

Qatar Insurance Co. S.A.Q.

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Table Of Contents

Major Rating Factors

Rationale

Outlook

Corporate Profile: The Largest "National" Insurer In Qatar

Competitive Position: Strong Domestic Position To Be Extended By
Becoming Regional Business-Focused Insurer

Management And Corporate Strategy: Stable Management With
Ambitious International Expansion Plans

Enterprise Risk Management: Adequate For QIC's Risk Profile

Accounting: Neutral For The Ratings

Operating Performance: Very Strong, Materially Outperforming Global
Insurers' Norms

Investments: Open To Volatility Due To Local Equity Market Focus

Liquidity: Very Strong, With A Very Liquid Balance Sheet

Capitalization: Expected To Remain Very Strong Despite QIC's
Expansion Plans

Financial Flexibility: Strong Relative To Needs

Qatar Insurance Co. S.A.Q.

Major Rating Factors

Strengths:

- Strong competitive position.
- Very strong capitalization.
- Strong underwriting performance.

Weaknesses:

- High, but reducing, reinsurance utilization.
- Locally concentrated and equity-focused investment portfolio.
- Economic and industry risks inherent to the Gulf region.

Operating Company Covered By This Report

Financial Strength Rating

Local Currency

A/Stable/--

Rationale

The ratings on Qatar-based insurer Qatar Insurance Co. S.A.Q. (QIC) reflect the company's very strong capitalization, strong competitive position, and strong underwriting performance. These strengths are partially offset by high, but reducing use of reinsurance; a locally concentrated investment portfolio, particularly in equities; and economic and industry risk inherent to the Gulf region.

QIC's capitalization is very strong, and therefore a relative strength for the rating. The company has been affected by movements in global markets and although its total equity remains below the 2007 peak, it has recovered ground in 2009. This has been achieved through lower dividend payments in line with the long term level and a more restrained approach to investment, away from equities, with an emphasis on certainty of income. Standard & Poor's Ratings Services believes QIC's capital adequacy will moderate in the medium term as a result of business growth, although we expect it to remain at least very strong.

We consider management and corporate strategy to be positive. The management team has successfully executed a strategy to maintain its leadership position in its home market while gradually diversifying the company income so that the majority comes from outside Qatar. Although some of the more far-reaching strands of the strategy have been curtailed, the focus on writing profitable business remains unchanged. International business currently contributes 42% of net underwriting income and we expect this to continue to rise over the coming years.

Competitive position is strong as a result of QIC's dominant domestic position. It maintained its market share at around 50% of the market and continues to harbor ambitions to develop its presence regionally. International expansion will continue through branches of QIC International LLC (QICI) in regional Gulf markets and the international activities of Q-Re LLC. QIC also aims to take advantage of changing regulations and increased retail awareness in its domestic market to exploit new opportunities such as takaful, medical, and life businesses.

The operating performance reflects QIC's strong domestic underwriting strength together with an adequate level of investment income. The high quality of technical earnings continued in 2009 with stable underwriting performance reflecting the historical trend. The three-year combined ratio was stable at 84%. Gross written premiums growth slowed considerably to 9% over the previous year and while the net investment yield remained stable at 5.3%. We

expect that QIC's operating performance will remain strong, although premium and investment development are unlikely to repeat the high levels of growth seen in recent years.

Key weaknesses are the company's investments, reinsurance utilization, and economic and industry risks. Investments continue to have a significant equity focus, although this has reduced to 38% of the portfolio compared to a peak of 60% in 2005 as the company places greater emphasis on certainty of income from its investment portfolio. QIC's reinsurance utilization continues to gradually fall as the company retains increasing levels of risk. It remains relatively high at 47% in 2009, although this is in line with regional peers.

The economic and industry risk inherent in operating in the Gulf region remains a weakness. Although we believe QIC is better placed than many of its competitors, increasing competition within the Gulf Cooperation Council (GCC) area remains an ongoing concern, as does the current downturn in the regional economy.

