



الشركة الأهلية للتأمين ش.م.ك.
AL AHLEIA INSURANCE CO. S.A.K.

2016/9/28

السادة / سوق الكويت للأوراق المالية
المحترمين
تحية طيبة وبعد ،،

الموضوع : إفصاح في سوق الكويت للأوراق المالية
بخصوص التصنيف الإئتماني لشركتنا

بالإشارة إلى الموضوع أعلاه يرجى التكرم بالعلم بأن وكالة التصنيف الإئتماني ستاندرد أند بورز قد قامت بإصدار الملخص التنفيذي الخاص بتحليل الوضع المالي للشركة الأهلية للتأمين ش.م.ك.ع والذي تضمن تثبيت التصنيف عند A- مع نظرة مستقبلية مستقرة .

وإلتزاما إلى تعليمات هيئة أسواق المال بشأن الإفصاح عن المعلومات الجوهرية وآلية الإعلان عنها نرفق لكم التالي:

- نموذج الإفصاح عن التصنيف الإئتماني
- الملخص التنفيذي لوكالة التقييم العالمي لشركة إستاندرد أند بورز .

وتفضلوا بقبول وافر الإحترام والتقدير ،،،

الشركة الأهلية للتأمين ش.م.ك.ع



محمد عبد المحسن السعد
نائب الرئيس التنفيذي

شركة خاضعة لاحكام قانون شركات ووكلاء التأمين
رقم (24) لسنة 1961 وملحقاته.
رقم الإجازة 3

شارع احمد الجابر - ص.ب: 1602 الصفاة - الرمز البريدي 13017 الكويت
تلفون +965 1888 444 - فاكس +965 22 411 330 - 22 430 308
سجل تجاري 9389



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Law No. 24 for 1961 & attachments.
Insurance Licence No. 3

Ahmed Al-Jaber st. - P.O.Box 1602 Safat, Postal Code 13017 Kuwait
Tel. +965 1888 444 - Fax +965 22 430 308 - 22 411 330
Commercial Reg No. 9389
www.alahleia.com
e-mail: aic@alahleia.com

نموذج الإفصاح عن التصنيف الائتماني

التاريخ	2016/09/28
اسم الشركة المدرجة	الشركة الأهلية للتأمين ش.م.ك.ع
الجهة المصدرة للتصنيف	ستاندر د أند بورز
فئة التصنيف	A-
مدلولات التصنيف	A-تعنى بأن النطاق التشغيلي الحالي للشركة مستدام مع معدل كفاية رأس مال وأرباح قوية جدا يدعم نمط المخاطر المالية القوية .
إنعكاس التصنيف على أوضاع الشركة	يعكس التصنيف مواصلة الشركة الأهلية للتأمين بالحفاظ على الكفاية القوية للغاية لرأس المال لديها من خلال تحقيق أرباح قوية جدا ، كما أن التصنيف الحالي يتيح للشركة موقف تنافسي أفضل وفرص جديدة وكذلك في التعامل مع المؤسسات المالية وشركات إعادة التأمين العالمية .
النظرة المستقبلية	مستقرة
ترجمة التصريح الصحفي أو الملخص التنفيذي	قامت وكالة " ستاندر د أند بورز لخدمات التصنيف الائتماني " بتاريخ 26 سبتمبر 2016 ، بتثبيت تصنيفها الائتماني وتصنيفها للقوة المالية لشركة الأهلية للتأمين عند درجة التصنيف A- مع نظرة مستقبلية مستقرة. كما تعكس النظرة المستقبلية للوكالة وجهة نظرها بأن الشركة الأهلية للتأمين سوف تحافظ على الكفاية القوية للغاية لرأس المال لديها من خلال تحقيق أرباح داخلية وتسييل بعض الاستثمارات في الأسهم، مما سيسهل متطلبات رأس المال.

RatingsDirect®

Al-Ahleia Insurance Co. S.A.K.

Primary Credit Analyst:

Mario Chakar, London (44) 20-7176-7070; mario.chakar@spglobal.com

Secondary Contact:

David D Anthony, London (44) 20-7176-7010; david.anthony@spglobal.com

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Al-Ahleia Insurance Co. S.A.K.

