

The Netherlands
Full Rating Report

ASR Nederland N.V.

Ratings

ASR Nederland N.V.		
Foreign-Currency Long-Term IDR	BBB	
Subordinated debt rating	BBB-	
ASR Levensverzekering N.V.		
Insurer Financial Strength Rating	A-	
Foreign-Currency Long-Term IDR	BBB+	
ASR Schadeverzekering N.V.		
Insurer Financial Strength Rating	A-	
Foreign-Currency Long-Term IDR	BBB+	
Sovereign Risk		
Foreign-Currency Long-Term IDR	AAA	
Local-Currency Long-Term IDR	AAA	

Outlooks

Insurer Financial Strength Ratings	Stable
Foreign-Currency Long-Term IDRs	Stable
Sovereign Foreign-Currency Long-Term IDR	Stable
Sovereign Local-Currency Long-Term IDR	Stable

Financial Data

ASR Nederland N.V.			
		31 Dec 09	31 Dec 08
Consolidated accounts			
Total assets (EURbn)	39.3	36.7	
Shareholders' funds (EURm)	1,389	432	
Published net income (EURm)	255	-640	
Gross written premiums (EURm)	5,026	5,921	

Analysts

Vanessa Andre
+33 1 44 29 91 42
vanessa.andre@fitchratings.com

Marc-Philippe Juilliard
+33 1 44 29 91 37
marcphilippe.juilliard@fitchratings.com

Related Research

Applicable Criteria

- [Insurance Rating Methodology \(August 2010\)](#)
- [Non-Life Insurance Rating Methodology \(March 2010\)](#)
- [Life Insurance Rating Methodology \(March 2010\)](#)

Rating Rationale

- The downgrades of ASR Nederland group's (ASR Nederland) ratings by one notch on 16 December 2010 mainly reflected uncertainty over the Dutch life insurance market and, in this context, over the group's ability to restore its profitability margins in life insurance in the foreseeable future within a still difficult financial environment and amid increasing competition from banking products in the Netherlands. In addition, Fitch considers that the group's duration mismatch between its assets and liabilities remains challenging for its profitability in an environment of low interest rates.
- The rating actions also reflect structural issues facing the mature and competitive Dutch insurance market, especially on individual life insurance, to which ASR Nederland group (ASR Nederland) is particularly exposed.
- ASR Nederland reported a net result of EUR255m in 2009 and EUR226m in H110, compared with a net loss of EUR640m in 2008. However, the value of new life business was not significant in 2009 mainly due to the low interest rate environment. Fitch notes that measures taken by the group to restore its technical results on non-life insurance are beginning to bear fruit as the group's net combined ratio decreased to 98% in H110 from 102% in 2009.
- In addition, the group's capital adequacy has recovered since end-2008 and is now viewed as adequate by Fitch on a risk-adjusted basis. ASR Nederland's regulatory solvency position reached 2.2x the minimum requirements at end-June 2010 compared with 1.7x at end-2008.
- The ratings continue to reflect ASR Nederland's sound business position in the Dutch insurance market as well as its prudent reserving policy. These strengths are somewhat offset by the group's lack of geographic diversification.
- The Dutch government acquired 100% of ASR Nederland in October 2008 from the Fortis group. Although Fitch views the Dutch government ownership as positive, it has not factored this into ASR Nederland's ratings as the government has stated its intention to dispose its shareholding in ASR Nederland over time. Fitch will continue to monitor closely the implementation of the new financial and business strategy at ASR Nederland and takes a positive view of the group's ambitious cost efficiency programme.

Key Rating Drivers

- Key rating drivers for ASR Nederland that could lead to an upgrade include a clear demonstration of the group's ability to further develop its shareholders' funds through retained earnings and to substantially improve its underwriting results, especially in life insurance.
- Negative pressure on the ratings would derive from a further weakening of the group's underwriting results although Fitch believes the likelihood of this happening has been reduced following the group's efforts to cut costs, to improve risk selection, and adapt tariffs in non-life insurance.

