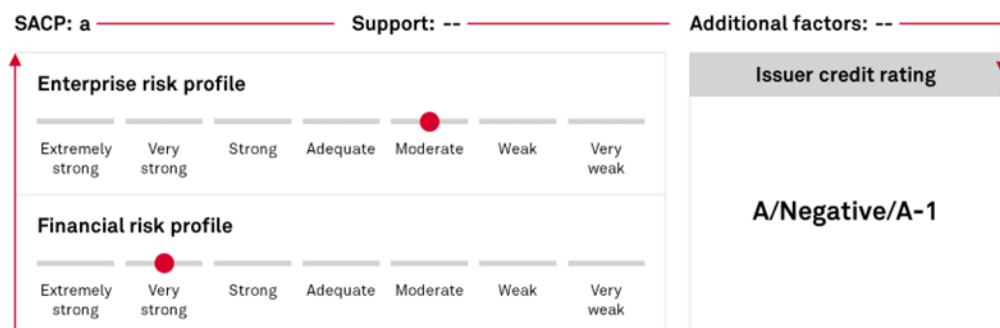


FONPLATA

October 20, 2023

This report does not constitute a rating action.

Ratings Score Snapshot



SACP--Stand-alone credit profile.

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Overview

Enterprise risk profile

Track record of increasing its presence in the region, underpinning its strong policy importance, although the potential withdrawal of Argentina could limit its policy relevance.

-- FONPLATA is smaller sized relative to other multilateral lending institutions with risk of deterioration in its shareholder support.

-- Enhanced operational and risk management capabilities in recent years.

-- Governance and management expertise is limited by its concentration in five member countries.

Financial risk profile

High capitalization and liquidity, which support the rating.

-- Commitments and lending growth could weigh on the risk-adjusted capital ratio, which is currently 23%.

-- However, we expect capitalization will remain very strong, supported by paid-in capital from member countries and efforts toward diversification.

-- While FONPLATA is mostly equity funded, it has been very active in diversifying funding sources.

FONPLATA has been strengthening its presence in Latin America by supporting member countries' development and integration, but shareholder support has been put at risk following Argentina's potential intention to withdraw from the institution.

FONPLATA had been achieving its targets for many years as reflected in increasing approvals and disbursements, which we believe demonstrated its stronger ability to respond to member countries' needs. However, we believe that a withdrawal by Argentina could curtail FONPLATA's policy relevance and could potentially impact its preferred creditor treatment (PCT) status--although it is our understanding that Argentina continues to make timely payments on its debt service to FONPLATA.

At the same time, we expect continuity in FONPLATA's enhancements to risk management and operational capabilities following the election of a new executive president in April 2023.

Shareholders have expressed their intention to maintain continuity in FONPLATA's growth strategy and increase diversification, specifically through lending to Brazil and Uruguay. Luciana Botafogo--previously FONPLATA's chief operations officer--was elected to succeed Juan Notaro, the bank's very first executive president who completed his second term in September 2022. During her presidency, the institution will outline its new strategic plan, and there could be discussions about a capital increase of at least US\$2 billion, with approval potentially in 2024 and the integration of paid-in capital beginning in 2026 or 2027.

While continued lending growth will weigh on FONPLATA's risk-adjusted capital (RAC) ratio, we expect capital adequacy will remain very strong, absent a withdrawal from Argentina.

The RAC ratio was 22.9% as of June 2023, and it continues to be supported by paid-in capital from members despite capital adequacy being lower than historical levels. We expect that the RAC ratio will remain below 23% as FONPLATA continues supporting member countries. However, we envision challenges if there is a PCT event or if Argentina withdraws, factors that could impact loss (given the potential arrears ratio, increased concentration risk, and a reduced capital base) despite a reduction in exposure to a country that has a low credit rating.