SACP* Assessments				SACP*		Support		Ratings		
Anchor	a-	+	Modifiers	0	=	a-	+	0	=	Financial Strength Rating
Business Risk	Satisfactory		ERM and Management	0		Liquidity	0	Group Support	0	A-/Stable/--
Financial Risk	Strong		Holistic Analysis	0		Sovereign Risk	0	Gov't Support	0	

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Rationale

Business Risk Profile: Satisfactory

- Intermediate insurance industry and country risk assessment owing to exposure to the Kuwaiti property/casualty (P/C) insurance sector as well as reinsurance markets in the Middle East, Africa, and Asia.
- Adequate competitive position as one of the top four Kuwaiti insurers, supported by further diversification of its book of business as a result of its takeover of Kuwait Reinsurance Co. K.S.C. (Kuwait Re; not rated) in 2015.
- Operating performance continues to compare favorably with its peers, despite a deterioration of its net combined ratio following full consolidation of Kuwait Re's book of business.

Financial Risk Profile: Strong

- Very strong capital and earnings, according to our insurance risk-based capital model, with capital adequacy expected to be restored to above our 'AAA' requirements by 2018 through retained profits and the liquidation of some higher-risk equity investments.
- Moderate risk position reflecting a substantial equity investment portfolio, where some of the shares and funds are also unlisted.
- Adequate, but untested, financial flexibility relative to modest likely needs; shareholders believed supportive.

Other Factors

- We combine Al-Ahleia's satisfactory business risk profile and strong financial risk profile to derive our anchor of 'a-'.
- We assess enterprise risk management (ERM) as adequate, management and governance as fair, and liquidity as strong, all of which are neutral factors to the rating.

Outlook: Stable

S&P Global Rating's stable outlook on Al-Ahleia Insurance Co. S.A.K. (Al-Ahleia) reflects our view that the insurer will restore its capital adequacy to above our 'AAA' requirements by 2018 through retained profits and the liquidation of some equity investments, easing the capital requirements under our model.

Downside scenario

We could lower the rating on Al-Ahleia if the group fails to restore its capital adequacy to extremely strong levels. This could happen if:

- Al-Ahleia fails to reduce capital adequacy charges deriving from its equity investment holdings, particularly the unlisted securities.
- Earnings are lower than we expect as a result of, among other things, any adverse impact from the acquisition of Kuwait Re or higher-than-expected cash dividend payments.

Upside scenario

We are highly unlikely to raise the rating on Al-Ahleia over the outlook horizon.

Base-Case Scenario

Macroeconomic Assumptions

- Real GDP growth in Kuwait will average about 2.2% in 2016-2019, driven by our lower oil price forecasts which we expect will remain below \$50 per barrel through to 2019.
- Nominal premium growth for the P/C sector of about 8%-10% per year and a real growth rate of close to 5%-7%. We have excluded from these figures the Kuwaiti Ministry of Health's scheme for retirees.
- Revenues in Kuwait's non-life insurance sector mostly depend on major projects that are closely linked with government spending. As such, we do not expect the reduction in the oil price to significantly affect the P/C insurance sector.
- For detailed macroeconomic forecasts, see "Kuwaiti Property/Casualty Insurance Sector Carries An Intermediate Industry And Country Risk Assessment" published on March 21, 2016, on RatingsDirect.

Company-Specific Assumptions

- Al-Ahleia's gross premiums written (GPW) will grow less than 5% in 2016, but as the consolidation of Kuwait Re continues, the group's GPW will exceed KWD70 million (about \$232 million) in 2016. Premium growth in 2017-2018 will then increase to about 8% each year.
- Al-Ahleia will restore its capital adequacy to extremely strong levels, which is supportive of its current 'A-' rating. We expect this will happen through internal earnings generation and the liquidation of equities, particularly the unlisted ones.
- Al-Ahleia will post net profits of about KWD11 million-KWD14 million per year and net combined ratios below 90%, translating into returns on equity (ROE) of about 10% and returns on revenue no better than 25%.
- The integration of Al-Ahleia and Kuwait Re's books of business will be supportive of the business risk profile and not cause erosion of capital or future profits.

