

RATING REPORT

Committee meeting:
February 25, 2022

New

RATING*

MMG Bank Corp. and Subsidiaries

Domicile	Panama
Entity	AA.pa
Negotiable Securities	ML 1.pa

(*)The nomenclature 'pa' reflects risks only comparable in Panama. For further details on the definition of the assessed ratings and instruments, see Appendix I.

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MMG Bank Corporation and Subsidiaries

Summary

Moody's Local affirms the issuer rating of MMG Bank Corporation and Subsidiaries (MMG Bank, the Bank or the Entity) at AA.pa, as well as its Revolving Negotiable Securities Program's rating for up to USD50.0 million at ML 1.pa.

The current ratings are supported by the importance of the Bank and its Subsidiaries (the MMG Capital Holdings Group) to the various business segments in which it operates, as well as by the Group's participation in the development and promotion of the Panamanian capital market through debt structuring, advisory services, investment fund management, etc. The current ratings benefit from the Bank's business model, which differentiates itself from traditional banking through advisory and equity management services, reflected in the off-balance sheet assets under management (AUM), which in turn provide sources of recurring income from equity management, investment banking and securities brokerage fees. AUM increased at the end of September 2021 (+5.02% annual), which supported the fees from these services and offset the adjustment in financial income resulting from a lower dynamism of MMG Bank's loan and investment portfolio amid the crisis driven by the COVID-19 pandemic. According to the Bank's management, off-balance sheet assets do not generate credit risk as the risk lies with the client, while reputational and operational risks are managed by the Entity. The ratings also take into consideration the geographical diversification of the Bank's operations, as well as the Bank's new jurisdiction amid the creation of a new company in Puerto Rico by the end of 2021, which will support the likely growth of the Bank's various businesses, providing opportunities at the correspondent bank level, among other factors, for the following periods. The Entity's adequate consolidated solvency was also considered, showing an increase at the end of September 2021, and remaining at levels well above the required minimum (8.0%) and the National Banking System's (SBN) average (16.01% as of September 30, 2021). This results from the increase in regulatory capital funds from earnings for the period and profit from controlling interest related to the reduction of risk-weighted assets due to the contraction of the loan portfolio and the high quality of the investment portfolio. Similarly, two positive considerations were the adequate quality of the portfolio, reflected in a low delinquency ratio and the historically low levels of bad debts according to Agreement 4-2013, well above the SBN's average, as well as the high percentage of gross portfolio supported by collateral, considering that 45% of total loans are secured by cash, 23% by the off-balance sheet investment portfolio of the Bank's clients, and 18% by real estate. Another positive factor considered in the analysis is the high quality of the investment portfolio that provides support during liquidity stress. The experience of the Bank's management and board of directors is also favorable.

However, the rating is limited by the challenging environment of the financial system derived from the strong economic contraction in 2020 and the ongoing recovery in 2021. The low dynamism of loan originations in Panama is also considered, given the banking system's prudent standards reflected by tighter origination policies, which will be maintained considering the high percentage of modified loans. MMG Bank registered USD16.6 million in modified loans as of September 30, 2021. While the share of modified loans in the gross portfolio (7.95%) is below the SBN's average (23.47%), it is important to strengthen the monitoring and collection processes to avoid the deterioration of the Bank's portfolio quality, considering the highly concentrated modified loan portfolio of MMG Bank, where two clients accounted for 75% of the portfolio as of the date of analysis. The top 20 depositors (38.75%) are also highly concentrated,

which, together with the high share of demand deposits within the funding structure (62.55%), adds financial volatility due to unexpected scenarios of withdrawal of funds by clients. The reputational risk to which the Bank might be exposed is also considered, which, if materialized, would have a significant impact on the AUM, as well as on the balance sheet funding associated with the managed assets. According to the Bank's management, MMG Bank conducts adequate due diligence of each client, thoroughly evaluating the source of funds, among other factors. Thus, the Bank has managed to keep under control any reputational risks associated with money laundering issues. Finally, the Bank continues to strengthen its technological systems related to the traditional banking business.

Moody's Local will continue to monitor MMG Bank's financial performance and the development of its key financial metrics, reporting in a timely manner any changes in the Entity's perception of risk.

Factors that could lead to an upgrade

- » Progressive increase in the business scale and market share, both at the level of direct loans and in assets under management.
- » Lower concentration of demand deposits funding, as well as a permanent reduction in the concentration of largest depositors.
- » Permanent decrease in the concentration of debtors.

Factors that could lead to a downgrade

- » Sustained deterioration in asset quality.
- » Adjustment to the capital adequacy and solvency ratios.
- » Decrease in liquidity ratios.
- » Sustained decline in assets on balance sheet and assets under management with an impact on cash flow generation and profitability ratios.
- » Materialization of the reputational risk to which the Bank is exposed.
- » Regulatory and/or legal changes affecting the Bank's business development.

Limitations during the assessment process

- » None

Key metrics

Table 1

MMG BANK CORPORATION AND SUBSIDIARIES

	Sep-21	Sep-20	Sep-19	Sep-18
Gross placements (USD/thousand)	238,430	240,342	244,943	249,918
Capital adequacy ratio (CAR)	23.06%	21.57%	25.14%	25.71%
Legal liquidity ratio	57.23%	53.30%	57.07%	77.38%
Problem and non-performing loans ¹ /gross loans	0.07%	12.99%	0.01%	0.06%
Loan reserve ² /problem and non-performing loans ¹	2324.49%	12.36%	15737.86%	2159.58%
ROAE	15.50%	15.28%	17.57%	18.36%

¹The audited financial statements as of September 30, 2020 incorporated modified loans into the problem loans, resulting in a delinquency ratio of 12.99%.

²Includes specific and dynamic reserves.

Source: MMG Bank Corp. / Author: Moody's Local

Overview

Company Profile

MMG Bank Corporation is a Panamanian public limited company incorporated on August 22, 2002, which started operations on March 31, 2003. The Bank operates under a general license granted by the Superintendency of Banks of Panama (SBP). MMG Bank Corporation and Subsidiaries, is wholly owned by MMG Capital Holdings, Inc, a corporation incorporated in Nassau, Bahamas. The Bank's subsidiary, MMG Bank & Trust Ltd., based in Nassau, Bahamas, started operations on December 18, 1996, and on October 3, 2002, was acquired by MMG Bank Corporation. The Bank has also obtained a license on December 13, 2005 to operate as a brokerage house (Resolution No. 292-05 issued by the Superintendency of the Securities Market of the Republic of Panama), which allows it to provide custody services on its clients' financial assets through investment and custody agreements. In addition, the Bank owns a position on the Panama Stock Exchange, acquired by its subsidiary MMG Asset Management Corp. on November 11, 2008, which, through Resolution CNV-135-06, obtained an investment manager license. Additionally, the Bank maintains a trust license since June 14, 2013, granted through Resolution No. SBP-FIC.0009-2013.

