the rating. That said, we maintain that the share repurchasing mechanism does not reflect an improvement in payment capacity, or credit fundamentals.

Given that equity does not entirely cover the remaining loan balance, we expect that Venezuela will enter arrears in the second half of 2024, and it is likely to reach nonaccrual status by 2025, as we assume the sovereign will be unable to service its remaining debt in the short term. Venezuela currently represents a small proportion of CAF's balance sheet, at 6.3% of the loan book as of 2023 (from 14% in 2018), limiting the risk to PCT beyond our current assessment that already incorporates this expected event, and the rating. The current calculated arrears ratio is 1.75% and we estimate it will increase to about 5% in 2025 as the remaining loan balance will be about \$1.9 billion. By January 2024, CAF had repurchased 151,298 shares, bringing Venezuela's loan balance outstanding to \$2.1 billion from \$3.5 billion in March 2020.

Beyond expected arrears in Venezuela, CAF did not have any PCT event with any member country over the past 10 years.

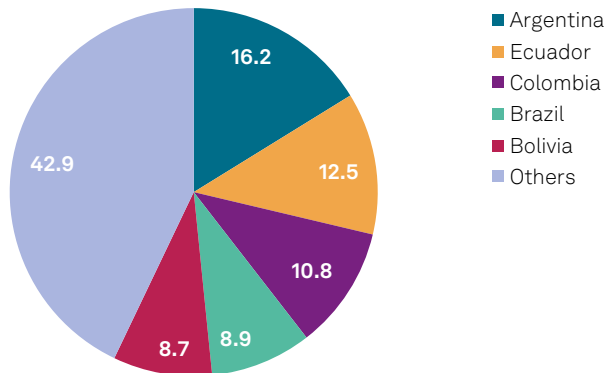
The past 10 years have been characterized by exceptional shareholder support--evidenced by larger, more frequent general capital increases. CAF stands out among its peers in terms of the frequency of capital increases and shareholder support. The institution's 10th capital increase for \$7 billion (all paid-in), approved by the board of governors in March 2022, was the largest in its history. Payments began in 2023, and will gradually ramp up, especially after the remaining \$365 million from the ninth general capital increase approved in 2015 is paid in 2024-2025.

CAF will also continue to benefit from expanded support from existing members and from incorporating new member countries in recent years. Chile became a full member of the institution in March 2023, and will contribute \$1.5 billion of paid-in capital. Also in 2023, the Dominican Republic concluded the process to become a full member (and will contribute \$310 million), and Honduras joined the institution as a full member, bringing total shareholders to 21 (\$460 million). This is in addition to increased participation from other countries like Mexico and Costa Rica in recent years.

As part of the bank's strategy to expand in the Caribbean, in March 2024, the board approved the allocation of shares for the Bahamas, Dominica, and Grenada, which formally expressed their interest in joining CAF. We view this as a positive development that adds to CAF's enhanced mandate in the broader region and will increase diversification.

CAF Five Largest Countries Purpose-Related Exposures

As A Percentage Of Gross Purpose-Related Assets Plus Guarantees



Source: S&P Global Ratings

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Governance and management expertise: Absence of a set of nonborrowing members is counterbalanced by appropriate risk management practices

We view CAF's shareholder structure without nonborrowing member countries as potentially vulnerable to agency risk. In our view, CAF's governance is constrained by the absence of a set of nonborrowing member countries, which is a weakness compared with higher-rated multilateral lending institutions with greater shareholder diversity.

Three members (Peru, Colombia, and Argentina) account for 45% of total shares, followed by Brazil and Chile, accounting for 7.9% and 6.6% respectively. CAF's shareholders, on average, have somewhat lower rankings in terms of World Bank indicators on governance effectiveness, compared with other highly rated multilateral lending institution (MLI) peers.

Shareholders allow CAF's earnings to be retained to provide solid growth. 2023 net income was historically high, which will provide CAF with additional resources for its plans to expand over the next years.

We view CAF's management as robust. This reflects its record of implementing its strategy, solid risk-management policies, and its ability to withstand loss of key personnel without disrupting operations.

To preserve capital, CAF has actively diversified its loan book and increased its relative exposure to investment grade borrowing countries. Under its new CRO that took office in April 2023, CAF is continuing to enhance risk management practices for increased oversight of its portfolio and improvement in the quantification of different risks.

At the same time, CAF adheres to robust risk-management practices within its liquidity and derivatives portfolio. CAF's liquidity policy focuses primarily on capital preservation, while the management of liquidity and profitability are additional objectives.

