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BAC International Bank Inc.

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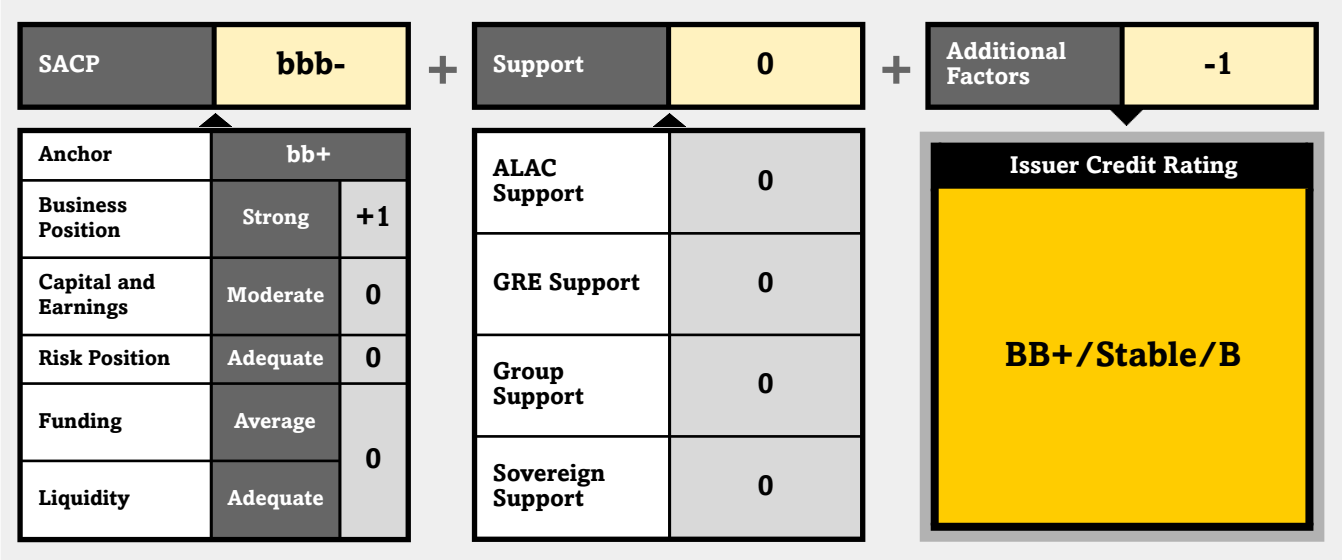
Major Rating Factors

Outlook

Rationale

Related Criteria

BAC International Bank Inc.



Major Rating Factors

Strengths:	Weaknesses:
<ul style="list-style-type: none"> A leading player in consumer lending and the largest financial conglomerate in Central America; BAC International Bank Inc.'s (BIB) funding structure leans on a stable and pulverized deposit base with manageable short-term financial obligations; and Highly diversified by geography, economic sector, and client, allowing us to rate the bank above the sovereign rating on Costa Rica (B/Negative/B), to which it is highly exposed. 	<ul style="list-style-type: none"> The pandemic-induced economic shock and with the region's political vulnerability represent a challenge for the bank's profitability and asset quality metrics; and Such vulnerabilities and the region's high economic risks weigh on the bank's risk-adjusted capital (RAC) ratio and our assessment of the bank's capital and earnings.

Outlook: Stable

The stable outlook on BAC International Bank Inc. (BIB) continues to reflect that on the parent, Banco de Bogota S.A. y Subsidiarias (BdeB; BB+/Stable/B). The outlook also reflects our expectation that BIB will maintain its strong presence and leadership in Central America in terms of loans and deposits over the next 12 months. Additionally, we believe that its profitable operations and large geographic diversification will continue to help maintain business stability, despite the global economic turmoil driven by the COVID-19 pandemic. We expect BIB to remain a core subsidiary of BdeB. BIB, on a consolidated basis, continues to account for a large amount of its parent's earnings and capital, and the group continues to view it as a fundamental subsidiary for its future strategy. Thus, the ratings on BIB will move in tandem with those on the parent.

Downside scenario

We could lower the rating on BIB over the next 12 months if we downgrade its parent.

Upside scenario

The rating on BdeB constrains the ratings on BIB, and the ratings on the bank will likely move in tandem with those on the parent. If we revise the outlook on the parent to positive or raise the ratings, we would take a similar action on BIB.