MMG Bank's core business is to provide financial and strategic advisory services, as well as asset management services to private, institutional and corporate clients, through a portfolio of solutions in Panama and the Bahamas, complementing these services with tailored credit solutions. MMG Bank, as an asset manager, specializes in fixed-income securities in Panama and Latin America, accounting for approximately 60% of the USD3,381.5 million in AUM as of the assessment date. The banking service, complementing the advisory and asset management services, lists the ownership percentage of the Bank in terms of loans, deposits and equity in relation to the National Banking System (on a consolidated basis) as of September 30, 2021, with aggregate figures of all banks with general license operating in Panama.

Table 2

MMG Bank Corporation and Subsidiaries

Market share within the national banking system

	Sep-21	Sep-20	Sep-19	Sep-18
Direct loans	0.13%	0.37%	0.31%	0.29%
Total deposits	0.57%	0.53%	0.62%	0.65%
Equity	0.56%	0.55%	0.54%	0.56%

Source: SBP / Author: Moody's Local

Business group

MMG Bank Corporation's shareholder is MMG Capital Holdings. The Bank is the sole owner of the shares of the following companies, included in the consolidated financial statements of MMG Bank Corporation and Subsidiaries:

- » MMG Bank and Trust Ltd.: Started operations in 1996, maintaining an international banking license in the Bahamas, as well as a brokerage house and fiduciary license. It provides customers with access to an international banking platform and consolidated custody services.
- » MMG Asset Management Corp.: Has an investment manager license from the Superintendency of the Securities Market of the Republic of Panama (SMV) since 2002. It currently manages three investment companies with various core businesses: MMG Fixed Income Fund (2008), MMG Global Allocation Fund and MMG Panama Allocation Fund (2016).
- » Quantia AFP: Has a pension and retirement fund management license from the SMV since 2018. It currently manages a pension and retirement fund, Quantia Select, for individuals.
- » Representaciones Arrazola Inc.: A company domiciled in Panama whose core business is operating as a trustor.

In addition, MMG Bank Corporation consolidates the operations of the following companies in which it holds a stake of more than 50% of the shares, also included in the consolidated financial statements of MMG Bank Corporation and Subsidiaries:

- » MMG Panama Allocation Fund: An investment company that began operations in 2016, whose core business is the capital appreciation and preservation of investors' real purchasing power through bond funds, equity funds and alternative investments by Panamanian issuers. MMG Bank Corporation holds a 73% stake in this fund. As of September 2021, the Bank's shareholding fell to 60%, as a result of the sale of shares.

- » Real Estate Investment Management: A company with an investment manager license from the SMV. Its core business is to manage real estate investment companies. MMG Bank Corporation holds 51% of the shares.
- » Phoenix Real State Fund: An investment company whose core business is to obtain long-term capital gains for investors, mainly through revenue sharing and price fluctuations in the properties where it invests. MMG Bank Corporation owns 51% of the shares with political rights.

Recent developments

In spite of the state of national emergency decreed by the Government of Panama on March 13, 2020 due to the COVID-19 pandemic, the country had a significant economic rebound, reflected in the GDP growth of 14.94% (latest information published by the National Institute of Statistics and Census - INEC) during the first nine months of 2021, which in turn reflects the gradual recovery of various economic sectors in the light of progressive reopenings and the removal of travel and capacity restrictions driven by the increasing vaccination rate in 2021, with 74% of the population with one dose of the COVID-19 vaccine as of January 23, 2022. According to the information published by Moody's Investor Services, the country will likely grow 11.0% in 2021 and 6.5% in 2022, according to the latest report published on October 20, 2021. Since 2020, the government, the Superintendency of Banks of Panama (SBP) and the Superintendency of the Securities Market of the Republic of Panama (SMV) have taken various measures to sustain payment chains and the banking system solvency. One of the first measures was Agreement 2-2020 dated March 16, 2020, establishing the ways to modify the original terms on corporate and consumer loans, as a relief measure for customers whose payment capacity had been affected by the Covid-19 pandemic. The agreement created a Modified Loans category, through which banks may review the terms and conditions of loans, in terms of interest rates and maturities, allowing them to grant grace periods by maintaining the loan classification as of the effective date of the provision. The agreement also established that banks may use up to 80% of dynamic provisioning to create specific reserves, limiting dividend distributions until the dynamic provisioning amount has been refunded.

On September 11, 2020, through Agreement 9-2020, the SBP created the Modified Loan Special Mention category, in line with the reserve requirements for this new category, as well as the conditions for restoring Modified Loans and the use of the dynamic reserve. The additional general provisions incorporated to the agreement are as follows: (i) banks completed by December 31, 2020, the reassessment of the loans whose borrowers have been affected by the COVID-19 pandemic and who, by the time of the first amendment, were in arrears of up to 90 days; additionally, banks included changes to the loans that had not previously been modified but that have been affected by the pandemic and are in arrears of up to 90 days; (ii) the creation of the new Modified Loan Special Mention category comprised the total loan portfolio, previously falling under the Normal and Special Mention categories, which had been modified as a result of the economic crisis driven by the COVID-19 pandemic; for borrowers under Law No. 156 whose loans were in the Subnormal, Doubtful and Irrecoverable categories, their classification will be kept at the time of the amendment; and (iii) to calculate IFRS provisions, banks shall take into account the loan deterioration and the current economic environment in their reserve model. Agreement 9-2020 also established the conditions for restoring the classification of Modified Loans and those under Law No. 156, once the grace period is over, as well as the provision requirement for the Amended Loan Special Mention category. For credit risk coverage of Modified Loans, banks were required to constitute a reserve equivalent to the highest value between the IFRS provision for the Modified Loan Special Mention portfolio and a generic provision equivalent to 3.0% of the gross balance of the Modified Loan portfolio, including uncollected accrued interest and capitalized expenses. Deposit-pledged loans with the same bank up to the secured amount were excluded. In cases where the IFRS provision is less than the generic provision of 3.0%, the former would be recorded in the results for the year, while the spread would be registered in a regulatory reserve in the equity. Banks could use up to 80% of the dynamic provision to offset lower retained earnings because of the creation of the IFRS provision and the generic provision on the portfolio classified under the Modified Loan Special Mention category. If a bank needed to use more than 80% of the dynamic provision, it would require prior approval from the SBP. On the other hand, banks that opted to use dynamic provisions to create reserves on the portfolio under the Modified Loan Special Mention category may only distribute dividends once they have restored the amount of the dynamic provision, except for dividends on preferred stock.