Outlook

The stable outlook reflects Standard & Poor's belief that QIC will maintain risk-based capitalization at least at a very strong level, with at least strong operating performance. We anticipate technical performance will remain strong, with a three-year average combined ratio of around 85%. Competitive position is likely to be enhanced by introducing new lines of business domestically and the continuing development of QIC's regional and international operations. Debt leverage is expected to remain at or below the current level and not exceed our debt leverage tolerance of 35%.

A revision of the outlook on QIC to positive is unlikely within the next two years. A revision of the outlook to negative may occur if significant investment losses affect the investment portfolio, quality of earnings declines, if market conditions significantly deteriorate, or if financial strength weakens further.

Corporate Profile: The Largest "National" Insurer In Qatar

QIC is the principal operating company of Qatar Insurance Group (unrated) and was established in 1964 as Qatar's first insurance company. It writes principally non-life personal and commercial lines, with energy (24%) and motor (16%) representing the largest lines of business by gross premiums written. Business is written both domestically and internationally. QIC is one of five "national" insurers with preferential access to government business. The group has two majority-owned subsidiaries that manage business outside Qatar, both benefiting from a parental guarantee. Q-Re (A/Stable) is 88% owned by QIC and was established in December 2009 to write international inward reinsurance business. QICI (A/Stable/--), which is 85% owned by QIC, manages international operations that are based in the United Arab Emirates (UAE), Oman, Kuwait, and Malta. In 2009, gross premiums for QIC stood at around QAR2 billion, with 52% attributable to domestic operations and the remainder to international operations. QIC listed on the Doha Securities Market in May 1997, and had a market capitalization of QAR5.3 billion (\$1.46 billion) on Aug. 9, 2010.

Competitive Position: Strong Domestic Position To Be Extended By Becoming Regional Business-Focused Insurer

Table 1

Qatar Insurance Co. S.A.Q. Competitive Position					
(Mil. QAR)	--Year-ended Dec. 31--				
	2009	2008	2007	2006	2005
Total revenue	1,318.6	1,110.9	831.0	520.7	282.3
P/C: Annual change in gross premiums written (%)	9.0	29.9	27.3	62.6	33.7
P/C: Net premiums written	1,135.8	974.4	703.5	456.9	227.8

QAR--QAR-Qatari riyal.

QIC's competitive position is strong. The company is strong in its domestic market, with a market share of around 50%, and has built a position of strength through cultivating relationships with key Qatari businesses. QIC continues to develop its international insurance operations through QICI and the recently established Q-Re. Although we expect premium income from international operations to exceed that of domestic business in the medium term, we expect the development of international operations to continue gradually with a focus on maintaining income and profitability.

Historical

In terms of premium volume, QIC has long been the largest Qatari insurer. QIC underwrites business primarily in Qatar as well as regional offices. Of gross premiums written in 2009, 34% were derived from branches in Abu Dhabi and Dubai in the UAE, subsidiaries in Oman and Kuwait, or through a license to write business in Malta. In addition, QIC writes international inward reinsurance business through Q-Re, amounting to around 14% of QIC's total gross premium in 2009.

Within Qatar, QIC demonstrates a stable business relationship with key Qatari businesses in sectors including marine and energy project development. QIC participates in the risk-pricing decisions and acts as partner in project risk management alongside intermediaries and the banks that introduce finance capital to these projects. Given the very significant economic size of the risks, however, extensive participation by the international reinsurance market is vital. For more-conventional lines of business--small and midsize enterprises (SMEs) and personal lines--QIC retains a much higher proportion of the overall risk.

Prospective

We expect QIC to maintain its overall preeminent position in its domestic market. The company is focused on protecting and increasing its share of the domestic market as well as targeting energy business in regional markets. This reflects the continuing opportunities available in Qatar but also recognizes potential business in the wider region.