Rationale

Our ratings on BIB reflect our expectations that it will continue showing resilience and business stability relative to other banks in the region despite the market and global economic turmoil caused by COVID-19. This is thanks to BIB's leading market position in Central America on a consolidated basis and its sound business stability, supported by a large, sticky and well-diversified customer base. The ratings also reflect our projected RAC ratio of 6.5%, on average, for 2021-2022, underpinned by the gradual recovery of profitability and still modest loan growth. Moreover, we expect the bank to keep manageable asset quality metrics and its highly diversified loan portfolio (by geography and economic sector) despite the still very weak operating conditions in 2021 across the region. Finally, BIB's main strengths stem from its funding structure that is supported by a stable and pulverized deposit base with manageable short-term financial obligations.

Anchor: 'bb+' on weighted average economic risks for countries where BIB operates and Panama's industry risk**Table 1**

BAC International Bank Inc.--Key Figures					
--Year-ended Dec. 31--					
(Mil. PAB)	2020	2019	2018	2017	2016
Adjusted assets	26,228.8	23,575.3	22,383.7	21,640.1	19,658.7
Customer loans (gross)	17,174.6	16,788.0	16,195.4	15,481.7	14,315.9
Adjusted common equity	2,065.4	2,467.6	2,329.9	2,255.5	1,984.5
Operating revenues	2,059.5	2,135.6	2,079.1	1,912.4	1,776.1
Noninterest expenses	1,164.8	1,199.1	1,128.0	1,058.1	1,019.8

Table 1**BAC International Bank Inc.--Key Figures (cont.)**

(Mil. PAB)	--Year-ended Dec. 31--				
	2020	2019	2018	2017	2016
Core earnings	314.6	410.5	405.3	376.0	360.2

PAB--PAB-Balboa.

Our bank criteria use our Banking Industry Country Risk Assessment (BICRA) economic and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. We score a BICRA on a scale from 1 to 10, ranging from the lowest-risk banking systems (group '1') to the highest-risk (group '10'). The anchor for BIB is 'bb+'.

The 'bb+' anchor draws on our view of the expected weighted average economic risk in the countries in which BIB has exposure through its loan book: Costa Rica (28%), Panama (23%), Guatemala (20%), Honduras (13%), El Salvador (11%), and Nicaragua (5%), as of December 2020. As a result, the weighted economic risk rounds to '7'. The common factor driving this economic risk score is low income in the countries where the bank operates, which affects the countries' vulnerability to external shocks, and debt and payment capacity in countries with weak rule of law.

For BIB's industry risk score, we use Panama's '5' score. To address the economic impact of COVID-19, the regulator allowed banks to restructure loans to troubled borrowers until June 30, 2021. It also allowed banks to use the accumulated provisioning (about \$1.3 billion or 2% of GDP) to absorb the impact of credit losses. In addition, banks will need to create a generic provision equivalent to 3% of the gross balance of the modified loan portfolio. Given that Panama doesn't have a central bank or formal lender of last resort, or an effective deposit insurance system to support distressed financial institutions, the government has successfully used the public bank, Banco Nacional de Panama (Banconal), as the vehicle to provide additional liquidity (about \$1.3 billion) to the domestic financial sector, corporations, and small- and mid-size enterprises (SMEs) amid the pandemic-induced economic fallout. On the other hand, the country's financial regulation continues to improve, reducing the gap with international standards, although implementation challenges remain. Finally, in 2019, the Financial Action Task Force (FATF) placed Panama back on its "grey" list of countries for legal and regulatory shortcomings related to insufficient preventative measures against money laundering and financing terrorism. Additionally, in 2020, the EU added Panama to its blacklist of uncooperative jurisdictions in terms of tax transparency and financial information. The FATF and EU's decisions haven't damaged Panama's economic growth, investment in the country, or any impact to the financial system so far, in our view. Moreover, banks have maintained good access to external financing.

