

# NN Group N.V. (formerly ING Verzekeringen N.V.)

And Insurance Subsidiaries

## Full Rating Report

### Ratings

#### NN Group N.V.

Long-Term Foreign-Currency IDR A-  
Short-Term Foreign-Currency IDR F2

Senior Unsecured Debt BBB+  
Subordinated Debt BBB  
Hybrid Debt BBB-

#### Sovereign Risk

Long-Term Foreign-Currency IDR AAA

### Outlooks

Long-Term Foreign-Currency IDR Stable  
Sovereign Long-Term Stable  
Foreign-Currency IDR

### Financial Data

#### NN Group N.V. (consolidated)

(EURbn)	31 Dec 12	31 Dec 13
Client balances	364	224
Total assets	340	146
Shareholders' equity	28	14
Gross written premiums	20	10
Net income	0.9	0.0

### Key Rating Drivers

**Solid Financial Profile:** NN Group N.V.'s ratings reflect its extremely strong consolidated solvency, improved financial leverage and cautious investment policy and reserving. The ratings also take into account NN Group's solid business position and recovering profitability.

**Stable Outlook:** The Stable Outlook reflects the significantly reduced uncertainty about the planned divestment by ING Group of NN Group's insurance operations' franchise, business position and financial structure.

**Strong Solvency:** Fitch Ratings expects NN Group's capital adequacy to remain strong and stable in the near future due to its limited exposure to investments in volatile asset classes, including equities and southern European government bonds.

**Moderate Financial Leverage:** Due to the material amount of debt redeemed in 2013 and 2014, NN Group's financial leverage is now in line with Fitch's guidelines for an 'A' rated entity.

**Recovering Operating Profitability:** NN Group's profitability was under pressure in 2013, mostly because of exceptional items. Fitch expects profitability to recover in 2014 due to the reduced impact of non-recurring items and improved underwriting results. These should come from greater operating efficiency to mitigate the unfavourable impact of low interest rates.

**Solid Business Positions:** Fitch expects NN Group to maintain solid business positions in the countries in which it operates. This is because of its extensive distribution channels, reduced costs and the stronger competitiveness of NN Group products.

**Substantial Geographical Diversification:** Although reduced by the disposal of most non-European operations in 2011-2013, geographical diversification is substantial, with a good balance between mature and emerging markets.

### Rating Sensitivities

**Downgrade Triggers:** Factors that could lead to a rating downgrade for NN Group include a weakening of the group's franchise or capital position, or failure of profitability to recover. This would include a sustained drop in regulatory capital to below 200% of the regulatory minimum or repeated earnings volatility leading to the underlying fixed-charge coverage ratio remaining consistently below 5x.

In addition, the ratings could be downgraded if the financial leverage ratio calculated by Fitch deteriorates to above 30%, if material investment losses develop or if there is a weakening in the group's reserve strength.

**Improved Profitability Could Trigger Upgrade:** The ratings could be upgraded if NN Group's profitability improves. This would include a sustainable rise in fixed-charge coverage ratio to around 10x while financial leverage and solvency ratios remaining at or above current levels.

### Analysts

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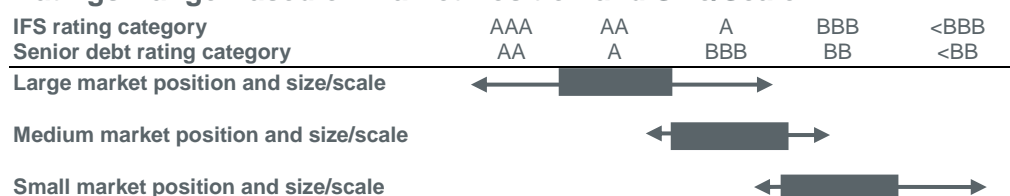
## Market Position and Size/Scale

### Leading Diversified Life Insurance Provider

- Large European life insurer
- Leading positions in Benelux
- Diversified distribution channels

Figure 1

### Ratings Range Based on Market Position and Size/Scale



Source: Fitch

### Large European Life Insurer

NN Group is a leading provider of insurance services, including insurance and pensions, banking and asset management. At end-2013, assets totalled EUR146bn, down from 2012 as US operations were transferred to ING Groep in September 2013. The group focuses mostly on individual customers. NN Group's on-going activities are predominantly focused on European markets (75% of written premiums in 2013) and Japan (24%). In Europe, the group operates in both mature (written premiums 84% European in 2013) and emerging markets (16%).