On October 21, 2020, through Agreement 13-2020, the SBP announced that financial institutions until June 30, 2021, could continue to reassess the loans of borrowers whose cash flow and payment capacity have been affected by the COVID-19 pandemic and who, by the time of the first amendment, were in arrears of up to 90 days. The SBP also established that banks could make changes to the loans that had not previously been modified, whose cash flow and payment capacity were affected by the pandemic and were in arrears of up to 90 days. Likewise, banks may make changes to the loans more than 90 days overdue, under Law No. 156 of 2020. The agreement also stipulated that banks would be able to implement the corresponding changes until June 30, 2021, ensuring that the new terms and conditions agreed with the client were in place. In these cases, banks will keep the classification of the loan prior to its modification (Subnormal, Doubtful or Irrecoverable).

Finally, on June 11, 2021, through Agreement 002-2021, the SBP announced that banks would have until September 30, 2021, to restructure Modified Loans that were classified under the Modified Loan Special Mention category and that, as of June 30, 2021, had not been able to agree on new terms and conditions, having to comply with the characteristics set out in Section 7 of the aforementioned Agreement. The Agreement also established that all Modified Loans that were restructured as from July 1, 2021, may not be subject to further restructuring, except in the case of an interest rate cut. Finally, the Agreement determined that Modified Loans that were restored under Agreement 4-2013, as well as any other loan classified under Agreement 4-2013, may not be transferred, as from July 1, 2021, to the Modified Loan Special Mention category.

Subsequently, on December 22, 2021, through Agreement No. 6-2021¹, the Superintendency of Banks of Panama (SBP) published the new parameters and guidelines for determining the provisions applicable to loans that fall under the Modified Loan Special Mention category. In particular, the Agreement provides that, for the credit risk coverage of loans under the Modified Loan Special Mention category, banks must ensure compliance with the International Financial Reporting Standards (IFRS), taking into account the increased credit risk of the loans granted in relation to their initial entry, rendering ineffective the provisions set forth in Section 8 of Agreement No. 2-2021 on the creation of a generic provision equivalent to 3.0% of the gross balance of the Modified Loan portfolio, including uncollected accrued interest and capitalized expenses.

The additional general provisions incorporated in Agreement No. 6-2021 related to Agreement No. 2-2021, are as follows: (i) banks may not reverse provisions previously constituted (by results or equity) by the end of November 2021 for the portfolio modified to that date; however, in the event that a Modified Loan is restored to the Normal category based on Agreement No. 4-2013, the bank may use the portion of the provision corresponding to the restored loan to constitute the required IFRS provision for the Modified Loan Special Mention category; (ii) once the bank has written off the equity balance of any loan under the Modified Loan Special Mention category, accrued interest receivable shall also be written off; (iii) banks may offer their customers the alternative to capitalize interest receivable, provided that the existing and/or prospective customer's payment capacity complies with the conditions for loan restructuring set forth in Section 7 of Agreement No. 2-2021; that is, that the borrower demonstrates to have a precise, existing and/or prospective payment capacity, and a commitment to pay overdue amounts, with a significant reduction in the outstanding balance in the agreed term. In the case of restored Modified Loans under Agreement No. 4-2013, borrowers may request increases to their monthly payments in order to equal their installments prior to the modification, without penalty by the bank.

Another established guideline related to interest receivable is on the suspension, as from January 1, 2022, of the registration of interest, for income purposes, in the interest receivable and earned interest accounts on Modified Loans that have had a significant risk increase with respect to their initial entry and that present objective evidence of incurred loss (impaired loans). The interest receivable must be held in suspense accounts and may be registered as income only when it has been paid by the borrower.

Agreement No. 6-2021 also states that it will be the responsibility of the banks' senior management and board of directors to ensure that proper procedures are in place to record sufficient provisions for loss coverage, while external auditors will have to accept the reasonableness of the provisions accounted for by banks as part of their auditing process. Similarly, the SBP may make observations or adjustments to the provisions made by banks using techniques and benchmarks, such as looking into the factors for calculating the provision model, reviewing the supporting documentation for Modified Loans, etc. In the event that the provisions calculated by the SBP exceed those accounted for by the bank, it should be determined whether the adjustments affect the results (if there is evidence of non-compliance with accounting standards and prudential regulations) or by regulatory reserve in shareholders' equity charged against retained earnings (in the case the supervisor has a different opinion).

According to the SBN result, as of September 30, 2021, the loan portfolio had an increase of 2.62% annually compared with the same period in 2020, as a result of higher disbursements to the external sector; however, the banking system shows greater caution through stricter origination policies, which would be maintained as long as there is a significant percentage of modified loans. On the other hand, portfolio quality metrics do not show a significant deterioration as a result of the various measures taken by the regulator, including the possibility of making modifications to the loans of customers who had been affected by the pandemic. Delinquency is likely to remain low in the following months, considering that maturities were extended until September 30, 2021, as a relief measure for individuals to reach a new payment agreement with financial institutions. The delinquency ratio will begin to change as from the last quarter of 2021. The implementation of Agreement 9-2020, which provides for the creation of a generic provision of 3% on the Modified Loans gross balance and the recalibration of bank reserve models under IFRS 9 (considering a reduced GDP, an increased unemployment rate and

¹For more details, see the following reports at <https://www.moodylocal.com/country/pa/research/>:

- "Moody's Local analiza los resultados del Sistema Bancario Panameño al 30 de junio de 2021", published on October 6, 2021.

- "Moody's Local opina que los nuevos lineamientos establecidos por la SBP a través del Acuerdo 6-2021 resultan positivos de cara a la medición del riesgo de crédito de la Cartera Modificada", published on December 27, 2021.

other variables), resulted in a significant growth in coverage ratios during 2020. While the coverage ratios are well above 100% to date, they could be adjusted as non-performing loans and problem loans increase, following the termination of the relief measures granted to borrowers.

As of September 30, 2021, SBN's net income increased 15.76% year-on-year, despite lower earned interest (-6.39%) because of the combined effect of higher other revenue (+10.44%), an 19.56% reduction in provisioning expenses from a decreased modified portfolio, and lower general and administrative expenses (-2.02%). Consequently, SBN's financial margins and ratios improved as of September 30, 2021. Although liquidity ratios decreased slightly compared with December 2020, they remain at higher levels than those reported at the beginning of the pandemic, while solvency ratios increased during the same period, as a result of a greater increase in regulatory capital funds than risk-weighted assets.

As of September 30, 2021, MMG Bank registered USD16.8 million in Modified Loans, equivalent to 7.95% of the gross portfolio. This balance decreased 39.28% compared with USD31.2 million in Modified Loans registered by the end of September 2020. In relation to Agreement 9-2020, according to the information provided by the management, the Bank maintains reserves for Modified Loans of USD561,000, 50% of which was charged against retained earnings on equity and the rest was charged against profit or loss. These reserves are lower than the USD836,700 maintained by the Bank in September 2020; according to the management, this is in line with the reduction of Modified Loans by borrowers who regularized their payments. However, under Agreement 6-2022, banks will no longer be able to reverse previously created provisions (against profit or loss, or shareholders' equity) supporting Modified Loans as of the cutoff date of November 2021. The capital management and advisory businesses were favored, amid the impact of the COVID-19 pandemic, from the interest of clients to increase their investments taking advantage of deteriorating equity markets, which was reflected in an increase in AUM to USD3,381 million, from USD3,220 million as of September 30, 2020 (+5.02% annual), and an increase of 23.78% compared with the AUM registered in September 2019 prior to the pandemic.

