

# Thai Life Insurance Public Company Limited

## Full Rating Report

### Ratings

|                                     |          |
|-------------------------------------|----------|
| Insurer Financial Strength          | A-       |
| National Insurer Financial Strength | AAA(tha) |

### Sovereign Risk

|                                |      |
|--------------------------------|------|
| Long-Term Foreign-Currency IDR | BBB+ |
| Long-Term Local-Currency IDR   | A-   |

### Outlooks

|                                     |        |
|-------------------------------------|--------|
| Insurer Financial Strength          | Stable |
| National Insurer Financial Strength | Stable |

### Financial Data

#### Thai Life Insurance Public Company Limited

|  | 31 Mar 15 |
|--|-----------|
| Gross premium written (THBm) <sup>a</sup>    | 63,060    |
| Total assets (THBm)                          | 270,431   |
| Pre-tax return on assets (%) <sup>a</sup>    | 2.5       |
| Return on adjusted equity (%) <sup>a</sup>   | 13.8      |
| Adjusted equity to total assets (%)          | 14.9      |
| Liquid assets/policyholders' liabilities (%) | 105.4     |

<sup>a</sup> Full-year ended December 2014

### Disclosure

Thai Life Insurance Public Company Limited owns 10% of Fitch Ratings (Thailand) Limited. No shareholder, other than Fitch Ratings Limited of the UK, is involved in the day-to-day operations of, or credit rating reviews undertaken by, Fitch Ratings (Thailand) Limited.

### Related Research

[2015 Outlook: Thai Insurance Sector \(December 2014\)](#)

[Thailand Insurance Market Dashboard 2015 \(March 2015\)](#)

### Analysts

Trin Siriwutiset  
+66 2 108 0154  
[trin.siriwutiset@fitchratings.com](mailto:trin.siriwutiset@fitchratings.com)

Siew Wai Wan, CFA  
+65 6796 7217  
[siewwai.wan@fitchratings.com](mailto:siewwai.wan@fitchratings.com)

### Key Rating Drivers

**Established Market Franchise:** The Insurer Financial Strength (IFS) and National IFS Ratings of Thai Life Insurance Public Company Limited (TLI) reflect a solid market franchise, consistently healthy financial performance and low investment risks. TLI is the third-largest life insurer in Thailand by premiums, with a 12.5% market share in 2014, and has been in the top three in the past 10 years. It also has a large network of over 30,000 active agents nationwide.

TLI is majority owned by the Chaiyawan family, which has been responsible for the company's management and strategy since it was restructured in 1970. We believe Meiji Yasuda Life Insurance Company's (MYL; IFS: A/Stable) 15% acquisition of TLI in 2013 should support the company's technical know-how (risk management, products), and enhance its access to the Japanese customer base.

**Solid Financial Performance:** TLI's financial performance has been consistently solid in the past five years. Its strong profitability is reflected in its five-year (2010-2014) average pre-tax ROA of 2.4%. We expect TLI's financial performance to remain solid, backed by a strong market franchise, wide distribution network and pricing discipline.

**Conservative Investments:** TLI's invested assets are mainly allocated in low-risk assets, including fixed income, cash and deposits (85% of invested assets). Equities were limited to only about 6% of invested assets as of end-1Q15. Fitch believes TLI will continue to prudently manage its investment risk in the next few years without a significant change in its risk appetite.

**Strong Capital Buffer:** TLI's regulatory risk-based capital (RBC) ratio of 474% at end-1Q15 is much higher than the minimum requirement of 140%, and is among the highest in the industry. TLI also scored the second-highest 'Extremely Strong' on Fitch Ratings' Prism Factor-Based Model (Prism FBM)<sup>1</sup> using year-end 2014 results. We believe TLI's capitalisation would be sufficient to meet the tightened regulatory capital requirements that are expected to take effect in the next few years.

