

Nationale Borg-Maatschappij N.V.

Primary Credit Analyst:

Angelo Sacca, London (44) 20-7176-7073; angelo_sacca@standardandpoors.com

Secondary Credit Analyst:

Tatiana Grineva, London (44) 20-7176-7061; tatiana_grineva@standardandpoors.com

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Nationale Borg-Maatschappij N.V.

Major Rating Factors

Strengths:

- Strong and stable underwriting performance
- Strong capitalization with very strong capital adequacy
- Strong investments and liquidity

Weaknesses:

- Good and defensible competitive position, but only in the narrow credit and surety insurance market in Belgium and the Netherlands
- High level of correlation with macroeconomic cycles

Operating Company Covered By This Report

Financial Strength Rating

Local Currency

A-/Stable/--

Rationale

The ratings on Netherlands-based direct surety insurer and surety and credit reinsurer Nationale Borg-Maatschappij N.V. (NB) reflect the company's strong operating performance, strong capitalization, and strong investments and liquidity. These strengths are partly offset by its good and defensible competitive position in the narrow Dutch and Belgian surety markets and by NB's high exposure to macroeconomic cycles.

Standard & Poor's Rating Services considers that strong underwriting, adequate risk management, and tight cost control are behind NB's consistently strong underwriting results. Operating earnings have historically also been underpinned by strong investment income deriving from a relative high exposure to equities.

Capitalization is viewed as strong, benefiting from very strong capital adequacy and historically prudent reserving. Capital adequacy has benefited from retained profits resulting from the recent benign claims environment and strong underwriting discipline. Capital quality is weakened, however, by a high level of reliance on reinsurance for underwriting capacity.

NB's investments are regarded as strong, based on high liquidity and a well-diversified asset allocation. We anticipate that NB will increase the amount of bonds and equities in its investment portfolio, while still maintaining a prudent investment strategy.

We regard the company's competitive position as good and defensible. We believe that it is underpinned by its proven expertise in the surety market, in which it built a strong reputation for its tailored products and personable customer relationships. We believe NB has also developed a good reputation as a reliable provider of credit and surety reinsurance capacity.

NB's business, in line with its peers, is expected to be hit by the current economic slowdown due to the nature of its business, which is highly correlated with macroeconomic cycles. Nevertheless, we believe that NB's performance will prove resilient.

Outlook

The stable outlook reflects Standard & Poor's expectation that NB will maintain strong capitalization, strong operating performance over the cycle, and its good position in its niche markets. Although we expect the economic slowdown to have an impact on NB's operating performance, we believe that underwriting discipline, significant repricing of risks, and adequate risk management will underpin a resilient performance. The inward credit and surety reinsurance book of business is likely to suffer from relatively high losses in the direct market although we expect it to gradually decrease throughout 2010.

We anticipate that the net combined ratio should remain below 100% with return on revenue of about 8% in 2009. In 2010, we believe that there should be some meaningful improvements in both ratios, along with easing in the economic and financial environments.

We do not expect to take positive rating action over the rating horizon. Downward ratings pressure may result if there is a material deterioration in long-term operating performance or capitalization.

Corporate Profile: Well-Established Niche Insurer For Dutch And Belgian markets

Founded in 1893 and based in Amsterdam, NB is an established direct surety insurer and surety and credit reinsurer, with a particular focus on the transport, logistics, and construction industries. The company provides insurance to Dutch and Belgian markets and reinsurance cover internationally. It was acquired by Egeria Capital B.V. and HAL Investments B.V. from ING Groep N.V. (ING; AA-/Stable/A-1+) in July 2007.

In 2008, NB had gross premiums written (GPW) of €65 million (2007: €63 million), which represented an increase of 3.5% from the previous year. The premiums comprise 57% assumed reinsurance, 38% commercial guarantees, and 5% purchase guarantees for private individuals. The latter type of guarantees are underwritten by Nieuwegein-based Nationale Waarborg B.V. (NW; unrated), acquired by NB in September 2008. NB exited fidelity insurance in December 2008, selling its existing portfolio in the Netherlands to the Delta Lloyd group (A+/Negative/--).