Financial Analysis of MMG Bank Corporation and Subsidiaries

Assets and Portfolio Quality

LOW DELINQUENCY RATIOS WELL BELOW THE NATIONAL BANKING SYSTEM, AND ADEQUATE RESERVE COVERAGE RATIOS

The Bank's total assets amounted to USD658.7 million by the end of September 2021, 9.03% higher than the previous period. This growth reflects an increase in the balance available (+23.92%) and in the investment portfolio (+9.54%), in line with higher deposit taking from customers. The gross loan portfolio decreased slightly 0.80% annually (-USD1.9 million) and, although the management placed around USD23.0 million in loans during the year, the very short term nature of the loans is generating a net downward effect at the end of the period under assessment. As of September 30, 2021, 80.73% of the loan portfolio was placed in Panama, while the rest remained abroad, mainly in Latin America. Commercial loans are the main component at the level of loan type, representing 73.52% of the portfolio with an increase of 1.78%; however, this growth could not compensate the 15.41% contraction in margin loans², reducing their share within the portfolio to 14.06%, as shown in Exhibit 1. The Bank's business model, which mainly serves a high-profile corporate and private consumption segment, is reflected in the high concentration of major borrowers, where the top 20 accounted for 32.77% of the gross loan portfolio (34.15% as of September 30, 2020), which is partially mitigated by the fact that 45% of the gross portfolio is secured with cash, 23% is secured with the client investment portfolio, and 18% is secured with real estate.

In relation to the loan portfolio quality, the Bank is characterized by historically low delinquency ratios³, of 0.07% as of September 30, 2021, well below the SBN's average (4.43% in the same period), reflecting the adequate risk profile of the Bank's corporate and private consumption segment. The delinquency ratio incorporated the capital balance of Modified Loans as of the end of September 2020, resulting in a rate of 12.98% (see Exhibit 2); however, according to the Bank's management, these loans (whose installments were deferred and, consequently, were up to date) should have been registered as valid. If the Modified Loans were excluded from the ratio, the delinquency rate should have been of 0.01%. As of September 30, 2021, the Bank reported a low level of write-offs of USD15,500, resulting in a real delinquency rate of 0.07% at the end of the period under assessment. On the other hand, bad debts (loans under the Subnormal, Doubtful and Unrecoverable category), which maintained historically low levels by not registering loans within these categories, by the end of September 2021, registered a balance of USD17.1 million, representing 7.06% of the total portfolio, mainly including modified loans in the Subnormal category. The Bank has granted financial relief to customers affected by the health crisis, which resulted in a Modified Loan balance of USD18.9 million as of September 30, 2021, decreasing significantly from the USD31.2 million reported in September 2020 as a result of restoring consecutive monthly payments, in line with the gradual economic reopening, and voluntary payoffs. The share of Modified Loans on the portfolio was 7.95% as of September 30, 2021 (12.98% as of September 2020), and considering internal loans only, Modified Loans represent 8.62% of the local portfolio at the same cut-off date, a better position than the

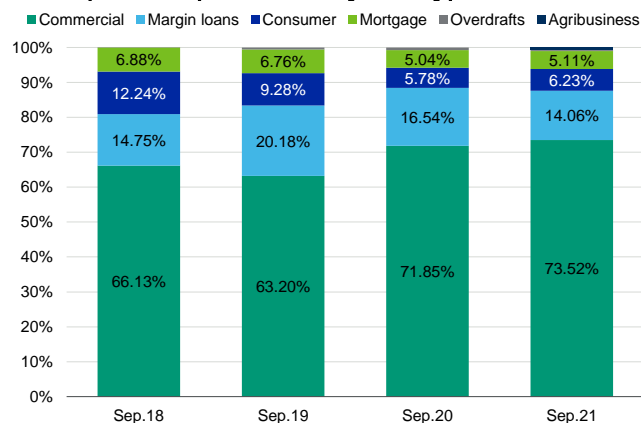
² Loans secured with the investment portfolio of MMG Bank's clients through off-balance sheet AUM.

³ Delinquency ratio: (problem + non-performing loans)/gross portfolio

SBN's average (23.47%). In line with Agreement 9-2020, the Bank maintains 3.0% of reserves on Modified Loans, with 1.5% in retained earnings on equity and the remainder in assets after being recorded against profit or loss.

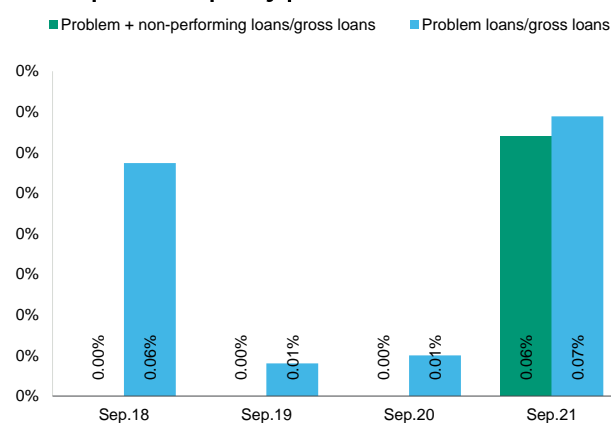
The Bank's portfolio coverage ratios have historically remained strong, in line with the low delinquency ratios. The Bank held specific provisions (recorded in assets and equity) of USD690,200, a figure lower than the USD957,200 recorded in September 2020, which reflects the reversal of reserves due to the reduction in Modified Loans. For this reason, the reserve coverage on problem and non-performing loans was reduced to 23.24x from 160.80x in September 2020, remaining at levels well above the SBN's average. (SBN: 1.12x as of September 2021). However, the Bank continues to be exposed to a potential deterioration risk due to the percentage of Modified Loans it maintains, considering the Entity's high concentration of borrowers.

