

United Kingdom
Credit Analysis

National Bank of Egypt (UK) Limited

Ratings

	Current Ratings
National Bank of Egypt (UK) Limited	
Foreign Currency	
Long-Term IDR	BB+
Short-Term IDR	B
Individual	
Support Rating	C/D 3
Sovereign Risk	
Foreign Long-Term IDR	AAA
Local Long-Term IDR	AAA

Outlook

Foreign Long-Term IDR	Positive
Sovereign Foreign Long-Term IDR	Stable

Financial Data

National Bank of Egypt (UK) Limited	31 Dec 07 ^a	30 Jun 07
Total assets (USDm)	2,752	2,821
Total assets (GBPm)	1,374	1,407
Equity (GBPm)	108	92
Net income (GBPm)	4.0	5.8
Operating ROAA (%)	0.83	0.58
Operating ROAE (%)	12.68	10.43
Capital adequacy (%)	20.43	21.49

^a Interim results

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Rating Rationale

- The Long-and Short-Term IDRs of National Bank of Egypt (UK) Limited (NBE UK) reflect Fitch Ratings' view of the moderate probability of support that would flow to the bank, ultimately from the Egyptian authorities, via its 100% owner, National Bank of Egypt (NBE, Long-Term IDR 'BB+' /Positive, Short-Term IDR 'B'), and are aligned with those of NBE and the Egyptian sovereign ('BB+' /Positive /'B'). NBE UK's Individual Rating reflects its strong balance sheet liquidity, good asset quality and adequate capitalisation. However, it also recognises the bank's moderate, though improving profitability and concentrations on both sides of the balance sheet.
- NBE UK is three years into a five-year strategic business plan. Under this plan, it has expanded trade finance and lending activities (as part of syndications) to south-eastern Europe, North America, the Middle East and countries in the CIS. The bank has also grown its debt securities portfolio. The bank will continue to expand in these markets for the remainder of the strategy.
- NBE UK's net income declined 13% yoy in the financial year to end-June 2007 (FY07), due to the impact of a weaker USD on revenues, a fall in fee and commission income and an increase in staff-related expenses. However, profitability recovered in FY08, with net income increasing to GBP8.7m as the bank benefited from rapid growth in its debt securities portfolio and higher yields in the debt securities markets.
- NBE UK's assets are well diversified geographically. Although assets are largely investment-grade, with a high proportion as interbank placements and marketable securities, exposure to non-investment-grade and unrated counterparties is a risk. All non-investment-grade and unrated counterparties are subject to thorough credit analysis and covered by real estate collateral and/or securities.
- The Egyptian wholesale market is a major source of funding for NBE UK and represents around 70% of total funding, mostly from Egyptian banks and government agencies, although this has proven to be stable. Balance sheet liquidity is strong, underpinned by the short-dated nature of most of the bank's assets. Additional liquidity is available in the form of a portfolio of readily marketable securities. Capitalisation is adequate.

Support

- In the event of financial difficulties, Fitch believes that there is a moderate probability of support for NBE UK from the Egyptian authorities, via 100% owner NBE.

Key Rating Drivers

- Upside potential for NBE UK's IDR and Individual rating could arise from a stronger core franchise, greater scale and further improvements in profitability. Downside risk could arise from deterioration in asset quality or a rise in concentrations.

Profile

NBE UK's main areas of activity are in the wholesale money market business and the provision of trade finance facilities, primarily to Egyptian banks.

- UK subsidiary of the largest state-owned bank in Egypt
- Activities are largely wholesale in nature and include money market dealing, debt securities, international syndications, commercial lending and trade finance

Profile

NBE UK is incorporated in the UK and supervised by the FSA. It is a wholly owned subsidiary of NBE, the largest state-owned bank in Egypt. NBE UK was established in 1992 to take over the operations of two former branches of NBE. Despite being 100% owned by NBE, NBE UK is run largely autonomously by its management, with only informal coordination with its parent through two board members (out of eight members).