QIC aims to use alternative sales channels such as bancassurance relationships and an Internet capability, both on a business-to-business and a business-to-customer basis, as well as agents to sell and retain business. It is also introducing new products such as takaful lines through a separately incorporated company to benefit from opportunities in the underdeveloped personal lines market. While new competitors have entered the market, they have not significantly eroded QIC's position. We expect this to change in the medium term as other companies build momentum. Standard & Poor's views QIC's domestic developments as prudent and supportive of its competitive position in the domestic market.

Development of QIC's regional and international operations is expected to continue, with Q-Re and QICI providing increasing contributions over the coming years.

Management And Corporate Strategy: Stable Management With Ambitious International Expansion Plans

QIC's management is highly proficient in financial, technical, and operational respects. The company benefits from a stable and well-experienced team of senior executives who have successfully steered and developed the company over a number of years. Strategy is reasonably clearly defined and the recently introduced group structure has allowed areas of responsibility to be clearly delineated. We expect further enhancements to the overall management of the company to come through increased focus on enterprise risk management (ERM).

Strategy

QIC's long-term ambition of expanding outside its home region remains unchanged, although it now places greater emphasis on achieving diversification through the business written through Q-Re than on further geographical growth of the company's branch network.

The company's long-term vision sees Qatari-derived gross premium shrinking to around a third of total premium within five years. The company has revised this target to be more aggressive in the past year, although we expect the rapid development of Q-Re and further development of Gulf branches to make it achievable.

The company is also embarking on a number of projects to take advantage of growth trends within the region and which are expected to bring new revenue streams in due course. These include a takaful joint venture under the brand name Beema, developing a bank assurance model, and establishing teams to investigate the potential for life and medical business in the region.

In its domestic market, QIC continues to focus on active customer management to encourage major account to continue to renew. It is also developing online capabilities and taking measures to protect its income base, manage bad debts, and ensure adequate cash flows. The company has successfully maintained its major account renewals to date and has paid greater attention to receivables and the credit quality of its counterparties.

Operational management

QIC's operational management is strong. The company has a stable and experienced management team with a long track record in the insurance industry. It is also developing new talent within the company through campus recruiting and training schemes. Staff turnover is very low at around 1% per annum. Management intends to take full advantage of the economic growth of the region, but has installed control procedures to ensure that it does not overextend itself and expose its capital base to excessive risk. QIC aims to underwrite only business that is individually profitable; it does not subscribe to a client cross-subsidy philosophy.

QIC's group structure, introduced in 2008, has focused the company's attention on its core insurance business with supporting functions such as property or investment management taking place separately. The structure appears sufficiently flexible to allow future growth and development with ease.

Financial management

We consider QIC's financial management to be effective and appropriate for the company's size and operations. QIC has clearly detailed projections at a consolidated level, as well as defined financial targets at branch and line of business level.

Enterprise Risk Management: Adequate For QIC's Risk Profile

We view QIC's ERM as adequate. Its management and underwriting teams have the necessary skills to develop and supervise the risk management process of the GCC commercial/industrial risk markets, which is the key business focus. In addition to reviewing risk management strategy across the company, the group will develop internal models to aid it with efficient capital utilization and new product development etc.

Underwriting risk controls are sound. Insurance risk is monitored through specific underwriting guidelines, with quarterly bordereaux (detailed memos) from the branches. Internal systems require a three-stage sign-off process, and no single risk can exceed 2% of shareholders' funds. Although management's commitment to geographic and risk spread is high, the company is gradually increasing the risk it undertakes while management internally builds expertise. Thus, substantial reinsurance capacity provides support in pricing underwriting risks, which are then compared with QIC's internal pricing models.

Equity risk is material as the company's investment portfolio is highly concentrated on local equities, although controls are strong and this risk is constantly monitored.

Accounting: Neutral For The Ratings

QIC's accounting practices are neutral for the ratings. It prepares consolidated accounts in accordance with International Financial Reporting Standards and these incorporate QICI's financial statements. We expect future results to incorporate Q-Re's financial statements. We consider the potential for changes in accounting standards to significantly affect QIC's balance sheet and income statements to be limited, although the classification of investment assets between "trading" and "held to maturity" will continue to be monitored.