Exhibit 1

Development of placements by loan type

Source: MMG Bank Corp. / Author: Moody's Local

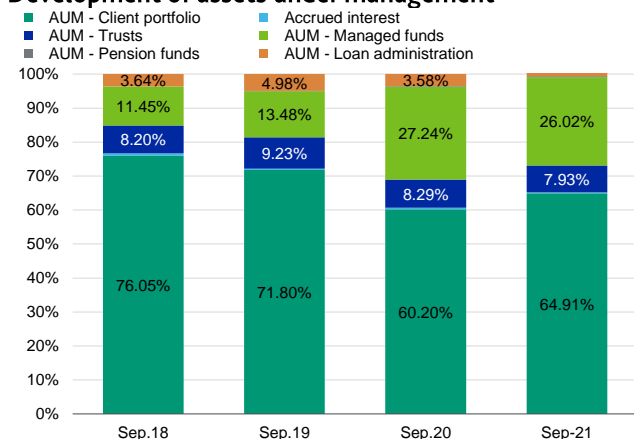
Exhibit 2

Development of quality portfolio ratios

*As of September 30, 2020, Modified Loans were incorporated into problem loans.
Source: MMG Bank Corp. / Author: Moody's Local

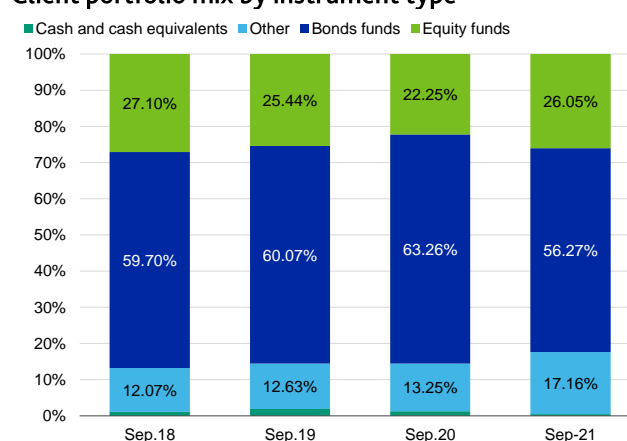
The Bank provides advisory, equity and fiduciary contract management services, registering off-balance sheet AUM, by account and client risk, totaling USD3,381.5 million as of September 30, 2021, 5.02% higher than that at the end of September 2020. This reflects the effects of COVID-19 on stock market expectations, increasing investors' exposure to capital markets and reflecting higher AUM in the portfolio of custodial accounts. As of September 30, 2021, 64.91% of total AUM corresponded to the client investment portfolio, 26.02% to managed funds, 7.93% to indentures, 1.64% to loan administration (syndicated loans structuring, see Exhibit 3), while the remainder corresponded to pension funds and accrued interest on the client portfolio. Regarding AUM of the client portfolio, 56.27% were placed in bond funds, as shown in Exhibit 4.

Exhibit 3

Development of assets under management

Source: MMG Bank Corp. / Author: Moody's Local

Exhibit 4

Client portfolio mix by instrument type

Source: MMG Bank Corp. / Author: Moody's Local

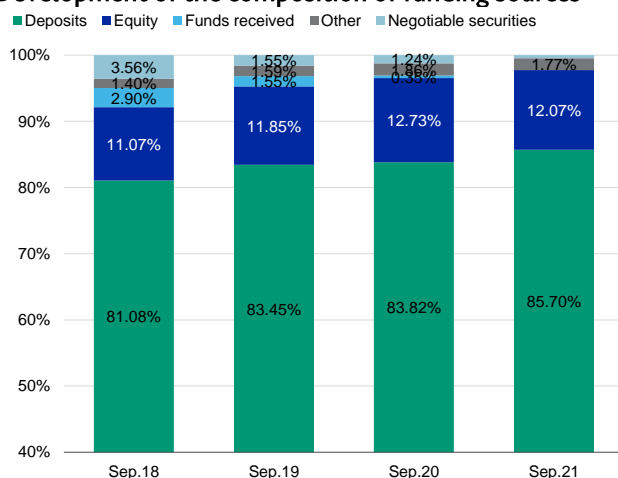
Liabilities and funding structure

HIGH SHARE OF DEMAND DEPOSITS AS A FUNDING SOURCE. HIGH CONCENTRATION OF LARGEST DEPOSITORS.

The Bank's balance sheet is mainly funded by deposits, with an 85.70% share in the funding structure as of September 30, 2021. Demand deposits (including investment accounts and escrow accounts) account for 72.98% of total deposits, a share that favors the funding cost but generates instability due to the natural volatility of the product; the remaining 27.02% corresponded to fixed-term deposits (including Cash Plus accounts). Liabilities increased 9.85% at the end of the period under assessment versus September 2020, driven by higher total deposits, mostly demand deposits (+26.61% annually), attributed to funds from business transactions and individuals; while term deposits showed an annual contraction (-15.74%), as a result of the Bank's strategy to improve the funding cost given the low dynamism of performing assets on the balance sheet. The largest volume of deposits had an impact on the concentration of the 20 largest depositors, decreasing to 38.75%, from 43.71% as of September 2020. Although this concentration remains high and is explained by the Bank's corporate/private segment, it is partly mitigated by the percentage of deposit renewal that exceeded 69%, in addition to internal liquidity risk policies that consider, among other factors, maintaining at all times liquid assets covering liquid liabilities at risk, according to the information provided by the Bank's management. On the other hand, MMG Bank holds debt instruments in capital markets through the issuance of negotiable securities, which funded 0.46% of assets as of September 30, 2021, decreasing 60.03% compared with September 2020, associated with payoffs due to maturities.

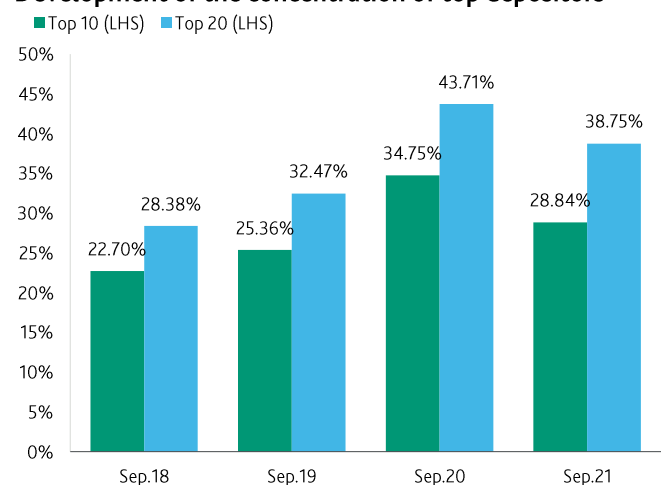
The Bank's shareholders' equity totaled USD79.5 million as of September 30, 2021, a 3.37% increase compared with September 2020, associated with the partial retention of profit, as well as a higher minority interest from the sale of shares of MMG Panama Allocation Fund. Furthermore, 66.78% of the Bank's assets consisted of retained earnings susceptible to dividend distributions. The Bank has historically distributed (as an average of the last four periods) 80% of its profit, whereas during the period ended on September 30, 2021, dividends amounting to USD10.6 million were paid, equivalent to 91% of the net income generated in September 2020. Since September 2020, the Bank has maintained a reserve on Modified Loans, in line with the provisions set forth in Agreement 9-2020. MMG Bank maintained 1.5% of reserves on Modified Loans against retained earnings on equity, while the remaining 1.5% of reserves was against profit or loss, which, in absolute terms, dropped to USD280,600 from USD418,300 as of September 2020, in line with the decreasing trend in Modified Loans. However, according to Agreement No. 6-2021, banks will not be able to reverse reserves associated with modified loans regardless of the reduction in the portfolio as of November 2021.