NBE UK is active in the wholesale money market, focusing on money market placements and foreign exchange. The bank undertakes commercial and syndicated lending to international financial institutions, corporates and sovereign entities, as well as investing in bonds. It provides trade finance facilities, primarily to Egyptian banks. NBE UK also offers limited retail customer services (account management) to the London-based Egyptian community. As NBE UK is the only Egyptian-owned bank authorised to operate in the UK, it is well positioned to provide services to clients engaged in business between the two countries.

The bank is three years into a five-year strategic business plan. Under this plan, the bank has expanded trade finance and lending activities (as part of syndications) to south-eastern Europe, North America, the Middle East and countries in the CIS. The bank has also increased the level of treasury activity. The bank will continue to expand in these markets for the remainder of the strategy and expects that this will improve ROE to 12% by the end of 2010.

Presentation of Accounts

The following analysis is based on the audited financial statements of NBE UK for the financial year to end-June 2007 (FY07) and unaudited interim statements for the six months to 31 December 2007. NBE UK prepares its accounts under UK GAAP.

Performance

NBE UK's net income declined 13% yoy in FY07, primarily because of the impact of a weaker USD on revenues but also a decline in loan- and trade-finance-related fees and an increase in staff-related expenses. However, profitability improved during the six months to December 2007. Net income grew by 25% yoy, driven by strong growth in net interest income. The bank benefited from rapid growth in its debt securities portfolio and higher yields as spreads widened in the global debt markets.

Revenues

Net interest revenue grew strongly in the six months to December 2007 after limited growth in FY07. The bulk of the growth came from the bank's investment portfolio, which grew by a strong 23% in the six months to December-2007. The portfolio consists of floating-rate notes issued by highly rated financial institutions and corporates and these benefited from higher yields in response to tighter credit conditions. Following rapid growth in FY07 the bank's total loan portfolio (loans to customers and syndicated lending to banks) contracted in the six months to December-2007 as loans matured and new lending was subdued.

Trade finance activities contributed around 60% of fee and commission income at end-December 2007 (see line 6 of the attached Income Statement Analysis). The remainder of fee and commission income consisted largely of lending-related fees (36%). The bank continues to benefit from improving economic conditions in Egypt, which accounts for 60% of trade finance activities.

Performance

(GBPm) (%)	NBE UK		
	31 Dec 07	FY07	FY06
Total assets	1,373.5	1,407.0	1,263.8
Total equity	108.0	75.0	74.5
Operating profit	5.8	7.8	8.9
Operating ROAE	12.68	10.43	12.23
Operating ROAA	0.83	0.58	0.75
NIM	0.95	0.70	0.77
Cost/income	36.26	44.29	39.73
Equity/assets	7.86	5.33	5.89
Capital adequacy ratio	20.43	21.49	24.79

Source: NBE UK

- Profitability is constrained by NBE UK's ability to raise funding cost - effectively and place it back into the market, without taking significant additional risk
- FY07 profitability affected by weaker USD and lower yields on debt securities
- Profitability recovered in the six months to December-2007, driven by a growing debt securities portfolio, higher fee and commission income and widening spreads in the global debt markets

Non-Interest Expenses

NBE UK's cost/income ratio deteriorated to 44% in FY07 (FY06: 40%), reflecting a fall in revenues and an increase in staff-related expenses. However, in the six months to December 2007 the cost/income ratio improved to 36%, reflecting an increase in revenues. The cost/income ratio is reasonable for a bank that does not operate a branch network.

Provisions

NBE UK has booked no loan loss provisions since 2005. Growth in the loan book and a weaker global economic environment could lead to credit problems. Although the loan and debt security book are of quite high quality (see *Credit Risk*), there are sizeable concentrations and this makes the bank vulnerable to lumpy provisioning costs.

Prospects

The Egyptian banking market is becoming increasingly competitive, with rapid consolidation and the entrance of a number of foreign players into the market. NBE UK has anticipated this and as a result has looked towards other sources for revenue growth, primarily investing in loan syndications, seeking greater diversification of trade finance activities and increasing the level of treasury activity. Although this should continue to improve revenues, in a weaker global economic environment the challenge for the bank will be to grow while maintaining a sound risk profile.

