

Fitch Ratings Sovereign 2009 Transition and Default Study

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Related Research

- *Fitch Ratings Global Corporate Finance 2009 Transition and Default Study, March 18, 2010*

Index of Key Exhibits

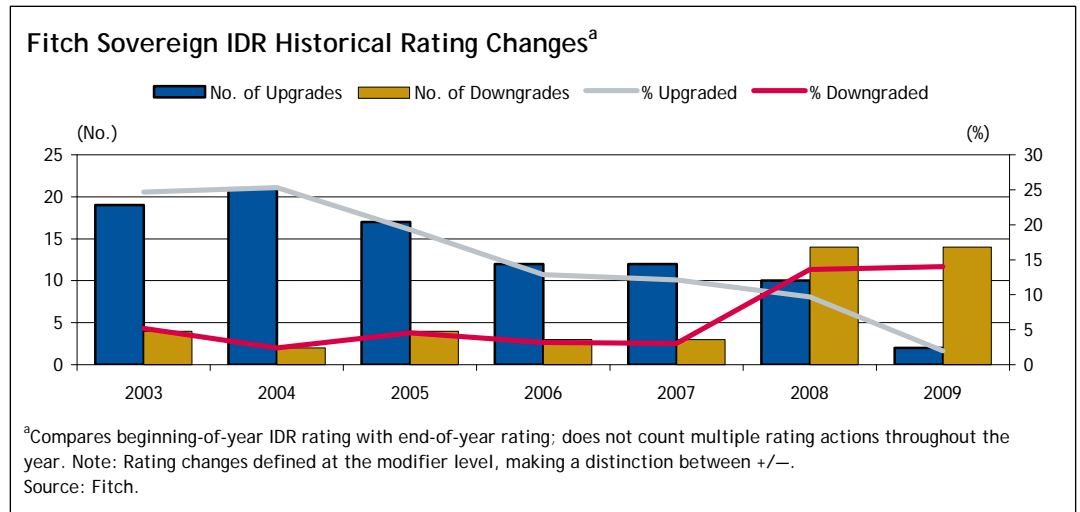
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Summary

This study provides data and analysis on the performance of Fitch's sovereign ratings, both over the most recent year, 2009, and over the long term, capturing the period 1995–2009. Fitch provides analytical coverage on 102 sovereign issuer default ratings (IDRs). This report offers detailed summary statistics on the year's key sovereign rating trends.

Credit quality eroded again for sovereign issuers in 2009, as the global recession's impact on advanced and emerging economies continued to deepen. The share of sovereign issuers downgraded remained steady year-over-year at roughly 14%, while upgrades tumbled to just 2% from nearly 10% a year earlier. Prominent downgrades over the course of the year included Ireland (to 'AA-' from 'AAA') and Greece (to 'BBB+' from 'A'), each stemming from deteriorating public finances and rising public indebtedness. Alternatively, upgrades were limited, affecting only two issuers, Turkey (to 'BB+' from 'BB-') and Bolivia (to 'B' from 'B-'), both upon displaying relative resilience in the face of severe economic — and in the case of Bolivia, political — stress. The resulting downgrade to upgrade ratio for 2009 was 7 to 1, a steep increase from the 1.4-to-1 margin recorded in 2008. Sovereign credits recorded no defaults in 2009, down from one, Ecuador in 2008.

Fitch believes diverging sovereign credit trends between advanced and emerging markets will remain a predominant theme in 2010 as public debt/GDP ratios climb steeply toward 100% in the former, even as comparable debt ratios settle at less than half this level in emerging markets. Given the fragility of the global economic recovery and the potential for renewed bouts of extreme volatility in financial markets, the risk of negative "surprises" cannot be discounted. Political shocks could also impinge on macro-financial stability as more indebted sovereigns face up to the challenge of fiscal consolidation. At year-end 2009, 15 Fitch-rated sovereign credits were assigned



Fitch Sovereign IDR Rating Movements Across Major Rating Categories

(%)

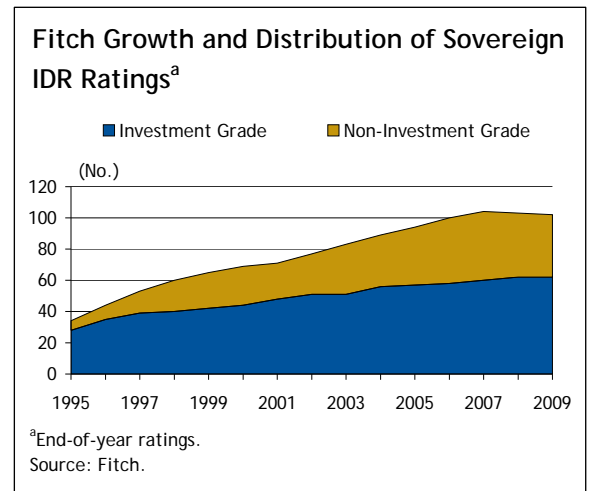
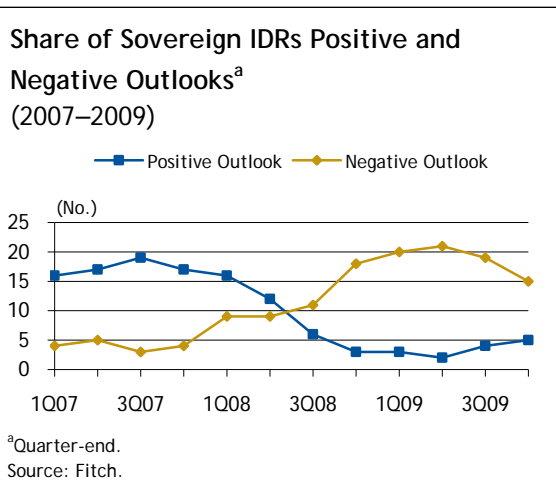
	Average Annual 1995–2008		2008		2009	
	Downgrade	Upgrade	Downgrade	Upgrade	Downgrade	Upgrade
AAA	0.58	N.A.	0.00	N.A.	6.25	N.A.
AA	1.76	4.12	0.00	0.00	7.14	0.00
A	3.55	3.55	12.50	6.25	14.29	0.00
BBB	4.05	8.11	6.67	0.00	5.56	0.00
BB	7.45	9.04	16.67	8.33	0.00	0.00
B	3.79	12.12	0.00	0.00	5.26	0.00
CCC to C	21.43	21.43	100.00	0.00	0.00	0.00

N.A. – Not applicable. Note: Data enhancement efforts may lead to slightly different results than previously published. Current study supersedes all prior statistics.
Source: Fitch.