Outlook

The negative outlook reflects the risk of a material erosion of FONPLATA's shareholder base due to the announcement from Argentina, a key shareholder, of its potential intention to withdraw. We think a formal withdrawal request by Argentina could signal a decline in FONPLATA's overall policy relevance and severely strain the institution's enterprise risk profile. A weaker commitment from a key shareholder could also lead to diminished preferred creditor treatment. We believe these risks could materialize within the next 24 months, and that could result in a mult notch downgrade.

Downside scenario

We could lower our ratings on FONPLATA if Argentina follows through on withdrawing from the institution, leading to a material erosion of its shareholder base and a curtailment of its policy role. Aside from the shareholder relationship, we could also downgrade FONPLATA if shareholders, including Argentina, stop treating the institution as a preferred creditor.

Upside scenario

We could revise the outlook to stable if Argentina reverses course and stays in FONPLATA, and if it remains current on its debt service payments to the institution.

Enterprise Risk Profile

Policy importance

FONPLATA has limited geographic scope and is smaller than other multilateral lending institutions (MLIs), but it has increased lending and bolstered shareholder support since its institutional overhaul beginning in 2012. FONPLATA was founded in 1974 by its five member countries--Argentina, Bolivia, Brazil, Paraguay, and Uruguay--through the ratification of the River Plate Treaty. The bank's main objective is to reduce socioeconomic disparities in member countries, mainly through loans for small and midsize infrastructure projects--and so it is particularly active in local municipalities and subregions on the countries' borders. Its niche focus positions it well to work with other funding organizations. FONPLATA believes that the value it adds is as a reachable, agile bank that is close to its member countries and their needs.

In 2010, FONPLATA implemented institutional reforms by establishing a new business model. It appointed its first executive president in 2012 and put its first strategic plan in place in 2013. It also secured shareholder support through its first general capital increase (GCI).

FONPLATA has shown progress in shaping its policies and building operational capabilities over the past five years while reaching its lending targets. Loan portfolio growth was 20%, on average, over the past six years (2017-2022), more than doubling the size of the bank's balance sheet in that period--it was US\$2.5 billion as of June 2023. The expansion comes partly from increasing the average ticket size of projects, but mostly from expanding the number of projects. The strategic plan taking place in 2026 is under development, with discussions still at an early stage.

In 2020, amid the COVID-19 pandemic, loan disbursements increased 78%. FONPLATA's response to COVID-19 included the approval of an emergency line for US\$60 million as well as the approval of an emergency clause that allows borrowers to use up to 5% of approved financing through expedited procedures. It also allowed for the reassignment of resources. FONPLATA subsequently approved the Economic Recovery Line for US\$1 billion (US\$200 million for each member country) to provide more beneficial financial conditions for certain projects and, ultimately, to help spur economic recovery.

In our view, the virtual doubling of approvals and disbursements during the pandemic reflects both FONPLATA's capacity to respond to member countries' needs as well as the gradual strengthening of its presence in Latin America. Approvals and disbursements are expected to continue their growth trend, although they will be constrained over the next few years by a reduction in capital installments.

FONPLATA largely finances infrastructure projects in its five member countries. Member countries are exposed to environmental risks since natural disasters--such as river flooding, wildfires, and deforestation--can damage infrastructure. They also face social challenges, such as inadequate access to basic needs, including housing, education, and health care in some areas. Most of FONPLATA's infrastructure projects are in transportation and aim to improve logistics for urban projects or regional integration; projects like road building, road maintenance, and port infrastructure may be associated with higher environmental and social risks. FONPLATA also lends to environmental and water sanitation projects, although these make up a smaller share of its loans.

In line with its mandate to reduce inequality and promote inclusive development, FONPLATA also finances key social sectors, including education, equity, and social inclusion projects. FONPLATA's environmental and social risk policies and functions are not as well developed or as embedded into the organizational structure as the policies and functions of other MLIs. This is

mainly because it is smaller than many of its peers. Nonetheless, FONPLATA is working to reduce its exposure to environmental and social risks by improving social and environmental guidelines and tools while it receives technical assistance from larger MLIs. Furthermore, the bank developed a sustainable debt framework, published in December 2021, to apply to its bond issuances, and in 2023, it issued its first sustainability bond.