Operating Performance: Very Strong, Materially Outperforming Global Insurers' Norms

Table 2

Qatar Insurance Co. S.A.Q. Operating Performance					
	--Year-ended Dec. 31--				
(%)	2009	2008	2007	2006	2005
P/C: Return on revenue	19.6	14.1	12.3	15.9	17.2
P/C: Return on revenue including realized and unrealized gains/(losses)	19.6	14.1	12.3	15.9	17.2
Return on equity	19.5	17.1	15.7	12.7	12.1
Return on equity (adjusted)	16.6	11.9	9.5	7.4	5.5
Return on capital	12.5	9.6	8.8	7.4	5.6
P/C: Current-year loss ratio	54.2	57.9	59.6	52.7	52.6
P/C: Net loss ratio	54.2	57.9	59.6	52.7	52.6
P/C: Total net expense ratio	26.2	28.0	28.0	31.4	30.2
P/C: Net combined ratio	80.4	85.9	87.7	84.1	82.8

QIC's 2009 performance continued its profitable historical trend. Gross premiums grew by 9%, marking the slowest level of growth since 2001. The growth broadly reflects the more-constrained economic environment and the

experience of peers in the region. However, all lines of business remained profitable, with corporate and other commercial risks making the largest contribution (57% of the total) to underwriting income. Return on revenue remains stable at 36% and the combined ratio remains stable and low at 78%.

QIC's 2009 operating performance benefits from strong underwriting performance, with gross premiums written of QAR2.2 billion (2008, QAR1.9 billion and a net underwriting result of QAR307 million). Return on revenue has been broadly stable, averaging 37% over the last five years and is in line with regional peers. Underwriting performance has been consistently strong, with a stable net combined ratio over the last three years of 84%, although this performance is subsidized by the receipt of large commissions on outward reinsurance that are passed to other insurers or reinsurers.

Although investments have been affected by market volatility and significant unrealized losses, net investment income improved to QAR263 million (2008, QAR243 million).

Historical

Since inception, QIC has posted profitable results. During the past three years, the net combined ratio has averaged around 84%. QIC's international operations continue to increase the amount they contribute to the overall business; in 2009 international net premiums written (NPW) were around QAR619 million (2008: QAR491 million), with a net underwriting result of QAR165 million (2008: QAR133 million). This compares to QAR516 million (2008, QAR483 million) NPW from domestic operations, with a net underwriting result of QAR230 million (2008, QAR173 million). Retention now stands at 53% compared to 31% in 2005 and has generally increased across all lines, although the highest retentions continue to be for retail and lower-severity products.

Prospective

Over the next two years, Standard & Poor's expects a relatively low level of gross premium growth in line with 2009's results, although premiums from QIC's international operations is expected to exceed 50% in 2010. Net retention of premium is also expected to continue its gradual rise and the combined ratio is expected remain stable at around 85%.

Investments: Open To Volatility Due To Local Equity Market Focus

Table 3

Qatar Insurance Co. S.A.Q. Liquidity And Investments					
	--Year-ended Dec. 31--				
(%)	2009	2008	2007	2006	2005
High-risk assets to total invested assets	50.0	58.0	61.8	63.3	69.0
Illiquid invested assets to total invested assets	11.6	9.4	13.7	13.1	8.7
Net investment yield	5.3	5.2	5.4	4.6	3.9
Net investment yield including all capital gains/(losses)	6.9	8.6	10.3	9.3	10.2
Investment portfolio composition					
Cash and cash equivalents	42.1	32.9	29.4	24.4	22.2
Bonds	7.9	9.1	8.8	12.3	8.8
Common stock	38.5	48.6	48.1	50.2	60.3
Real estate	7.9	8.9	5.9	4.5	2.7
Investments in affiliates	1.0	0.0	0.0	0.8	0.0