Risk Management

NBE UK has maintained high liquidity, which is reflected in the large proportion of interbank assets and, more recently, of marketable securities on its balance sheet. Credit and market risks appear tightly managed and risk management policies and procedures are in place. As would be expected for a bank of its size, NBE UK is applying the standardised approach for capital calculation for credit risk under Basel II, and the basic indicator approach for operational risk.

Credit Risk

Exposure to individual markets is restricted by country limits, including a USD300m limit for Egypt. In recent years, the bank has expanded its lending activities to new markets. NBE UK's assets are well diversified geographically, with 61% of assets in Europe, 11% in Asia and the Far East, 9% in the Middle East, 8% in Egypt, 5% in North America and 6% in Africa and Australia.

The bulk of assets consist of interbank assets (GBP674m or 49% of the balance sheet at 31 December 2007). Of interbank assets, around 30% are loan syndications to banks and the remainder interbank placements. Most interbank assets have short-term tenors, with 76% maturing within three months. Of interbank assets, 74% are placed with banks in Europe and North America, 5% with banks in the Middle East and the remainder with banks in the rest of the world.

In keeping with NBE UK's strategy, the investment portfolio increased 38% yoy to a total of GBP556m or 40% of total assets at 31 December 2007. The portfolio is predominantly medium-term. Issues by financial institutions represented around 98% of the securities portfolio at end-May 2008. The remainder were corporate issues. At end-May 2008, 99% of the portfolio was investment grade. The largest exposures by country were the UK at 16%, Australia at 9%, Italy at 8% and Ireland at 8%.

In the six months to December 2007, NBE UK's customer loan portfolio declined by around 11% yoy to GBP129m (9% of total assets). However, the bank's total loan portfolio (syndicated lending to banks and customer loans) stood at GBP364m at end-December 2007, although this remains small relative to the bank's size. Although the portfolio is well diversified by country, exposure to emerging markets

- A large proportion of interbank lending reflects conservative risk appetite
- High concentrations to single obligors, partly mitigated by cash and real estate collateral in direct lending
- Egyptian exposure is 8% of assets

remains significant: the largest exposures by country in this portfolio are to Russia (16%), the UK (10%), Turkey (12%) and Kazakhstan (8%).

In aggregate, although NBE UK has a large proportion of its balance sheet invested in investment-grade assets (77% at end-May 2008), its exposure to non-investment-grade and unrated counterparties remains significant: assets rated in the 'B' range represented 5% of total assets at end-May 2008, those in the 'BB' range 8% and exposure to unrated counterparties 10%. In addition, although non-investment-grade and unrated exposure is well diversified by name, diversification by country is limited, with exposures to Turkey, Russia and Egypt. All non-investment-grade and unrated counterparties are subject to thorough credit analysis and covered by real estate collateral and/or securities.

Concentrations are quite high at NBE UK. The 10 largest non-bank exposures (including loans and securities) were equivalent to 90% of end-December 2007 equity, and the 20 largest 139%. Direct loans have cash or real estate collateral. Collateral valuations are reviewed annually.

NBE UK's loan and securities portfolio has performed reasonably well. The loan book includes a USD5m non-performing loan to Parmalat as part of a syndication. A USD4.25m provision was booked for this exposure in the year ending June 2004, equating to 85% of the exposure.

Befitting a bank operating in trade finance, NBE UK has sizeable off-balance-sheet exposures, which amounted to GBP164m at end-June 2007 (equivalent to 12% of on-balance-sheet assets), consisting largely of letters of credit and loan commitments. Of these exposures, 40% were to Egyptian counterparties, including GBP34m to NBE, which is fully collateralised by cash deposits placed with NBE UK.