Exhibit 5

Development of the composition of funding sources

Source: MMG Bank Corp. / Author: Moody's Local

Exhibit 6

Development of the concentration of top depositors

Source: MMG Bank Corp. / Author: Moody's Local

Solvency**STRONG CONSOLIDATED SOLVENCY LEVELS ABOVE THE SBN'S AVERAGE, DRIVING ADDITIONAL RESERVE REQUIREMENTS AND/OR BALANCE SHEET GROWTH**

MMG Bank's consolidated capital adequacy ratio was 23.06% as of September 30, 2021, up from 21.57% in September 2020. This was mainly explained by the combined effect of an increase in regulatory capital funds (+3.56% annually) from the earnings of the period and an increase in minority interest, while risk-weighted assets contracted (-3.15% annually) due to a lower loan portfolio and highly liquid securities that boosted the investment portfolio. Solvency levels remained above the SBN's average (16.01% as of September 30, 2021), partly because of the Bank's business model.

Profitability and efficiency

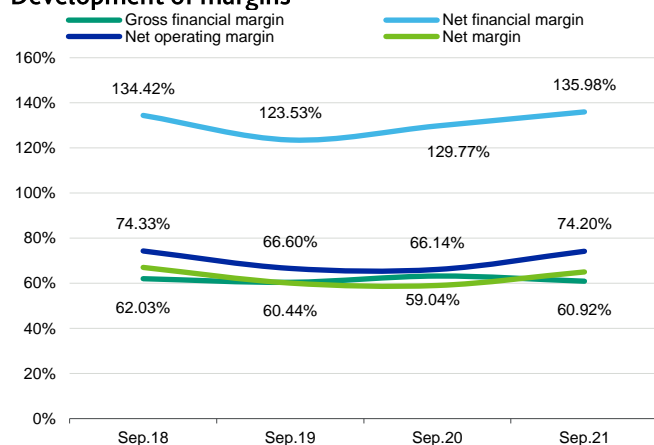
EARNINGS FROM THE SALE AND VALUATION OF SECURITIES, TOGETHER WITH HIGHER FEES, LED TO AN INCREASE IN NET PROFIT AND NET MARGIN.

At the end of the period ended on September 30, 2021, MMG Bank registered a net profit of USD12.1 million, 3.49% higher than that recorded in the same period in 2020, mainly attributed to net earnings from the sale of securities and earnings from the revaluation of investment securities through profit or loss, in addition to an increase in net fees, partially offsetting the net financial result affected by lower financial income. The Bank's financial income decreased 6.06% annually, mainly associated with lower interests on the investment portfolio (-20.77% annually) and lower interests on deposits (66.91%), according to a lower average volume of assets over the last 12 months, considering that there was an increase in cash and cash equivalents and investments in the last quarter of the year. This could not be offset by a slight increase in interests on loans of 2.60% year-on-year. On the other hand, financial expenses remained mostly unchanged (-0.19% annually), given the contraction in term deposits and financing during the last quarter of the period; thus, the gross financial result dropped 9.47% and was adjusted to 60.92% in relative terms, from 63.22% in September 2020. Net fees are important to the Bank's cash flow generation, amounting to USD14.0 million as of September 2021, with an increase of 11.61% or +USD1.9 million compared with the same period in 2020, attributed mainly to higher fees from equity management, investment banking and brokerage. Provisions for bad debts decreased 96.61% or USD401,700, associated with a lower provision requirement for Modified Loans, which led to a reversal of reserves under IFRS 9, although as of November 2021, Banks will not be able to reverse provisions for Modified Loans, as stipulated in Agreement No. 6-2021 of December 22, 2021. This led to a 1.56% decrease in the net financial result, which represented, in relative terms, 135.98% of total financial income, up from 129.77% in September 2020, a level that reflects the Bank's business model focused on the off-balance sheet asset management and financial advisory services, with significant fees in these segments. The Bank recorded earnings from the sale and valuation of securities of USD2.3 million associated with an enhanced investment profile, 251.82% higher than earnings in the previous year, resulting in an increase in the operating margin of 151.13%, up from 135.75% in September 2020.

On the other hand, operating expenses increased 3.82% annually, mainly due to other expenses associated with repair and maintenance, and paid taxes and licenses. The Bank's operating efficiency fell slightly to 50.81%, from 51.81% as of September 2020, in line with higher fees and earnings from the sale of securities, a level more favorable than the SBN's average (52.61% in September 2021). The profitability ratios, measured as the annualized return on average assets (ROAA) and return on average equity (ROAE), were 1.91% and 15.50% respectively as of September 30, 2021, slightly above the 1.88% and 15.28% recorded during the same period in 2020. The profitability ratios were at favorable levels versus the SBN's average (0.80% and 7.34%, respectively), which reflects the Entity's cash flow generation from brokerage and financial advisory fees.