### Leading Positions in Benelux

The Netherlands accounts for 61% of the group's insurance reserves. In its domestic market, the group operates under the Nationale Nederlanden brand name and has strong market share – first, in life and pensions (20% market share), and third in non-life (10% market share). The life and pensions businesses account for around 67% of domestic revenue, and non-life for 33% (including accident and health). The group has around five million insurance clients (out of a total population of 16 million). It distributes its products mostly through brokers, but also uses bank outlets and, to a lesser extent, tied agents.

Belgium is NN Group's second-largest European market, accounting for 6% of the group's European insurance premiums. Belgian insurance activities rely mostly on an integrated bancassurance business model. Life premiums account for 88% of the Belgian business and are generated by the 800 ING Belgium bank branches. ING Belgium is the seventh-largest player in the Belgian banking market. Around 30% of ING Belgium customers also have an insurance product.

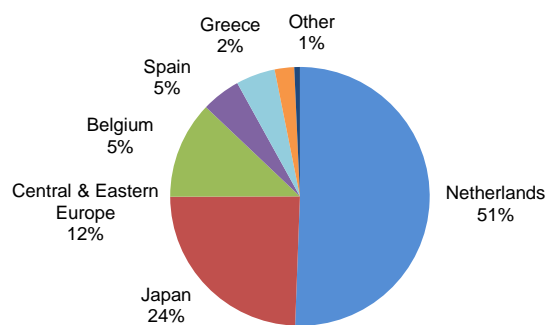
### Diversified Distribution Channels

The product range sold by NN Group focuses on life and pensions (83% of 2013 insurance premiums) rather than non-life products. Products are sold through a wide range of distribution channels, including brokers, agents and banking outlets. The group's substantial market share in the countries in which it operates is a major strength, allowing it either to reduce costs (especially in mature markets) or to generate healthy margins (in emerging markets).

### Related Criteria

[Insurance Rating Methodology \(November 2013\)](#)

Figure 2

**Breakdown of 2013 Premiums**

Source: NN Group

### Corporate Governance and Management

Corporate governance and management are adequate and neutral to the rating.

NN Group reports its consolidated account under IFRS.

Ernst & Young is NN Group's auditor.

The audit opinion for 2013 was unqualified.

### Ownership Is Neutral to Rating

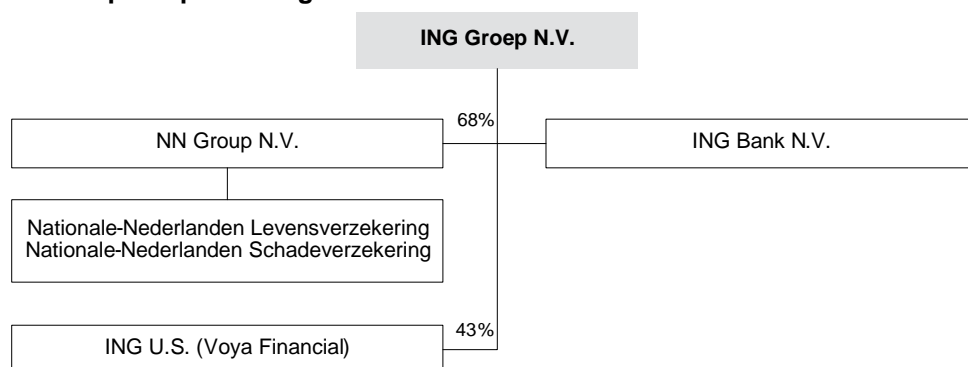
NN Group has historically been a full subsidiary of ING Groep and is now 68% owned following the successful IPO implemented in July 2014. This is to comply with the commitments agreed with the European Commission that ING Group should divest all its insurance operations by year-end 2016, and at least 50% by year-end 2015.

So far, ING group is organised into three major holding companies: ING Groep (A/Negative; the listed head company and the owner of a remaining 43% shareholding in ING US); ING Bank NV (A+/Negative; the holding company of most banking subsidiaries, 100% owned by ING Groep); and a remaining 68% shareholding in NN Group.

NN Group is a pure holding company and therefore is not eligible to carry an Insurer Financial Strength (IFS) rating. The rating of NN Group does not factor in any potential support from its parent or sister company.