Competitive Position: Good And Defendable Competitive Position In Niche Market

Table 1

Nationale Borg-Maatschappij N.V./Business Statistics*					
-- Year ended Dec. 31 --					
(Mil. €)	2008	2007	2006	2005	2004
Gross premiums written	65.2	63.3	62.2	60.6	55.0
Annual change (%)	3.0	1.8	2.8	10.0	7.1
Net premiums written	51.8	49.5	43.3	42.2	38.8
Annual change (%)	4.6	14.4	2.5	8.8	11.0

*2008 and 2007 figures are based on Nationale Borg's consolidated financial statements under IFRS. Prior years are based on Dutch GAAP hence they are not directly comparable.

We regard NB's competitive position as good in the narrow surety market in the Netherlands and Belgium, and we

believe that it is supported by its established position as a small but reliable provider of reinsurance capacity internationally in credit and surety insurance.

Historical

The company's competitive position is underpinned by its proven expertise in the surety market, in which it built a strong reputation for its tailored products and personable customer relationships, particularly in the small and midsize enterprise market. We believe that NB has also developed a good reputation as a reliable provider of credit and surety reinsurance capacity. In this business, NB has benefited from a hardening of reinsurance premiums in the past years and, more recently, by the reduced capacity available from some of the large reinsurance players.

Strong underwriting discipline, together with a reorganization and bolstering of its Dutch and Belgian sales teams and rejuvenation of its brand, have enabled the company to maintain this position. That said, we consider NB to be highly dependent on reinsurance to support its underwriting and exposed to industries that are closely correlated with macroeconomic cycles.

NB views its reinsurance business as supporting the guarantee business by providing market intelligence, even though the reinsurance business is the largest contributor to the premium income. It also views its exposure to international credit and surety markets as providing a stable and more diversified spread of risk compared with the more-concentrated risks in its guarantee business.

NB has been reported to be the largest nonbank player in the Dutch guarantee market, with a 10% share (2008: 10%) of the total market. Banks are estimated to have a market share of 85%. In our opinion, the company has benefited from a low level of competition from other insurers in the Dutch market. NB's position in Belgium is similar, with banks as dominant players and the main insurance competition coming from Ducroire Delcredere, a part of Office National du ducroire/Nationale Delcredere dienst (AA+/Stable/A-1+).

The guarantee product is distributed through a number of different channels that include direct sales teams and brokers. Around 65% of guarantees are issued through NB's Internet channel, Borg Online. We believe that the distribution network is sufficiently diversified. The direct sales teams have increased in number in 2008 and are split along geographical lines, allowing managers to focus on clients as well as developing local bank contacts through which sales can be made. Specialist underwriters provide inward reinsurance.

Guarantee business for the purchase of private homes has been protected through the purchase of NW, which accounted for around 13% of total guarantees premium in 2008. The acquisition of NW, in our view, allows for greater exposure to private individual risks and thereby broadens NB's overall risk base, although its contribution to NB's total premiums is still marginal and we anticipate it remaining as such in the medium term.

The sale of NB's fidelity business, in our view, will have no adverse impact on the company's competitive position due to the small overall size and limited overlap with other lines of business.

Prospective

Standard & Poor's anticipates that NB will maintain its good competitive position in its niche credit and surety insurance and reinsurance lines. This is expected to result from increased marketing activity, the reorganization and increased sales focus of its commercial teams, and the benefits arising from the recent acquisition of NW. We view the growth targets for 2010 presented by the company as challenging but achievable.

Management And Corporate Strategy: Knowledgeable Management Team

NB's strategy of growing organically and profitably remains largely unaltered, although the focus for growth is now on its core Dutch and Belgian direct surety markets. We view NB's management as experienced and knowledgeable and this is reflected in the company's strong earnings and claims paying record.