**Prudent Asset-Liability Management:** Fitch believes TLI's asset-liability duration gap is manageable, supported by the company's prudent management. In addition, the company's strong liquid assets to policyholders' liabilities ratio of 105.4% at end-1Q15 means it ought to be able to meet its short-term obligations to policyholders.

### Rating Sensitivities

**Capital Buffer, Pre-Tax ROA:** Key rating triggers for a downgrade would include a significant deterioration of the capital buffer, as reflected in RBC ratio dropping below 250% for an extended period, and a significant weakening in financial performance, as reflected by a pre-tax ROA that stays below 1%. However, Fitch sees such a shift as unlikely in the near term.

**Effect of Sovereign Downgrade:** If Thailand's Long-Term Local-Currency IDR of 'A-' with a Stable Outlook is downgraded, TLI's IFS Rating is also likely to be lowered.

**Limited Upgrade Potential:** An upgrade is unlikely in the near term as TLI's international IFS Rating is at the same level as Thailand's Long-Term Local-Currency IDR. TLI's National IFS rating is already at the highest-possible level.

<sup>1</sup> Prism FBM is Fitch's enhanced risk-based capital model and the primary proprietary tool we use to assess the capital strength of insurers in EMEA and the Asia Pacific

**Market Position and Size/Scale**

**Strong Market Franchise**

- Third-largest life insurer
- Established extensive agency network
- Expanding distribution partners

**Third-Largest Life Insurer**

TLI is the third-largest life insurer in Thailand by total premiums written, with a 12.5% market share in 2014. The company's strong market position is underpinned by its long-established franchise and its large agency network nationwide. Its market position has almost remained unchanged in the past three years despite the increasing competition from life insurers with strategic relationship with the major commercial banks in Thailand.

Figure 1  
**Market Share of the Top-Six Life Insurers in Thailand**

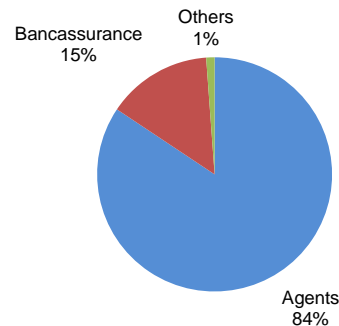
| (%)                  | New business premium market share |      |        | Total premium market share |      |        |
|----------------------|-----------------------------------|------|--------|----------------------------|------|--------|
|                      | 2013                              | 2014 | Jun 15 | 2013                       | 2014 | Jun 15 |
| AIA                  | 18.1                              | 15.3 | 15.4   | 25.0                       | 22.8 | 21.0   |
| MTL <sup>a</sup>     | 18.6                              | 20.7 | 24.8   | 13.6                       | 14.9 | 17.5   |
| TLI <sup>a</sup>     | 10.0                              | 8.7  | 10.0   | 12.4                       | 12.5 | 12.2   |
| SCBLife <sup>a</sup> | 12.3                              | 10.7 | 12.2   | 10.3                       | 9.6  | 11.0   |
| KTAL <sup>a</sup>    | 9.9                               | 11.4 | 11.5   | 8.5                        | 9.7  | 10.6   |
| BLA <sup>a</sup>     | 7.1                               | 11.2 | 4.5    | 8.8                        | 10.3 | 8.9    |

<sup>a</sup> Muang Thai Life Assurance; SCBLife = SCB Life Assurance; KTAL = Krungthai AXA Life Insurance; BLA = Bangkok Life Assurance  
Source: Thai Life Assurance Association

**Established Extensive Agency Network**

The agency network is TLI's main distribution channel, accounting for about 84% of the company's total premium written in 2014. The company has over 30,000 agents nationwide, the second-largest network in the country.