To strengthen its presence in the region and support larger ticket sizes, FONPLATA has engaged in partnerships and cofinancing arrangements with other MLIs, such as Corporación Andina de Fomento (CAF). FONPLATA also receives technical assistance from larger MLIs--such as the Inter-American Development Bank, European Investment Bank (EIB), and Agence Française de Développement (AFD)--which help FONPLATA align its practices in social and environmental management with best practices. In 2018, FONPLATA introduced a green fund facility to increase funding for climate change mitigation projects and formed partnerships with EIB and KfW Development Bank for green credit lines to finance energy efficiency and renewable energy projects.

As part of its effort to expand its toolkit, FONPLATA has been implementing new instruments.

In 2019, it approved nonsovereign lending to public entities as a new product (until that year, all lending was to sovereigns or with a sovereign guarantee). As of June 2023, the nonsovereign risk portfolio consisted of loans with public banks and corporations in Brazil, Paraguay, and Uruguay. Nonsovereign risk lending has certain limits--currently 6% of total lending capacity and 1.2% by counterparty. The limit of the outstanding portfolio is 10% of total assets (it was 3.3% in June 2023).

In 2022, FONPLATA introduced flexible financial conditions facilities, similar to those available in other development banks, and the first loan contract including these facilities started in July 2023. In addition, it created the National Emergency Facility product in 2023, aimed at cases where a member declares a state of emergency. The maximum is between US\$20 million and US\$40 million per occurrence, and it is still susceptible to established policy limits. There is a fast-track process for approval and disbursement. And different from other emergency facilities at other MLIs, there are no commitment charges, as it is not a contingency credit line.

Shareholders increased their support for FONPLATA following its 2012 reform with two GCIs.

There was a first GCI, approved in 2013, for US\$1.15 billion, 30.4% of which was paid-in capital. Governors approved a second GCI in 2016 for US\$1.375 billion, including US\$550 million of capital paid in over seven yearly installments beginning in 2018. Negotiations for a third GCI started in August 2023, with at least US\$2 billion of additional authorized capital expected. Approval is expected in 2024, with the integration of paid-in capital beginning in 2026 or 2027, although conversations are at an early stage. FONPLATA's earnings are exempt from corporate income tax, which contributes to higher net income.

However, Argentina's recent letter of intent to withdraw harmed shareholders' support. We believe FONPLATA's relationship with shareholders weakened following the submission of Argentina's letter on April 21, 2023. Argentina indicated that it seeks to move its capital from FONPLATA to other MLIs to optimize access to multilateral financing, although the country has more debt than paid-in capital with the institution. This comes at a time when Argentina is facing heightened vulnerability, pronounced economic imbalances and policy uncertainties, and pressure on its international reserves. On March 29, 2023, we lowered our long-term foreign currency rating on Argentina to 'CCC-' and assigned a negative outlook (see Research Update: Argentina Long-Term Foreign Currency Rating Lowered To 'CCC-' On Heightened Vulnerability; Outlook Negative, March 29, 2023). Despite the uncertainty about whether Argentina will withdraw, we think its potential intention to withdraw signals a deterioration of FONPLATA's shareholder support and is a harbinger of the bank's diminished policy importance.

FONPLATA

It is still unclear if the withdrawal of Argentina will materialize. According to FONPLATA's statute, Argentina's withdrawal will only take effect:

- If a written communication is submitted to the board of directors of FONPLATA and
- If, within the following 12 months, the country makes the claim deposit of the charter.

If the claim deposit is not filed within the 12-month period, the process ends without legal effects and should be restarted. It is our understanding that the constitutive agreement stipulates that any withdrawal of capital requires all debt clearance with the institution. Argentina is a founding member and represents one-third of total subscribed capital (\$450 million, with \$387 million paid-in as of June 2023). It also has the largest share in the lending portfolio, \$490 million (or about 28%) as of December 2022.

