

Beazley Furlonge Ltd. - Syndicate 0623/2623/3622/3623

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Table Of Contents

Lloyd's Syndicate Assessment

Financial Strength Ratings And Lloyd's Syndicate Assessments

Major Assessment Factors

Rationale

Outlook

Syndicate Profile: Strong Lloyd's Franchise With Excellent Track Record Since Start-Up

Competitive Position: Premier Lloyd's Syndicate Benefiting From Market Conditions

Management And Corporate Strategy: Strong Team, With Proven Track Record

Accounting: Pro Forma Numbers Used Based On Combined Syndicates

Operating Performance: Over 20 Years Of Unbroken Profitability, Strong Prospective Performance

Enterprise Risk Management: Strong, With Market-Leading Cycle Management Practices

Table Of Contents (cont.)

Investments: Investment Return Impaired For 2008, Conservative Core Allocation Provides Some Comfort In Revised Strategy

Liquidity: Strong, With Positive Cash Flows Expected

Capital: Strong Capital, Reflecting Lloyd's Capital Regime And Beazley's Improved Capital Position

Reinsurance

Reserves

Financial Flexibility: Strong, Although Needs Are Currently Low

Beazley Furlonge Ltd. - Syndicate 0623/2623/3622/3623

Lloyd's Syndicate Assessment

4/Stable (low dependency)

Financial Strength Rating

None

Financial Strength Ratings And Lloyd's Syndicate Assessments

Standard & Poor's Ratings Services insurer financial strength rating on Lloyd's (the Market; A+/Stable) remains the primary indicator of the level of financial security that is afforded to a policyholder of any syndicate trading in the Lloyd's Market.

Lloyd's Syndicate Assessments (LSAs) evaluate, on a scale of '1' (very high dependency) to '5' (very low dependency), the extent of a given syndicate's dependence on the rating on Lloyd's. Standard & Poor's interactive LSA service was launched in September 2003 as a complement to its existing public information-based (pi) syndicate assessments. Through direct interaction with management, the interactive service enables Standard & Poor's to supplement its 'pi' assessment with a more prospective and subjective view of those factors that will affect a given syndicate's future level of dependence on Lloyd's.

Major Assessment Factors

Strengths:

- Strong competitive position, underpinned by the benefits of the Lloyd's franchise.
- Strong operating performance, with an unbroken history of profitability over more than 20 years.
- Strong enterprise risk management, with particular strengths recognized in cycle management.

Weaknesses:

- Potential for earnings volatility following the increased appetite for catastrophe risk.
- Possibility of increased investment risk.

Rationale

The assessment on Beazley Furlonge Ltd. - Syndicate 0623/2623/3622/3623 reflects its strong competitive position, strong operating performance, and strong enterprise risk management (ERM). These strengths are partially offset, however, by the increased potential for earnings volatility following the increased appetite for catastrophe risk and, potentially, investment risk.

As one of the largest Lloyd's syndicates, with a respected "own brand" name, Syndicate 0623/2623/3622/3623 has established itself as a leader of specialty risks, supported by strong franchises in other lines of business. The syndicate writes six lines of business: specialty, political & contingency, property, reinsurance, and marine, and the recently added life and personal accident. It has increased its total capacity rapidly in recent years, taking advantage of market conditions, the Lloyd's franchise, and the syndicate's own established brand and reputation.

Standard & Poor's Ratings Services expects the syndicate to maintain its strong performance and continue to outperform peers and the Market as a whole. This reflects our opinion that the syndicate has superior risk-selection and cycle-management capabilities compared to many peers, as demonstrated over its 20-year-plus history. We expect the combined ratio for 2009 to be between 90% and 95%.

Beazley's ERM is assessed as strong overall. This means that in Standard & Poor's opinion, it is very unlikely that Beazley will incur losses outside its risk appetite. This assessment is supported by strong strategic risk management and risk culture, and strong controls over most of its risks, including managing the insurance cycle.