Figure 2  
**TLI's Premium Breakdown by Channels**  
2014



Source: Thai Life Assurance Association

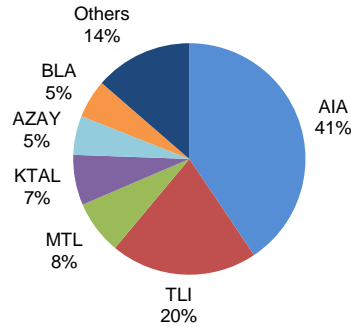
**Related Criteria**

- Insurance Rating Methodology (July 2015)
- National Scale Ratings Criteria (October 2013)

Figure 3

**Company Market Share by Agency Channels**

By total premiums in 2014



AZAY: Allianz Ayudhya Assurance  
Source: Thai Life Assurance Association

Fitch expects TLI’s strong agency network would remain the company’s growth driver in the next three to four years. The company says that enhancing its agent’s skills and improving retention rate are among its key strategic objectives. It wants its agents to establish a lifelong business partnership with its clients and to focus on after-sales services to ensure customer satisfaction.

**Expanding Distribution Partners**

TLI acquired the remaining 50% it does not already in Thai Cardif Life Assurance (TCLA) in April 2015. The acquisition was funded by TLI’s cash surplus and would expand its non-agency distribution due to TCLA’s existing partnership with some major leasing and consumer finance companies in Thailand. Its market share in credit life would also improve, although the impact would be limited due to TCLA’s small size. TCLA, ranked 13<sup>th</sup> in Thailand’s life insurance business with about a 0.8% market share by total premiums in 2014, will cease to exist after the business transfer to TLI is completed (expected in 2015).

Fitch believes TLI’s increased diversification into non-agency distribution channels would support its long-term growth prospects. The company’s existing exclusive bancassurance distributions include the upcountry branches of Bank of Ayudhya Public Company Limited’s (BAY, A-/Stable) and all branches of CIMB Thai Bank Public Company Limited (CIMBT). BAY and CIMBT was the fifth and 10th largest commercial banks in Thailand by total consolidated assets, respectively, in 2014.

Figure 4

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



Source: Fitch

**Corporate Governance and Management**

Corporate governance and management are adequate and neutral to the rating. TLI's 12-member board consists of three independent directors. Sub-committee includes executive, audit, risk management and investment. Independent directors are members of the audit committee.

**Ownership is Neutral to the Rating**

The Chaiyawan family, which has been responsible for management and strategy since the company's reorganisation since 1970, owns 75.2% of TLI; MYL owns 15%. Family members hold key positions on the board, including the chairman and president. The management team consists of seasoned executives, each with more than 10 years of industry experience.

TLI ought to benefit from MYL's support in risk management, sales and product capabilities. Furthermore, TLI should have better access to Japanese customer-based by leveraging on MYL's Japanese background. MYL's senior executives are represented on TLI's board and management meetings.

**Sovereign- and Country-Related Constraints**

Fitch rates the local-currency sovereign obligations of Thailand at 'A-', with a Stable Outlook, and the Country Ceiling is 'A-'. The local-currency sovereign rating expresses the maximum limit for local-currency ratings of most, but not all, issuers in a given country. At current levels, the ratings of selected Thai insurance organisations and other corporate issuers could be constrained by sovereign or macroeconomic risks; but in the specific case of TLI, no constraints are in place.

**Industry Profile and Operating Environment**

**Industry Growth Undeterred by Crisis and Regulatory Changes**

Asia Pacific (APAC) generally consists of both developed and emerging markets. While the majority of Fitch-rated APAC insurers in developed markets have IFS Ratings in the 'A' category, most insurers in emerging markets have IFS Ratings in the 'A' to 'BBB' category in Fitch's rated universe.

Thai life insurers rated by Fitch have IFS Ratings in the 'BBB' category or higher. Key industry risks are economic and political, although the impact from both in the past has been limited and temporary. The flooding in Thailand in late 3Q11 resulted in moderate claims of THB20m, from a reported death toll of about 600; this was because of a penetration rate of just 25% for life insurance in Thailand.