Business position: Adequate revenue diversification and business stability despite more vulnerable operating conditions**Table 2****BAC International Bank Inc.--Business Position**

(%)	--Year ended Dec. 31--				
	2020	2019	2018	2017	2016
Total revenues from business line (currency in millions)	2,059.5	2,135.6	2,082.6	1,907.0	1,755.3
Commercial banking/total revenues from business line	88.4	92.8	89.6	91.8	92.4
Trading and sales income/total revenues from business line	10.1	4.6	7.9	6.2	6.4

Table 2

BAC International Bank Inc.--Business Position (cont.)					
	--Year ended Dec. 31--				
(%)	2020	2019	2018	2017	2016
Other revenues/total revenues from business line	1.5	2.6	2.5	2.0	1.1
Investment banking/total revenues from business line	10.1	4.6	7.9	6.2	6.4
Return on average common equity	11.6	14.6	15.2	15.0	N/A

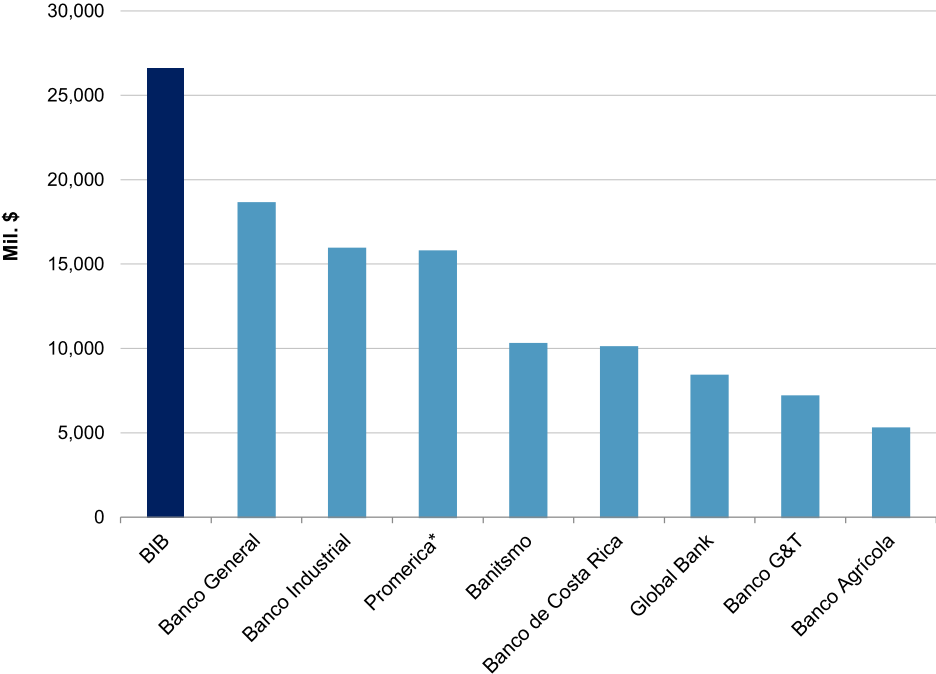
N/A--Not applicable.

Despite the bleak market and economic conditions because of the turmoil caused by COVID-19, we expect BIB's sound market share, ample revenue diversification, digital strategy and historically stable operating revenue to continue supporting our overall business position assessment under current circumstances.

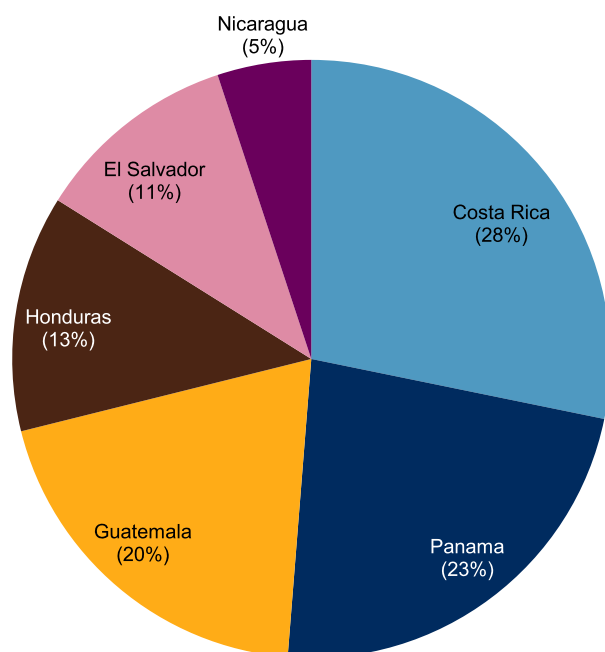
BIB maintains its leading position in Central America, as well as its solid business diversification by geography, segment, and client. The bank has regional market shares of 9.6% in total assets, 10.7% in loans, and 10.1% in deposits, and is one of the five largest banks in each country it operates, as December 2020. This has resulted in historical revenue stability, and a mere 3.6% contraction of operating revenue in 2020, explained by lower interest margins and fee income. BIB's consumer loan portfolio also contracted last year. However, total loan portfolio grew about 1% in 2020 thanks to disbursements of mortgages and corporate loans, mainly to tier 1 clients. Uncertainty about the pace of economic recovery in the region for 2021 remains. Nevertheless, we expect loan growth of 4%-5% in 2021 and a recovery in fee income will support a likely 4.3% growth in operating revenue this year. In addition, the expansion of the digital platform and improved client engagement through digital channels (64% of total transactions) will help the bank to compensate for the effect of difficult operating conditions and to improve efficiency in the long run. Also, we believe BIB's loyal customer base and large business lines should help profitability recover, despite still high provision requirements.