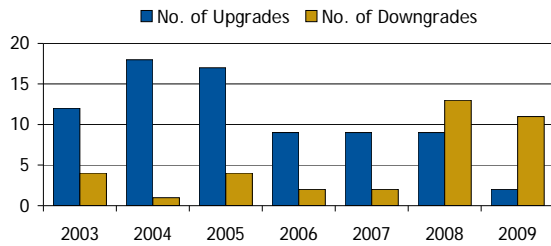
Negative Rating Outlooks, whereas five carried Positive Rating Outlooks. Fitch’s current assessment is that 2010 will be characterized by a gradual rebalancing between positive and negative rating actions, and the gap between Stable and Negative Outlooks has already begun to narrow. Nonetheless, Fitch notes that 2010 has already claimed a sovereign default event with Jamaica’s distressed debt exchange in February.

Highlights

- Overall, the sovereign downgrade to upgrade ratio of 7 to 1 was a notable departure from the more moderate 1.4-to-1 margin recorded in 2008. In fact, the 2009 mix of downgrades to upgrades was the worst since Fitch began tracking sovereigns in 1994 and contrasts starkly with the last economic downturn — 2001–2002 — when downgrades trailed upgrades by margins of 0.7 to 1 and 0.4 to 1, respectively. In 2001 and 2002, emerging Europe upgrades masked the deterioration in Latin America, whereas in 2009, downgrades affected more areas and upgrades were limited to just two.
- Sovereign downgrades remained steady year-over-year, totaling 14, the highest number recorded over the 15-year period covered by this study. Ireland was among those countries downgraded in 2009, due to the onset of the global economic and financial crisis, relinquishing its ‘AAA’ rating to end the year at ‘AA-’. Another notable downgrade, Latvia crossed from investment to non-investment grade to ‘BB+’ from ‘BBB-’, reflecting a weakening economy and a strong reliance on external capital inflows. Additional sovereign downgrades in 2009 included Armenia, El Salvador, Thailand, and Jamaica.

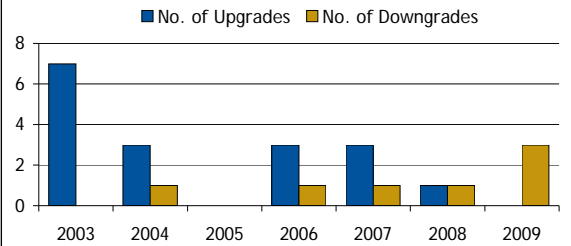


**Fitch Emerging Market Sovereigns
Historical Rating Activity^a**



^aCompares beginning-of-year IDR rating with end-of-year rating, does not count multiple rating actions throughout the year. Note: Rating changes defined at the modifier level, making a distinction between +/-.
Source: Fitch.

**Fitch Developed Market Sovereigns
Historical Rating Activity^a**



^aCompares beginning-of-year IDR rating with end-of-year rating, does not count multiple rating actions throughout the year. Note: Rating changes defined at the modifier level, making a distinction between +/-.
Source: Fitch.

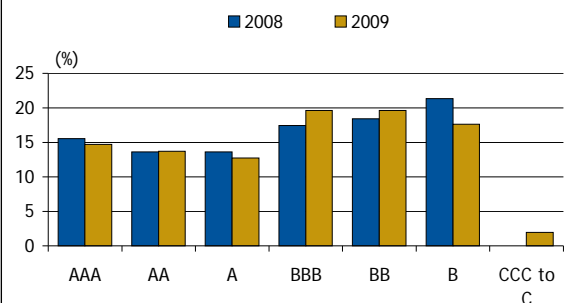
- Upgrades contracted significantly year over year to just two from 10 in 2008. The two affirmative moves included that of Bolivia (to 'B' from 'B-') and the two-notch upgrade of Turkey (to 'BB+' from 'BB-'), each demonstrating resilience in the midst of severe stress conditions.
- Historically, under normal economic circumstances, multi-notch rating movements among sovereign credits — actions exceeding more than one rating modifier move — occur infrequently. However, given the extent of this latest recession, both 2008 and 2009 witnessed five year-over-year multi-notch downgrades. The last time Fitch-rated sovereigns experienced this level of credit deterioration was in 2001, which saw the same number of multi-notch downgrades. One such example was Jamaica, downgraded to 'CCC' from 'B' in November 2009, reflecting the country's swift economic deterioration. Of note, all three developed market issuers downgraded in 2009 — Ireland, Greece, and San Marino — recorded multi-notch rating movements year over year.
- Downgrade rating activity, although equal in severity to year-earlier totals, differed as those affected by credit deterioration became more diverse geographically. However, the share of investment and non-investment grade issuers affected by the crisis remained relatively even year-over-year. Sovereign investment grade issuer downgrades edged slightly higher to 14.5% from 13.3% a year ago, while no upgrades by investment grade issuers were recorded in 2009, compared with 8.3% in 2008. As for non-investment grade sovereign issuers, downgrades

Fitch Sovereign IDR Rating Actions by Region — 2009^a

Region	Downgrades	Upgrades
Asia/Pacific	2	0
Europe	9	1
Latin America and Caribbean	3	1
North America	0	0
Middle East and Africa	0	0
All	14	2

^aCompares beginning-of-year IDR rating to end-of-year rating, does not count multiple rating actions throughout the year. Note: Rating changes defined at the modifier level, making a distinction between +/-.
Source: Fitch.