Key Metrics

(Mil. KWD)	2017f	2016e	2015	2014	2013	2012	2011
Gross premiums written	75.6	70.0	43.4	31.5	30.2	32.9	32.3
Change in gross premiums written (%)	8	N/A	37.5	4.3	(8.0)	1.7	3.8
Net income (attributable to all shareholders)	11.0-14.0	11.0-14.0	11.4	8.5	9.5	8.5	7.6
Return on shareholders' equity (%)	10	10	11.1	9.0	10.6	10.2	9.5
Net combined ratio (%)	<90.0	<90.0	76.5	48.8	58.3	56.3	59.9

KWD—Kuwaiti dinar. e—Expected. f—Forecast. N/A—Not Applicable

Company Description: Long-Established Leading Kuwaiti Insurer With A Reinsurance Subsidiary

Established in 1962, Al-Ahleia is a listed Kuwaiti national insurer, writing all classes of insurance business, with an emphasis on commercial lines. It is one of the four largest insurers in Kuwait and is also the lead marine underwriter in the country.

In the first half of 2015, Al-Ahleia submitted a bid to acquire Kuwait Re, and this was approved by Kuwait Re's shareholders. This means that Al-Ahleia now fully consolidates Kuwait Re's accounts. With this deal, Al-Ahleia increases its stake to about 92%. Kuwait Re is a small non-life reinsurer, mainly offering treaty reinsurance contracts in the Middle East, Africa, and Asia.

Business Risk Profile: Satisfactory

Insurance industry and country risk: Intermediate, with exposure to the Kuwaiti insurance industry as well as Asian and Middle Eastern reinsurance markets

Al-Ahleia faces intermediate industry and country risk, in our opinion, reflecting its main exposure to the Kuwaiti P/C insurance sector. Our assessment of Kuwait's country risk reflects the stable economic environment, and an economy with very strong fiscal and external positions, created by the country's oil wealth. These compensate somewhat for

what we consider poor government and political transparency. We currently rate Kuwait at 'AA' with a stable outlook.

Our view on Kuwait's intermediate P/C industry risk reflects predictable claims settlements and the absence of insured catastrophe risks. We therefore see product risk as unlikely to cause earnings volatility. However, the P/C sector faces high competition in an overcrowded market where most of the profits are shared by the large key players. We view regulation of the insurance sector as still underdeveloped and relatively weak, particularly in comparison with other Gulf Cooperation Council (GCC) states.

In terms of risks stemming from Kuwait Re's book of business, the exposure is generally broadly spread across reinsurance markets in the Middle East, Africa, and Asia, and we expect that these exposures will, on average, be at similar risk to those in Kuwait, meaning that our overall IICRA will remain intermediate for the group.

Table 1

Industry And Country Risk		
Insurance sector	IICRA	Business mix*
Kuwait P/C	Intermediate risk	53
Other markets P/C	Intermediate risk	47

*Based on gross premiums written. P/C--property/casualty

Competitive position: Adequate, top tier insurer in Kuwait having recently acquired a reinsurance subsidiary

Al-Ahleia is one of the leading insurers in the Kuwaiti market, in which there are 32 insurers. It has limited exposure to high volume business, typically motor and medical, where operating margins are very thin. In 2015, it acquired the only reinsurer incorporated in the country, Kuwait Re, and has therefore brought diversification to its portfolio in that the reinsurer has an established position in the Middle East and Africa, and also has an office in Labuan, Malaysia. We don't expect, however, any material uplift to the group's business risk profile in the short-to-medium term, as this would require a successful integration of the two businesses.

Al-Ahleia writes life and non-life insurance, constituting 27% and 73% of premiums, respectively. Kuwait Re mainly writes marine and property reinsurance through a variety of proportional and non-proportional (excess of loss and facultative) contracts. 2016 will be the first year in which Al-Ahleia will see a full consolidation of Kuwait Re accounts. In 2015, the stand-alone insurer wrote about KWD33 million of GWP (2014: KWD32 million), which represented a growth rate of about 3%. Of the 2016 premiums, 22% were marine and aviation, 38% general accident, 16% fire, while the remaining 27% came from life and medical. Under our base-case scenario, we expect the group's full consolidation to show premiums around KWD70 million in 2016, and that this premium base will grow about 8% per year, subsequently. In the first half (H1) of 2016, Al-Ahleia reported GWP of KWD42 million.

Al-Ahleia is a market leader in terms of operating performance, and is more profitable in each line of disclosed business than its leading local peers. Its five-year net combined ratio is under 60%--including life and medical--and compares favorably with both local and international markets. This is supported by inward commission received from ceding the large commercial risks it writes to the international reinsurers. Unlike its new parent, Kuwait Re's operating performance is less attractive. The reinsurer's net combined ratio has averaged about 100% over the past five years. Hence, we expect the combined group's combined ratio to be about 85%-90% in a typical year. This would still

compare favorably with peers, however.