Argentina is holding an election in October 2023. There could be a change in government, and so it's possible that the decision to leave FONPLATA could be reversed.

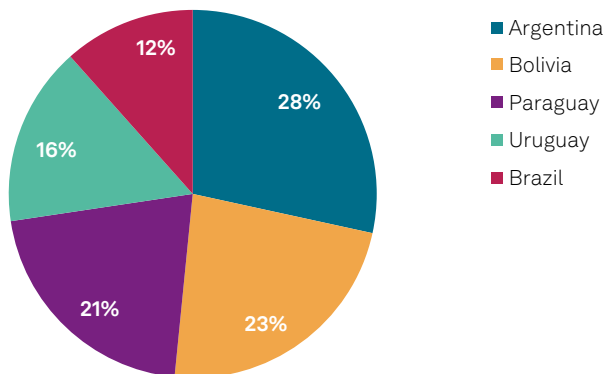
We believe other shareholders will continue to support FONPLATA. Brazil has repaid its delayed capital installments and front-loaded its remaining 2023 capital payments. Bolivia, Brazil, Paraguay, and Uruguay published a joint letter on May 3, 2023, supporting the role and purpose of the institution. The negotiations to implement another GCI also indicate support, and the incorporation of new members could counterbalance the risks of diminished policy importance.

FONPLATA has benefited from PCT from its borrowing members over the past 10 years. The calculated arrears ratio is zero, and no country has gone into arrears with the institution for more than 180 days. Equally important is that Argentina is current with its debt payments. But reduced support from a key shareholder could increase the risk of a PCT event, which would significantly hurt FONPLATA's financial and enterprise risk profiles owing to its concentration.

Chart 1

FONPLATA--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

Enhancements in financial and risk management frameworks partly counterbalance

shareholder concentration. Constraining our assessment of FONPLATA's enterprise risk is its shareholder concentration and, on average, lower ranking in governance indicators from its five borrowing members. We believe that this presents an agency problem, which, in an extreme scenario, could pose governance risks. Argentina and Brazil are FONPLATA's two largest shareholders, accounting for 66.67% of capital participation, combined. However, all of the member countries have equal voting rights, with all approvals and policies requiring four out of five votes.

Partly counterbalancing this are FONPLATA's continuous efforts since its 2012 institutional overhaul to enhance accountability and transparency in decision-making and strengthen its financial and risk management frameworks. It has set a conservative limit (at 3x equity) to manage growth in lending, and it has set exposure limits by country, aiming to achieve a more balanced loan portfolio composition. In mid-2018, the bank hired a chief risk officer to separate the planning and risk functions, and it has put in place a more robust risk framework since then.

We expect continuity in FONPLATA's policies following the election of Luciana Botafogo as its

new executive president. Shareholders expressed their intention to maintain continuity in FONPLATA's growth strategy, and we believe this leadership transition will be an important indicator of the bank's institutional depth and operational resilience.