Fitch Sovereign IDR Ratings Distribution by Major Rating Category^a

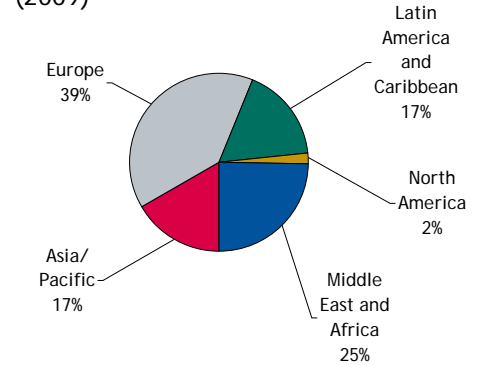


^aEnd-of-year ratings.
Source: Fitch.

declined modestly to 13.2% from 14.0% one year earlier, while upgrades moved lower over the course of 2009 to 5.3%, down from 11.6% in 2008.

- Emerging markets continued to register the most negative, as well as positive, movements on the year, recording 11 downgrades, while simultaneously accounting for the two sovereign upgrades in 2009. A year earlier, despite 13 downgrades spread across emerging market economies, the number of upgrades was also significant at nine.
- On a regional basis, similar to 2008 results, emerging Europe accounted for the bulk of rating actions year over year, with a total of seven, including six downgrades and one upgrade. Among those negative actions, the coordinated downgrades of the Baltic states — Estonia, Latvia, and Lithuania — were a consequence of contracting economic growth and reliance on external funding within each individual state, as well as reflecting their economic interdependence.
- In spite of the unprecedented global recession, there were no Fitch-rated sovereign issuer defaults in 2009.

Fitch Sovereign IDR Ratings Distribution by Region (2009)



Source: Fitch.

Fitch 2009 Sovereign Rating Transition Rates

The sovereign 2009 one-year rating migration table below pinpoints the movement of ratings across the major rating categories (e.g. from ‘A’ to ‘BBB’), as opposed to the modifier level, which counts each notch change (e.g. from ‘A’ to ‘A-’). (Please see the Fitch Sovereign IDR Transition Rates at the modifier level in the Appendix on page 12.). The vertical left-hand column identifies ratings outstanding at the beginning of 2009, while the horizontal axis offers information on the migration pattern of those ratings by year’s end. The diagonal, beginning with ‘AAA’ at 93.75% and followed by ‘AA’ at 92.86%, shows the relative stability of each rating category.

Fitch’s 2009 rating migration data reflects the wide-ranging deterioration of credit quality occurring among sovereign credits and most notably at the investment grade level. Across each investment grade rating category, downgrade rates increased year over year, with the exception of ‘BBB’, which edged down just 1% lower than 2008

Fitch Sovereign IDR One-Year Transition Rates — 2009

(%)

	AAA	AA	A	BBB	BB	B	CCC to C	D	Total
AAA	93.75	6.25	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA	0.00	92.86	7.14	0.00	0.00	0.00	0.00	0.00	100.00
A	0.00	0.00	85.71	14.29	0.00	0.00	0.00	0.00	100.00
BBB	0.00	0.00	0.00	94.44	5.56	0.00	0.00	0.00	100.00
BB	0.00	0.00	0.00	0.00	100.00	0.00	0.00	0.00	100.00
B	0.00	0.00	0.00	0.00	0.00	94.74	5.26	0.00	100.00
CCC to C	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Source: Fitch.

results. The top tier rating categories, 'AAA', 'AA', and 'A', recorded downgrade rates of 6.25%, 7.14%, and 14.29%, respectively, reflecting the depth of global recessionary pressures.

An examination of non-investment grade sovereign downgrades at the major categories revealed only minor downward movements affecting only the 'B' rating category with a downgrade rate of 5.26% in 2009, up from zero in 2008. No negative movements occurred across the major rating categories of 'BB' or 'CCC' to 'C', with the latter reflecting the absence of defaults in 2009.

The two sovereign upgrades in 2009 moved within single rating categories and therefore were not captured as part of the migration data at the major rating categories.

Comparing the 2009 transition data to average annual historical results for the 1995–2008 period revealed credit quality deteriorated most visibly at the investment grade level in 2009. As for non-investment grade sovereigns, downgrade rates were only higher at the 'B' rating category compared to historical averages. Once again, the absolute lack of upgrades at the major rating categories in 2009 illustrates the severe nature of this recent recession when compared with historical rating migration patterns.

Examining the average annual data including 2009 (1995–2009) shows that investment grade issuers exhibit far more stability than non-investment grade issuers. This stability is particularly evident at the investment grade levels 'AAA' (98.94%), 'AA' (94.02%), and 'A' (92.26%). Ratings display slightly less stability at the 'BBB' (88.55%) level, the lowest investment grade rating category. A look at non-investment grade level ratings revealed that stability declined for the 'BB' and 'B' rating categories to approximately 85%, and further at the 'CCC' to 'C' level, with 57.14% remaining the same on an average annual basis.