Partly through increased underwriting of property treaty reinsurance at the syndicate, and partly through the acquisition of First State, a U.S.-based managing general agency, Beazley's risk appetite related to catastrophe risk business has increased and is now more in line with the group's larger peers at Lloyd's (A+/Stable/--). While this business gives more balance to the overall portfolio, it does raise the potential for a more-volatile operating performance.

Beazley is in the process of revising its investment strategy with the possibility of up to 20% of total investments being held in absolute return investment funds, including hedge funds. This raises the prospect of increased market risk within this portion of the portfolio, although we note Beazley's has reduced the risk for at least 80% of its invested assets by investing solely in government and related securities and cash.

Outlook

The stable outlook reflects Standard & Poor's expectation that the management of the syndicate will focus on extending the track record of strong and stable operating performance. We expect the 2010 combined ratio to be below 95%. Strong operating performance should contribute to the achievement of a cross-cycle, pre-tax, return-on-equity target of 18%.

Standard & Poor's expects that capitalization at the group will remain strong during 2010. Positive assessment action is unlikely over the assessment horizon, although it could occur should there be substantial outperformance relative to the Market. The assessment may be lowered if the syndicate's revised underwriting and investment strategies weaken Beazley's operating performance relative to its strong historical trend and peers.

Syndicate Profile: Strong Lloyd's Franchise With Excellent Track Record Since Start-Up

Syndicate 0623, which had an initial capacity of £12 million, was taken over by the current management in 1986. Following the creation, in 2002, of Beazley Group PLC (Beazley; BBB+/Stable/--) and the parallel syndicate 2623, capacity has grown to £860 million for 2007, from £830 million in 2006, with a small decrease to £814 million in 2008. Syndicate 0623 is backed by unaligned capital, while Syndicate 2623 is backed 100% by Beazley. As the syndicates write pro rata and in parallel, according to the relative capacities, Standard & Poor's treats the syndicates as a single entity. In 2008, the group acquired Momentum Underwriting, a personal accident and life underwriting agency focused on the sports industry. This led to the creation of two new 100% Beazley-funded syndicates, 3622 (life), and 3623 (personal accident). These syndicates are considered core to the existing syndicates.

In 2009, the Beazley group also acquired First State, a U.S. surplus lines property underwriting agency, a move

which is expected to provide at least \$150 million of premium to syndicate 0623/2623/3622/3623.

Beazley will operate through six business units for 2009: specialty lines (41% of forecast 2010 gross premiums written), political contingency (7%, previously part of specialty lines), property (26%), marine (13%), reinsurance (10%) and accident and life (3%). The syndicate is predominantly U.S. focused, and writes broker market business through the Lloyd's franchise.

Beazley also writes via its wholly-owned US subsidiary Beazley Insurance Company Inc. (not rated), providing the group access to the U.S. admitted market.

In 2009, the group redomiciled the group's ultimate holding company to Jersey (tax resident in Ireland), and revised the group structure to optimize European access and reduce the company's tax burden.

Competitive Position: Premier Lloyd's Syndicate Benefiting From Market Conditions

As one of the largest Lloyd's syndicates, with a respected "own-brand" name, Syndicate 0623/2623/3622/3623 has established itself as a leader of specialty risks, with strong franchises in other core lines of business which offer diversity. As part of the London-based Lloyd's insurance market, the syndicate draws significant support from Lloyd's strong competitive position, supported by its unique brand, its attraction as the world's largest subscription market, London's continued position as a major international insurance/reinsurance market, and policyholder loyalty. Owing to the credit-sensitive nature of its client base and distribution channel, confidence in Lloyd's is extremely important to the Beazley franchise.