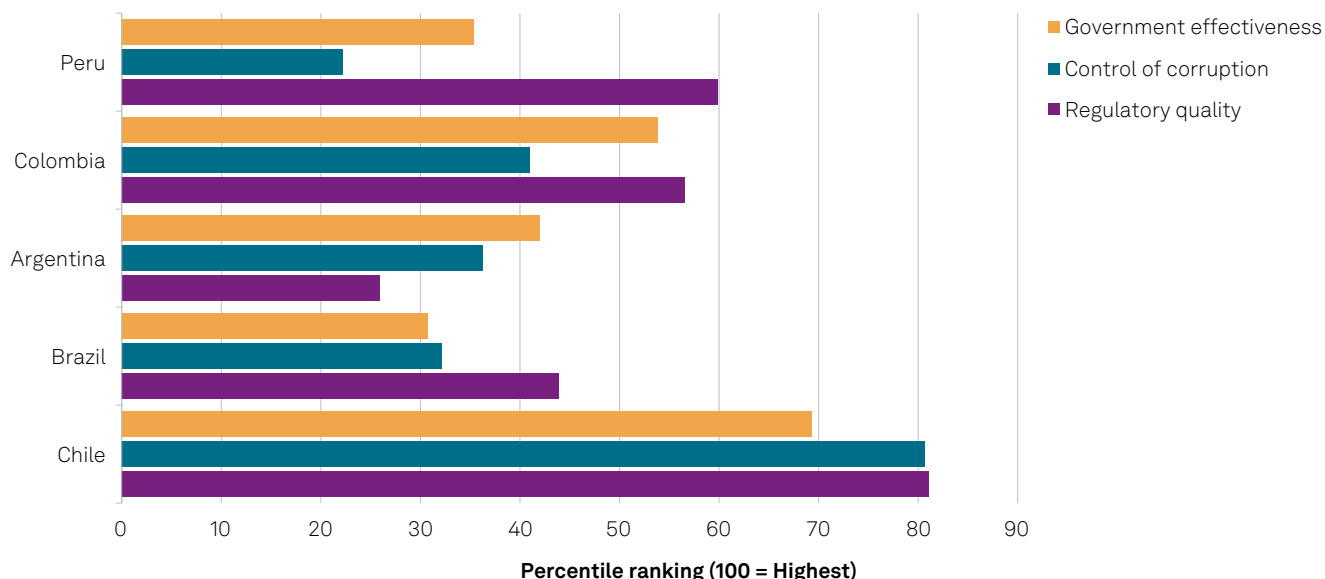
We also think CAF has the ability to withstand loss of key personnel and significant disruptions to operations as it has made important strides in recent years to decentralize its workforce throughout Latin America. While its headquarters are in Caracas, Venezuela, the institution has

made important strides over the past few years to decentralize its workforce and has operating systems throughout Latin America.

We think management has considerable expertise, experience, and a successful track record operating the entity. Sergio Diaz Granados replaced former president Luis Carranza Ugarte after he resigned from his role as president in April 2021. The term is for five years. Carranza’s presidency followed Luis Enrique García’s 25-year tenure (1991-2017). CAF’s organizational structure has remained the same, with improvements in the bank’s risk management structure and processes.

Five Largest Shareholders

Selected World Bank Governance Indicators



Source: S&P Global Ratings.

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Financial Risk Profile

Capital adequacy: Continued lending expansion will be backed by additional paid-in capital

We expect CAF’s administration will manage balance-sheet growth and capital prudently, especially if rating vulnerabilities emerge across the region. The RAC ratio was 17.9% as of December 2023, with June 2024 parameters down from 18.3% in December 2022, mainly due to increased exposure to Argentina for \$960 million under the exceptional short-term facility (which was repaid in February 2024). Continued growth in capital, partially bolstered by very high net income amid elevated interest rates, and reduced exposure to Venezuela, which carries a high capital charge, bolstered RAC levels despite CAF’s loan expansion. Upgrades in five countries that represent 34% of total exposure (Argentina, Brazil, Costa Rica, El Salvador, and Paraguay) were partially offset by downgrades in two that represent 14% of exposure (Bolivia and Peru).

The bank has a high single-name concentration, which weighs on the RAC ratio given the limited number of borrowing member countries. However, we expect management will continue to diversify its portfolio and gradually increase exposure to investment-grade sovereigns. Argentina, Ecuador, and Colombia were the largest exposures--accounting for 39% as of December 2023. This is partially counterbalanced by 25% of exposure to investment-grade sovereigns.