Key Rating Issues

Underwriting Performance under Pressure

In a context of particularly unfavourable conditions in the Dutch insurance market and still depressed financial environment, Fitch believes that the group may face some difficulties in the short term in restoring its underwriting results substantially, especially on the life side.

Adequate Capital Adequacy Still Dependant on Financial Markets

Fitch believes that ASR Nederland has adequate risk-adjusted capital. ASR Nederland's shareholders' funds increased to EUR1.4bn at end-2009 and EUR1.7bn at end-June 2010 from EUR432m at end-2008, mainly explained by retained earnings and positive revaluation of investments. Fitch notes, nevertheless, that, although the group's regulatory solvency has a limited sensitivity to interest rates, capital adequacy remains somewhat dependent upon the volatility of unrealized capital gains.

Good Business Position Concentrated on the Dutch Market

ASR Nederland benefits from a good business position in the Dutch insurance market, ranking third in 2009 in terms of gross written premiums (GWP) (market share, excluding health insurance, of 11.4%; 12.7% in 2008). Despite the difficult market environment, the group managed to maintain large market shares in its main business lines in 2009. However, all the group's activities are concentrated in the Dutch insurance market, which is a fiercely competitive market, offering poor growth opportunities.

Peer Analysis

In a difficult market environment in 2009, ASR Nederland underperformed the market in terms of growth in life insurance premiums, but outperformed the market on the non-life side (excluding health insurance). This partly reflects the decision made at group level to focus on profitable business rather than volume growth.

Table 1: ASR Nederland and Dutch Market Figures in 2009

	ASR Nederland	Dutch market
IFS rating (main operating entities)	'A-'	n.a.
Outlook	Stable	n.a.
Gross written premiums (GWP EURm)	5,026	76,700
Change in GWP (%)	-15	-2
Life GWP (EURm)	2,651	24,000
Change in life GWP (%)	-26	-10
Non-life GWP (EURm)	1,039	12,500
Change in non-life GWP (%)	3	1
Accident and health	1,336	40,200
Change in A&H GWP (%)	2	5
Net result (EURm)	255	n.a.
Net result 2008 (EURm)	-640	n.a.
Shareholders' funds (EURm)	1,389	n.a.

Source: Fitch

Company Profile

ASR Nederland offers a comprehensive range of insurance products to private individuals and SMEs in the group life, individual life, mortgages, non-life, disability and health insurance markets. The group operates under various brand names in the Netherlands, reflecting the history of these organisations. The ASR Verzekeringen brand name is used for the non-specialist insurance businesses (66% of the group's premiums) while the brand name De Amersfoortse is used for accident and health insurance, Europeesche for travel insurance, Ardanta for funeral insurance and Ditzo for online sales.

Ownership Structure

Since October 2008, ASR Nederland has been 100% owned by the Dutch state.

The Dutch state has indicated that ASR Nederland will be returned to the private sector in due course in a manner that will ensure it remains operationally stable, financially sound and with a sufficiently robust capital base to enable it to operate viably in the long term. The timeline of this process has not been defined.

Key Events

In October 2008, the Dutch state nationalised the Dutch activities of the Fortis group, including Fortis Verzekeringen Nederland N.V., which through its operating subsidiaries conducted the Fortis group's insurance business in The Netherlands.

In March 2009, Fortis Verzekeringen Nederland N.V. was re-branded as ASR Nederland N.V.

In December 2009, ASR Bank was bought back from Fortis Bank Nederland by ASR Nederland. ASR Bank has about 250,000 savings accounts and investment accounts, primary held by private account holders.

Products

The group's consolidated GWP reached EUR5bn at end-2009, down 15% compared with 2008 (EUR5.9bn). The decrease was mainly explained by reduced demand for life insurance products, leading to lower sales, especially for individual products. This also reflected the decision taken by the group to focus on profitable business rather than on volume growth.