The balance sheets of Thai life insurers are healthy, with zero leverage and low-risk investments. Low investment yields and pricing competition in the past three to four years have only had a moderate impact on earnings. This is despite the industry enjoying a 14% compound annual growth rate (CAGR) in life premiums in 2007-2013, benefiting from an under-penetrated market, changes in demographics towards an ageing society, a rising middle-income segment, and tax-reduction benefits.

Fitch sees the upcoming regulatory changes positively, and believes this will strengthen life insurers' capitalisation, particularly that of the smaller ones. The regulatory RBC framework, first implemented in 2011, is set for an update to RBC Phase 2, which is more aligned with global standards and more principle-based. Some of the key changes include higher charges on risky assets, inclusion of risk charges on operational and surrender risk, and a higher confidence level used to calibrate risk factors.

Figure 5  
**APAC Ratings Range, Based on Industry Profile/Operating Environment**



<sup>a</sup> Consists of Australia, New Zealand, Hong Kong, Korea, Taiwan and Singapore

<sup>b</sup> Consists of the rest of the APAC ex-Japan regions, except the above mentioned markets

Source: Fitch

## Peer Analysis

**Strong Capital Position, Smaller than Regional Peers**

TLI's capitalisation, as reflected by the company's adjusted equity to total assets and regulatory RBC, compares well against regional and local peers. Furthermore, TLI's financial performance, as reflected in pre-tax ROA, compares favourably with its regional peers.

TLI is relatively small in size compared with its regional peers. This is reflected in its asset and equity size and gross premium written, which are still significantly lower than that of its regional peers.

## Peer Comparison Table

|                           | IFS Rating | Year | Return on adjusted equity (%) | Pre-tax return on assets (%) | Adjusted equity to total assets | Gross premium (USDbn) | Total assets (UsDbn) | Shareholders' equity (USDbn) | Regulatory RBC (%) |
|---------------------------|------------|------|-------------------------------|------------------------------|---------------------------------|-----------------------|----------------------|------------------------------|--------------------|
| Thai Life Insurance       | A-         | 2014 | 13.8                          | 2.5                          | 14.6                            | 1.9                   | 8.0                  | 1.2                          | 474                |
| Muang Thai Life Assurance | A-         | 2014 | 24.6                          | 3.9                          | 13.1                            | 2.3                   | 7.3                  | 1.0                          | 547                |
| Kyobo Life Insurance      | A+         | 2013 | 8.3                           | 0.9                          | 9.7                             | 5.1                   | 72.0                 | 5.7                          | 321 <sup>a</sup>   |
| China Life Insurance      | A+         | 2013 | 11.2                          | 1.5                          | 11.3                            | 53.4                  | 322.9                | 36.4                         | 241 <sup>b</sup>   |
| Taiping Life Insurance    | A          | 2013 | 7.9                           | 0.6                          | 8.0                             | 8.6                   | 34.3                 | 2.7                          | 205 <sup>c</sup>   |

<sup>a</sup> At end-3Q14

<sup>b</sup> At end-1H14

<sup>c</sup> At end-Jan 14

Source: Company financial statements, Fitch

Figure 6  
**Capitalisation and Leverage**

| (%)                             | 2010 | 2011 | 2012 | 2013 | 2014 | Fitch's expectation   |
|---------------------------------|------|------|------|------|------|---|
| Adjusted equity to total assets | 9.8  | 10.5 | 11.6 | 14.3 | 14.6 | TLI's strong capitalisation will be sufficient for the upcoming strengthening in regulatory capital requirements. |
| Operating leverage              | 9.2  | 8.5  | 7.7  | 6.0  | 5.8  |   |
| Regulatory RBC                  | n.a. | 341  | 361  | 442  | 474  |   |
| Asset leverage                  | 9.2  | 8.5  | 7.7  | 6.0  | 5.8  |   |

Source: Company and Fitch's calculation

**Solid Capitalisation**

- 'Extremely Strong' Prism score
- Prudent capital management
- No external debt

**'Extremely Strong' Prism Score**

TLI scored the second-highest 'Extremely Strong' based on year-end 2014 on the Prism factor-based capital model (Prism FBM). The Prism FBM score is a ratio of total available capital (TAC) divided by target capital (TC) at various stress levels, with the Prism score itself equal to the highest category where TAC exceeds TC.