Table 3

Qatar Insurance Co. S.A.Q. Liquidity And Investments (cont.)					
Other investments	2.7	0.5	7.8	7.8	6.0
Total portfolio composition	100.0	100.0	100.0	100.0	100.0

QIC's investment portfolio is good, although a relative weakness for the rating. QIC's strategy remains focused on realizing the best return versus risk, but is expected to place a greater emphasis on certainty of income and therefore a lower reliance on the equity portion of the portfolio. QIC has maintained a consistently high exposure to the local economy through a diversified portfolio of assets; Qatari equity, cash, and property exposures amount to around 70% of the portfolio. While this is in line with regional peers, QIC's risk to solvency is lowered by its very strong capital adequacy.

Investment strategy

Through QEA, its discretely managed asset management division, QIC employs an active investment strategy, investing proprietary funds to realize the best return versus risk. The overriding strategy is to achieve a steady and stable income from its portfolio and this has the regular and active oversight of its investment committee, which sanctions all derivative-type transactions, monitors investment exposure, concentrations, and risk levels, and receives regular reports on performance. The strategy places a lower reliance on equity investments and an increase in cash holdings. The portfolio is 90% held as "available for sale" with fair-value gains and losses reported through the fair-value reserve. "Held for trading" investments, which amount to 7% of the portfolio, are reported through the income statement.

To support its investment strategy, QIC borrows funds from local banks for durations of one to three months in local and foreign currencies. In 2009, these borrowings were QAR922 million (2008: QAR957 million) and were used to support treasury operations. We expect the continued use of these lines of credit to be a part of QIC's investment strategy prospectively.

QIC has a QAR411 million (book value) portfolio of properties and land, managed by QICR, which includes a number of owner-occupied premises as well as investment land and properties in Qatar. The fair value of this portfolio is believed to be significantly higher.

Standard & Poor's considers QIC's investment portfolio to be well-diversified within asset classes and appropriate for the company. Local equities remain a significant, but reducing, proportion of the overall portfolio and this goes some way to reducing the inherent volatility from a small and relatively shallow market.

Credit risk

Credit risk is moderate. Cash is mainly invested in highly rated local banks. Fixed-income holdings are in Qatari government bonds and western financial institutions rated 'BBB' or above.

Market risk

Standard & Poor's considers QIC's market risk to have reduced moderately relative to historical levels due to the increased focus on cash and fixed-income instruments. Nevertheless, Qatari exposures represent around 40% of the portfolio and are a combination of equities and property (at book value).

The Doha Securities Market Index has shown relative stability over the last year, falling by just 7.5% year-on-year in the 12 months to June 3, 2010. That said, this moderate fall masks the peak-to-trough change of 36% over the same period. We consider the market relatively shallow, within only 43 tradeable stocks, which may result in

adverse pricing and liquidity strains if holdings are liquidated en masse.

QIC has a small, controlled exposure through sales of puts to derivative contracts relating to Qatari government bonds. There are no "naked" calls, only covered calls/puts, and the maximum downside risk created of around QAR48 million in March 1, 2010, is considered easily containable within the company's liquid resources. All options have maturities within six months and are managed daily to ensure minimal potential loss.

Liquidity: Very Strong, With A Very Liquid Balance Sheet

Liquidity is considered very strong. QIC is cash-generative, with net cash flows from operations rising to QAR563 million (2008, QAR471 million). Balance-sheet liquidity remains strong, reflected in a largely liquid portfolio and a high proportion of cash relative to historic levels. This is supported by short-term borrowings with local banks, which range from one to three months and amounted to QR1.4 billion at March 31, 2010. On a more-conservative basis, the ratio of cash and bank deposits covering technical reserves also improved to 2.2x from 1.9x.

We expect underwriting cash flows to continue to support claims payments.