Exhibit 7

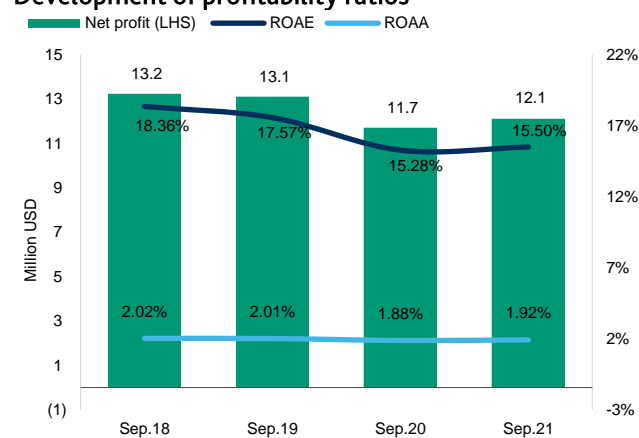
Development of margins



Source: MMG Bank Corp. / Author: Moody's Local

Exhibit 8

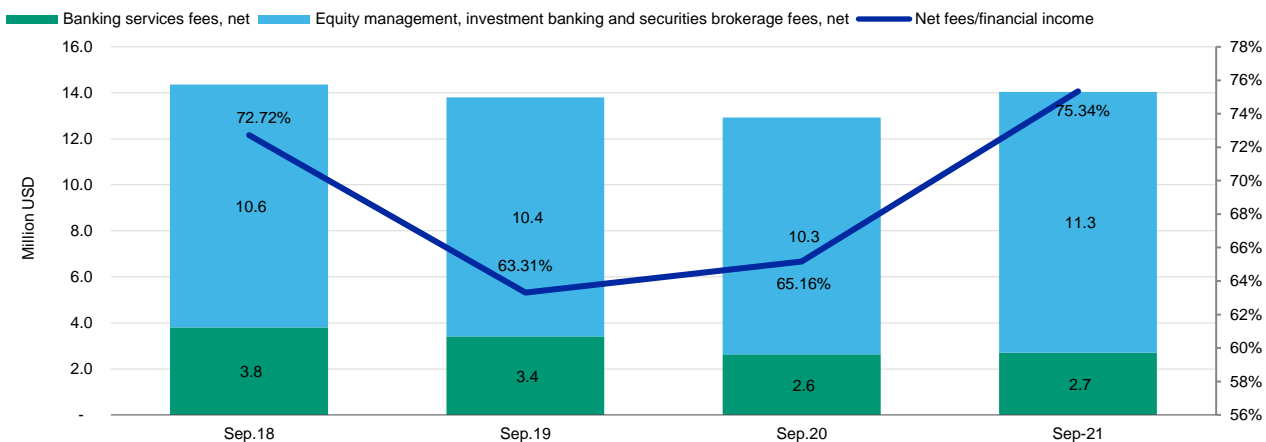
Development of profitability ratios



Source: MMG Bank Corp. / Author: Moody's Local

MMG Bank's net fees have historically recorded a significant share within the Bank's revenue (approximately 70% on average in the last four years), with a net balance of USD14.0 million as of September 30, 2021, equivalent to 75.34% of financial income. Of the total amount, 80.72% or USD11.3 million corresponded to fees from equity management, investment banking and securities brokerage, a figure higher than the USD10.3 million in September 2020.

Exhibit 9

Net fee composition and development

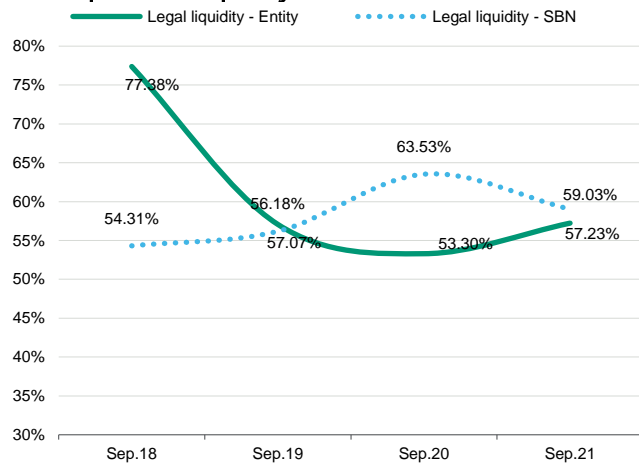
Source: MMG Bank Corp. / Author: Moody's Local

Liquidity and matching**THE LEGAL LIQUIDITY RATIO REMAINS AT ADEQUATE LEVELS**

MMG Bank's legal liquidity ratio was 57.23%, a proportion higher than that reported by the Bank at the end of September 2020 (53.30%), reducing the gap in relation to the SBN's average (59.03%). This development is explained by a higher share of US Treasury Bills, as well as an increase in cash and cash equivalents (+23.92% annually), in line with a higher deposit taking from customers. The coverage provided by cash and cash equivalents to demand and savings deposits decreased to 47.00%, from 48.01% as of September 2020, which reflects a higher balance of demand deposits at the end of the period under assessment. However, the Bank's ratio of cash and cash equivalents to total deposits increased to 34.30%, from 30.85% in September 2020 (SBN: 21.95% as of September 2021), which reflects a larger increase in cash and cash equivalents in relation to total deposits. The ratio of liquid assets and investments to total deposits increased 71.86%, from 69.07% in September 2020, above the SBN's average (48.44%), reflecting the high credit quality of the Bank's investments.

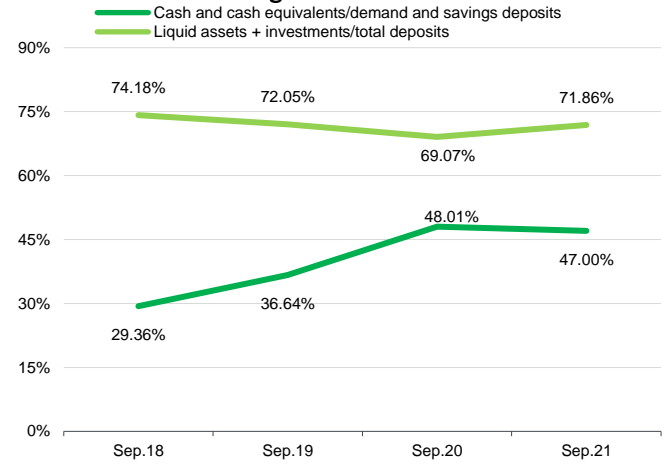
As of September 30, 2021, the Bank's investment portfolio amounted to USD212.0 million, increasing 9.54% compared with the same period ended in September 2020, reflecting a larger position in US T-bills. Upon the assessed date, 59% of the total investment portfolio maintained an international investment grade, while 18% maintained a local investment grade. On the other hand, the *liquidity coverage ratio* of the Bank was 340% as of September 30, 2021, well above the required minimum of 50%. For the contractual asset/liability matching, as of the assessed cut-off date, the Bank showed negative gaps in the tranches of less than 90 days, reflecting a high share of demand deposits as funding sources. However, the Bank's internal liquidity policies include keeping liquid liabilities at risk covered with high-quality liquid assets, with contingent funds covering at least 50% of the maximum gap between assets and liabilities. Credit facilities for USD32.3 million are 100% available; likewise, the Bank maintains readily convertible liquid investments as a result of the high credit quality of the portfolio, reflecting United States and Panama sovereign risk investments.

Exhibit 10

Development of liquidity ratios

Source: MMG Bank Corp. / Author: Moody's Local

Exhibit 11

Available funds coverage

Source: MMG Bank Corp. / Author: Moody's Local

MMG Bank Corporation and Subsidiaries

Main items in the financial statement

(Thousands of dollars)	Sep-21	Sep-20	Sep-19	Sep-18
TOTAL ASSETS	658,687	604,148	644,719	657,645
Cash and cash equivalents	193,622	156,241	110,693	92,487
Investments	212,013	193,557	276,947	303,030
Current loans	238,266	209,110	244,923	249,775
Problem loans (*)	152	31,208	0	0
Non-performing loans	12	24	20	143
Gross Loans	238,430	240,342	244,943	249,918
Accrued interest receivable	3,141	2,420	1,464	1,158
Bad loan provision	(632)	(539)	(194)	(208)
Net Loans	240,892	242,176	246,069	250,679
Furniture, fixtures and equipment	4,669	5,119	5,599	6,208
TOTAL LIABILITIES	579,194	527,244	568,299	584,873
Deposits	564,510	506,415	538,003	533,196
TOTAL SHAREHOLDERS' EQUITY	79,493	76,904	76,421	72,772
Common stock	20,000	20,000	20,000	20,000
Accumulated profit/loss	53,084	51,820	51,461	48,329
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	658,687	604,148	644,719	657,645