We also continue to consider this unusual mechanism to pay down loans with equity used with Venezuela to be a constraint on our capital adequacy assessment because the reduction in the country's shares used to repay its debt was not compensated by additional capital. Venezuela will only maintain equity in the institution sufficient to remain a full member.

The most recent capital increase was a key condition to maintain its pace of lending growth to members. We expect capital payments from its 10th general increase and from recent membership expansion will help offset risks as CAF continues to grow its lending portfolio. The compound annual growth rate in the loan portfolio has been 5.7% in the last five years.

At the same time, CAF's capital is high quality. Stockholders' equity reached \$14.7 billion as of year-end 2023, of which \$10 billion was paid-in capital, and retained earnings and reserves accounted for the remaining \$4.7 billion. A large part of the 7.3% increase in stockholders' capital in 2023 compared with the previous year was explained by a record high level of net income in a context of high interest rates. Net income reached US\$ 810 million in 2023, which compares to US\$ 210 million on average during 2019-2022.

On its private-sector exposure, CAF has historically maintained low to nonexistent nonperforming loans (NPLs) of 0.15% in 2023 (and 0.28% on average during the last five years).

Corporación Andina de Fomento (CAF) --Risk-Adjusted Capital Framework Data: December 2023

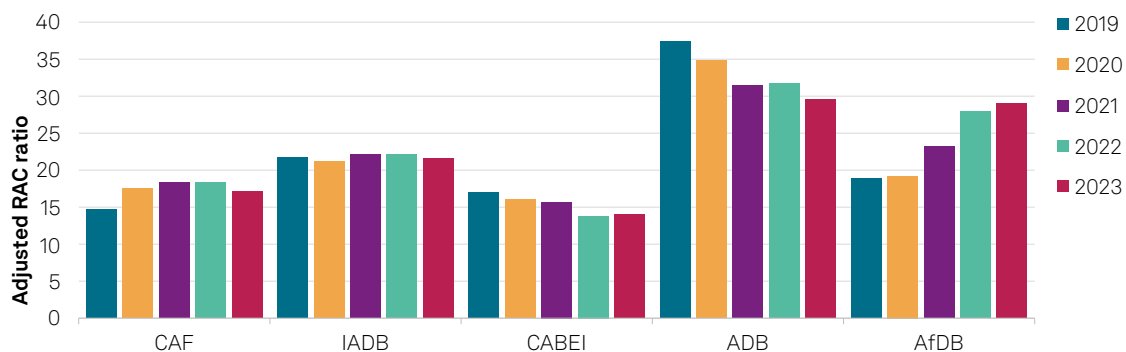
Mil. USD	Exposure	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk			
Government and central banks	39,869	63,485	159
Institutions	16,531	3,998	24
Corporate	1,034	1,462	142
Retail	25	75	296
Securitization	378	76	20
Other assets	0	0	0
Total credit risk	57,837	69,095	119
Market risk			
Equity in the banking book	285	1,588	558
Trading book market risk	-	2,784	-
Total market risk	285	4,372	-
Operational risk			
Total operational risk	-	2,180	-
Risk transfer mechanisms			
Risk transfer mechanisms RWA	0	0	0
RWA before MLI Adjustments		75,482	100
MLI adjustments			

Corporacion Andina de Fomento

Single name (on corporate exposures)	529	36
Sector (on corporate portfolio)	(75)	(4)
Geographic	(6,789)	(10)
Preferred creditor treatment (on sovereign exposures)	(32,039)	(50)
Preferential treatment (on FI and corporate exposures)	(298)	(5)
Single name (on sovereign exposures)	44,286	70
Total MLI adjustments	5,612	7
RWA after MLI adjustments	81,266	107
	Total adjusted capital	S&P Global Ratings RAC ratio (%)
Capital ratio before adjustments	14,559.0	19.2
Capital ratio after adjustments	14,559.0	17.9

MLI--Multilateral lending institutions. RW--Risk weight. RWA--Risk-weighted assets.

Risk-Adjusted Capital Ratio Peer Comparison



Source: S&P Global Ratings.

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Funding: Strong access to diversified capital markets

CAF's funding program remains diverse in terms of investor base, currency, and maturity, and it has regularly issued benchmark bonds. CAF's funding consists of 70% bonds, 13% commercial paper, 12% term deposits, and 6% long-term loans. As of December 2023, CAF had \$24.8 billion in outstanding bonds in 18 different currencies, with U.S. dollars and euros accounting for roughly 32% each. The bank also has diverse loans from multilaterals and export credit agencies, like the French Development Agency (AFD), Official Credit Institute (ICO), and Japan Bank for International Cooperation (JBIC), and most of it is denominated in U.S. dollars or euros.