For this report, sovereign local currency transition rates are also included for reference (available in the Appendix on page 14). The local currency international rating measures the likelihood of repayment in the currency of the jurisdiction in which the issuer is domiciled and hence does not take into account the possibility that it will not be possible to convert local currency into foreign currency, or make transfers between sovereign jurisdictions — transfer and convertibility risk. Examining local currency transitions at the major rating categories shows rating movements similar to those previously examined at the sovereign IDR. At the top of the rating scale, downgrade rates for long-term local currency ratings of AAA (5.26%) and 'A' (18.75) increased year over year, while the remaining investment grade categories 'AA' and 'BBB' were zero. As for non-investment grade local currency sovereigns, the only movement among the major rating categories was at the 'B' level, recording a downgrade rate of 5.56% for the year. Similar to sovereign IDR ratings, no upgrades were recorded for local currency ratings at the major rating categories.

Fitch Sovereign IDR Average Annual Transition Rates — 1995–2009

(%)

	AAA	AA	A	BBB	BB	B	CCC to C	D	Total
AAA	98.94	1.06	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA	3.80	94.02	1.63	0.00	0.00	0.54	0.00	0.00	100.00
A	0.00	3.23	92.26	4.52	0.00	0.00	0.00	0.00	100.00
BBB	0.00	0.00	7.23	88.55	3.61	0.60	0.00	0.00	100.00
BB	0.00	0.00	0.00	8.21	85.02	5.31	0.00	1.45	100.00
B	0.00	0.00	0.00	0.00	10.60	85.43	3.31	0.66	100.00
CCC to C	0.00	0.00	0.00	0.00	0.00	21.43	57.14	21.43	100.00

Source: Fitch.

Fitch Sovereign Default Rates

Sovereign default events remain comparatively rare and none were registered in 2009. However, this trend was interrupted in early 2010 by the February restrictive default (RD) of Jamaica, upon completion of a domestic distressed debt exchange, which also included foreign currency-denominated securities.

Since the mid-1990s Fitch has recorded a total of seven sovereign defaults, excluding the 2010 Jamaican event. The list of sovereign defaults includes Indonesia and the Russian Federation both in 1998, Argentina (2001), Moldova (2002), Uruguay (2003), the Dominican Republic (2005), and Ecuador (2008) (for more details, see the section “Fitch-Rated Sovereign IDR Defaults,” on page 7).

These defaults contributed to a long-term average annual default rate across Fitch-rated sovereign issuers of 0.65% over the period 1995–2009. The average annual default rate across Fitch investment grade sovereign ratings for 1995–2009 was 0%, while across non-investment grade ratings Fitch recorded an average annual default rate of 1.85% for the same period. The complete sovereign series of default rates from the one- to five-year periods and now including the 10-year at the major rating categories is available in the Average Cumulative Default Rates table below. While clearly based on small samples, the default rates show a strong relationship between Fitch’s sovereign ratings and the frequency of default.

The instance of default among sovereign IDRs is rare but even more uncommon is a default among local currency ratings. A brief look at sovereign local currency defaults (Appendix page 14) reveals this. That said, Fitch has recorded only one local currency default — Argentina in 2001. As a result, Fitch’s long-term average annual default rate recorded across Fitch-rated local currency sovereign ratings was 0.1% over the period 1995–2009.

Fitch Sovereign IDR Default Rates

	Number of Fitch-Rated Defaults	Default Rate (%)
1995	0	0.00
1996	0	0.00
1997	0	0.00
1998	2	3.77
1999	0	0.00
2000	0	0.00
2001	1	1.45
2002	1	1.41
2003	1	1.30
2004	0	0.00
2005	1	1.12
2006	0	0.00
2007	0	0.00
2008	1	0.96
2009	0	0.00

Note: Data enhancement efforts may lead to slightly different results than previously published. Current study supersedes all prior statistics.
Source: Fitch.

Fitch Sovereign IDR Average Cumulative Default Rates: 1995–2009

(%)

	One-Year	Two-Year	Three-Year	Four-Year	Five-Year	10 -Year
AAA	0.00	0.00	0.00	0.00	0.00	0.00
AA	0.00	0.00	0.00	0.00	0.00	0.00
A	0.00	0.00	0.00	0.00	0.00	0.00
BBB	0.00	0.68	1.50	2.52	3.77	6.52
BB	1.45	2.66	3.66	4.90	5.69	15.38
B	0.65	3.01	5.26	7.37	7.50	9.09
CCC to C	18.75	18.75	13.33	15.38	27.27	0.00
Investment Grade	0.00	0.16	0.35	0.58	0.88	1.46
Non-Investment Grade	1.85	3.56	4.78	6.37	7.48	13.33
All Sovereigns	0.65	1.34	1.85	2.49	2.99	4.63

Source: Fitch.

Fitch-Rated Sovereign IDR Defaults

Argentina: Defaulted on over USD 70billion of sovereign foreign currency bonds in December 2001, most of which were held by non-residents. Debt default partially cured in 2005, but some 'hold-out' investors remain, constraining the rating to 'RD'.

Dominican Republic: Distressed debt exchange in 2005 affecting over USD 1.1billion of eligible foreign currency-denominated bond debt.

Ecuador: Missed coupon payment on its 2012 global bonds followed by an announcement that the government would selectively default on all global bonds; the rating was lowered to 'RD' in December 2008.

Indonesia: Paris and London Club rescheduling operations in June 1998; further rescheduling in 2000 and 2002. Indonesia maintained payments on the single Fitch-rated sovereign bond outstanding at the time.

Moldova: USD 75million Eurobond restructured in 2002, followed by a Paris Club deal.

Russian Federation: Exceptionally, Fitch dates sovereign default to August 1998. Although this was when the Russian Federation defaulted on its local currency debt, it began to incur arrears on foreign currency debt owed to the Paris Club official bilateral creditors very quickly afterwards. Defaults on foreign currency debt instruments held by private creditors occurred in 1999, although payments on Russian Federation Eurobonds were maintained and honored.

Uruguay: Distressed debt exchange in March 2003 affecting over USD 5billion of sovereign foreign currency debt, mostly held by non-residents.