The syndicate comprises six underwriting divisions writing six sectors of business: specialty lines, political risk & contingency, property, reinsurance, marine, and accident and life. The syndicate focuses on premium clients, predominantly large global and U.S. corporate. Syndicate 0623/2623/3622/3623 increased its total capacity rapidly during the previous period of rate hardening, and has actively managed the downturn in recent years, taking advantage of market conditions, the Lloyd's franchise, and its own established brand and reputation. The syndicate attempts to write business that provides balance to the portfolio from a market cycle and risk basis, as well as from a cash flow perspective. 2009 premiums have increased significantly from 2008, reflecting market opportunities, the impact of foreign exchange, and the impact of the acquisitions made.

The addition of the personal accident and life syndicates provide minimal benefit to the overall competitive position at this point, however, they do offer the potential for greater diversification, and penetration into markets not previously written by Beazley.

The syndicate's products are considered specialist, and therefore heavy use is made of brokers and the key broker-led insurance markets of North America, Europe, and Australia. Unlike many peers, the syndicate writes a significantly higher percentage of primary insurance business than reinsurance (88% insurance, 12% reinsurance). Standard & Poor's considers that the syndicate has established a competitive advantage through its active approach to claims management. It has employed a number of claims handlers with sector-relevant knowledge to perform audits, risk reviews, and post-claims reviews.

Management And Corporate Strategy: Strong Team, With Proven Track Record

The management and strategic direction of the syndicate is considered positive for the assessment. The strategy is to build on the historical position of strength and focus on conservative growth into areas where the syndicate is perceived to have a competitive advantage.

Recent management changes have now been completed and are considered neutral for the assessment. The group's risk appetite has been raised, with diversification into new lines of business via acquisitions. While this raises some execution risks, Standard & Poor's considered this to be largely mitigated by the strong ERM and high level of management oversight.

Management operates a divisional structure, with heads of each underwriting unit reporting to, and forming part of, the central management function. The senior management members at the syndicate demonstrate strong knowledge of their key franchises, and remain focused on the business in which they have demonstrated competence. As the group has grown, the management team has been expanded, with specialist, experienced staff recruited. The group has achieved a strong alignment of interest between underwriters and capital providers by giving staff incentives through the creation of Beazley Staff Underwriting Ltd., a corporate name participating on Syndicate 0623, in which a proportion of staff bonuses are invested.

Capital allocation is actively managed by the central management, with each division preparing ground-up business plans and targets. The group's financial management is governed by the comprehensive dynamic financial analysis capital model, which is a key tool in the allocation of capital by business line. This also contributes to the strong ERM and individual capital assessment (ICA) processes. The model informs the pricing process, with additional line-of-business pricing models in place for most of the specialty lines book.

The syndicate focuses on return on capital for each class of business, and currently targets an 18% pre-tax cross-cycle return. For 2009, Standard & Poor's expects the syndicate to exceed this target. For lines of business where the return-on-capital target is not currently being achieved, management actively adjusts the business plan and takes appropriate action to correct or reduce exposure to the business.

The group has revised its investment strategy, shifting toward an absolute return objective, rather than an explicit liability-matched profile. To assist with this aim, the company has funded the formation of an associated investment management company, headed by Michael Perotti, who had previously managed Beazley funds. For two years, this company will manage Beazley funds exclusively, aiming to achieve a return of 150 basis points (bps) over risk-free rate. This target comprises a 75 bps target for the core portfolio, and 450 bps for the capital growth assets.

The syndicate is a specialist insurer focusing on large clients via the broker network at Lloyd's, with a historical focus on the U.S. The strategy has always been to actively manage the risks to ensure strong returns, while minimizing the noninsurance risks and controlling volatility. Strategic business planning provides balance to the portfolio from a market cycle and risk basis, as well as from a cash flow perspective. The syndicate has a greater focus on liability risks than some Lloyd's peers of a similar capacity, and therefore carries a longer tail. This potentially higher-risk business mix is mitigated to some extent because the syndicate has always followed a policy of not writing liability business on an occurrence basis. The syndicate has never written U.S. financial institutions business.