CAF has been diversifying its funding and issuing benchmark bonds, demonstrating robust access to the global markets. In January 2024, CAF issued the largest bond in its history, for US\$1.75 billion. In February 2024, it issued a Euro denominated bond for €1.5 billion, and one Australian Dollar bond for AUD 500 million, the largest transaction for a Latin American entity in

the Australian market. In April 2024, CAF issued a GBP bond of £1 billion. Total market issuance in 2023 reached \$6.5 billion, while CAF has issued \$6 billion so far in 2024, covering most financing needs for the year.

Issuances in local currencies, all hedged, contribute to local market development in different countries through increased options and sources of diversification.

CAF has a conservative funding profile. Cumulative assets consistently exceed cumulative debt for maturities up to one year and no significant gap for five years. We estimate that CAF can cover its scheduled short-term debt liabilities without recourse to new issuance. Its static funding gap (without loan disbursements) was 1.6x at the one-year horizon, as of December 2023, which compares to 1.3x at the end of 2022.

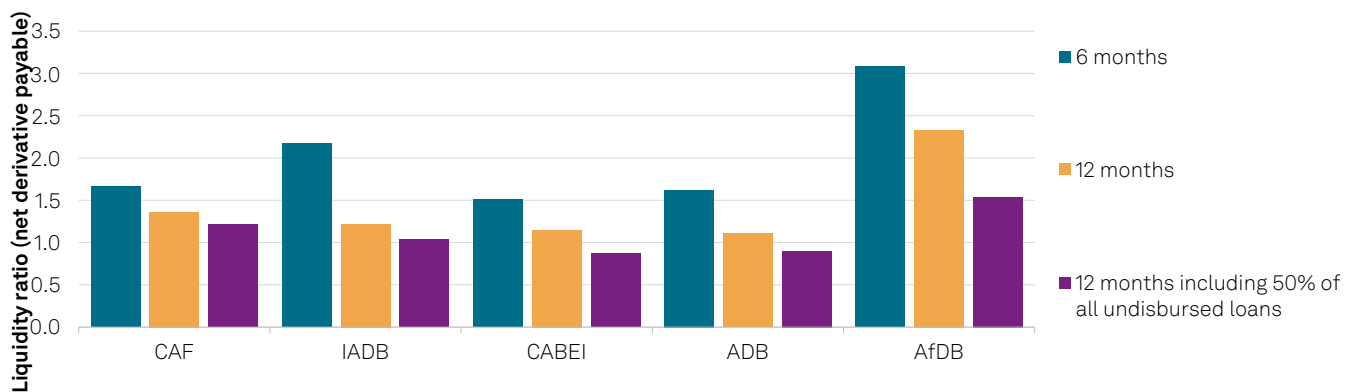
Liquidity: Robust liquidity buffers

We expect CAF's liquidity can accommodate for unplanned disbursements. Our liquidity ratios--which support CAF's extremely strong financial risk profile--indicate that it would be able to fulfill its mandate as planned for at least one year, even under stressed market conditions, without access to the capital markets.

S&P Global Rating's calculated 12-month liquidity ratio, including loan disbursements, was 1.4x as of December 2023, in line with 2022. The six-month ratio was 1.7x as of December 2023. CAF has maintained higher liquidity compared with our additional stress test that considers 50% of all undisbursed loans coming due in the next 12 months.

CAF's liquidity has been consistently robust. Liquid assets have remained substantial over the past 10 years and accounted for 30% of total assets as of December 2023 (32.5% on average over 2014-2023). The bank's ratio of liquid assets (including cash, due from banks, deposits, and investment securities less restricted currencies, without any haircuts) to gross debt was 51.8% as of year-end 2023.

Liquidity Stress Test Ratios Peer Comparison



Source: S&P Global Ratings.

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Extraordinary Shareholder Support

CAF's stand-alone credit profile is higher than the ratings of all its shareholders, and therefore it currently has no eligible callable capital.