On the life side (51% of the group's premiums), ASR Nederland offers mainly individual life products (82% of the life premiums), with a smaller contribution from group life products (18%). The life segment also includes funeral insurance and mortgages. At end-2009, 55% of ASR Nederland's life premiums were recurring premiums. Non-life activity is more balanced and quite traditional, with marked bias towards accident and health insurance. At end-2009, the breakdown of non-life premiums was as follows: 39% disability, 19% motor, 17% health, 14% fire and 11% others.

ASR Nederland's life insurance premiums decreased by 26% yoy in 2009 to EUR2.6bn mainly due to the slowdown of the economy and lack of appetite from potential customers in the Dutch market for life insurance products. In particular, the group experienced a strong drop in its new life production, which was down 38% in 2009 year-on-year. New single-premium business was down 27%, while the group life segment reported broadly flat premiums. In addition, mortgage-linked life insurance premiums decreased strongly due to the decrease in the mortgage lending.

Non-life premiums increased by 2% yoy, exceeding market growth (1% excluding health insurance), mainly due to tariff increases and a positive contribution from the group's direct distribution channel. However, new business in non-life (including health insurance) decreased by 16% during the year, mainly driven by fewer policies sold in disability and health insurance. Fitch notes that ASR Nederland is much more active in accident and health insurance than peers, which generally benefits from better growth prospects.

The disability insurance market was characterised by fiercer competition in 2009 due to new entrants and the drop in the number of self-employed people, explained by the recession. Despite this difficult environment, ASR Nederland remained market leader in disability insurance in 2009.

Table 2: Gross Premiums Earned – Breakdown

(% of total)	2008	2009
Individual life insurance	42.0	41.0
Group life insurance	18.0	11.0
Non-life insurance	17.0	21.0
Accident and health insurance	23.0	27.0
Total gross written premiums (EURm)	5,829	4,916

Source: ASR Nederland accounts

Total inflow of premiums in H110 reached EUR2.6bn, up 2% on H109. Life premiums were roughly stable as the fall in regular premiums was offset by an increase in single premiums due to a more competitive rate offered by the company compared to peers in the first half of 2010.

Non-life premiums increased by 2% in H110 while competition continued to increase, partly due to the emergence of more companies offering their services online.

Target Markets

ASR Nederland intends to maintain its position as one of the three largest insurers in the country. The group intends to continue producing innovative products in life and non-life insurance while implementing a more customer-oriented strategy. Customer service is now a factor in the appraisal and remuneration system for management.

Distribution Channels

ASR Nederland distributes its products mainly through brokers or intermediaries (81%) with a smaller part distributed directly (14%) or via banking channels (5%). The group intends to develop a multi-channel strategy, increasing the distribution share of the direct and banking channel.

The group launched a direct channel called Ditzo in 2008 which offers innovative products mainly in the non-life insurance segment.

Financial Analysis

Profitability

ASR Nederland reported a net profit of EUR255m for 2009 compared with a loss of EUR640m for 2008. The substantial improvement was mainly explained by the recovery of the financial markets which led to higher investment results. In addition, ASR Nederland benefited from a net capital gain of EUR96m in 2009, explained by the restructuring of the group's subordinated debts into Tier 1 capital.

Profitability of Life Business

Life technical results increased to EUR117m in 2009 from a loss of EUR998m in 2008, mainly explained by a recovery of the allocated technical investment proceeds which benefited all product lines.

ASR Nederland has disclosed embedded-value figures for several years. However, the group introduced its own methods and systems after the disentanglement from the Fortis group in 2008, meaning that a suitable comparison with 2008 figures is not available. Value-added by new business including the full attribution of costs incurred for production led to a negative figure of -EUR2m. These poor results are mainly explained by the strong drop experienced by the new business and the very low interest rate environment in the Netherlands. In addition, ASR Nederland publishes embedded-value figures based on market-consistent embedded-value (MCEV) methodology using assumptions that Fitch considers conservative.

The average lapse rate of savings contracts remained satisfactory, at less than 6% of mathematical reserves in 2009. In addition, the group benefits from a loyal

customer base, its savings contracts having an average maturity of more than eight years.