Figure 3

### ING Group Simplified Organisation Chart



Source: ING

## Industry Profile and Operating Environment

### Financial Markets Volatility Has Manageable Impact on Performance

Fitch views low interest rates and the volatility of capital markets as major challenges facing NN Group's operations. In particular, for the life savings business, the group's ability to earn a satisfactory return on investments faces some pressure, although this is partly offset by the decreasing average minimum guaranteed rate granted to policyholders.

Tariff development in the Dutch non-life insurance market is satisfactory and should support the profitability of this business except in disability insurance, which is currently under pressure.

### Sovereign and Country-Related Constraints

Fitch rates the Local-Currency sovereign obligations of the Netherlands at 'AAA' with a Negative Outlook, and the Country Ceiling is also 'AAA'. At current levels, the ratings of Dutch insurance organisations are not directly constrained by sovereign or macroeconomic risks.

Figure 4

### Ratings Range Based on Industry Profile/Operating Environment



Source: Fitch

## Peer Analysis

### Relative Performance in Line With Current Rating

NN Group's peer group consists of a small number of large insurance groups operating internationally with leading market positions in the world's largest insurance markets as well as a number of emerging markets.

Figure 5

### Peer Comparison, 2012

(EURbn)	IFS rating	Premiums	% of life premiums	Total assets	Equity	Net income	Solvency 1 ratio (%)
NN Group	NR	20	85	340	28	1.0	245
AXA	AA-	85	63	762	54	4.4	233
Generali	A-	66	65	442	20	0.4	150
Aegon	AA-	20	~100	366	25	1.6	228
Prudential	AA	36	~100	372	12	2.6	300

Source: Fitch

Figure 6  
**Capitalisation and Leverage**

(EURm)	2009 <sup>a</sup>	2010 <sup>a</sup>	2011 <sup>a</sup>	2012 <sup>a</sup>	2013	Fitch's expectation
Total assets (net of reinsurance assets)	284,929	319,975	329,517	334,573	145,506	NN Group's consolidated solvency should remain stable at 2013's level as additional capital requirements are offset by retained earnings.
Total adjusted equity	15,967	20,922	23,537	27,516	14,295	
Regulatory solvency margin (%)	270	255	225	245	252	
Dividend	0	0	0	0	0	Financial leverage should also remain stable.
Financial leverage (%)	36	37	34	32	25	

<sup>a</sup> Year-end 2009-2012 figures include the contribution of operations now divested  
Source: Fitch

### Capital Is Strong for Rating Category

- Strong capital adequacy
- Reduced sensitivity to financial markets
- Capital needs reduced following disposals
- Financial leverage in line with rating median

### Strong Capital Adequacy

NN Group's consolidated regulatory solvency margin was 250% at end-2013, which Fitch regards as strong for the rating. Capital adequacy is supported by ING Groep's decision to convert EUR1bn of intra-group senior debt into equity at year-end 2013. Additional debt-to-equity conversion took place in 2014. NN Leven, by far the largest operating entity within the group, had a statutory solvency ratio of 223% of the regulatory minimum at year-end 2013, which Fitch also views as very strong.

### Reduced Sensitivity to Financial Markets

NN Group's risk profile benefits from its geographical diversification and, to a lesser extent, from its involvement in personal non-life insurance. The group's exposure to financial markets volatility decreased in recent years with the gradual implementation of a more conservative investment policy. NN Group has developed sophisticated tools to measure risk-adjusted capital adequacy. Appropriate risk-mitigating actions are implemented as promptly as possible in the event of adverse developments in the financial markets.

### Capital Needs Reduced Following Disposals

Due to substantial divestments of insurance activities in the past three years, NN Group's capital needs have fallen in line with the total balance sheet.

### Financial Leverage in Line With Rating Median

NN Group's consolidated financial leverage, as calculated by Fitch, has fallen to 25% from over 30% in the past four years. This is mostly due to the allocation of divestment proceeds to debt reduction. Financial leverage is now in line with the Fitch guideline range for the rating level.

Figure 7

# Debt Service Capabilities and Financial Flexibility

(EURm)	2009 <sup>a</sup>	2010 <sup>a</sup>	2011 <sup>a</sup>	2012 <sup>a</sup>	2013	Fitch's expectation
Net income	-550	-1,165	1,109	966	18	Fitch expects interest coverage to recover in line with the reduced level of debt and improving profitability, although profitability remains exposed to financial market volatility.
Interest coverage (x)	0.5	-0.3	2.2	2.5	4.3	

<sup>a</sup> Year-end 2009-2012 figures include the contribution of operations now divested

Source: Fitch

## NN Group Liquidity

NN Group carries most of the public financial debt issued by the insurance operations.