Table 2

Al-Ahleia Insurance Co. S.A.K.P. and its Subsidiary -- Competitive Position					
	--Year-ended Dec. 31--				
(Mil. KWD)	2015	2014	2013	2012	2011
Gross premiums written	43.4	31.5	30.2	32.9	32.3
Change in Gross Premiums Written (%)	37.5	4.3	(8.0)	1.7	3.8
Net premiums written	19.3	12.4	13.4	13.0	13.1
Change in Net Premiums Written (%)	55.6	(7.3)	2.5	(0.8)	17.4
Reinsurance utilization	55.6	60.7	55.8	60.4	59.4

KWD--Kuwaiti dinar.

Financial Risk Profile: Strong

Our view of Al-Ahleia's strong financial risk profile is based on its strong capital and earnings, moderate risk position, and adequate financial flexibility.

Capital and earnings: Expected to be restored to very strong by 2018 following acquisition of Kuwait Re

Following the acquisition of Kuwait Re, the abundance of capital that Al-Ahleia has accumulated over the years through its exceptional earnings track record has significantly reduced. According to our risk-based insurance capital model and base-case scenario, Al-Ahleia's capital adequacy is expected to be restored to extremely strong levels through internal earnings generation. Moreover, our modelling indicates that the biggest capital requirement is market risk. This is driven by the substantial equity investments Al-Ahleia holds, many of which are unquoted. Consequently, we view the planned liquidation of these instruments as key to easing the company's capital requirements and maintaining the rating at its current 'A-' level.

Our base-case scenario assumes that Al-Ahleia will post net combined ratios of about 85%-90%. With net profits expected to be about KWD11 million-KWD14 million, Al-Ahleia should be able to post ROE around 10%. We factor in our earnings forecast assumptions that the company will pay 50% of its earnings as dividends. In H1 2016, Al-Ahleia posted net profits of KWD6 million and reported total shareholders' equity of KWD101 million (including minority interests). Al-Ahleia's reinsurance protection is appropriate relative to the risks it insures. It uses treaty and facultative contracts with well-recognized, highly rated reinsurers globally, and this gives the company's technical performance some stability.

Table 3

Al-Ahleia Insurance Co. S.A.K.P. and its Subsidiary -- Capitalization Statistics					
	--Year-ended Dec. 31--				
(Mil. KWD)	2015	2014	2013	2012	2011
Common shareholders' equity	106.5	97.9	92.3	86.8	80.5
Change in common shareholders' equity (%)	8.7	6.1	6.4	7.9	2.3

KWD--Kuwaiti dinar.

Table 4

Al-Ahleia Insurance Co. S.A.K.P. and its Subsidiary -- Earnings Statistics					
	--Year-ended Dec. 31--				
(Mil. KWD)	2015	2014	2013	2012	2011
Total revenue	43.0	16.9	18.2	17.0	16.2
EBIT adjusted	18.3	9.4	9.7	9.1	7.7
Net income (attributable to all shareholders)	11.4	8.5	9.5	8.5	7.6
Return on revenue (%)	42.7	55.6	52.9	53.8	47.7
Return on shareholders' equity (reported) (%)	11.1	9.0	10.6	10.2	9.5
Net expense ratio (%)	20.4	(3.0)	(0.4)	0.9	6.5
Net loss ratio (%)	56.2	51.8	58.8	55.3	53.4
Net combined ratio (%)	76.5	48.8	58.3	56.3	59.9

KWD–Kuwaiti dinar.

Risk position: Moderate risk with exposure to equity market instruments

We regard Al-Ahleia's risk position as moderate. At the end of 2015, Al-Ahleia had total invested assets of about KWD164 million (2014: KWD122 million). Over half of the portfolio is comprised of equities. In fact, Al-Ahleia had 52% in equities (2014: 65%), 31% cash (2014: 19%), 5% bonds (2014: not meaningful), 8% real estate (2014: 2%), while the remaining 4% represented investments in affiliates. These affiliates are strategic investments in regional insurance companies.