Profitability of Non-Life Business

Non-life technical results increased by 2% in 2009, to EUR75m due to higher returns on allocated investments. Nevertheless, the group's combined ratio increased to 102.1% from 94.1% in 2008 due to a strong increase in claims for disability, fire and motor insurance. The group's loss ratio reached 71% while its expense ratio decreased to 31.1% from 32% in 2008, mainly explained by the cost-saving programme implemented during the year.

Profitability in H110

Net profit was EUR226m for H110, compared with EUR77m for H109. The improvement in the net result was mainly due to the recovery of the financial markets, cost reductions and the improved technical results in non-life insurance. The combined ratio decreased to 97.8% for H110, compared with 99.1% for H109, entirely due to the decline of the group's expense ratio. The group's loss ratio deteriorated, increasing to 71.3% compared with 68.8% for H109. This was mainly due to an increase in the cost of claims in the disability, motor and travel insurance segments.

Fitch expects the full-year results for 2010 to reflect corrective measures in terms of tariff increases and modification of certain product features.

Investments and Liquidity

ASR Nederland's consolidated investments excluding unit-linked investments (at market value, including cash and bank deposits) amounted to EUR27bn at end-2009. The investment breakdown at market values was as follows: 79% fixed-income securities, 7% equity, 14% real estate, and 1% other.

Investments in bonds are the major asset on ASR Nederland's balance sheet, and 46% of these are government bonds. Fitch considers the credit quality of the bond portfolio to be good, with 86% rated 'A' or higher at end-June 2010 (of which 50% rated 'AAA'). There are only minor exposures to the "peripheral" eurozone countries (Portugal, Italy, Ireland, Greece and Spain): Portuguese bonds (EUR13m), Italian bonds (EUR135m), Greek bonds (EUR14m), Spanish bonds (EUR58m) and no Irish bonds, at end-June 2010. Since the separation from the Fortis group, ASR Nederland has managed to improve its duration mismatch; however, Fitch considers that it remains challenging for the group's profitability in an environment of low interest rates (duration of assets was 5.9 years and duration of liabilities 8.8 years at end-2009).

The market value of ASR Nederland's real-estate portfolio reached EUR3.9bn at end-June 2010. The real-estate portfolio is well diversified in rural (22%), residential (30%), retail (31%), offices (13%), parking (2%) and projects (2%). Approximately 45% of offices are occupied by ASR Nederland. In addition, the group has concluded an agreement on the sale of the former head office of Fortis Bank Nederland (now merged with ABN AMRO Bank N.V., rated IDR 'A+' /Stable) in Utrecht which will reduce the size of its real-estate portfolio at end-2010.

The group's share portfolio is well diversified; shares are mainly spread across Europe (42%) and the Netherlands (29%) at year-end 2009.

The group uses financial hedging to control interest rate risk as well as equity risk. A well-developed asset/liability management policy is a key part of ASR Nederland's financial strategy.

Reserve Adequacy and Development

On the life side, technical provisions in respect of policies carrying guaranteed interest rates are decreasing.

On the non-life side, certified actuaries (internal and external) have confirmed the overall adequacy of reserves at end-June 2010: the confidence level for reserves for ASR Nederland's non-life business is 95% on an undiscounted basis.

Fitch believes that the level of technical provisions is prudent, in light of the regulatory requirements and practices in the Netherlands, taking into account the company's technical commitments, the return on its investment portfolios and its expense level.

Reinsurance Protection and Credit Quality

The group is not a big purchaser of reinsurance, as shown by its high retention rate in life insurance (97.5%) as well as in non-life insurance (89%) in 2009.

At end-2009, 56% of the group's reinsurance exposure had a rating in the 'AA' category, 41% in the 'A' category and 3% was not rated (the unrated exposure related to placements with Fortis Re, the former internal reinsurer of ASR Nederland).