At end-2013, NN Group had a material EUR1.36bn of cash available at the holding company level.

It benefits from a EUR1bn committed back-up credit line provided by a pool of international banks.

## Improving Coverage and Standalone Financial Flexibility

- Fixed-charge coverage is improving
- Financial flexibility relies on group access to financial markets

## Fixed-Charge Coverage Is Improving

At 4.3x, NN Group's fixed-charge coverage materially improved in 2013, according to Fitch's calculations, but remained below the 'A' median. It is expected to improve in the coming years as a consequence of an expected recovery in profits. Over the past five years, interest coverage has been volatile because of the effect of financial market movements on profitability.

## Financial Flexibility Relies on Group Access to Financial Markets

As an entity to be listed, NN Group is expected to benefit from permanent access to the equity markets on a standalone basis once its IPO is complete. Fitch does not expect this access to be constrained by a concentrated shareholding structure as all NN Group shares should be free floating after their disposal by ING Groep.

Having tapped the hybrid debt market in the past as well as in April 2014, NN Group is a well-known issuer.

Figure 8

**Financial Performance and Earnings**

(EURm)	2009 <sup>a</sup>	2010 <sup>a</sup>	2011 <sup>a</sup>	2012 <sup>a</sup>	2013 Fitch's expectation
Pre-tax earnings	-465	-1,316	1,090	697	-32
Operating return on revenues (%)	5.7	4.5	7.0	-6.7	1.8
Return on assets (%)	-0.2	-0.4	0.3	0.3	0.0
Return on adjusted equity (%)	-3.9	-6.3	5.0	3.7	0.0

<sup>a</sup> Year-end 2009-2012 figures include the contribution of operations now divested

Source: Fitch

**Profitability Volatile but Gradually Improving**

- Historically volatile life earnings
- Costs reducing
- Improved outlook

**Historically Volatile Life Earnings**

NN Group's profitability has been under pressure in the past five years, although there have been signs of recovery since 2011. Net income was negative in 2008-2010, mostly due to the group's variable annuity business in the US and Japan. As the US business has been divested, the remaining variable annuity reserving risk relates to the closed-block Japanese business, which amounted to EUR 14.7bn at year-end 2013.

NN Group's business mix is weighted towards life and pensions rather than non-life, which accounts for only a minor part of overall profitability.

**Costs Reducing**

The prospective profitability of life insurance activities is usually considered within the framework of embedded-value calculations, which were disclosed by NN Group until 2008 and then discontinued. The group now publishes its investment spread on general account-type business. At the same time, management aims to reduce the life business's cost/income ratio.

**Improved Outlook**

Fitch expects the profitability of NN Group's life business to remain exposed to the volatility of financial markets, especially interest rates, credit spreads and equity returns. The agency regards the company's targets to post positive net profit on a sustainable basis as achievable by end-2014 but management will have to focus, especially on operational efficiency.

Figure 9

# Investment and Asset Risk

(EURm)	2009 <sup>a</sup>	2010 <sup>a</sup>	2011 <sup>a</sup>	2012 <sup>a</sup>	2013	Fitch's expectation
Total investments (incl. unit-linked)	258,632	295,007	307,462	259,132	139,213	Fitch expects yields on investments to remain under pressure in the coming years as a consequence of low interest rates.
% of unit-linked assets	40.4	40.8	37.9	38.1	28.4	
Risky assets/equity (%)	123	102	84	37	67	
Investment yield (%)	2.1	4.5	5.0	2.8	0.8	

<sup>a</sup> Year-end 2009-2012 figures include the contribution of operations now divested

Source: Fitch

## Investment Risks Low Due to Bond Portfolio Credit Quality

- Conservative asset allocation
- High-quality bond portfolio
- In-house management of assets

## Conservative Asset Allocation

At end-2013, the group's non-linked investments were spread among fixed-income securities (72%), mortgages and other loans (19%), equities and affiliates (8%) and real estate (1%). Fitch views this asset allocation as conservative and consistent with the nature of the group's obligations to policyholders.