Finally, we believe BIB benefits from a strong management team that has ample experience within the Central American banking industry, and has been very successful with the group's business growth strategy. The latter has enhanced its regional presence and helped it overcome adverse economic conditions in the past. Overall, we believe BIB has a more advantageous position compared to smaller regional peers.

Chart 1
Assets Comparison
Data as of December 2020



Source: Banks' financial statements.
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Chart 2**Loan Breakdown By Country**

Source: BIB's financial statements.

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Capital and earnings: Average RAC ratio of 6.5% over the next 18 to 24 months

Table 3

BAC International Bank Inc.--Capital And Earnings

(%)	--Year ended Dec. 31--				
	2020	2019	2018	2017	2016
Tier 1 capital ratio	11.6	11.5	11.8	11.8	11.0
S&P Global Ratings' RAC ratio before diversification	6.5	6.6	6.4	6.5	6.2
S&P Global Ratings' RAC ratio after diversification	5.4	5.7	5.4	5.5	5.3
Adjusted common equity/total adjusted capital	79.9	100.0	100.0	100.0	100.0
Net interest income/operating revenues	60.9	60.6	58.5	60.0	60.2
Fee income/operating revenues	27.5	32.2	31.2	31.5	31.2
Market-sensitive income/operating revenues	10.1	4.6	8.0	6.2	6.4
Cost to income ratio	56.6	56.1	54.3	55.3	57.4
Preprovision operating income/average assets	3.5	4.0	4.2	4.1	N/A
Core earnings/average managed assets	1.2	1.8	1.8	1.8	N/A

RAC--Risk adjusted capital. N/A--Not applicable.

We expect high quality of earnings based on stable income sources--such as interest and fee income that account for

about 88% of total operating revenues--modest growth prospects, and the healthy nonperforming assets (NPAs) reserve coverage ratios to prevent the bank's capital and earnings from weakening for at least the next 12 months. BIB's performance was more resilient than those of other banks in the region. But the bank's profitability took a hit in 2020, and net income decreased 23.4% due to lower business volumes and large provision requirements to prepare for asset quality deterioration. Cost of risk will likely remain high, so we expect profitability to remain below historical levels in 2021. Nonetheless, we consider that the bank's gradual recovery and low-single digit lending growth, given still conservative origination policies, underpin stable capitalization levels and our 6.5% forecasted RAC ratio for the next 18-24 months, despite the heightened economic risks in the countries where BIB operates.

Our forecasted RAC ratio considers the following assumptions:

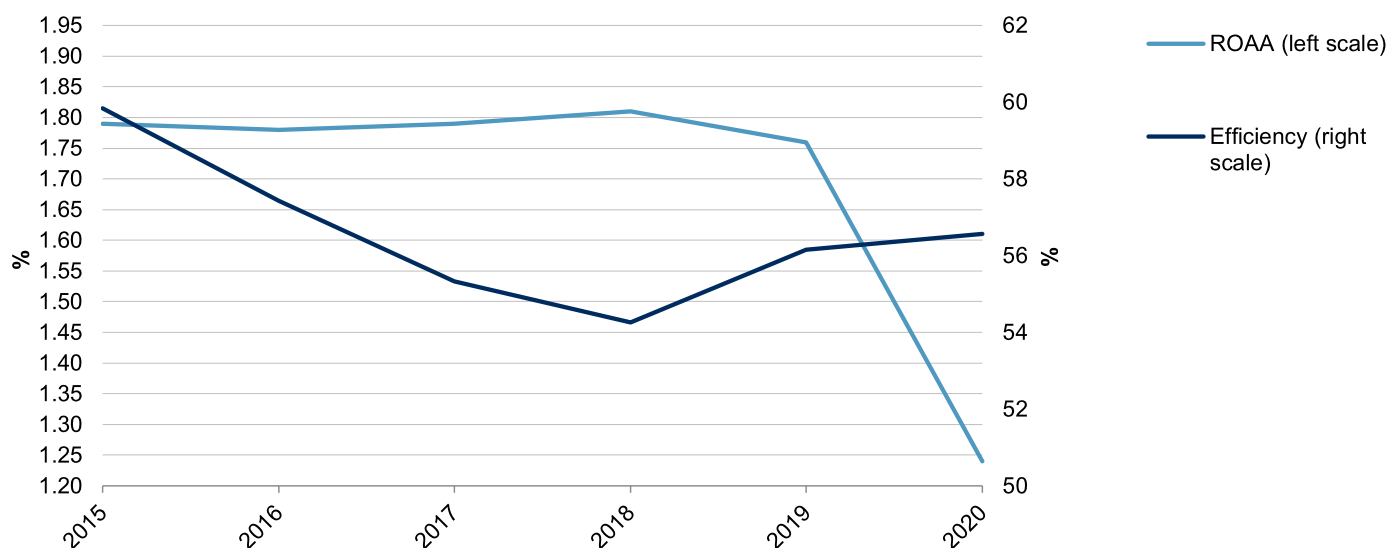
- Central American economies to expand as follows during 2021: Costa Rica (2.6%); Guatemala (4.4%); Honduras (5%); El Salvador (3.9%); and Panamá (7%).
- Loan portfolio growth at about 4.5% for 2021;
- Net interest margins will remain pressured due to low reference rates, loan restructurings, and asset quality deterioration.
- Still subdued profitability with core earnings to average adjusted assets at about 1.3%, resulting from high new loan-loss provisions.
- NPAs and credit losses above the historical average due to the economic lockdown and regional GDP contraction, but still manageable and fully covered by reserves.
- Payout dividend ratio at about 60% of last year's net income.

We continue to see a high quality of capital. Although we now include the Tier 1 perpetual subordinated bonds under BIB's capital structure, it represents less than 20% of the total adjusted capital. The rest continue to consist mainly of paid-in capital and retained earnings. Most importantly, we factor the sound and resilient quality of earnings that provides sufficient financial flexibility to pass our sovereign stress test for its 28% exposure in Costa Rica. Net interest income accounts for about 61% of operating revenue, fees (28%), and trading (10%). We expect this mix to remain similar in the next two years.

Moreover, the bank's adequate cost-income ratio supports its quality of earnings. This ratio was 56.56% as of December 2020, in line with that of previous years despite the reduction in operating revenue, reflecting the cut in costs and digital transformation.

Chart 3

BIB's Profitability Metrics



ROAA--Return on average assets. Source: S&P Global Ratings
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Risk position: Asset quality and credit losses at manageable levels in spite of economic contraction

Table 4

BAC International Bank Inc.--Risk Position

(%)	--Year ended Dec. 31--				
	2020	2019	2018	2017	2016
Growth in customer loans	2.3	3.7	4.6	8.1	N.M.
Total diversification adjustment/S&P Global Ratings' RWA before diversification	20.5	15.5	18.2	18.8	16.5
Total managed assets/adjusted common equity (x)	12.9	9.7	9.8	9.8	10.1
New loan loss provisions/average customer loans	2.6	2.3	2.4	2.1	N/A
Net charge-offs/average customer loans	1.7	2.2	2.0	1.8	N/A
Gross nonperforming assets/customer loans + other real estate owned	1.9	1.7	1.4	1.3	1.4
Loan loss reserves/gross nonperforming assets	207.2	198.9	229.2	141.4	124.1

RWA--Risk weighted assets. N/A--Not applicable. N.M.--Not meaningful.