ASR Nederland has purchased prudent reinsurance coverage with mainly excess-of-loss programmes. One of the largest reinsurers of the group is Munich Reinsurance company (IFS Rating 'AA-' / Stable Outlook), and among the others are Paris Re and Scor ('A' / Positive Outlook). It has adequate catastrophe cover with low attachment point.

Capitalisation

Fitch considers that ASR Nederland holds adequate levels of capital, based on the agency's own risk-adjusted assessment. At end-2009, consolidated shareholders' funds (excluding minority interests) amounted to EUR1.4bn, compared with EUR432m in 2008. The improvement is explained by the group's net profit (EUR255m) and revaluation of investments through shareholders equity (EUR719m).

ASR Nederland has not benefited from any financial aid from the Dutch state, either via a capital injection or a guarantee arrangement.

The group's regulatory solvency ratio reached 232% at end-2009 and 222% at end-June 2010. The decline since end-2009 was explained by the negative evolution in interest rates over Q210. The group's IFRS solvency ratio reached 293% at end-2009 and 274% at end-June 2010. This ratio includes revaluation of real-estate and capital securities as well as credit for 'De Nederlandsche Bank approved' margins on technical provisions.

Financial Leverage and Debt-Serving Capabilities

Except subordinated debt, the amount of other financial debts was small at end-2009 (EUR127m). In addition, ASR Nederland had repo operations for EUR889m, mainly with ABN AMRO Bank N.V.. The debt leverage decreased year-on-year, with a total financings and commitments ratio on total adjusted capital of 0.44 (0.87 in 2008).

ASR Nederland Consolidated - Fitch calculated figures

(Euro 000)	2005 IFRS	2006 IFRS	2007 IFRS	2008 IFRS	2009 IFRS
Summary data					
Operating result	751,400.0	810,000.0	1,017,000.0	-777,000.0	239,000.0
Net income	537,400.0	631,000.0	906,000.0	-633,000.0	260,000.0
Combined ratio (%)	87.4	86.6	91.9	94.0	101.6
Return on revenue (%)	16.3	15.1	19.6	-25.3	3.4
Total assets	36,620,600.0	39,457,000.0	38,398,000.0	36,191,000.0	38,746,000.0
Total adjusted equity	3,812,500.0	4,614,000.0	3,744,000.0	2,217,000.0	2,837,000.0
Premium data					
Nonlife gross written premiums	1,988,800.0	1,977,000.0	2,124,000.0	2,320,000.0	2,375,000.0
Annual change (%)	n.a.	-0.6	7.4	9.2	2.4
Life gross written premiums	2,635,100.0	3,437,000.0	3,108,000.0	3,599,000.0	2,651,000.0
Annual change (%)	n.a.	30.4	-9.6	15.8	-26.3
Total gross written premiums	4,623,900.0	5,414,000.0	5,232,000.0	5,919,000.0	5,026,000.0
Annual change (%)	n.a.	17.1	-3.4	13.1	-15.1
Nonlife net written premiums	1,988,800.0	1,944,000.0	2,091,000.0	2,047,000.0	2,107,000.0
Annual change (%)	n.a.	-2.3	7.6	-2.1	2.9
Life net written premiums	2,635,100.0	3,437,000.0	3,108,000.0	3,560,000.0	2,585,000.0
Annual change (%)	n.a.	30.4	-9.6	14.5	-27.4
Total net written premiums	4,623,900.0	5,381,000.0	5,199,000.0	5,607,000.0	4,692,000.0
Annual change (%)	n.a.	16.4	-3.4	7.8	-16.3
Operating performance					
Return on revenue (ex. nonlife gains) (%)	16.3	15.1	19.6	-25.3	3.4
Return on revenue (incl. nonlife gains) (%)	16.3	15.1	19.6	-25.3	3.3
Return on assets (incl. gains) (%)	n.a.	1.7	2.3	-1.7	0.7
Return on book equity (incl. gains) (%)	n.a.	21.9	32.8	-47.0	28.6
Return on adj. equity (incl. gains) (%)	n.a.	15.0	21.7	-21.2	10.3
Nonlife					
Incurred loss ratio (%)	65.9	61.3	69.8	62.1	71.1
Commission ratio (%)	16.1	15.1	14.6	20.0	19.8
Expense ratio (%)	8.2	7.9	7.5	15.6	14.1
Reins. comm., profit participation, other ratio (%)	-2.8	2.3	-0.0	-3.8	-3.3
Combined ratio (%)	87.4	86.6	91.9	94.0	101.6
Life					
Benefits paid ratio (% premiums)	94.6	102.5	91.1	40.0	165.7
Incurred loss ratio (incl. unit linked) (% premiums)	240.0	177.4	141.6	40.0	165.7
Acquisition expenses ratio (% premiums)	4.1	4.7	4.3	4.4	6.5
Renewal commission ratio (% premiums)	0.0	0.0	0.0	0.0	0.0
Maintenance expenses ratio (% premiums)	6.9	4.2	4.4	9.4	12.8
Maintenance expenses ratio (% reserves)	0.7	0.5	0.5	1.2	1.2
Reins. comm., profit participation, other ratio (%)	-25.5	-29.2	-20.6	0.3	-1.8
Portfolio composition (%)					
Real estate	4.6	4.9	5.1	6.0	6.4
Shares	9.4	10.6	9.3	4.6	5.5
Affiliates	0.7	0.6	0.5	0.5	0.6
Bonds	39.9	38.3	38.1	46.5	45.6
Loans	9.4	8.5	8.6	9.0	8.5
Mortgages	6.2	5.7	5.8	6.7	5.7
Cash & bank deposits	1.7	2.8	1.4	2.5	2.0
Deposits with cedents	0.6	0.5	0.6	0.4	0.4
Other invested assets	1.2	1.0	1.1	0.9	0.8
Total (non-linked)	73.7	73.0	70.5	77.0	75.4
Unit linked investments	26.3	27.0	29.5	23.0	24.6
Total	100.0	100.0	100.0	100.0	100.0