Although changes in senior management in recent years increased our concerns about NB's management continuity, they have not materially affected the company's strategy or performance, and future significant changes are not anticipated. We believe that NB has mitigated the impact of these changes by its proven ability to attract suitably qualified and experienced staff for key positions, and to nurture individual talents from within the firm.

Strategy

We understand that NB seeks to gain a larger market share of direct surety business in the Netherlands and Belgium and surety and credit reinsurance worldwide, while maintaining its risk management standards.

We believe that NB acquired NW to bolster and protect its position in the home purchase guarantees market. We believe that further acquisitions may be considered if they meet NB's financial thresholds or strategic goals, although the company does not intend to buy market share or presence. We consider the overall impact on NB of the acquisition of NW and the divestment of its fidelity business to be neutral.

Operational management

NB continues to maintain, in our opinion, strong operational management through a continuous focus on improving productivity in each of its key functions. Workflow optimization and the development of a customer relationship management system should enable commercial staff to focus more on business development, while automation of some back-office functions is likely to reduce processing costs. NB devolved limited underwriting authority to the Antwerp office in 2008, and this office can now process all guarantees issued in the Belgian market. We believe this should further improve service delivery, especially as NB expands its presence into the French-speaking region.

We understand that employees have been given incentives to achieve growth plans through a bonus scheme focused on increasing premium income while maintaining risk management standards, as well as a profit-sharing agreement when profits exceed a predetermined hurdle rate. We view this as a positive change in the company's culture.

Financial management

Standard & Poor's regards NB's overall financial management as conservative. NB has set itself a long-term target return on equity (ROE) after tax of 12.5%, although shareholders have not set a specific numerical return. This has been met consistently, except in 2002 and 2008 when returns were affected by investment losses. In our opinion, following the change of ownership, there is a greater focus on the efficient allocation of capital to separate business lines, aimed at supporting growth and ensuring that profitability is maximized. A moderate dividend policy is anticipated. We believe this will enable NB to fund its planned growth.

Enterprise Risk Management: Prudent Approach With Increasingly Strict Underwriting And Monitoring Procedures

Standard & Poor's considers NB's enterprise risk management to be adequate for its size and risk profile. NB has

always approached risk management prudently, with strict underwriting and monitoring procedures. In our opinion, these have been further strengthened in light of the current economic environment in the Netherlands and Belgium.

NB has a dedicated risk management department that focuses on claims handling, planning, product development, pricing, and reinsurance purchase. Since his appointment in September 2008, the head of the department, aided by an expanded team, has implemented a number of initiatives that we consider likely to improve processes, systems, and workflow in this area. This is likely to result in better understanding and modeling of its risks and risk-adjusted returns.

NB has introduced a pricing model and is to develop risk models tailored to credit and surety reinsurance and to surety insurance, allowing it to take a structured approach to evaluating risk. It continues to write surety business based on a zero-loss philosophy and its administrative systems are able to monitor limits in real time. Reinsurance limits the maximum net loss to 6% of shareholders' equity or €5 million per risk for guarantee business.

In the inward reinsurance business, NB continues to have no retrocession protection and no influence on direct insurers' risk management or monitoring procedures (such as limits and exposures). We view this as a marginally negative aspect. Furthermore, the credit and surety reinsurance business is highly influenced by macroeconomic cycles. That said, in our view, NB has demonstrated its ability to successfully manage these risks by writing mainly proportional reinsurance, by limiting exposure to €5 million per risk on a probable maximum loss basis, and by maintaining a high level of geographic and industry diversification in the portfolio. Prospectively, this is expected to remain unchanged.

Accounting: Extra Capital Sitting In The Antillean Subsidiary

NB group, which consists of NB and Antilliaanse Borg-Maatschappij N.V. (ABM), a Dutch Antillies-based subsidiary, reported under International Financial Reporting Standards (IFRS) for the first time in 2007. In analyzing these accounts, Standard & Poor's has shown shareholder funds net of dividends paid.