Central America's economic slowdown due to the COVID-19 pandemic has widened BIB's credit losses. However, we believe historically prudent underwriting standards and the highly diversified loan portfolio by country, segment, and client will support asset quality and our overall risk position assessment.

As of December 2020, portfolio consisted of commercial loans (45%), residential and commercial mortgages (20%), and consumer loans (35%). We note that sectors highly vulnerable to the impact of the COVID-19 pandemic such as tourism, restaurants, entertainment, construction, and transportation, among others, represent less than 5% of the

bank's total consolidated loan portfolio.

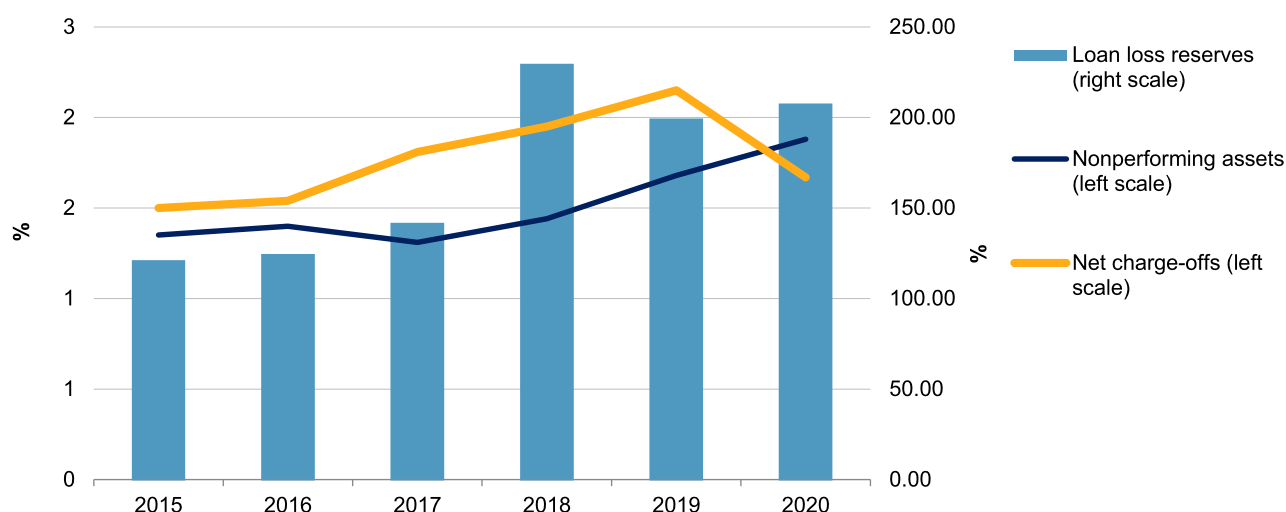
Moreover, in terms of single exposures, BIB's top 20 largest loans represented 7.7% of its total loan portfolio and 50% of its total adjusted capital. The latter reflects the bank's large focus on retail in its credit operations, keeping its loan portfolio relatively pulverized. On the other hand, although diversified, the consumer segment has been highly vulnerable to the impact of the pandemic.

We expect asset quality on a consolidated basis to remain manageable thanks to the bank's prudent origination policies and expansion strategy in segments where it's historically operated. However, due to the pandemic, the NPAs and charge-off ratios could rise to about 2.46% and 2.6%, respectively, before they start normalizing in 2022 and 2023. However, we expect NPA reserve coverage to remain above 100% during the same period, and these metrics to continue in line with other regional peers and within its current adequate category. NPAs and credit losses ratios were 1.88% and 1.67%, respectively, as of Dec. 31, 2020.

BIB participated in the loan moratorium programs according to each country's policies and regulatory frameworks. Our asset quality forecast considers the amount of deferred and restructured loans registered by the end of the year, because we consider that such loans represent a higher risk of deterioration. Deferred loans represented about 11% of the total commercial portfolio as of December 2020, while restructured loans accounted for about 13%. Deferred loans in the SME and consumer portfolios reached a peak at 60%, but have been decreased to about 11% as of December 2020. We expect BIB to continue supporting clients in need of additional restructures and to continue generating new loan loss reserves in order to maintain healthy reserve coverage for potential credit losses during 2021.