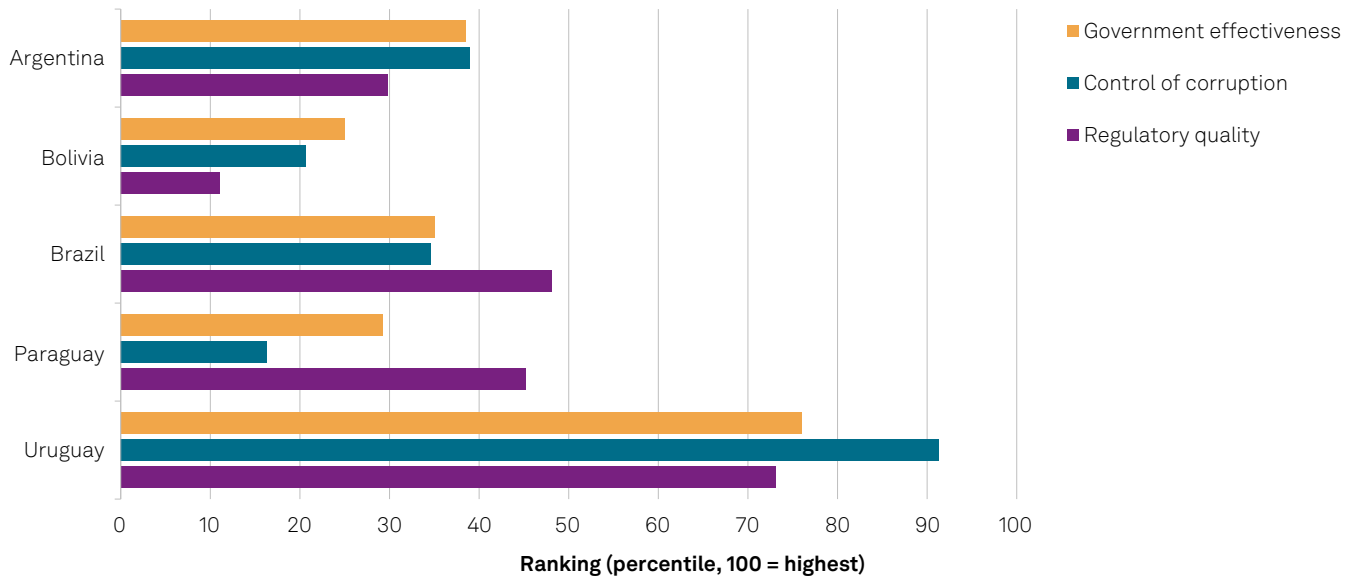
Important success in adding new members may also support our view of FONPLATA's

governance. Notably, in November 2018, the board of governors approved the modification of its charter to promote its transition from financial fund to development bank and allow the incorporation of new shareholding members. Brazil, in June 2023, was the last of the current shareholders to approve the modification of the charter that, among other changes, authorizes allowing the incorporation of new members. However, the participation of the founding members in the capital of FONPLATA may not be less than 51% of the authorized capital.

Chart 2

FONPLATA--Five largest shareholders

Selected World Bank Governance indicators



Source: S&P Global Ratings.

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Financial Risk Profile

Capital adequacy

While FONPLATA's RAC ratio has been declining, our base case assumes that planned capital increases until 2024 (or 2026, in the case of Brazil) will remain supportive of capital adequacy.

However, we believe that the RAC ratio will remain below 23%, both as capital space narrows following a years-long ramp-up in approvals and lending and as the institution continues to consolidate its presence in the region. We also think there is the potential for further deterioration of the RAC if Argentina withdraws. FONPLATA's RAC ratio after MLI adjustments was 23% as of June 30, 2023, down from 26% in June 2021. As of June 2023, loans were 27% in Argentina, 22% Bolivia, 20% Paraguay, 16% Uruguay, and 11% Brazil, with 4.6% being nonsovereign.

Table 1

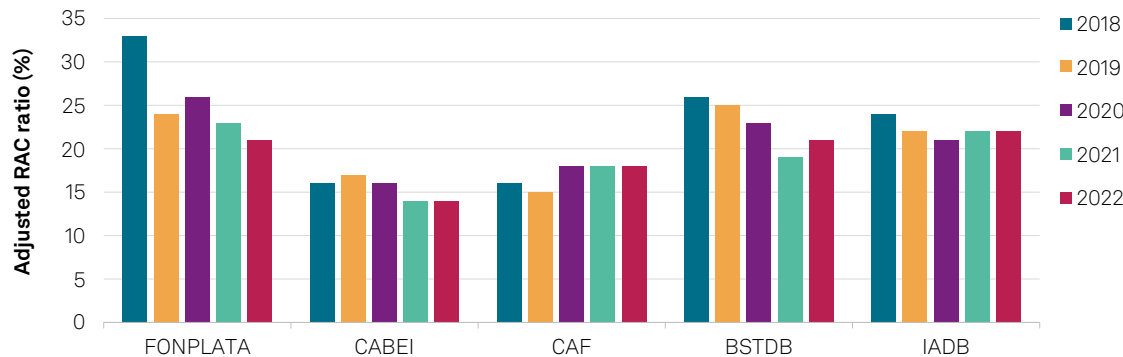
FONPLATA--Risk-adjusted capital framework data, June 2023