The syndicate has a strong ERM system in place. Despite the significant growth since 2001 through the creation of Syndicate 2623, and the recent acquisitions, Beazley has maintained its focus on the core business lines, and has taken a conservative approach to expansion into new markets. The growth has been given additional impetus by the sustained hard market across most lines of business written by the syndicate, with U.S. property and marine particularly strengthening following the large losses in 2001, 2004, and 2005. The expansion into life business for 2009 has provided a challenge for the ERM framework, and the corporate strategy, but due to the short-term nature of the life business this is not considered material.

The group's expansion in the admitted lines market in the U.S. is considered a positive move, generating further diversification to the Beazley franchise. Cycle management, successfully demonstrated since formation, is considered a positive for the assessment. For 2010, the company is expected to keep premium volumes broadly flat on a constant exchange rate, although this masks declines and expansions across the various underwriting units.

Accounting: Pro Forma Numbers Used Based On Combined Syndicates

Syndicates 0623, 2623, 3622, and 3623 are all separate operations trading at Lloyd's, however this structure is only in place due to the restrictions of operating at Lloyd's and all syndicates are considered core to each other. Prospectively, we will provide pro forma numbers for all syndicates combined, as we have provided to date for syndicate 0623 and 2623.

Operating Performance: Over 20 Years Of Unbroken Profitability, Strong Prospective Performance

We expect the syndicate to maintain its strong underwriting performance, and to continue to outperform most peers and the Market as a whole due to its superior risk selection and cycle management. We anticipate that the potential for volatility has increased following the expansion of the catastrophe-exposed U.S. property and reinsurance lines of business.

The group reported a return on equity (ROE) of 16% for 2008, which Standard & Poor's considers strong and supportive of the assessment, given the impact on investment performance of the recent dislocation in the capital market. The company's combined ratio, reported excluding the impact of foreign exchange on nonmonetary items, was 90%; unchanged from the previous year. Standard & Poor's expectations for 2009 are for an ROE in excess of 20%, excluding the impact of foreign exchange on nonmonetary items, and a combined ratio broadly in line with 2008.

The company does not write financial institutions professional indemnity business; however some potential exposure to recessionary losses exist through the engineers, lawyers, and architects-focused business.

The syndicate has outperformed Lloyd's since 1997, and has never failed to record a positive return since formation in 1986. It achieved this strong performance despite the Market as a whole recording many years of losses over the 20-year period. Cycle management was demonstrably proactive during the last soft cycle, with the syndicate increasing in size considerably as the market hardened.

Enterprise Risk Management: Strong, With Market-Leading Cycle Management Practices

Beazley's ERM is assessed as strong overall. This means that in Standard & Poor's opinion, it is very unlikely that Beazley will incur losses outside its risk appetite. This assessment is supported by strong strategic risk management and risk culture, and strong controls over most of its risks, including managing the insurance cycle. Given the risk profile and operation of the group, the ERM assessment is of moderate importance to the rating.

The group's risk culture is assessed as strong and is strongly supported by the board members and executive team. The governance arrangements and size of the organization allow clear oversight of the risk management practices across the group. The risk function is small as the main risk management activities are embedded within the group's management. The risk management function is supported by an actuarial function that is responsible for risk capital modeling and is independent of the underwriters. The risk appetite is predominately defined using capital measures; however, investment risk appetite is under review and was previously defined using an earnings-at-risk measure.

The group has strong controls over its insurance risks (underwriting, reserving, and catastrophe). The group also has a process for assessing the current state of the insurance cycle and reflecting this into its modeling processes that Standard & Poor's considers to be among the best in the Market. The group uses peer reviews when assessing the performance of underwriters. External reviews are also carried out at the portfolio level by industry experts. Technical rating tools are used for most business lines, except where the risks are individual, making modeling less useful. These tools include allocated capital and required return on capital.

Investment and credit risks controls are currently assessed as strong; however, the creation of a new, associated, investment management company and change in asset allocation will require some adjustment in the risk governance and reporting process. The group aims to optimize its asset portfolio within the risk appetite limit. Optimization includes consideration of both capital measures (at a 99.5% one-year value-at-risk level) and the earnings-at-risk measures. The group does not take much credit risk in its investment portfolio and the major credit risk exposures are to reinsurance counterparties.