Fitch Transition and Default Methodology

All Fitch global, publicly rated, sovereign long-term IDRs from 1995 to the present are included in Fitch's transition and default statistics, which includes more than 1,000 data points over the past 15 years. Fitch employs a static pool approach in calculating default and transition data. The static pools or, alternatively, cohorts are created by grouping issuer ratings according to the year in which the ratings are active and outstanding at the beginning of the year. For example, issuers with ratings outstanding at the beginning of 1995 constitute the 1995 static pool or cohort, with the same true for additional cohorts. Issuers newly rated by Fitch in any given year are included in the following year's cohort. For example, the performance of ratings initiated in mid-1995 would be followed as part of the 1996 and future cohorts. Ratings withdrawn in midyear are excluded from subsequent cohorts since they are no longer active, but they are monitored for defaults.

Fitch's continuing data enhancement efforts may result in slightly different statistics than in previously published studies. Therefore, this most recent study supersedes all prior versions. In addition, comparisons with earlier Fitch sovereign transition and default studies should be viewed within the context of the differing methodologies, whether rating movements were analyzed across the broad rating categories or at both the modifier and flat levels.

Transition Rates

In order to calculate one-year transition rates, Fitch examines the performance of ratings outstanding at the beginning and end of a calendar year. Withdrawn ratings are excluded from the transition table calculations since they do not fit this criteria; namely, that the ratings be outstanding over a full year or over the full period under observation.

Issuer ratings may reside in multiple static pools, as long as their ratings are outstanding at the beginning and end of the year or multiple-year horizons under observation. For

Parameters of the Fitch Sovereign IDR Default Rate

- Statistical data captured in this study is based on the long-term IDR (previously the long term foreign currency rating).
- Includes Fitch worldwide publicly rated Sovereign IDRs.
- Sovereign short-term IDRs and local currency debt ratings were excluded from this calculation.
- The restrictive default (RD) rating is a default and counted as such.
- One-year default rates were calculated by dividing the number of defaulted issuers by the number of outstanding rated issuers at the beginning of each respective year.

example, the annual performance of an issuer rating initiated in 1994, and therefore outstanding at the beginning of 1995, and withdrawn in 1999 would be included in the 1995, 1996, 1997, and 1998 static pools. The rating's performance over multiple-year horizons would also be included in the two-year, three-year, and four-year transition rates for each of the cohorts noted, but excluded from five-year transition rates since the rating was withdrawn in year five and was not outstanding for five full years as part of any cohort. (In other words, as part of the 1995 cohort, this rating's performance would be monitored over a one-year period, 1995; two-year period, 1995–1996; three-year period, 1995–1997; and four-year period, 1995–1998.) In all, Fitch's transition data contain 15 static pools or cohorts from 1995–2009, allowing for 15 unique one-year transition rates, 14 two-year transition rates, 13 three-year transition rates, and so on.

The rating transitions outlined in this study represent a distinct historical period and may not represent future rating migration patterns. Transition rates are influenced by a number of factors, including macroeconomic variables and credit conditions. The statistics presented herein document the performance of Fitch-rated sovereign obligors. It is useful to examine the performance of Fitch's ratings on a relative scale, within each rating category. In addition, it is important to point out that while transition matrices are presented at both the modifier and flat levels in this study, all other statistical analysis was conducted at the modifier level, unless noted otherwise.

Default Rates

Fitch's default rates are calculated on an issuer basis, as opposed to dollar amounts. First, defaults are examined by year for each static pool and individual rating category. For example, if 25 issuers defaulted in 2002, and that static pool consisted of 2000 issuer ratings, the resulting annual default rate for all ratings in 2002 would be 1.3%. If 10 of these defaults consisted of defaults among issuers rated 'BB' at the beginning of the year and the 'BB' cohort at the beginning of the year totaled 500, the 'BB' 2002 default rate would be 2% (10/500).

From these annual default rates, Fitch derives average annual default rates by weighing each cohort's default rates by the number of ratings outstanding in the given cohort relative to the number of total ratings outstanding for all cohorts. In other words, following the example above, the 2002 'BB' annual default rate of 2% might be followed by a 2003 'BB' annual default rate of 1%. A straight average of these two rates would ignore potential differences in the size of the two cohorts. Rather, weighing the results based on the relative number of 'BB' ratings outstanding in 2002 and 2003 gives greater emphasis to the results of the 'BB' cohort with the most observations.

The same technique is used to calculate average default rates over multiple-year horizons. For example, the two-year default rate for the 2002 'BB' rating pool would be averaged with the two-year default rate for the 2003 'BB' rating pool by weighing the default rates by the relative size of each pool.

For instance, any defaults produced by the 2002 'BB' cohort (the static pool) over the two-year time horizon are summed and divided by the number of 'BB' ratings outstanding at the beginning of 2002 to arrive at the simple 2002 two-year CDR (cumulate default rate) for the 'BB' category. If a total of 15 issuers carrying 'BB' ratings at the beginning of 2002 default over the subsequent two years and 250 issuers were rated 'BB' at the beginning of 2002, 6% would be the resulting two-year CDR for the 'BB' rating category, if 10 issuers defaulted in year one and five in year two. The 2002 two-year 'BB' default rate would then be averaged with the 2003 two-year 'BB' default rate (using the same methodology just described) by weighing the results of the two by the relative number of 'BB' ratings outstanding in 2002 and 2003. This is the general approach for calculating average cumulative default rates over multiple-year horizons.

Fitch's Definition of Default — Sovereigns

Fitch defines a sovereign default as one of the following:

- The failure to make timely payment of principal and/or interest on either a rated foreign currency debt instrument or
- other material foreign currency debt obligations, such as Paris or London Club liabilities, where the sovereign in question was rated by Fitch at the time of such a default.
- The distressed or other coercive exchange of an obligation, where creditors were offered securities with diminished structural or economic terms compared with the existing obligation.