(Mil. US\$)	Exposure	S&P Global Ratings' RWA	Average S&P Global Ratings' RW (%)
Credit risk			
Government and central banks	2,681,162,605	4,193,793,573	156
Institutions	246,329,979	135,500,576	55
Corporate	15,308,333	17,240,099	113
Retail	0	0	0
Securitization	0	0	0
Other assets	6,713,000	22,656,375	338
Total credit risk	2,949,513,916	4,369,190,623	148
Market risk			
Equity in the banking book	0	0	0
Trading book market risk			
Total market risk	--	--	--
Operational risk			
Total operational risk	--	242,955,679	--
Risk transfer mechanisms			
Risk transfer mechanisms RWA	0	0	0
RWA before MLI Adjustments	0	4,612,146,302	100
MLI adjustments			
Single name (on corporate exposures)	--	0	0
Sector (on corporate portfolio)	--	862,005	5
Geographic	--	(343,062,775)	(8)
Preferred creditor treatment (on sovereign exposures)	--	(2,241,962,268)	(53)
Preferential treatment (on FI and corporate exposures)	--	(18,996,900)	(12)
Single name (on sovereign exposures)	--	4,348,636,238	104
Total MLI adjustments	--	1,745,476,300	38
RWA after MLI adjustments	--	6,357,622,602	138
		Total adjusted capital	S&P Global Ratings' RAC ratio (%)
Capital ratio before adjustments	1,457,162,000	1,457,162,000	32
Capital ratio after adjustments	1,457,162,000	1,457,162,000	23

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

Chart 3

Peer comparison: Risk-adjusted capital ratios



CABEL--Central American Bank for Economic Integration. CAF--Corporacion Andina de Fomento. BSTDB--Black Sea Trade and Development Bank. IADB--Inter-American Development Bank. RAC--Risk-adjusted capital. Source: S&P Global Ratings.

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Funding

FONPLATA is mostly equity funded. Total adjusted equity to adjusted total assets was 57% as of June 2023. FONPLATA's static funding gap with loan disbursements at one year decreased to 1.0x as of June 2023 from 1.3x in June 2022. Nonetheless, we expect no significant funding gaps over the next two years.