We note that about two-thirds of the available-for-sale investments are in unlisted equities and funds, and this constrains our risk position assessment. We understand that Al-Ahleia intends to liquidate some of these investments to repay its outstanding overdrafts as well as to ease the capital requirements under our model.

Moreover, although Al-Ahleia's investments are concentrated in Kuwait, the company also invests in other GCC countries, the U.S., Europe, East Asia, and elsewhere in the world. Al-Ahleia holds its fixed deposits in Kuwaiti banks, all of which we consider to be highly systemically important, meaning that we expect the government to support them in times of distress.

Table 5

Al-Ahleia Insurance Co. S.A.K.P. and its Subsidiary -- Risk Position					
	--Year-ended Dec. 31--				
(Mil. KWD)	2015	2014	2013	2012	2011
Total invested assets	164.4	121.7	117.9	119.8	107.1
Net investment income	3.8	3.1	2.6	3.8	2.5
Net investment yield (%)	2.7	2.6	2.2	3.3	2.4
Portfolio composition (% of General account invested assets)					
Cash and short term investments (%)	30.6	19.1	21.8	22.3	14.6
Bonds (%)	5.2	0.3	0.3	0.3	0.3
Equity investments (%)	52.3	64.8	61.5	62.1	69.6
Real estate (%)	8.1	2.2	2.3	2.4	2.8
Investments in affiliates (%)	3.8	13.4	13.9	12.8	12.5

Table 5

Al-Ahleia Insurance Co. S.A.K.P. and its Subsidiary -- Risk Position (cont.)					
--Year-ended Dec. 31--					
(Mil. KWD)	2015	2014	2013	2012	2011
Other investments (%)	0.1	0.2	0.1	0.2	0.2

KWD–Kuwaiti dinar. N/A–Not applicable.

Financial flexibility: Adequate

Al-Ahleia's financial flexibility is adequate, in our view. Capital growth has been wholly internally financed since initial flotation in 1962; therefore, access to external funding is largely untested. However, we believe Al-Ahleia is unlikely to require extraordinary capital support over the outlook horizon. The acquisition of Kuwait Re was partly funded by a bank overdraft, of which there was about KWD6 million outstanding at end-2015. Al-Ahleia plans to repay this within 12-18 months through the liquidation of equity investments as well as internal earnings generation.

Other Assessments

Enterprise risk management: Adequate

We consider Al-Ahleia's ERM to be adequate, reflecting our belief that the company has a good understanding of the risks to which it is exposed, and has appropriate risk controls for those risks. Al-Ahleia has not yet fully documented and monitored risk appetites or tolerances, but the local, relatively modest operational scale of the company, and the effectiveness of underwriting risk controls in place, eases some of our concerns. Kuwait Re, on the other hand, has a more comprehensive and robust ERM framework, reflecting the more complex risks it writes. Its risk management practice has allowed it to post very stable returns over many years and we expect this to continue.

Management and Governance: Fair

Al-Ahleia's management and governance is fair, in our view. Its management team has a stable and conservative underwriting strategy and takes a cautious approach to the development of its insurance business. We take comfort from the stability of the performance at both Al-Ahleia and Kuwait Re, and believe the entities are well-managed.

Liquidity: Strong

Despite the acquisition of Kuwait Re, we assess Al-Ahleia's liquidity as strong. This indicates that it can convert assets to cash to meet policyholder expectations promptly and in response to stressed loss events. Also, we believe that the intended liquidation of unlisted equity investments will improve Al-Ahleia's liquidity ratio. The latter is a measure of short-term stressed assets-to-stressed liabilities.

Related Criteria And Research

Related Criteria

- Group Rating Methodology, Nov. 19, 2013
- Insurers: Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012

- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Kuwait Ratings Affirmed At 'AA/A-1+'; Outlook Stable, Aug. 12, 2016
- Kuwaiti Property/Casualty Insurance Sector Carries An Intermediate Insurance Industry And Country Risk Assessment, March 21, 2016

Ratings Detail (As Of September 26, 2016)

Operating Company Covered By This Report	
Al-Ahleia Insurance Co. S.A.K.	
Financial Strength Rating	
<i>Local Currency</i>	A-/Stable/--
Counterparty Credit Rating	
<i>Local Currency</i>	A-/Stable/--
Domicile	Kuwait

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

Additional Contact:

Insurance Ratings Europe; InsuranceInteractive_Europe@spglobal.com

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