## High-Quality Bond Portfolio

The bond portfolio is of high quality, with 88% of the portfolio invested in bonds rated 'A' or higher. The resilience of the bond portfolio's credit quality is partly due to the limited exposure of NN Group to southern European sovereign debt.

## In-House Management of Assets

The group's assets are managed by its own asset management entities, with limited recourse to third-party providers. This is logical in light of the group's resources in this area. No material concentration risk has been reported. Assets and liabilities are partly hedged against currency risk.

Figure 10

**Asset/Liability and Liquidity Management**

(EURm)	2009 <sup>a</sup>	2010 <sup>a</sup>	2011 <sup>a</sup>	2012 <sup>a</sup>	2013	Fitch's expectation
Cash available on balance sheet	9,425	8,646	11,577	5,389	7,155	Fitch expects liquidity risk to remain low due to structurally positive cash flows and the material amount of cash available.
Short-term debt	5,269	6,655	6,821	5,846	3,741	
Liquid assets/technical reserves (%)	93.0	97.1	99.4	105.2	110.2	

<sup>a</sup> Year-end 2009-2012 figures include the contribution of operations now divested

Source: ING, Fitch

**Liquidity Risks Low and Disciplined ALM policy**

- Good liquidity profile
- Adequate management of ALM mismatch

**Good Liquidity Profile**

The liquidity profile of NN Group is good, as it is supported by EUR7.2bn of cash available at end-2013, of which EUR1.4bn was at the holding company level. Fitch considers the group's liquidity management to be cautious, especially given the structurally positive cash flow of its insurance activities and, in the event of need, the significant potential for raising liquidity provided by the high-quality fixed-income investments.

**Adequate Management of ALM Mismatch**

Like many insurance groups operating a savings-type life insurance business, as well as pension activities, some of NN Group's operating subsidiaries may carry an asset/liability management (ALM) mismatch as the average maturity of fixed-income invested assets is shorter than the expected duration of liabilities. This is not the case in the Netherlands, which is the most important market for NN Group. Fitch considers management of NN Group's ALM mismatch to be reasonable as the group has established strict limits within its risk appetite framework.

Figure 11

**Reserve Adequacy**

(%)	2009 <sup>a</sup>	2010 <sup>a</sup>	2011 <sup>a</sup>	2012 <sup>a</sup>	2013	Fitch's expectation
Non-linked reserves/adjusted equity	1,123	818	689	457	501	Reserves are expected to remain strong overall, while variable annuity-related reserves could still be affected by volatile financial markets or assumption changes.
Life reserves/life premiums	474	583	649	724	880	
Non-life reserves/non-life premiums	181	185	185	188	197	

<sup>a</sup> Year-end 2009-2012 figures include the contribution of operations now divested

Source: Fitch

**Overall Adequate Reserve Adequacy**

- Standardised reserving process
- Reserves strengthening required for variable annuity business

**Standardised Reserving Process**

Life and non-life reserves have been tested once a year (since 1998) across the group by the corporate insurance risk management department. Reserves are calculated at a prudent 90% confidence interval. No benefit for geographical diversification is taken into account, although some benefit for diversification by risk type may be granted at a local entity level when appropriate.

**Reserves Strengthening Required for Variable Annuity Business**

NN Group had to strengthen its reserves for the Japanese variable annuity closed block in 2013 and early 2014. Following the transfer of ING US to ING Groep in September 2013 and the short-tail nature of its Japanese closed-block variable annuity business, Fitch believes any further potential reserve shortfall would not materially affect NN Group. Overall, Fitch expects NN Group's global reserving to remain above a 90% confidence interval in the foreseeable future.

## Reinsurance, Risk Management and Catastrophe Risk

### Reinsurance Protection Designed to Cap Catastrophe Risk

- Increasingly centralised reinsurance policy
- Conservative retention
- High-quality reinsurers

### Increasingly Centralised Reinsurance Policy

External reinsurance is managed on a centralised basis for non-life and locally for life products, although the group aims to alter this process to improve consistency and to increase efficiency.

### Conservative Retention

Non-life reinsurance ceded to external parties includes excess-of-loss protection to protect the group against catastrophes. Fitch views the risk tolerance for catastrophe events (defined as the maximum allowable annual aggregate pre-tax impact on the group's profit and loss ensuing from natural catastrophes with up to one in 200-year recurrence) as manageable.