TLI's investment risks and life insurance reserve risks are the biggest drivers of TC.

Fitch's TAC measure is used to calculate the Prism score. However, Fitch believes there can be value in looking at the Fitch Core Capital (FCC), as this indicates the coverage of TC by 'very high quality' capital. Fitch's TAC gives some credit for value of in force (VIF) and subordinated debt, whereas FCC does not. If companies have a significant VIF or subordinated debt, the ratio of FCC/TAC will be lower, indicating a weaker quality of capital.

**Prudent Capital Management**

TLI's solid capitalisation is underpinned by its prudent capital management and consistent healthy financial performance. The company's adjusted equity-to-total assets ratio has steadily increased in the last four years to reach 14.6% at end-2014.

The company's regulatory RBC of 474% at end-1Q15 is among the highest in the industry, and is substantially higher than the minimum requirement at 140%. Fitch believes TLI's capital level would be sufficient for the upcoming strengthening in regulatory capital requirements.

**No External Debt**

TLI has no external debt, and the company says it has no plan to issue debt. Fitch views the company's financial flexibility as adequate due to the potential access to financial support from its shareholders and by leveraging its debt-free balance sheet.



Figure 7  
**Financial Performance and Earnings**

| (%)                           | 2010 | 2011 | 2012 | 2013 | 2014 | Fitch's expectation  |
|-------------------------------|------|------|------|------|------|--|
| Return on adjusted equity     | 16.4 | 17.0 | 18.3 | 13.3 | 13.8 | TLI's financial performance to remain solid, supported by the company's solid franchise, strong distribution network and pricing discipline. |
| Pre-tax return on assets      | 2.3  | 2.5  | 2.6  | 2.2  | 2.5  |  |
| Change in gross premium (yoy) | 3.5  | 9.0  | 22.0 | 12.7 | 14.6 |  |
| Investment yield              | 4.9  | 4.7  | 4.6  | 4.5  | 4.4  |  |

Source: Company and Fitch's calculation

**Healthy Financial Performance to Continue**

- Pricing discipline supports profitability
- Acceptable investment return
- Consistent growth amid competition

**Pricing Discipline Supports Profitability**

TLI says it is focused on pricing its products appropriately, and the company has a review procedure in place to ensure no product is generating negative spread. The company's five-years average (2010-2014) pre-tax ROA at 2.4% shows its consistent financial performance and sound profitability.

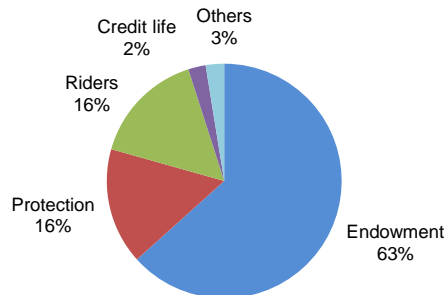
TLI has a diversified product mix, maintaining a substantial portion of traditional protection and rider products, even though endowment remained the largest contributor to its annual premium equivalent (APE) in 2014 at 66%. The company says it wants to continue to increase offering higher margin products such as protection, rider and credit life. At the same time, endowment is likely to remain the mainstream product due to its popularity among the Thais.