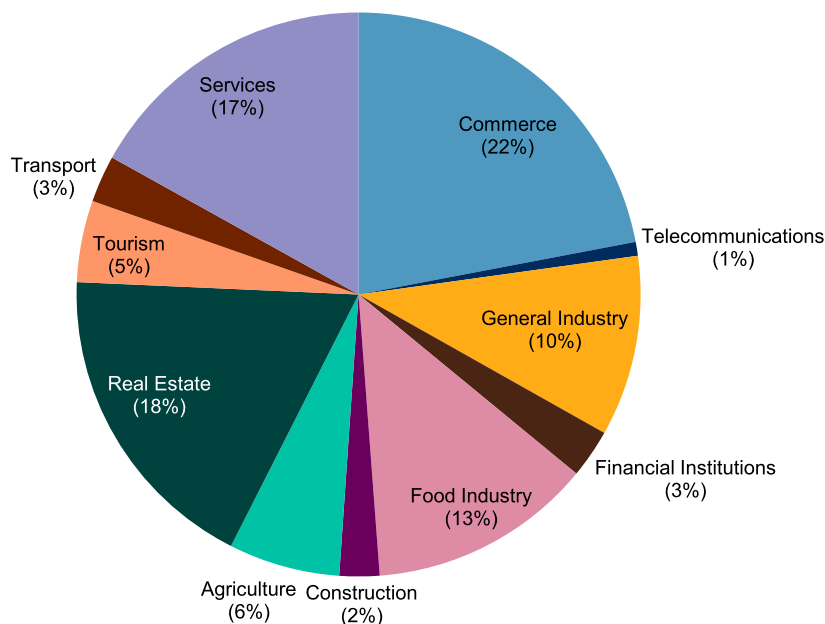
Chart 4

BIB's Asset Quality



Source: S&P Global Ratings

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Chart 5**Commercial Loans By Economic Sector**

Source: BIB's financial statements.

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Funding and liquidity: Highly stable funding base that provides financial flexibility under stressful conditions

Table 5

BAC International Bank Inc.--Funding And Liquidity

(%)	--Year ended Dec. 31--				
	2020	2019	2018	2017	2016
Core deposits/funding base	89.8	86.5	81.5	80.4	77.8
Customer loans (net)/customer deposits	81.3	94.6	99.8	101.7	106.7
Long-term funding ratio	96.9	97.2	97.0	97.0	96.8
Stable funding ratio	130.2	117.5	119.1	117.9	115.1
Short-term wholesale funding/funding base	3.4	3.1	3.3	3.3	3.5
Broad liquid assets/short-term wholesale funding (x)	9.6	8.3	7.6	7.3	6.3
Short-term wholesale funding/total wholesale funding	27.5	23.0	18.0	17.0	15.9

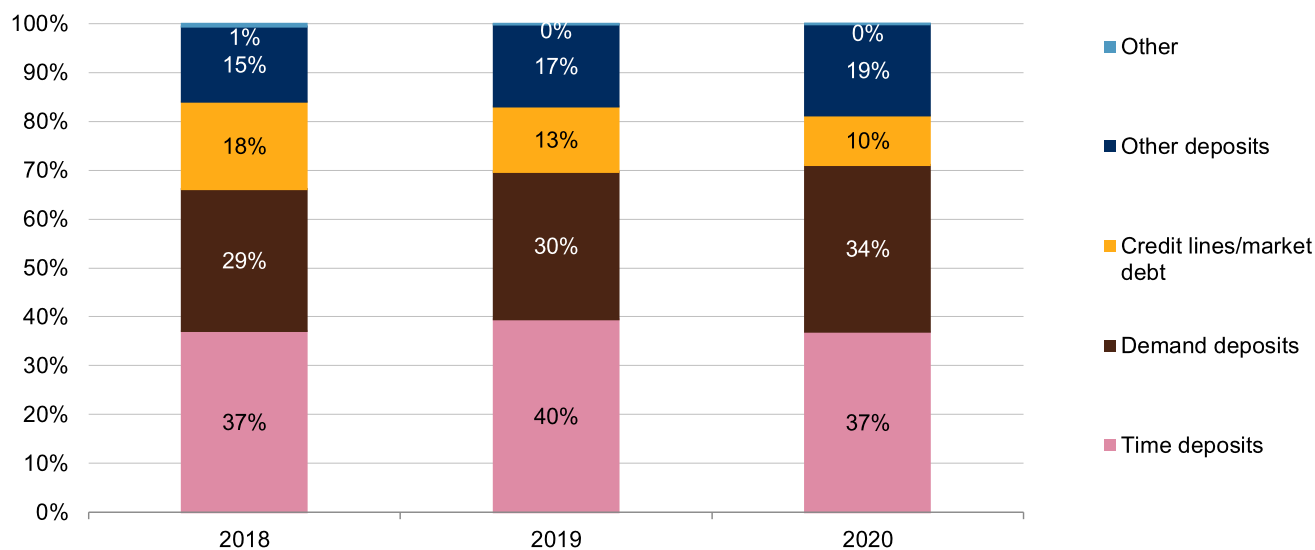
Key factors to consider under tightening financing conditions and a stalled economy are liquidity needs and funding flexibility. We believe BIB enjoys a favorable position with its large and highly pulverized deposit base. The bank also has maintained very manageable short-term wholesale obligations given that it funds most of its operations with customer deposits. As of December 2020, core customer deposits had increased 18% from 2019 year-end figures. This