### High-Quality Reinsurers

Important reinsurance providers are Munich Reinsurance Company (IFS: AA-/Stable), Partner Reinsurance Company Ltd (IFS: AA-/Stable) and Swiss Re (A+/Stable), with limited additional involvement by other 'A' rated providers.

Figure 12

# Key Non-Insurance Operations/Exposure

(EURm)	2009 <sup>a</sup>	2010 <sup>a</sup>	2011 <sup>a</sup>	2012 <sup>a</sup>	2013	Fitch's expectation
Assets under management	343,000	387,000	322,000	321,500	174,000	Profitability of the asset management business
Pre-tax underlying result of asset management business	n.a.	166	198	200	131	should gradually improve while remaining subject to material market movements

<sup>a</sup> Year-end 2009-2012 figures include the contribution of operations now divested

Source: NN Group, Fitch

## Non-Insurance Operation Mainly Focusing on Asset Management

- Large asset management operation
- Strong geographical diversification

## Large Asset Management Operation

Through NN Investment Partners (formerly ING Investment Management), NN Group is a sizeable asset manager operating mostly in Europe. At year-end 2013, total assets under management amounted to EUR174bn, mostly in the form of fixed-income securities (79%) and to a lesser extent equities (20%) and money-market funds (1%). Over the past five years, the division's contribution to group profit was positive.

## Strong Geographical Diversification

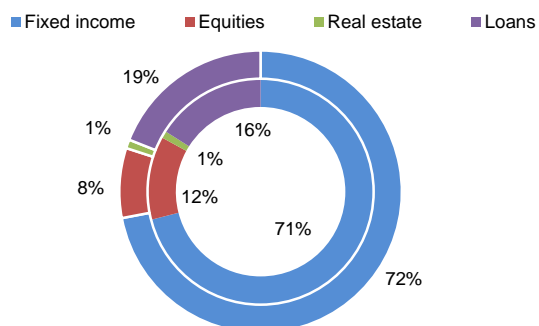
NN Investment Partners operates mostly in Europe. Despite being the most significant asset manager used by NN Group, NN Investment Partners is managed independently from NN Group insurance operations.

## Appendix A: Additional Financial Exhibits

Figure 13

### Breakdown of Non-Linked Assets

Internal circle end 2007 - External circle end 2013



Source: Fitch

## Appendix B: Other Ratings Considerations

Below is a summary of additional ratings considerations of a “technical” nature that are part of Fitch’s ratings criteria.

### Holding Company

Standard notching was used in establishing the NN Group IDR at one notch below the implied IDRs of core operating companies.

### Debt

Senior debt issued by NN Group is rated using a baseline recovery assumption of “Below Average” and, based on standard notching, it is rated one notch below the company’s IDR.

Subordinated debt issued by NN Group is rated using a baseline recovery assumption of “Poor” and, based on standard notching, it is rated two notches below the company’s IDR.

### Hybrids

The hybrid debt of NN Group is rated using a baseline recovery assumption of “Poor”. In addition, all the rated debt issues are designated by Fitch as having “Material” loss absorption features (such as ability to defer coupons). Based on the combination of these two characteristics, specific notching was applied, placing the ratings three notches below the IDR of NN Group.

### Short-Term Ratings

NN Group’s Short-Term Issuer Default Rating (ST IDR) is ‘F2’, which is standard when the Long-Term IDR is ‘A-’.

### Hybrids – Equity/Debt Treatment

Figure 14

#### Hybrids Treatment

Hybrid	Amount	CAR <sup>a</sup> Fitch (%)	CAR <sup>a</sup> reg.override (%)	FLR <sup>b</sup> debt (%)
NN Group				
Dated subordinated debt maturing in 2027	EUR476m	0	100	100
Perpetual subordinated debts	EUR3.4bn in total	0	100	100

<sup>a</sup> CAR: Capital adequacy ratio

<sup>b</sup> FLR: Financial leverage ratio. For FLR, % tells portion of hybrid value included as debt in numerator of leverage ratio

Source: Fitch, NN Group

### Exceptions to Criteria/Ratings Limitations

None.

**Appendix C: Complete Rating List****NN Group N.V.**

Long-Term IDR: A-; Outlook Stable.

Short-Term IDR: F2.

Senior unsecured debt: BBB+.

Commercial paper: F2.

Subordinated debt: BBB.

Junior subordinated hybrid debt: BBB-.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

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