Figure 8  
**TLI's Product Mix by New Business Premium (Annual Premium Equivalent)**

| (%)                           | 2012   | 2013     | 2014     |
|-------------------------------|--------|----------|----------|
| Endowment                     | 63.1   | 70.7     | 66.3     |
| Protection                    | 12.1   | 12.3     | 14.7     |
| Rider                         | 14.7   | 14.4     | 15.1     |
| Credit Life                   | 1.1    | 1.1      | 1.3      |
| Group (yearly renewable term) | 9.0    | 1.4      | 2.7      |
| Annualised premium            | 100.0  | 100.0    | 100.0    |
| Annualised premium (THBm)     | 12,744 | 13,524.6 | 13,024.2 |

Source: Fitch

Figure 9  
**TLI's Product Mix by In-Force Premiums**  
 End-2014



Source: TLI



**Acceptable Investment Return**

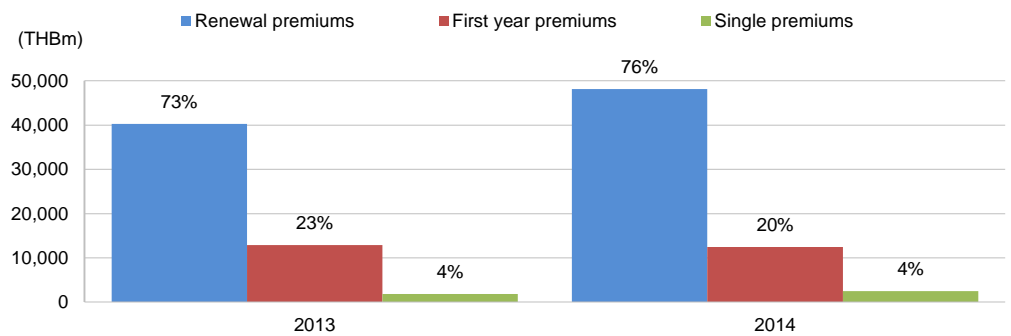
TLI's investment yield has gradually declined to 4.4% in 2014, from 4.9% in 2010, mainly due to the low-interest-rate environment. The Bank of Thailand lowered its benchmark interest rate by 0.25% to 1.50% in March 2015, the second interest-rate cut in 2015. In any case, Fitch expects the impact on TLI's financial performance from low interest rates to be limited, thanks to the company's firm pricing discipline.

**Consistent Growth amid Competition**

TLI's gross premium written grew 14.6% in 2014, slightly higher than the industry growth of 13.9%. The company's growth is mainly driven by its solid market franchise and its productive agents. Furthermore, over 96% of premiums written in 2014 are regular premiums, which indicate growth is sustainable.

Figure 10

**TLI's Premium Breakdown by Type**



Source: Thai Life Assurance Association

Figure 11  
Investment and Asset Risk

| (%)  | 2010    | 2011    | 2012    | 2013    | 2014    | Fitch's expectation   |
|--|---------|---------|---------|---------|---------|---|
| Total investment assets (THBm)                         | 156,646 | 171,264 | 191,203 | 220,093 | 250,471 | Fitch views TLI's investment portfolio as conservative, and does not expect significant changes in the company's investment risk appetite in the next two to three years. |
| % of cash and cash equivalent to total invested assets | 2.3     | 2.4     | 3.3     | 2.6     | 2.6     |   |
| % of fixed income securities to total invested assets  | 83.4    | 84.1    | 83.0    | 83.9    | 82.7    |   |
| % of stocks to total invested assets                   | 3.4     | 3.1     | 4.3     | 4.4     | 5.9     |   |
| Stocks/adjusted equity                                 | 33.1    | 27.8    | 34.8    | 29.0    | 38.3    |   |