Withdrawn Ratings

With regard to withdrawn ratings, all sovereign public ratings are included in the static pool data until the ratings are withdrawn and are then excluded from future static pools.

Appendix

Fitch Sovereign IDR Average Cumulative Default Rates: 1995–2009

(%, Modifier Level)

	One-Year	Two-Year	Three-Year	Four-Year	Five-Year	10-Year
AAA	0.00	0.00	0.00	0.00	0.00	0.00
AA+	0.00	0.00	0.00	0.00	0.00	0.00
AA	0.00	0.00	0.00	0.00	0.00	0.00
AA–	0.00	0.00	0.00	0.00	0.00	0.00
A+	0.00	0.00	0.00	0.00	0.00	0.00
A	0.00	0.00	0.00	0.00	0.00	0.00
A–	0.00	0.00	0.00	0.00	0.00	0.00
BBB+	0.00	0.00	0.00	0.00	0.00	0.00
BBB	0.00	0.00	0.00	0.00	0.00	0.00
BBB–	0.00	1.82	3.92	6.25	8.89	15.00
BB+	2.63	4.41	5.08	5.66	6.12	26.32
BB	1.69	3.64	5.66	8.33	9.52	13.64
BB–	0.00	0.00	0.00	0.00	0.00	0.00
B+	0.00	0.00	0.00	0.00	0.00	0.00
B	1.85	4.26	5.00	9.09	10.71	20.00
B–	0.00	5.26	12.50	15.38	15.00	20.00
CCC to C	18.75	18.75	13.33	15.38	27.27	0.00
Investment Grade	0.00	0.16	0.35	0.58	0.88	1.46
Non-Investment Grade	1.85	3.56	4.78	6.37	7.48	13.33
All Sovereigns	0.65	1.34	1.85	2.49	2.99	4.63

Source: Fitch.

Fitch Sovereign IDR Three-Year Default Statistics

(%)

Ten-Year Average of Three-Year Cumulative Default Rates (CDRs) — Major Rating Categories

	AAA	AA	A	BBB	BB	B
1998–2007	0.00	0.00	0.00	1.64	3.31	5.50

Most Recent Three-Year Cumulative Default Rates (CDRs)

	AAA	AA	A	BBB	BB	B
2007	0.00	0.00	0.00	0.00	0.00	5.26
2006	0.00	0.00	0.00	0.00	0.00	6.67

Ten-Year Average of Three-Year Cumulative Default Rates (CDRs) — Modifier Level

	AAA	AA+	AA	AA–	A+	A	A–	BBB+	BBB	BBB–	BB+	BB	BB–	B+	B	B–
1998–2007	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.44	3.64	6.38	0.00	0.00	5.13	12.50

Most Recent Three-Year Cumulative Default Rates (CDRs)

	AAA	AA+	AA	AA–	A+	A	A–	BBB+	BBB	BBB–	BB+	BB	BB–	B+	B	B–
2007	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	16.67
2006	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	16.67

Source: Fitch.

Fitch Sovereign IDR One-Year Transition Rates: 2009

(%)

	AAA	AA	A	BBB	BB	B	CCC to C	D	Total
AAA	93.75	6.25	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA	0.00	92.86	7.14	0.00	0.00	0.00	0.00	0.00	100.00
A	0.00	0.00	85.71	14.29	0.00	0.00	0.00	0.00	100.00
BBB	0.00	0.00	0.00	94.44	5.56	0.00	0.00	0.00	100.00
BB	0.00	0.00	0.00	0.00	100.00	0.00	0.00	0.00	100.00
B	0.00	0.00	0.00	0.00	0.00	94.74	5.26	0.00	100.00
CCC to C	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Fitch Sovereign IDR Transition Rates: 1995–2009

Average Annual

AAA	98.94	1.06	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA	3.80	94.02	1.63	0.00	0.00	0.54	0.00	0.00	100.00
A	0.00	3.23	92.26	4.52	0.00	0.00	0.00	0.00	100.00
BBB	0.00	0.00	7.23	88.55	3.61	0.60	0.00	0.00	100.00
BB	0.00	0.00	0.00	8.21	85.02	5.31	0.00	1.45	100.00
B	0.00	0.00	0.00	0.00	10.60	85.43	3.31	0.66	100.00
CCC to C	0.00	0.00	0.00	0.00	0.00	21.43	57.14	21.43	100.00

Average Two-Year

AAA	98.26	1.74	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA	8.24	88.82	1.76	0.59	0.59	0.00	0.00	0.00	100.00
A	0.00	7.09	85.11	7.80	0.00	0.00	0.00	0.00	100.00
BBB	0.00	0.00	15.54	75.68	7.43	0.68	0.00	0.68	100.00
BB	0.00	0.00	0.00	15.96	71.28	10.11	0.00	2.66	100.00
B	0.00	0.00	0.00	0.78	20.31	71.88	3.91	3.13	100.00
CCC to C	0.00	0.00	0.00	0.00	0.00	41.67	33.33	25.00	100.00

Average Three-Year

AAA	97.44	2.56	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA	13.38	82.80	1.91	1.91	0.00	0.00	0.00	0.00	100.00
A	0.00	11.20	79.20	8.80	0.80	0.00	0.00	0.00	100.00
BBB	0.00	0.00	24.81	64.66	8.27	0.75	0.00	1.50	100.00
BB	0.00	0.00	0.61	21.47	63.19	11.04	0.00	3.68	100.00
B	0.00	0.00	0.00	3.60	26.13	59.46	5.41	5.41	100.00
CCC to C	0.00	0.00	0.00	0.00	11.11	44.44	22.22	22.22	100.00