Controls over the credit risks of reinsurers are strong as the limits reflect not just credit rating but also other factors and differentiate between short-tail and long-tail lines. The controls on operational risks, new products/ventures, and the choice of reinsurance structure are assessed as adequate and would benefit from more detailed reviews in the future. The group has a good process for considering the emerging risks of their specialty lines business; however, as this process is not implemented across the group, the controls are assessed as adequate overall.

The group has developed a sophisticated set of modeling tools which are consistently used throughout the business for assessing major decisions. This leads to a strong strategic risk management assessment. Diversification of the business is a key consideration for Beazley, especially when building the business plans. Each line of business is assessed against return on economic capital measures. Poorly performing lines are actively reviewed for segments that are more profitable, or exposure is reduced until the cycle improves.

Investments: Investment Return Impaired For 2008, Conservative Core Allocation Provides Some Comfort In Revised Strategy

The syndicate adopts a conservative investment strategy, minimizing nonunderwriting risk where possible. In November 2009, the group enacted a major change in the way its investments are managed, and in the general investment strategy.

The revised strategy targets absolute return, at the expense of accurately matching the asset-liability profile, with two key metrics; a target total portfolio return of 150 bps above the risk-free rate, and no loss-making years. We expect that up to 80% of the investment portfolio will be held in a mix of 'AAA' rated government short-term debt and cash, with the remainder employed via various absolute return strategies.

The majority of the investments at group level will be managed by Falcon Money Management Holdings Ltd., a newly-formed associate of Beazley PLC. The management of Falcon will report to the Beazley investment committee, and include Andrew Horton on its board. Falcon will manage Beazley's funds exclusively for two years, before actively seeking potential new business in addition to its Beazley mandates.

Standard & Poor's believes this could result in increased earnings volatility, although we understand it is Beazley's intention to maximize the diversity of the funds it will invest in as part of the capital growth portfolio.

2009 investment performance has improved on the poor results in 2008, with an overall net return forecast to be in excess of 2.5%. The investment allocation at the end of Q3 2009 was cash (28%), 'AAA' rated fixed income (62%), other fixed income (4%), and capital growth assets (6%).

Liquidity: Strong, With Positive Cash Flows Expected

Beazley Group continues to generate strong cash flows to support its highly liquid investment portfolio. Average duration of the portfolio is low, with approximately two-thirds having less than one year to maturity.

The group has access to a £100 million banking facility, of which none is currently drawn down.

Capital: Strong Capital, Reflecting Lloyd's Capital Regime And Beazley's Improved Capital Position

The syndicate's capitalization is considered to be strong. This is largely a function of the ICA capital regime, and Lloyd's requirement to maintain capital above this, but also reflects the improved capital adequacy of Syndicate 2623/3622/3623's sole backer, Beazley. Syndicate 0623 is backed by private limited and unlimited names, including directors of Beazley directly, the Beazley staff bonus fund, and by limited-liability corporate backers.

Beazley's capital level is expected to be strong at year-end 2009, though marginally weaker than some similarly rated peers. This reflects the capital investment in First State, and the increased property catastrophe 1:250 charge. The capital adequacy, measured using Standard & Poor's risk-adjusted model, is strong and we expect it to remain at least strong over the rating horizon, supported by strong retained earnings as forecast. The improvements to the group's capital strength reflect the increase in retained earnings and the successful raising of capital in 2004, 2006, and 2009.

Reinsurance

The syndicate has a dedicated outward reinsurance team providing support to each of the six underwriting divisions. The team includes legal, security, actuarial, and credit control staff. The team was formed to manage the strategic purchasing and planning of the reinsurance programs. Working in conjunction with the underwriting divisions, the team has been able to react to the hardening reinsurance and retrocession markets, increasing retentions on property and energy business, making changes to the reinsurance stack away from worldwide cover, and planning to limit the inward exposures on the catastrophe program. For 2008 and 2009, the retrocession purchases were reduced, in line with the higher retentions. For the insurance lines of business, the reinsurance spend remains at about 25% across the portfolio. Total spend for 2008 was 15.5%; this is expected to rise slightly for 2009, mainly because of the introduction of the First State business.