Source: Company and Fitch's calculation

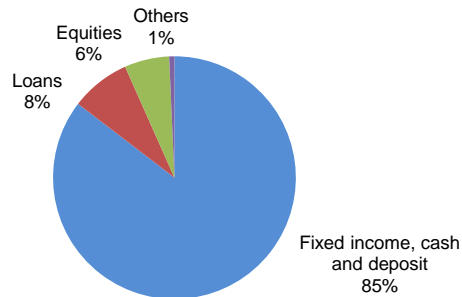
### Prudent Investment Approach

- Conservative investment portfolio
- Limited investment in risky assets

### Conservative Investment Portfolio

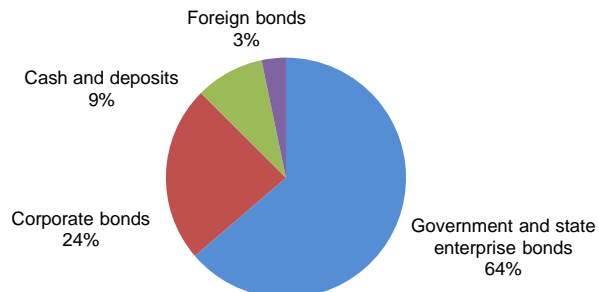
TLI's investment remains conservative with no significant change in the company's asset allocation in the last few years. Fixed-income securities, cash and deposits represented about 85% of the company's invested assets at end-1Q15. The majority (64%) of fixed-income securities are invested in government and state enterprise securities.

Figure 12  
Invested Assets Allocation  
End-1Q15



Source: TLI

Figure 13  
Breakdown of Fixed Income, Deposits and Cash  
End-1Q15

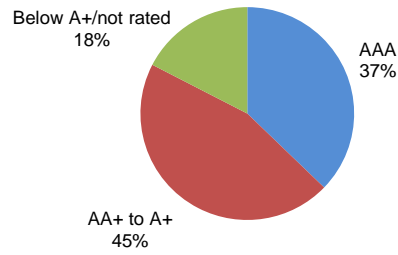


Note: TLI's total investment in fixed income deposits and cash was about THB 220bn at end-1Q15  
Source: TLI

Under the current regulation, investing in local corporate and foreign bonds is limited to investment grade on the national and international rating scale, respectively. Foreign securities accounted for less than 5% of TLI's invested assets. In addition, it is required by regulation to fully hedge its foreign currency fixed-income securities exposure.

Figure 14

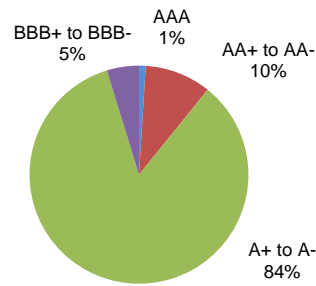
**Breakdown of Local Corporate Bonds by Credit Rating**  
(National scale)  
End-2014



Note: TLI's total investment in local corporate bonds was about THB78.9bn at end-2014  
Source: TLI

Figure 15

**Breakdown of Foreign Bonds by Credit Rating**  
(International scale)  
End-2014



Note: TLI's total investment in foreign bonds was about THB10.6bn at end-2014  
Source: TLI

**Limited Investment in Risky Assets**

Fitch believes TLI will not significantly increase its investment risk appetite in the next few years. The company maintains low allocation to risky assets, with investment in equities having accounted for less than 40% of its shareholders' equity at end-2014.

Figure 16

**Asset/Liability and Liquidity Management**

| (%)  | 2010 | 2011 | 2012 | 2013  | 2014  | Fitch's expectation  |
|--|------|------|------|-------|-------|--|
| Liquid assets to policyholders' liabilities            | 96.0 | 96.8 | 99.2 | 103.4 | 104.5 | TLI's asset-liability mismatch is manageable, while the company has sufficient liquidity to support its short-term obligations |
| Cash and cash equivalent to policyholders' liabilities | 2.5  | 2.6  | 3.6  | 2.9   | 3.0   |  |

Source: Company and Fitch's calculation

**Asset/Liability Mismatch is Manageable**

- Limited long duration assets
- Assets are highly liquid

**Limited Long Duration Assets**

TLI's asset duration has slightly dropped as the company has shifted its investment in government bonds to corporate and foreign bonds. The move is in response to the drop in government yield curve in 2014, as the company tries to manage its investment return. Nevertheless, TLI has been able to maintain its asset-liability mismatch at less than six years at end-1Q15, almost unchanged from end-1Q14.