reflects BIB's solid brand recognition and reputation in Central America, which provides additional strength and financial flexibility under the fly-to-quality conditions. In this sense, despite the adverse environment, we expect BIB to maintain its solid deposit base, manageable liquidity needs, and satisfactory financial flexibility for 2021.

In terms of liquidity, BIB's liquidity levels are more than enough to cover its operations. As of December 2020, its liquidity ratio was 9.6x with a three-year average of 8.4x. Its liquidity coverage ratio is significantly higher than those of other banking systems in Central America and banks across Latin America. However, we believe this is a prudent approach, mainly because some of its security holdings are instruments that trade in the local and undeveloped capital market, which lacks a deep and developed secondary market that could provide liquidity under adverse conditions.

Chart 6

BIB's Funding Mix



Source: S&P Global Ratings.

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Support: Core subsidiary for parent

We continue to view BIB as a core entity for BdeB. Among other things, BIB operates in the same business lines as its parent and is closely linked to BdeB's reputation and risk management. BIB has kept its performance in line with the group's expectations. As December 2020, BIB accounted for 46% of BdeB's total reported equity, 44% of total assets, and 46% of total net income. We believe that any potential financial stress at the parent level would likely affect BIB's stand-alone credit profile (SACP). The relatively weaker parent could potentially divert assets from the subsidiary or burden it with liabilities during financial stress that could result in much less flexibility for BIB's debt and capital raising. In that sense, the ratings on BdeB will continue to limit the ratings on BIB.

Environmental, social, and governance factors

We view ESG credit factors for BIB as neutral to its credit quality. BIB has built sound risk control and governance practices that have enabled it to maintain its reputation, execute its diversification strategy throughout Central America, and to face a wider range of legal and non-financial risks. At the same time, we think that its solid framework will allow the bank to adapt and implement the regulatory changes across different jurisdictions. As other banks it is also in the path of improving its sustainable objective and policies. However, social factors have a neutral effect on BIB's credit quality. Adapting to changes in customer preferences is part of the bank's strategic priorities, given that its large retail customer base. As such meeting clients' needs through digital channels which increases loyalty, has become a priority to the bank. Finally, environmental factors, although relevant for the bank's long-term strategy, don't have more influence on BIB's credit quality than for its peers.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- 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: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Anchor Matrix										
Industry Risk	Economic Risk									
	1	2	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of April 12, 2021)*

BAC International Bank Inc.

Issuer Credit Rating BB+/Stable/B

Issuer Credit Ratings History

12-Dec-2017 BB+/Stable/B
 28-Jul-2016 BBB-/Negative/A-3
 26-Feb-2016 BBB-/Watch Neg/A-3

Sovereign Rating

Panama BBB/Stable/A-2

Related Entities

Banco de Bogota S.A. y Subsidiarias

Issuer Credit Rating BB+/Stable/B
 Senior Unsecured BB+

Multibank Inc. y Subsidiarias

Issuer Credit Rating BB+/Stable/B
 Senior Unsecured BB+

*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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