Corporación Andina de Fomento--Selected Indicators

	2023	2022	2021	2020	2019
ENTERPRISE PROFILE					
Policy importance					
Total purpose-related exposure (loans, equity, etc.) (mil. USD)*	33,779	30,975	30,005	28,547	27,024
Public-sector (including sovereign-guaranteed) loans/purpose-related exposure (%)	94.5	94.6	91.9	89.9	83.3
Private-sector loans/purpose-related exposures (%)	4.1	3.8	6.3	8.2	14.4
Gross loan growth (%)	9.3	3.4	5.2	6.0	5.6
Preferred creditor treatment ratio (%)	1.8	2.2	2.8	3.4	4.3
Governance and management expertise					
Share of votes controlled by eligible borrower member countries (%)	100.0	100.0	100.0	100.0	100.0
Concentration of top two shareholders (%)	31.2	31.2	34.0	36.0	35.0
Eligible callable capital (mil. USD)	0	0	0	0	0
FINANCIAL RISK PROFILE					
Capital and earnings					
RAC ratio (%)	17.9	18.3	18.3	17.7	14.7
Net interest income/average net loans (%)	3.5	1.5	1.1	1.8	2.6
Net income/average shareholders' equity (%)	5.7	1.3	0.8	1.9	2.6
Impaired loans and advances/total loans (%)	0.2	0.4	0.4	0.2	0.3
Liquidity ratios					
Liquid assets/adjusted total assets (%)	30.3	30.5	33.9	31.4	32.8
Liquid assets/gross debt (%)	51.8	55.1	55.9	52.3	54.5
Liquidity coverage ratio (with planned disbursements):					
Six months (net derivate payables) (x)	1.7	1.5	1.4	2.0	2.5
12 months (net derivate payables) (x)	1.4	1.2	1.3	1.5	1.5
12 months (net derivate payables) including 50% of all undisbursed loans (x)	1.2	1.1	1.2	1.4	1.4
Funding ratios					

Corporacion Andina de Fomento

Gross debt/adjusted total assets (%)	58.5	55.5	60.6	60.1	60.2
Short-term debt (by remaining maturity)/gross debt (%)	26.8	34.3	24.0	17.7	20.5
Static funding gap (with planned disbursements)					
12 months (net derivate payables) (x)	1.6	1.3	1.8	2.1	2.3
Summary balance sheet					
Total assets (mil. USD)	53,814	50,377	47,592	46,846	42,294
Total liabilities (mil. USD)	39,085	36,657	34,293	33,851	29,497
Shareholders' equity (mil. USD)	14,730	13,719	13,300	12,995	12,797

* Not including committed disbursements. PCT--Preferred creditor treatment. RAC--Risk-adjusted capital. N.A.--Not available.

CAF--Peer Comparison

	CAF	AfDB	CABEI	IADB	ADB
Issuer credit ratings	AA/Stable/A-1+	AAA/Stable/A-1+	AA/Stable/A-1+	AAA/Stable/A-1+	AAA/Stable/A-1+
Total purpose-related exposure (mil. USD)	33,779	34,202	10,836	116,969	153,744
Preferred creditor treatment ratio (%)	1.8	1.7	0.0	1.8	0.3
Risk adjusted capital ratio (%)	17.9	27.9	14.0	22.1	31.7
Liquidity ratio 12 months (net derivative payables; %)	1.4	2.3	1.5	1.2	1.1
Funding gap 12 months (net derivative payables; %)	1.6	1.2	1.4	1.0	0.9

Source: S&P Global Ratings.

Rating Component Scores

Enterprise Risk Profile	Extremely strong	Very strong	Strong	Adequate	Moderate	Weak	Very weak
	Very strong		Strong	Adequate	Moderate	Weak	
	Strong			Adequate		Weak	
Financial Risk Profile	Extremely strong	Very strong	Strong	Adequate	Moderate	Weak	Very weak
	Extremely strong	Very strong	Strong	Adequate	Moderate	Weak	Very weak
	Very strong	Strong	Adequate	Moderate	Weak	Very weak	

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Jan. 31, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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

- Corporacion Andina de Fomento 'AA/A-1+' Ratings Affirmed; Outlook Stable, May 28, 2024
- Supranationals Special Edition 2023: Capital Optimization At The Forefront For MLIs, Oct. 13, 2023
- Introduction To Supranationals Special Edition 2023, Oct. 11, 2023
- Corporacion Andina de Fomento Long-Term Rating Raised To 'AA' On Stronger Presence In The Region; Outlook Stable, May 23, 2023

Ratings Detail (as of July 19, 2024)*

Corporacion Andina de Fomento

Issuer Credit Rating		
<i>Foreign Currency</i>		AA/Stable/A-1+
Commercial Paper		
<i>Foreign Currency</i>		A-1+
Issuer Credit Ratings History		
23-May-2023	<i>Foreign Currency</i>	AA/Stable/A-1+
16-Jun-2022		AA-/Positive/A-1+
14-Jun-2021		A+/Positive/A-1
16-Jun-2020		A+/Stable/A-1

*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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