Market Risk

Market risk limits are set by the asset/liability management committee (ALCO), with members of senior management represented on the committee. The ALCO formally reviews risk limits on a monthly basis, with conservative limits in place. Market risk consists primarily of foreign-exchange and interest rate risk. NBE UK is exposed to structural currency risk, as a large proportion of its earnings are in USD and EUR, whereas most of its expenses are in GBP. Currency positions are monitored daily. Interest rate risk is monitored using gap analysis and is mitigated by the fact that almost all loans and debt securities are floating rate, with the remaining fixed part being systematically hedged. The bank uses derivatives to manage risks in the banking books.

Operational Risk

NBE UK's operational risk is relatively low, due to the wholesale nature of its activities, the fact that it operates from a single location, and its relatively small number of transactions. However, trade finance activities are very reliant on accurate documentation and the operational risk is higher in this activity than in some others.

Funding and Capital

The Egyptian market is a major source of funding for NBE UK and represents 70% of total funding, mostly from Egyptian banks and institutional clients. Deposits from NBE totalled GBP102m at end-December 2007 (10% of total deposits). Customer deposits, mostly from Egyptian institutional clients, financed 45% of total assets at end-December 2007 and have proven to be stable. The bank has a small retail deposit base (GBP60m), mostly sourced from the Egyptian community in London. High concentrations exist in the bank's funding base; the 10 largest depositors at end-January 2008 represented 91% of total non-equity funding. Eight of these were Egyptian banks and institutional clients.

- Funding is largely sourced from Egyptian banks and institutional clients
- Good liquidity and strong capitalisation following conversion of subordinated debt to common stock

NBE UK's liability structure is short-dated, with 81% of total liabilities maturing within three months at end-June 2007. The maturity mismatch is limited, as short-term assets equated to 73% of total assets at end-June 2007. NBE UK has been seeking to diversify and lengthen the maturity of its funding base, mainly by tapping the syndicated loan market. The bank raised a three-year term loan for EUR175m in January 2007 following a USD150m loan in August 2005.

Capital

NBE UK is adequately capitalised, with a capital adequacy ratio of 20.4% at end-December 2007. In July 2007, NBE UK received GBP34.2m of fresh equity from NBE, with USD75m of subordinated debt being repaid at the same time. High dividend payout ratios have had a negative impact on capitalisation. In September 2007, the bank declared a dividend of GBP5.25m relating to FY07 (FY06: GBP5.25m), a high proportion of profits earned.