NB retains deposits from those clients who represent higher-than-normal risks. These deposits, held in trust accounts, are not reported on the balance sheet.

Since 2007, in compliance with IFRS, NB has consolidated its Antillean subsidiary, ABM. The cession to ABM remained at 35% in 2008. ABM also writes a small amount of direct guarantee business. Over the years, profits have been accumulated in the Antillean company to the extent that around 40% of the NB group's capital base (the group comprising NB and ABM) now resides in this company. Capital requirements for insurance risk are determined on the basis of the group exposure.

Operating Performance: Strong And Stable Underwriting Results, Earnings Affected By Swings In Investment Income

Table 2

Nationale Borg-Maatschappij N.V./Operating Statistics*					
-- Year ended Dec. 31 --					
(Mil. €)	2008	2007	2006	2005	2004
Total revenue	56.3	54.8	49.8	48.3	43.8

Table 2

Nationale Borg-Maatschappij N.V./Operating Statistics* (cont.)					
Operating result	11.0	15.2	20.0	14.8	13.7
Net income	0.0	19.4	16.4	11.1	10.0
Return on revenue (%)	19.5	27.8	40.1	30.6	31.3
Return on assets (%)	0.0	12.0	11.1	8.3	9.0
Return on equity (%)	0.0	26.6	24.3	20.1	21.4
Net loss ratio (%)	39.6	38.4	38.1	46.5	49.0
Expense ratio (%)	45.7	41.0	31.9	31.6	31.9
Net combined ratio (%)	85.3	79.4	70.0	78.5	81.8
Operating ratio (%)	76.3	68.6	55.5	63.1	70.1

*2008 and 2007 figures are based on Nationale Borg's consolidated financial statements under IFRS. Prior years are based on Dutch GAAP hence they are not directly comparable.

Standard and Poor's regards NB's operating performance as strong despite continued deterioration as of Q3 2009. We consider that strong underwriting, adequate risk management, and tight cost control are behind NB's consistently strong underwriting results. Operating earnings have historically also been underpinned by strong investment income deriving from a relative high exposure to equities.

Prospectively, we believe that NB's underwriting performance will continue to be strong, although it will be temporarily impaired by the global economic downturn, in line with other companies operating on similar lines.

Historical

NB's notable underwriting results track record is reflected in the 10-year average return on revenue (ROR) and net combined ratio (CR) of 24.0% and of 85.3%, respectively, at year-end 2008 (with a standard deviations for ROR and CR of 7.5% and 8.3%, respectively).

We believe that sound underwriting and risk management strongly contributed to NB's historic low net loss ratio, with a 10-year average of 48.3% at the year-end of 2008. As the Netherlands and Belgium were experiencing global recession, the reduced business activity inevitably had a negative impact on the claim environment, which started deteriorating. As a consequence, NB's net loss ratio increased from 39.6% at 2008 year-end to 57.9% in the third-quarter of 2009. Despite a very difficult operating environment, NB's underwriting results remained positive in both periods. Once more, this underlines the quality of risks in the company's books, and its ability to manage down exposure and limits in times of economic stress.

In 2008, NB's assumed reinsurance business recorded an increase in the net combined ratio to 93.7% from 91.3% in 2007. This worsening trend continued in the first three quarters of 2009, during which net combined ratio reached 105.4%. The deterioration of the loss ratio was marginally offset by decreasing commissions, however.

The direct guarantee business had a very positive underwriting year in 2008 with an inverse loss ratio. By contrast, it experienced large one-off losses in the first three quarters of 2009 and this increased the net combined ratio to 96.1%.

In 2008, NB reported a large fidelity loss, mostly covered by its current reinsurance agreements. The company has prudently provisioned for the run-off of this portfolio.

The 2008 investment return fell to €6.7 million (2007: €13.6 million), as it was hit by the volatility in the financial markets, with realized losses of €10.4 million, mainly deriving from the divestiture of equity holdings.