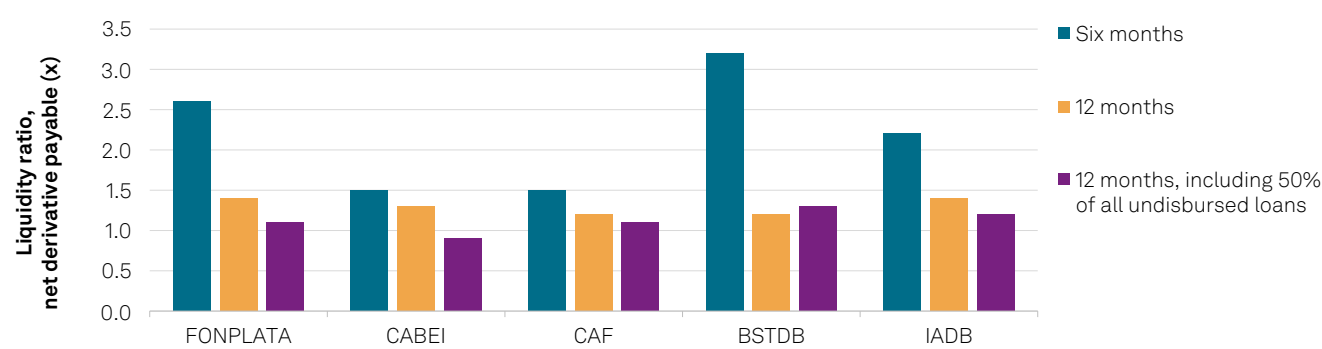
Still, the bank has been active in expanding and diversifying funding sources in order to obtain better borrowing conditions. Because the bank has no significant debt liabilities, its funding is, by definition, undiversified. However, we have seen several positive developments as FONPLATA is looking to diversify funding sources with other MLIs, central banks, new bond issuances, and commercial bank loans. In March 2019, FONPLATA issued its first bond in the international capital markets for 150 million Swiss francs (CHF), and it issued other bonds for CHF200 million and CHF150 million in March and December 2021, respectively. In addition, it approved its sustainable debt framework in December 2021 to guide future issuances of green and social bonds as well as loans and other financial instruments, and it issued its first thematic bonds and also its first issuance in the Japanese market for an overall amount of ¥7.2 billion in March 2023. Aside from debt issuances, FONPLATA's main funding source in recent years has been credit lines from MLIs, particularly from the Inter-American Development Bank, CAF, and EIB. FONPLATA also contracted its first loan with a commercial bank--Banco Bilbao Vizcaya Argentaria S.A. (BBVA)--for \$100 million in 2021, which was part of FONPLATA's funding diversification strategy. Total funding slightly decreased to \$967 million in June 2023 from \$975 million in December 2022 because of high interest rates in debt markets and additional funding costs due to Argentina's intention to leave FONPLATA, which has recently kept the bank from tapping the capital markets. But total funding was still higher than where it was in December 2021 (\$927 million).

Liquidity

Liquidity has remained high, supported by the implementation of conservative liquidity policies. Under those policies, it is required to maintain a minimum level of liquidity sufficient to cover all liability payments and disbursements over the next 12 months. It holds high-quality liquid assets, in compliance with its investment guidelines. Our calculations of FONPLATA's liquidity incorporate stressed market conditions and assume no market access. Given June 2023 data, our 12-month liquidity ratio, accounting for the netted derivatives position, was 1.0x with scheduled loan disbursements, while the six-month ratio was 2.2x. However, we believe the bank would need to slow its planned disbursements under a stress scenario.

Chart 4

Peer comparison: Liquidity stress test ratios



CABEI--Central American Bank for Economic Integration. CAF--Corporacion Andina de Fomento. BSTDB--Black Sea Trade and Development Bank. IADB--Inter-American Development Bank. Source: S&P Global Ratings.

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Extraordinary Shareholder Support

FONPLATA's shareholders are rated below the institution's stand-alone credit profile of 'a', and therefore it does not benefit from eligible callable capital.

Holistic Approach

We do not include any holistic analysis that uplifts the overall assessment.