Fitch believes its asset-liability gap is manageable, supported by the company's prudent and active management of their assets and liabilities. The company says it aims to gradually reduce the gap by offering products with shorter duration or that are less interest-rate sensitive, such as protection and rider.

**Assets are Highly Liquid**

TLI's assets are highly liquid, as reflected in its liquid assets to policyholders' liabilities ratio of 104.5% at end-2014. The company's liquid assets should be well sufficient to meet its short-term liabilities.

## Reinsurance, Risk Management and Catastrophe Risk

### Limited Reinsurance Usage

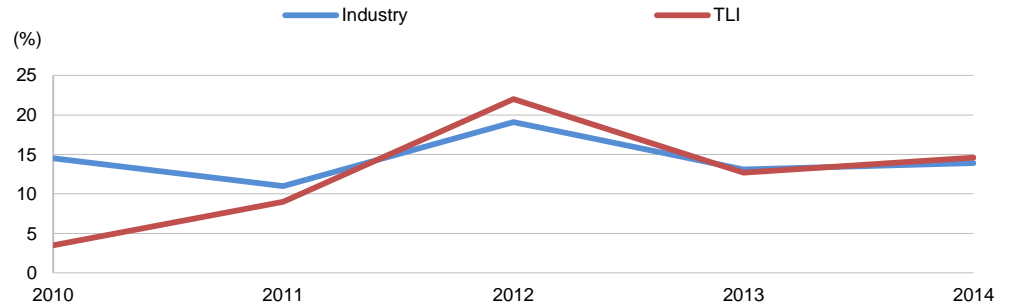
TLI's retention ratio over the last five years has been consistently over 99%, in line with the limited use of reinsurance by life insurers. The majority of the company's reinsurance panels are rated 'A' and above on the international rating scale.

Reinsurance usage is mainly for reducing the volatility of TLI's underwriting risk, particularly for the newly launched products. Furthermore, the company arranged reinsurance protection against catastrophe risk whereby its retention limit is limited to THB100m. The exceeding amount is covered by reinsurers up to THB1.5bn per event and THB2.3bn per year.

Appendix A: Additional Financial Exhibits

Figure 17

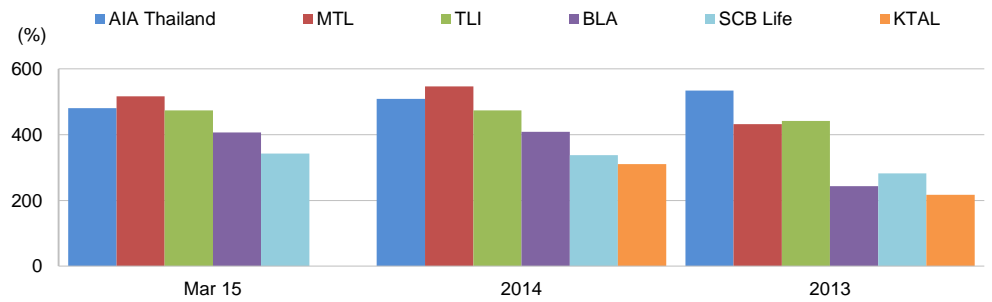
**Premium Growth**  
By total premium written



Source: Thai Life Assurance Association

Figure 18

**Regulatory RBC**



Note: KTAL's regulatory RBC at end-Mar15 has not been made publicly available  
Source: Companies' websites

## Appendix B: Other Ratings Considerations

### Group IFS Rating Approach

The Group IFS Rating approach is not applicable for the company.

### Notching

TLI is incorporated in Thailand. Fitch regards the regulatory environment as effective, with recognition of seniority of policyholder claims and the implementation of a regulatory risk-based capital regime.

### *Notching Summary*

#### **Holding Company**

Not applicable

#### **IFS Ratings**

A baseline recovery of “good” applies to the IFS Rating due to the existence of policyholder priority of claims payment per local legislation.

#### **Debt**

Not applicable

#### **Hybrids**

Not applicable



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