Prospective

Standard & Poor's anticipates that NB's operating performance will inevitably be affected by exposure to sectors correlated with deterioration in the global and domestic economy. Nevertheless, we believe that strong underwriting performance paired with more stable investment returns should support earnings through 2009 and 2010. We forecast that the net combined ratio should remain below 100% with ROR of about 8% in 2009. In 2010, we believe that there should be some meaningful improvements in both ratios, along with easing in the economic and financial environments.

Investments: Highly Liquid And Well Diversified

Table 3

Nationale Borg-Maatschappij N.V./Investment Statistics*					
	-- Year ended Dec. 31 --				
(%)	2008	2007	2006	2005	2004
Portfolio composition					
Real estate	3.8	3.6	4.0	4.2	4.9
Shares	6.6	24.9	16.7	11.4	10.8
Affiliates	0.0	0.0	25.3	23.5	25.3
Registered bonds	7.2	56.2	42.0	48.2	42.6
Loans	0.0	0.0	0.0	1.4	2.5
Cash and bank deposits	76.0	8.5	2.5	3.5	7.1
Deposits with cedents	6.4	6.8	7.7	7.8	6.9
Other invested assets	0.0	0.0	1.7	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0
Portfolio performance					
Net investment income	4.5	5.3	6.5	6.1	5.0
Running yield	3.1	3.6	4.7	4.9	5.0
Total yield (incl. unrealized gains)	(4.4)	9.3	4.6	5.1	5.7

*2008 and 2007 figures are based on Nationale Borg's consolidated financial statements under IFRS. Prior years are based on Dutch GAAP hence they are not directly comparable.

NB's investments are regarded as strong on the basis of high liquidity and a well-diversified asset allocation. We anticipate NB to increase the amount of bonds and equities in its investment portfolio, while still maintaining a prudent investment strategy.

Market risk

The investment portfolio carried very low market risk at the end of the third-quarter of 2009, as 76% of the assets were allocated in cash/cash equivalents and exposure to equities had been significantly reduced to 7% from the peak of 25% in 2007.

Credit risk

The credit quality of the bond portfolio was very high at the end of the third quarter of 2009, with 99.9% invested in investment-grade bonds rated 'AA+' or higher. NB's portfolio is subject to regular reviews and benchmarking against projected returns.

Liquidity: Net Underwriting And Operating Cash Flows Consistently Positive

Table 4

Nationale Borg-Maatschappij N.V./Liquidity Statistics*					
	-- Year ended Dec. 31 --				
(%)	2008	2007	2006	2005	2004
Underwriting cash flow ratio	130.5	142.6	151.3	146.6	148.7
Operating cash flow ratio	133.0	131.7	114.6	129.1	125
Liquid assets/technical reserves	199.0	228.9	151.0	154.6	137.5

*2008 and 2007 figures are based on Nationale Borg's consolidated financial statements under IFRS. Prior years are based on Dutch GAAP hence they are not directly comparable.

Liquidity is viewed as strong. Net underwriting and operating cash flows remained at strong level in 2008, at 131 and 133% respectively. We do not expect any potential increase in dividends to affect significantly NB's underwriting and operating cash flow ratios.

NB maintains a highly liquid investment portfolio as well as the option of making cash calls on reinsurers, if such a need arises. At year-end 2008, the company held sufficient cash to manage day-to-day business and liquid assets covered net technical reserves 2.0x (2007: 2.3x). We anticipate that this ratio will remain broadly stable through 2009 and 2010. Submitted simultaneously, 10 claims in excess of €500,000 could cause a liquidity strain on NB's resources, but the probability of this happening is remote and has no precedent in the company's history.

Capitalization: Very Strong Capital Adequacy With Reducing Exposure To Outward Reinsurance

Standard & Poor's views NB's capitalization as strong, with very strong capital adequacy and prudent reserving. This is offset by a continuing high, but reducing, exposure to reinsurers. This applies in particular to the direct surety business and is in common with other credit and surety insurers.