Balance Sheet Analysis

NATIONAL BANK OF EGYPT (UK) LIMITED

	31 Dec 2007				30 Jun 2007		30 Jun 2006		30 Jun 2005	
	6 Months - Interim	6 Months - Interim	As % of	Average	Year End	As % of	Year End	As % of	Year End	As % of
	USDm	GBPm	Assets	GBPm	GBPm	Assets	GBPm	Assets	GBPm	Assets
	Original	Original	Original	Original	Original	Original	Original	Original	Original	Original
A. LOANS										
1. Loans & Advances > 5 Years - Gross	0.0	0.0	0.00	3.4	6.7	0.48	0.0	0.00	5.0	0.45
2. Loans & Advances > 1 < 5 Years - Gross	0.0	0.0	0.00	48.9	97.8	6.95	62.3	4.93	38.3	3.44
3. Loans & Advances < 1 Year - Gross	258.3	128.9	9.38	87.1	45.2	3.21	44.4	3.51	37.1	3.34
4. Loans & Advances - Net	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
5. Loans to Group Companies	29.9	14.9	1.08	14.9	14.9	1.06	14.2	1.12	17.0	1.53
6. Hire Purchase/Instalment Lending	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
7. Lease Receivables	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
8. (Loan Loss Reserves)	n.a.	n.a.	-	n.a.	5.6	0.40	5.8	0.46	5.9	0.53
9. Impaired Lending - Gross (memo)	n.a.	n.a.	-	n.a.	2.5	0.18	2.7	0.21	8.4	0.76
TOTAL A	288.1	143.8	10.47	151.4	159.0	11.30	115.1	9.11	91.5	8.23
B. OTHER EARNING ASSETS										
1. Bank Deposits and Placings	1,320.4	659.0	47.98	720.6	782.2	55.59	721.1	57.06	626.5	56.35
2. Liquid Investments	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	0.0	0.00
3. Other Investments	1,113.2	555.6	40.45	504.7	453.8	32.25	415.0	32.84	378.1	34.01
4. Securities - Long Positions	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
5. Equity Investments	0.0	0.0	0.00	0.0	0.0	0.00	0.0	0.00	0.0	0.00
TOTAL B	2,433.6	1,214.6	88.43	1,225.3	1,236.0	87.85	1,136.1	89.90	1,004.6	90.36
C. TOTAL EARNING ASSETS (A+B)	2,721.7	1,358.4	98.90	1,376.7	1,395.0	99.15	1,251.2	99.00	1,096.1	98.59
D. FIXED ASSETS	0.8	0.4	0.03	0.5	0.6	0.04	0.8	0.06	1.1	0.10
E. NON-EARNING ASSETS										
1. Cash and Due from Banks	7.2	3.6	0.26	1.9	0.1	0.01	0.2	0.02	0.1	0.01
2. Other	22.2	11.1	0.81	11.2	11.3	0.80	11.6	0.92	14.5	1.30
F. TOTAL ASSETS	2,752.0	1,373.5	100.00	1,390.3	1,407.0	100.00	1,263.8	100.00	1,111.8	100.00
G. DEPOSITS & MONEY MARKET FUNDING										
1. Demand	n.a.	n.a.	-	n.a.	38.9	2.76	37.7	2.98	42.6	3.83
2. Time & Savings	1,240.0	618.9	45.06	560.5	502.1	35.69	449.0	35.53	424.1	38.15
3. Interbank	1,257.5	627.6	45.69	650.0	672.3	47.78	520.6	41.19	287.2	25.83
4. Other	n.a.	n.a.	-	n.a.	69.8	4.96	127.7	10.10	147.8	13.29
TOTAL G	2,497.5	1,246.5	90.75	1,264.8	1,283.1	91.19	1,135.0	89.81	901.7	81.10
H. OTHER FUNDING										
1. Securities Business	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
2. Long-Term Debt	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	128.7	11.58
3. Subordinated Debt	0.0	0.0	0.00	18.7	37.4	2.66	40.5	3.20	0.0	0.00
4. Hybrid Capital	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	0.0	0.00
TOTAL H	0.0	0.0	0.00	18.7	37.4	2.66	40.5	3.20	128.7	11.58
I. OTHER (Non-Int Bearing)										
1. Securities - Short Positions	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
2. Other	38.1	19.0	1.38	15.3	11.5	0.82	13.8	1.09	10.3	0.93
J. LOAN LOSS RESERVES	11.2	5.6	0.41	n.a.	n.a.	-	n.a.	-	n.a.	-
K. OTHER RESERVES	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
L. EQUITY										
1. Preference Shares	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
2. Common Equity	216.4	108.0	7.86	91.5	75.0	5.33	74.5	5.89	71.1	6.40
TOTAL L	216.4	108.0	7.86	91.5	75.0	5.33	74.5	5.89	71.1	6.40
M. TOTAL LIABILITIES & EQUITY	2,752.0	1,373.5	100.00	1,390.3	1,407.0	100.00	1,263.8	100.00	1,111.8	100.00
Exchange Rate		USD1 = GBP 0.4991			USD1 = GBP 0.4988		USD1 = GBP 0.5451		USD1 = GBP 0.5576	