Source: Fitch

ASR Nederland Consolidated (cont.)- Fitch calculated figures

(Euro 000)	2005 IFRS	2006 IFRS	2007 IFRS	2008 IFRS	2009 IFRS
Financial data					
Total assets	36,620,600.0	39,457,000.0	38,398,000.0	36,191,000.0	38,746,000.0
Total adjusted equity	3,812,500.0	4,614,000.0	3,744,000.0	2,217,000.0	2,837,000.0
Change in adj. equity (%)	n.a.	21.0	-18.9	-40.8	28.0
Nonlife technical reserves/nonlife NPW (%)	122.5	127.9	125.6	136.0	142.1
Nonlife claims reserves/nonlife NPW (%)	96.0	100.5	99.3	111.4	118.6
Life technical reserves/life NPW (%)	652.5	499.8	543.4	501.2	711.3
Nonlife technical reserves/adj. equity (%)	63.9	53.9	70.2	125.6	105.6
Technical reserves/adj. equity (%)	514.9	426.2	521.3	930.4	753.7
Invested assets/(adj. equity + technical reserves) (%)	100.7	106.1	105.3	110.0	111.3
Liquid assets/technical reserves (%)	83.4	92.9	86.8	84.6	88.8
Investment leverage (%)	117.8	118.7	134.0	155.3	150.1
Affiliated investment leverage (%)	5.6	4.6	4.9	7.3	7.2
Debt/capital (%)	25.6	34.6	44.1	56.2	35.3
Nonlife reinsurance utilisation ratio (%)	0.0	1.7	1.6	11.8	11.3
Life reinsurance utilisation ratio (%)	0.0	0.0	0.0	1.1	2.5
Tax rate (%)	28.5	22.1	10.9	25.1	21.2
Minority interests/net income (%)	0.6	1.1	1.8	-1.1	1.9
Payout ratio (%)	102.4	40.1	134.8	0.0	0.0

Source: Fitch

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