Table 2

FONPLATA--Selected indicators

	2022	2021	2020	2019	2018
ENTERPRISE PROFILE					
Policy importance					
Total purpose-related exposure--loans, equity, etc. (mil. US\$)*	1,761	1,671	1,303	977	807
Public-sector, including sovereign-guaranteed loans/purpose-related exposure (%)	91	95	94	100	100
Private-sector loans/purpose-related exposures (%)	9	5	6	0	0
Gross loan growth (%)	15.9	21.4	33.6	17.1	20.8
Preferred creditor treatment ratio (%)	0	0	0	0	0
Governance and management expertise					
Share of votes controlled by eligible borrower member countries (%)	100	100	100	100	100
Concentration of top two shareholders (%)	66	66	66	66	66
Eligible callable capital (mil. US\$)	0	0	0	0	0
FINANCIAL RISK PROFILE					
Capital and earnings					
RAC ratio (%)	23	23	26	24	33
Net interest income/average net loans (%)	2.9	2.1	3.3	4.6	4.6
Net income/average shareholders' equity (%)	3.8	2.1	3.1	2.9	3.0
Impaired loans and advances/total loans (%)	0	0	0	0	0
Liquidity ratios					
Liquid assets/adjusted total assets (%)	23.8	22.3	22.9	25.1	21.8
Liquid assets/gross debt (%)	57.1	51.9	68.2	124.2	287.9
Liquidity coverage ratio (with planned disbursements):					
Six months, net derivate payables (x)	2.1	2.7	1.6	1.7	2.3
12 months, net derivate payables (x)	1.0	1.5	0.8	1.1	1.3
12 months, net derivate payables, including 50% of all undisbursed loans (x)	1.0	1.6	0.7	0.7	0.8
Funding ratios					
Gross debt/adjusted total assets (%)	41.7	43.0	33.5	20.2	7.6
Short-term debt (by remaining maturity)/gross debt (%)	10.7	7.1	23.8	2.0	6.8
Static funding gap (with planned disbursements)					
12 months, net derivate payables (x)	1.0	1.3	1.8	29.6	21.1
Summary balance sheet					
Total assets (mil. US\$)	2,337	2,157	1,695	1,308	1,043
Total liabilities (mil. US\$)	1,008	952	585	280	90
Shareholders' equity (mil. US\$)	1,329	1,205	1,110	1,028	953

*Not including committed disbursements. RAC--Risk-adjusted capital.

Table 3

FONPLATA--Peer comparison

(%)	FONPLATA	Central American Bank for Economic Integration	Corporación Andina de Fomento	Inter-American Development Bank	Black Sea Trade and Development Bank
Issuer credit ratings	A/Negative/A-1	AA/Stable/A-1+	AA/Stable/A-1+	AAA/Stable/A-1+	BBB+/Watch Neg/A-2
Total purpose-related exposure (mil. US\$)	1,761	9,310	30,975	113,799	2,137
Preferred creditor treatment ratio	0	0	2.8	1.9	N/A
Risk-adjusted capital ratio	22.8	14.0	18.3	22.1	20.6
Liquidity ratio 12 months (net derivative payables)	1.2	1.6	1.3	1.9	1.2
Funding gap 12 months (net derivative payables)	1.3	1.6	1.3	1.2	2.0

Ratings as of Oct. 3, 2023. N/A--Not applicable.

Rating Component Scores

Enterprise Risk Profile	Extremely strong	Very strong	Strong	Adequate	Moderate	Weak	Very weak
Policy Importance	Very strong	Strong	Adequate	Moderate	Weak		
Governance and Management	Strong	Adequate	Weak				
Financial Risk Profile	Extremely strong	Very strong	Strong	Adequate	Moderate	Weak	Very weak
Capital Adequacy	Extremely strong	Very strong	Strong	Adequate	Moderate	Weak	Very weak
Funding and Liquidity	Very strong	Strong	Adequate	Moderate	Weak	Very weak	

Related Criteria

- 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
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Research Update: Argentina Long-Term Local Currency Rating Raised To 'CCC-' As Default Is Cured; 'CCC-' Foreign Currency Rating Affirmed, June 13, 2023
- Research Update: Argentina Long-Term Foreign Currency Rating Lowered To 'CCC-' On Heightened Vulnerability; Outlook Negative, March 29, 2023
- Abridged Supranationals Interim Edition 2023: Multilateral Lending Institutions Sector Updates, May 23, 2023
- Abridged Supranationals Interim Edition 2023: Comparative Data For Multilateral Lending Institutions, May 23, 2023
- A Closer Look At The G-20 Expert Panel Review Of MLIs' Capital Adequacy Frameworks, Oct. 11, 2022

Ratings Detail (as of October 20, 2023)*

FONPLATA

Issuer Credit Rating	
Foreign Currency	A/Negative/A-1
Senior Unsecured	A

Issuer Credit Ratings History

05-May-2023	Foreign Currency	A/Negative/A-1
27-Sep-2021		A/Stable/A-1
21-Feb-2019		A-/Positive/A-2

*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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