Capital adequacy

NB's capital adequacy ratio according to Standard & Poor's risk-based capital model is very strong. Shareholders' equity remained broadly at the same level as in 2007 (€78 million in 2008, €79.5 in 2007), as most of the investment losses in 2008 were realized and therefore accounted for in the income statement.

NB has a stated strategy, supported by its shareholders, of maintaining its capital with a large margin above its minimum capital requirement to meet its obligations under extreme circumstances. NB assesses capital adequacy and the profitability of each product line separately.

Capital quality, although backed with a debt-free conservative balance sheet, is weakened by the high, but declining, dependence on reinsurance. This is mitigated by NB's decision to maintain its reinsurance terms to retain a

marginally larger portion of premium.

Reserves

Standard & Poor's considers NB's reserving levels to be adequate. We believe that the company reserves prudently. An external auditor tests reserving assumptions regularly.

Reinsurance

In our opinion, NB is an extensive user of reinsurance for its surety business. NB is reported to maintain a diversified and high quality panel of reinsurers, led by Munich Reinsurance Co. (AA-/Stable/--) and rated 'A' or higher. The panel is regularly reviewed to ensure that concentrations do not develop and that counterparty quality is maintained.

In 2008, the company further improved its reinsurance protection to bring it closer in line with the rest of the market and to give it greater certainty on premium income and the level of capitalization required.

A quota share treaty is now in place with retention at 50% and excess-of-loss cover. This limits NB's retention to €5 million per risk. NB is expected to increase premium retention in its direct business to 50% from the current 35%-42%, which Standard & Poor's views as a positive development.

Financial Flexibility: Good Profit Flows And Comprehensive Reinsurance Program

Table 5

Nationale Borg-Maatschappij N.V./Financial Statistics*					
-- Year ended Dec. 31 --					
(Mil. €)	2008	2007	2006	2005	2004
Total assets	166.5	173.3	149.5	144.4	123.4
Total adjusted equity	75.0	76.5	68.9	61.4	50.7
Change in adjusted equity (%)	(1.9)	11.0	12.2	21.2	14.6
Solvency ratio (%)	145.0	154.6	159.3	145.6	130.7
Technical reserves/net premiums written (%)	129.9	125.1	130.1	130.4	129.6
Technical reserves/adjusted equity (%)	89.6	80.9	81.7	89.6	99.2
Investment leverage (%)	20.6	58.9	41.8	34.2	35.5
Affiliated investment leverage (%)	20.6	58.9	92.9	85.8	92.6
Reinsurance utilization ratio (%)	20.7	21.9	30.5	30.3	29.5

*2008 and 2007 figures are based on Nationale Borg's consolidated financial statements under IFRS. Prior years are based on Dutch GAAP hence they are not directly comparable.

Standard & Poor's regards NB's financial flexibility as good, since the company's ability to raise additional financing in the open market is relatively limited, in our opinion. However, this is underpinned by NB's debt-free balance sheet and additional capacity provided by the reinsurance program. The new shareholders have also indicated their willingness to supply additional capital through retained profits or new shares, should there be a business need. NB also maintains bank liquidity lines with several banks, namely Lloyds TSB Bank PLC (A+/Stable/A-1), ABN AMRO Bank N.V. (A+/Stable/A-1), and ING Bank N.V. (A+/Stable/A-1).

Ratings Detail (As Of December 18, 2009)*

Operating Company Covered By This Report

Ratings Detail (As Of December 18, 2009)* **(cont.)**

Nationale Borg-Maatschappij N.V.

Financial Strength Rating

Local Currency

A-/Stable/--

Counterparty Credit Rating

Local Currency

A-/Stable/--

Domicile

Netherlands

*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.

Additional Contact:

Insurance Ratings Europe; Insurancelnteractive_Europe@standardandpoors.com

Additional Contact:

Insurance Ratings Europe; Insurancelnteractive_Europe@standardandpoors.com

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