Income Statement Analysis

NATIONAL BANK OF EGYPT (UK) LIMITED

	31 Dec 2007		30 Jun 2007		30 Jun 2006		30 Jun 2005	
	Income	As % of	Income	As % of	Income	As % of	Income	As % of
	Expenses	Total AV	Expenses	Total AV	Expenses	Total AV	Expenses	Total AV
	GBPm	Earning Assts	GBPm	Earning Assts	GBPm	Earning Assts	GBPm	Earning Assts
	Original	Original	Original	Original	Original	Original	Original	Original
1. Interest Received	42.3	6.15	77.2	5.83	55.7	4.75	34.1	3.42
2. Interest Paid	35.7	5.19	67.9	5.13	46.6	3.97	26.9	2.70
3. NET INTEREST REVENUE	6.6	0.96	9.3	0.70	9.1	0.78	7.2	0.72
4. Fee & Commission Income - Net	2.5	0.36	4.6	0.35	5.4	0.46	3.0	0.30
5. Dealing Income - Net	0.0	0.00	0.1	0.01	0.1	0.01	0.1	0.01
6. Income from Associates	n.a.	-	n.a.	-	n.a.	-	n.a.	-
7. Other Income	n.a.	-	n.a.	-	n.a.	-	n.a.	-
8. Personnel Expenses	2.1	0.31	3.8	0.29	3.4	0.29	3.3	0.33
9. Other Non-Interest Expenses	1.2	0.17	2.4	0.18	2.4	0.20	2.4	0.24
10. Loan Loss Provisions	0.0	0.00	0.0	0.00	-0.1	-0.01	0.0	0.00
11. OPERATING PROFIT	5.8	0.84	7.8	0.59	8.9	0.76	4.6	0.46
12. Exceptional Items - Net	n.a.	-	0.5	0.04	0.6	0.05	0.5	0.05
13. PRE-TAX PROFIT	5.8	0.84	8.3	0.63	9.5	0.81	5.1	0.51
14. Taxes	1.8	0.26	2.5	0.19	2.9	0.25	1.6	0.16
15. NET INCOME	4.0	0.58	5.8	0.44	6.6	0.56	3.5	0.35
Memo: Extraordinary Items - Net	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00

Ratio Analysis

NATIONAL BANK OF EGYPT (UK) LIMITED

		31 Dec 2007 Original	30 Jun 2007 Original	30 Jun 2006 Original	30 Jun 2005 Original
I. PROFITABILITY LEVEL					
1. Operating Profit/Total Assets (av)	%	0.83	0.58	0.75	0.46
2. Pre-Tax Profit/Total Assets (av)	%	0.83	0.62	0.80	0.51
3. Net Income/Equity (av)	%	8.74	7.75	9.07	5.04
4. Net Inc less Pref Divs/Common Equity (av)	%	8.74	7.76	9.07	5.05
5. Net Income/Total Assets (av)	%	0.58	0.43	0.56	0.35
6. Total Non-Int Expense/Net Int Rev + Other Operating Income	%	36.26	44.29	39.73	55.34
7. Net Interest Rev/Total Assets (av)	%	0.95	0.70	0.77	0.71
II. CAPITAL ADEQUACY (year end)					
1. Internal Capital Generation	%	8.74	0.80	4.53	5.04
2. Equity/Total Assets	%	7.86	5.33	5.89	6.40
3. Equity/Loans	%	75.10	47.17	64.73	77.70
4. Capital/Risks - Tier 1	%	n.a.	n.a.	n.a.	n.a.
5. Capital/Risks - Total	%	20.43	21.49	24.79	19.70
6. Common Equity/Total Assets	%	7.86	5.33	5.89	6.40
III. LIQUIDITY (year end)					
1. Liquid Assets/Deposits & Money Mkt Funding	%	53.16	47.30	48.27	60.19
2. Liquid Assets & Marketable Debt Securities/Deposits & Money Mkt Funding	%	97.73	96.34	100.11	110.88
3. Loans/Deposits & Money Mkt Funding	%	11.54	12.39	10.14	10.15
IV. ASSET QUALITY					
1. Loan Loss Provisions/Loans Gross(av)	%	0.00	0.00	-0.09	0.00
2. Loan Loss Provisions/Profit before Tax and Provisions	%	0.00	0.00	-1.06	0.00
3. Loan Loss Reserves/Loans Gross	%	3.75	3.40	4.80	6.06
4. Loan Loss Reserves/Impaired Loans Gross	%	n.a.	224.00	214.81	70.24
5. Impaired Loans Gross/Loans Gross	%	n.a.	1.52	2.23	8.62
6. Impaired Loans Net/Equity	%	n.a.	0.53	0.54	1.55

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