Main Items in the income statement

(Thousands of dollars)	Sep-21	Sep-20	Sep-19	Sep-18
Financial income	18,637	19,838	21,808	19,750
Financial expenses	(7,283)	(7,297)	(8,627)	(7,499)
Gross financial result	11,354	12,541	13,181	12,251
Net fees	14,041	12,927	13,807	14,361
Bad loan provision	(14)	292	(20)	(64)
Net financial result	25,343	25,744	26,941	26,548
Other income	2,823	1,186	1,409	802
Operating expenses	(14,337)	(13,809)	(13,825)	(12,670)
Net income	12,121	11,712	13,107	13,238

(*) The Audited Financial Statements as of September 30, 2020 incorporate modified credits within the problem loans.

MMG Bank Corporation and Subsidiaries

Financial ratios

Liquidity	Sep-21	Sep-20	Sep-19	Sep-18
Cash and cash equivalents ⁽¹⁾ /total deposits	34.30%	30.85%	20.57%	17.35%
Cash and cash equivalents/demand and savings deposits	47.00%	48.01%	36.64%	29.36%
Cash and cash equivalents/assets	29.40%	25.86%	17.17%	14.06%
Liquid assets + Investments/total deposits	71.86%	69.07%	72.05%	74.18%
Net loans/total deposits	42.67%	47.82%	45.74%	47.01%
Net loans/total funding	42.61%	47.73%	45.74%	47.01%
Top 20 depositors/total deposits	38.75%	43.71%	32.47%	28.38%
Cash and cash equivalents/top 20 depositors	88.52%	70.58%	63.36%	61.13%
Legal liquidity ratio	57.23%	53.30%	57.07%	77.38%
Solvency				
Capital adequacy ratio ⁽²⁾	23.06%	21.57%	25.14%	25.71%
Tier 1 capital/risk-weighted assets	22.76%	21.27%	24.75%	25.23%
Total liabilities/equity	7.29x	6.86x	7.44x	8.04x
Equity exposure ⁽³⁾	-4.59%	35.59%	-4.03%	-4.06%
Asset quality				
Problem loans/gross loans	0.06%	12.98%	0.00%	0.00%
Problem and non-performing loans/gross loans	0.07%	12.99%	0.01%	0.06%
Problem loans Non-performing loans and write-offs/gross loans	0.08%	12.99%	0.02%	0.06%
Loan reserve/problem loans	599.44%	3.07%	N/A	N/A
Loan reserve/problem and non-performing loans	555.95%	3.06%	987.94%	145.31%
Dynamic reserve/gross loans	1.22%	1.21%	1.19%	1.16%
Loan reserve + dynamic reserve/problem and non-performing loans	2324.49%	12.36%	15737.86%	2159.58%
Loan reserve/bad debts ⁽⁴⁾	5.35%	37420.13%	N/A	N/A
Top 20 borrowers/gross loans	32.77%	34.15%	35.33%	32.16%
Profitability				
ROAE*	15.50%	15.28%	17.57%	18.36%
ROAA*	1.92%	1.88%	2.01%	2.02%
Net financial margin	135.98%	129.77%	123.53%	134.42%
Operating margin	74.20%	66.14%	66.60%	74.33%
Net margin	65.04%	59.04%	60.10%	67.03%
Return on performing assets	3.02%	3.25%	3.42%	3.08%
Funding cost*	1.34%	1.36%	1.52%	1.31%
Financial spread*	1.68%	1.89%	1.89%	1.78%
Other income/net income	23.29%	10.12%	10.75%	6.06%
Efficiency				
Operating expenses/financial income	76.93%	69.61%	63.39%	64.15%
Operating efficiency ⁽⁵⁾	50.81%	51.81%	48.68%	46.22%
Additional information				
Number of borrowers	596	660	637	521
Average loan (USD)	381,188	374,159	427,341	527,798
Number of offices	1	1	1	1
Write-offs LTM (USD/thousand)	15	0	35	0
Write-offs LTM/gross placements + write-offs LTM	0.01%	0.00%	0.01%	0.00%

(1) Cash and cash equivalents = cash and bank deposits

(2) CAR = capital funds/risk-weighted assets

(3) Equity exposure = (problem and non-performing loans – loan reserves)/shareholders' equity

(4) Bad debts = placements from borrowers in Subnormal, Doubtful and Irrecoverable loans categories.

(5) Operating efficiency = operating expenses/earnings before operating expenses and provisions

Appendix I

Rating History

MMG Bank Corporation and Subsidiaries

Instrument	Previous Rating (as of 03.31.21)	Current Rating (as of 09.30.21)	Current Category Definition
Entity	(new) AA.pa	AA.pa	Reflects very high capacity to pay principal and interest under the agreed terms and conditions. The differences between this rating and the one above are minimal.
Revolving Negotiable Securities Program (up to USD50 million)	(new) ML 1.pa	ML 1.pa	Highest quality. There is certainty about the payment of principal and interest under the agreed terms and conditions.

Appendix II

Details of rated instruments

Revolving Negotiable Securities Program for USD50.0 million – Resolution SMV No. 618-17

Program	
Issuer	MMG Bank
Program amount:	USD50.0 million
Amount placed as of 09.30.21:	USD3.0 million
Program duration:	Up to 10 years
Maturity:	Up to 365 days as from the issuance date
Rate:	Annual fixed, to be defined at the time of placement
Interest payment:	Monthly
Capital payment:	Upon maturity
Support:	Issuer's general loan

Statement of importance

The security rating is only a professional opinion on the credit quality of the security and/or the security issuer related to the payment of the obligation represented by that security. The rating assigned or issued is not a recommendation to buy, sell or hold the security and may be subject to revision at any time. Also, this rating is independent and has not been influenced by other activities of the rating agency. Documents including the Code of Conduct, the rating methodologies used by Moody's Local PA, Panama's rating categories and the current ratings are available on Moody's Local PA's website www.moodylocal.com. Additionally, the present opinion results from the rigorous application of the rating methodology "Metodología de Calificación de Entidades Financieras e Instrumentos Emitidos por Estas". The information used in this report covers Audited Financial Statements as of September 30, 2017, 2018, 2019, 2020 and 2021 from MMG Bank Corporation and Subsidiaries. Moody's Local informs market participants that all information contained herein has been obtained from the rated Entity mainly and from sources deemed reliable, so no audit activities have been carried out. Moody's Local does not guarantee its accuracy or completeness and is not responsible for any errors or omissions herein. The rating report is updated according to the regulations in force.

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