Average Four-Year

AAA	96.43	3.57	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA	19.31	76.55	2.07	2.07	0.00	0.00	0.00	0.00	100.00
A	0.00	15.60	73.39	10.09	0.92	0.00	0.00	0.00	100.00
BBB	0.00	0.00	31.93	54.62	10.08	0.84	0.00	2.52	100.00
BB	0.00	0.00	2.84	26.95	55.32	9.93	0.00	4.96	100.00
B	0.00	0.00	0.00	7.53	29.03	52.69	3.23	7.53	100.00
CCC to C	0.00	0.00	0.00	0.00	14.29	42.86	14.29	28.57	100.00

Average Five-Year

AAA	95.97	4.03	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA	24.81	70.68	2.26	2.26	0.00	0.00	0.00	0.00	100.00
A	0.00	20.43	67.74	10.75	1.08	0.00	0.00	0.00	100.00
BBB	0.00	0.00	37.74	46.23	11.32	0.94	0.00	3.77	100.00
BB	0.00	0.00	4.92	30.33	52.46	6.56	0.00	5.74	100.00
B	0.00	0.00	1.32	11.84	28.95	47.37	2.63	7.89	100.00
CCC to C	0.00	0.00	0.00	16.67	0.00	16.67	16.67	50.00	100.00

Average 10-Year

AAA	91.80	8.20	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA	51.52	46.97	1.52	0.00	0.00	0.00	0.00	0.00	100.00
A	0.00	42.42	57.58	0.00	0.00	0.00	0.00	0.00	100.00
BBB	0.00	0.00	36.96	34.78	21.74	0.00	0.00	6.52	100.00
BB	0.00	0.00	9.62	44.23	21.15	9.62	0.00	15.38	100.00
B	0.00	0.00	5.00	20.00	55.00	10.00	0.00	10.00	100.00
CCC to C	0.00	0.00	0.00	100.00	0.00	0.00	0.00	0.00	100.00

Source: Fitch.

Fitch Sovereign IDR One-Year Transition Rates: 2009

(%, Modifier Level)

	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC to C	D	Total
AAA	93.75	0.00	0.00	6.25	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA+	0.00	100.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA	0.00	0.00	85.71	0.00	0.00	14.29	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA-	0.00	0.00	0.00	100.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
A+	0.00	0.00	0.00	0.00	100.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
A	0.00	0.00	0.00	0.00	0.00	80.00	0.00	20.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
A-	0.00	0.00	0.00	0.00	0.00	0.00	66.67	33.33	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
BBB+	0.00	0.00	0.00	0.00	0.00	0.00	0.00	20.00	80.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
BBB	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
BBB-	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	90.00	10.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
BB+	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	87.50	12.50	0.00	0.00	0.00	0.00	0.00	0.00	100.00
BB	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	75.00	25.00	0.00	0.00	0.00	0.00	0.00	100.00
BB-	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	14.29	0.00	85.71	0.00	0.00	0.00	0.00	0.00	100.00
B+	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	77.78	11.11	11.11	0.00	0.00	100.00
B	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	85.71	0.00	14.29	0.00	100.00
B-	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	33.33	66.67	0.00	0.00	100.00
CCC to C	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Fitch Sovereign IDR Transition Rates: 1995–2009

Average Annual

AAA	98.94	0.53	0.00	0.53	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA+	13.21	83.02	1.89	1.89	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA	0.00	10.00	86.25	2.50	0.00	1.25	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA-	0.00	0.00	15.69	78.43	3.92	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.96	0.00	0.00	100.00
A+	0.00	0.00	0.00	14.29	80.00	2.86	0.00	0.00	0.00	2.86	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
A	0.00	0.00	0.00	0.00	16.36	78.18	1.82	3.64	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
A-	0.00	0.00	0.00	0.00	0.00	15.38	78.46	6.15	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
BBB+	0.00	0.00	0.00	0.00	0.00	2.38	19.05	64.29	11.90	2.38	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
BBB	0.00	0.00	0.00	0.00	0.00	0.00	5.08	18.64	69.49	5.08	1.69	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
BBB-	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	20.00	70.77	7.69	0.00	0.00	0.00	1.54	0.00	0.00	0.00	100.00
BB+	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.63	15.79	73.68	5.26	0.00	0.00	0.00	0.00	0.00	2.63	100.00
BB	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.69	3.39	16.95	69.49	6.78	0.00	0.00	0.00	0.00	1.69	100.00
BB-	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.78	11.11	70.83	8.33	5.56	1.39	0.00	0.00	100.00
B+	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.79	19.64	69.64	7.14	1.79	0.00	0.00	100.00
B	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5.56	14.81	64.81	9.26	3.70	1.85	100.00
B-	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.44	0.00	0.00	2.44	12.20	75.61	7.32	0.00	100.00
CCC to C	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	7.14	14.29	57.14	21.43	100.00

Average Three-Year

AAA	97.44	1.92	0.00	0.64	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA+	40.00	46.67	6.67	6.67	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA	2.99	26.87	62.69	5.97	0.00	1.49	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA-	2.22	2.22	42.22	42.22	4.44	0.00	0.00	0.00	2.22	4.44	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
A+	0.00	0.00	4.35	34.78	56.52	4.35	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
A	0.00	0.00	0.00	11.63	34.88	44.19	2.33	4.65	2.33	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
A-	0.00	0.00	0.00	0.00	3.39	33.90	47.46	11.86	0.00	1.69	1.69	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
BBB+	0.00	0.00	0.00	0.00	0.00	12.90	35.48	38.71	12.90	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
BBB	0.00	0.00	0.00	0.00	0.00	7.84	21.57	23.53	31.37	9.80	5.88	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
BBB-	0.00	0.00	0.00	0.00	0.00	1.96	3.92	11.76	25.49	35.29	13.73	1.96	0.00	0.00	1.96	0.00	0.00	3.92	100.00
BB+	0.00	0.00	0.00	0.00	0.00	0.00	1.69	5.08	10.17	20.34	45.76	11.86	0.00	0.00	0.00	0.00	0.00	5.08	100.00
BB	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5.66	15.09	26.42	41.51	5.66	0.00	0.00	0.00	0.00	5.66	100.00
BB-	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.96	3.92	9.80	13.73	35.29	17.65	5.88	11.76	0.00	0.00	100.00
B+	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.88	2.44	4.88	36.59	31.71	17.07	0.00	2.44	0.00	100.00
B	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.50	2.50	2.50	17.50	15.00	50.00	0.00	5.00	5.00	100.00
B-	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.33	0.00	0.00	0.00	0.00	6.67	10.00	10.00	46.67	10.00	13.33	100.00
CCC to C	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	11.11	0.00	0.00	44.44	22.22	22.22	100.00