Exposure to individual reinsurers is actively managed, with a maximum exposure of 10% of syndicate capacity for highly rated counterparties, with reduced exposure limits at lower rating levels. At present, exposure to one counterparty exceeds 5%, although this is not considered a material weakness given the financial strength of the reinsurer.

At group level, 99.6% of the reinsurance asset is rated 'A-' or higher, with unrated reinsurers fully collateralized to policy limits by a letter of credit. The bad debt provision is not material, and has remained unchanged since 2002.

Reserves

Standard & Poor's notes that the level of reserves held by the syndicate appear conservative, and are held at a level materially higher than actuarial best estimate for year-end 2008. Beazley has provided greater transparency surrounding its reserves, and has stated it is targeting a margin in held reserves between 5% and 10% above actuarial best estimate, currently 7.4% at half-year 2009. The conservative nature of the reserving is demonstrated by the track record of reserve releases. The accurate and conservative reserving history is helped by the lack of business written on an occurrence basis.

Beazley undertakes a full peer review of reserves quarterly, with separate underwriting and actuarial reviews, and an annual external review. The claims reserving, pricing, and ICA processes are integrated by the reserving group, with actuaries operating within the underwriting divisions.

Financial Flexibility: Strong, Although Needs Are Currently Low

The syndicate's financial flexibility is tied to that of Beazley, and is considered to support the assessment at its current level. A strong level of financial flexibility has been demonstrated, with the group successfully completing a fully-underwritten £150 million rights issue and placing in April 2009, predominantly to support increased underwriting, and to fund the acquisition of First State.

Potentially, the syndicate also has access to other types of financial support through reinsurance or "sidecar" arrangements.

Previously, Beazley's financial flexibility was demonstrated by its ability to successfully float in 2002, raising £150 million to establish Beazley, and then in 2004 to raise a further £105 million to fund the expansion into the U.S. and

the acquisition of an admitted lines company.

In October 2006, the group successfully issued £150 million of Tier II capital to replace its short-term borrowing facilities and secure a more permanent capital base to support the syndicate. The previous £150 million banking facility has been reduced to £100 million, of which none is currently drawn down.

Beazley Furlonge - Syndicate 0623/2623 Key Financial Data					
	--Year ended Dec. 31--				
	2008	2007	2006	2005	2004
Analysis of underwriting (Mil. £)					
Gross premiums written	1034.3	932.2	725.7	557.5	402.6
Net premiums written	888.6	782.3	569.2	425.8	329.3
Operating performance					
Combined ratio	91.3	85.1	86.8	101.2	91.6
Loss ratio	55.9	50.3	52.2	70.5	59.8
Expense ratio	35.4	34.8	34.6	30.7	31.8
Reinsurance ceded					
Premium retention ratio	85.9	83.8	78.2	76.2	82.1
Loss retention ratio	79	90.5	75.1	60	80.8
Reserves					
Reserves/net premiums written	229.9	163	160.2	178	128.8
Investments and liquidity					
Receivables ratio	15.9	16.1	14.8	14.3	14.9
Investment yield	3.5	5.6	5.7	3.7	4.8

Ratings Detail (As Of January 28, 2010)*	
Beazley Furlonge Ltd. - Syndicate 0623/2623/3622/3623	
Related Entities	
Beazley Group Ltd.	
Issuer Credit Rating	BBB+/Stable/--
Subordinated (1 Issue)	BBB-
Beazley PLC	
Issuer Credit Rating	
Local Currency	BBB+/Stable/--
Holding Company	Beazley Group Ltd.
Domicile	United Kingdom

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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