Capitalization: Expected To Remain Very Strong Despite QIC's Expansion Plans

Table 4

Qatar Insurance Co. S.A.Q. Capitalization					
--Year-ended Dec. 31--					
	2009	2008	2007	2006	2005
Reinsurance utilization (%)	47.2	50.6	53.7	61.7	68.9

Capitalization continues to be a relative strength for the rating. This is based on extremely strong capital adequacy, excellent quality of capital, and prudent reserving, and is only partially offset by the high, but reducing, level of reinsurance used. We believe capitalization will remain at this level in the medium term, with existing capital and reserves meeting the current needs of the company.

Capital adequacy

Capital adequacy is assessed as extremely strong and is supported by fair-value reserves, which have improved to QR537 million on March 31, 2010, from a low of QR188 million on March 31, 2009. This recovery in investment values has led to an improvement in total shareholder equity, which now stands at QR2.9 billion. In addition, we have given credit for a revaluation reserve within QIC's property portfolio. Stringent charges were also applied to QIC's Qatari equity holdings.

Quality of capital remains excellent. Total dividends paid fell markedly to 70% of earnings (2009: 84%), which was more in line with our long-term expectation. Financial leverage remains at a high historic level of 31%; however, this is used to support the company's investment profile and provides protection against liquidating a position at a loss. We continue to expect medium-term capital adequacy to moderate as a result of QIC's business growth and expansion plans although it is expected to remain at least very strong.

Reserves

QIC's reserves appear adequate and the company has a short- to medium-tail risk profile, with prudent reserving practices. The longest liability occurs with engineering and construction business, where a maximum five-year tail is expected. Losses are initially reserved at the highest level and international loss adjusters and reinsurers are fully involved throughout the claims process. Technical reserves/NPW has remained broadly stable, averaging around 86% over the last three years.

Reinsurance

QIC's reinsurance philosophy remains focused on increasing net retention over time. The company has gradually increased its retention limits across a number of lines including those that are prone to high single-event losses. In addition, it has also changed the type of reinsurance it purchases, where appropriate, to increase retained premium. This is reflected in a reinsurance utilization ratio of 47% in 2009 (2008, 51%). The company uses a diverse range of reinsurers including around 20 companies. Treaty and facultative business is placed with 'A' rated or better companies and include international leaders such as Swiss Reinsurance Company Ltd. (A+/Stable/A-1) and Munich Reinsurance Co. (AA-/Stable/--).

Financial Flexibility: Strong Relative To Needs

Table 5

Qatar Insurance Co. S.A.Q. Financial Flexibility					
	--Year-ended Dec. 31--				
(%)	2009	2008	2007	2006	2005
Debt leverage including additional pension deficit as debt	23.6	26.2	12.2	0.0	0.0
Financial leverage including additional pension deficit as debt	23.6	26.2	12.2	0.0	0.0

We consider financial flexibility to be strong. QIC is highly cash-generative, with significant earnings potential. Financial flexibility is likely to be boosted as dividends fall to a more-traditional level of around 65% over the medium term. However, short-term borrowings have risen to a historically high level of QAR1.4 billion or 50% of total capital at March 31, 2010. These borrowings are expected to reduce from this peak level, but remain high at around 30% of total capital. Standard & Poor's expects existing capital to support both QIC business growth and plans for geographic diversification in the medium term. Nevertheless, should the need arise, potential sources of financial flexibility may include further use of bank debt or an equity or bond issue.

Ratings Detail (As Of August 9, 2010)*

Operating Company Covered By This Report

Qatar Insurance Co. S.A.Q.

Financial Strength Rating

Local Currency

A/Stable/--

Counterparty Credit Rating

Local Currency

A/Stable/--

Related Entities

QIC International LLC

Financial Strength Rating

Local Currency

A/Stable/--

Ratings Detail (As Of August 9, 2010)* (cont.)	
Q-Re LLC	
Financial Strength Rating	
<i>Local Currency</i>	A/Stable/--
Domicile	Qatar
*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.	

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