Continued on next page.

Source: Fitch.

Fitch Sovereign IDR Transition Rates: 1995 - 2009 (Continued)

(%, Modifier Level)

	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC to C	D	Total
Average 10-Year																			
AAA	91.80	0.00	6.56	1.64	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA+	70.00	10.00	20.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA	50.00	30.77	19.23	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA-	35.00	10.00	25.00	25.00	5.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
A+	0.00	0.00	60.00	40.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
A	0.00	0.00	30.00	30.00	30.00	10.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
A-	0.00	0.00	16.67	0.00	16.67	50.00	16.67	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
BBB+	0.00	0.00	0.00	0.00	25.00	12.50	37.50	12.50	12.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
BBB	0.00	0.00	0.00	0.00	5.56	16.67	16.67	16.67	5.56	5.56	16.67	16.67	0.00	0.00	0.00	0.00	0.00	0.00	100.00
BBB-	0.00	0.00	0.00	0.00	0.00	20.00	0.00	5.00	30.00	10.00	20.00	0.00	0.00	0.00	0.00	0.00	0.00	15.00	100.00
BB+	0.00	0.00	0.00	0.00	15.79	5.26	0.00	15.79	5.26	5.26	15.79	10.53	0.00	0.00	0.00	0.00	0.00	26.32	100.00
BB	0.00	0.00	0.00	0.00	0.00	0.00	4.55	31.82	18.18	9.09	9.09	9.09	0.00	0.00	0.00	4.55	0.00	13.64	100.00
BB-	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	36.36	9.09	0.00	0.00	18.18	18.18	0.00	18.18	0.00	0.00	100.00
B+	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	25.00	16.67	8.33	41.67	8.33	0.00	0.00	0.00	0.00	100.00
B	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	25.00	25.00	0.00	0.00	25.00	0.00	0.00	0.00	25.00	100.00
B-	0.00	0.00	0.00	0.00	25.00	0.00	0.00	0.00	0.00	0.00	25.00	25.00	0.00	0.00	0.00	0.00	0.00	25.00	100.00
CCC to C	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00

Source: Fitch.

Fitch Sovereign Local Currency Ratings Transition Rates

(%)

	AAA	AA	A	BBB	BB	B	CCC to C	D	Total
One-Year: 2009									
AAA	94.74	5.26	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA	0.00	100.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
A	0.00	0.00	81.25	18.75	0.00	0.00	0.00	0.00	100.00
BBB	0.00	0.00	0.00	100.00	0.00	0.00	0.00	0.00	100.00
BB	0.00	0.00	0.00	0.00	100.00	0.00	0.00	0.00	100.00
B	0.00	0.00	0.00	0.00	0.00	94.44	5.56	0.00	100.00
CCC to C	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Average Annual: 1995–2009									
AAA	97.06	2.57	0.00	0.37	0.00	0.00	0.00	0.00	100.00
AA	0.81	95.97	3.23	0.00	0.00	0.00	0.00	0.00	100.00
A	0.00	2.40	92.22	5.39	0.00	0.00	0.00	0.00	100.00
BBB	0.00	0.00	7.14	85.71	6.35	0.79	0.00	0.00	100.00
BB	0.00	0.00	0.00	4.58	87.58	7.19	0.00	0.65	100.00
B	0.00	0.00	0.00	0.00	7.56	89.08	3.36	0.00	100.00
CCC to C	0.00	0.00	0.00	0.00	0.00	42.86	57.14	0.00	100.00

Source: Fitch.

Fitch Sovereign Local Currency Ratings Average Cumulative Default Rates: 1995–2009

(%)

	One-Year	Two-Year	Three-Year	Four-Year	Five-Year
AAA	0.00	0.00	0.00	0.00	0.00
AA	0.00	0.00	0.00	0.00	0.00
A	0.00	0.00	0.00	0.00	0.00
BBB	0.00	0.00	0.00	0.00	0.00
BB	0.65	1.48	2.68	4.40	5.63
B	0.00	0.00	0.00	0.00	0.00
CCC to C	0.00	0.00	0.00	0.00	0.00
Investment Grade	0.00	0.00	0.00	0.00	0.00
Non-Investment Grade	0.35	0.82	1.46	2.40	3.03
All Sovereigns	0.10	0.23	0.39	0.60	0.69

Source: Fitch.

Fitch-Rated Sovereign IDR Defaults^a 1995–2009

Year	Issuer Name	Rating at Beginning of Year	Region
1998	Indonesia, Republic of	BB+	Asia/Pacific
	Russian Federation	BB+	Europe
2001	Argentina	BB	Latin America
2002	Moldova	CC	Europe
2003	Uruguay	B	Latin America
2005	Dominican Republic	CCC+	Caribbean
2008	Ecuador	CCC	Latin America

^aRated by Fitch at the beginning of the year in which they defaulted. Note: Data enhancement efforts may lead to slightly different results than previously published. Current study supersedes all prior statistics.
Source: Fitch.

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