

Credit Rating Announcement

GCR releases the Issuer Ratings on three Multilateral Development Banks under its new criteria

Rating Action

Johannesburg, 5 December 2019 - GCR Ratings ("GCR") has reviewed the Issuer credit ratings on three Regional Multilateral Development Banks under the new Criteria for Rating Supranational Institutions, released May 2019.

On May 22, 2019 GCR announced that it had released its updated criteria for rating supranational institutions. This methodology is titled 'Criteria for Rating Supranational Institutions'. As a result, all affected ratings were placed 'Under Criteria Observation'.

Subsequently, GCR has finalised the review of Multilateral Development Banks under this new methodology. As a result, the ratings below have been removed from 'Under Criteria Observation' and revised in line with the new methodology.

The following supranational institutions were included in this review:

1. African Export-Import Bank: the long term international scale rating has been revised to A- from BBB+, while the short term rating has been affirmed at A2. The outlook is Stable. At the same time, the following long and short-term national scale ratings have been affirmed:
 - Botswana National Scale ratings at AAA_(BW)/A1_{+(BW)}, with outlook accorded as Stable.
 - Cote' D'Ivoire National Scale ratings at AAA_(CI)/A1_{+(CI)}, with outlook accorded as Stable.
 - Egyptian National Scale ratings at AAA_(EG)/A1_{+(EG)}, with outlook accorded as Stable.
 - Ghanaian National Scale ratings at AAA_(GH)/A1_{+(GH)}, with outlook accorded as Stable.
 - Kenyan National Scale ratings at AAA_(KE)/A1_{+(KE)}, with outlook accorded as Stable.
 - Mauritian National Scale ratings at AAA_(MU)/A1_{+(MU)}, with outlook accorded as Stable.
 - Namibian National Scale ratings at AAA_(NA)/A1_{+(NA)}, with outlook accorded as Stable.
 - Tanzanian National Scale ratings at AAA_(TZ)/A1_{+(TZ)}, with outlook accorded as Stable.
 - Ugandan National Scale ratings at AAA_(UG)/A1_{+(UG)}, with outlook accorded as Stable.

We have also revised the long term international scale rating on African Export-Import Bank's USD5bln EMTN programme to A-, Outlook Stable.

2. Eastern and Southern African Trade and Development Bank: the long-term international scale rating has been affirmed at BBB, while a short-term rating of A3 has been assigned. The outlook is Stable. At the same time, the long and short-term Kenyan national scale ratings have been affirmed at AAA_(KE)/A1_{+(KE)}, Outlook Stable.
3. East African Development Bank: long-term international scale rating has been upgraded to BBB- from BB+, while a short-term rating of A3 has been assigned. The outlook is Stable. At the same time, the following long and short-term national scale ratings have been affirmed:
 - Kenyan National Scale ratings at AAA_(KE)/A1_{+(KE)}, with outlook accorded as Stable.
 - Rwandan National Scale ratings at AAA_(RW)/A1_{+(RW)}, with outlook accorded as Stable.
 - Tanzanian National Scale ratings at AAA_(TZ)/A1_{+(TZ)}, with outlook accorded as Stable.
 - Ugandan National Scale ratings at AAA_(UG)/A1_{+(UG)}, with outlook accorded as Stable.

African Export-Import Bank

The ratings on African Export-Import Bank ('Afreximbank', 'the Bank') balance its significant exposure to high risk operating environments, fairly strong and diverse membership base, demonstrated preferential creditor treatment ('PCT'), its strong status within the region and good track record of fulfilling its mandate, beyond adequate current levels of capitalisation, strong risk position, stable funding and good liquidity position.

The Bank has a mandate to promote trade within the broader African continent and with that, it is structurally exposed to high risk operating environments. Positively, the ratings benefit from the diverse and growing sovereign membership base, however this has been slightly moderated for its significant private sector shareholding. In addition, the Bank has a strong demonstrated track-record of preferential treatment, which underpins its relevance and importance to the shareholders.

Afreximbank is one of the largest regional MDBs, with development exposures of over US\$11bn. Its status and diversification benefits from a broad geographical mandate, with developmental exposures fairly diversified by geography. The Bank also has relatively good levels of product diversification in comparison to rated peers, with some products tailored to address economic situations of member countries. However, its key strength remains in the structured trade finance space. The mandate of the MDB is fairly strong, and track record of carrying out its countercyclical and trade promotion role has been good over the last 3-5 years. Some recent examples to support our view include the countercyclical trade liquidity facility, which was introduced in 2015 to help member countries affected by the commodity price shock meet their trade debt obligations. Given its broad geographical reach and a growing membership, the relevance and importance of this institution to its shareholders remains high, in our opinion.

Capitalisation is a positive rating factor, balancing its relatively tight capital management in comparison to peers with robust equity mobilisation strategy and some innovative capital protection tools including the Capital Risk Protection Facility 'CARPROOF' initiatives. This structure transfers the risk of a spike in non-performing loans 'NPLs' to underwriters of this synthetic credit default swap instrument. Having said that, we think future credit losses will be managed sustainably at current levels. Positively, good earnings are supportive of healthy internal capital generation. As of 30th June 2019, the Bank had a GCR total capital ratio of c.15% and we expect the 12-18 months forward-looking GCR capital ratio to remain on current levels outside a substantial once-off capital raise, balancing a fairly rapid expansion of the loan book and strong equity growth. The loan loss reserve coverage is considered appropriate at over 120%, while c.84% of the loan book is secured with high quality collateral comprising cash, insurance from highly rated insurers, and sovereign backed securities.

Afreximbank's risk position is strong for an MDB, reflecting well contained NPLs and credit losses through the cycle, relatively better concentrations in comparison to peers, and well controlled market and FX lending risks. NPLs have gradually deteriorated over the past 3 years, but remain within the low range of 2-3%. At 1H19, risk concentrations are moderately high with top 20 loans accounting for 64% of total exposures and 3.1x equity. Positively, credit losses remain below 1%, supported by the highly secured and liquid trade finance book that has c.50% of repayment risk in OECD countries.

Funding and liquidity is a positive rating factor. The Bank has well diversified funding sources, supported by good access to long term capital from both regional and international capital markets. In addition, the Bank has an overlay of customer and Bank deposits to its funding structure. These deposits are mostly from the Central Banks of member countries. The term of deposits is relatively short (6-12 months), although they appear to be behaviourally sticky in nature. Liquidity is considered to be good, with the liquidity coverage ratio registering c.133% as of March 2019. Liquidity is also supported by low risk cash flows from the ring-fenced trade finance structure and fairly good liquid placements with OECD Banks. Due to the fairly short duration of the loan portfolio and significant long-term funding, a positive asset/liability gap is expected to be maintained.

We have not factored in callable capital into the ratings because the coverage of debt by A- rated members and insurers was below the required benchmark of 25% (at FY18 it was c.10%).

Outlook Statement

The outlook is stable, reflecting our opinion that Bank remains relevant and important to its shareholders and that the willingness of shareholders to support remains high. We also factor into outlook the Bank's ability to maintain a robust balance sheet, reflected by sustainably low credit losses and adequate to strong levels capitalisation and liquidity.

Rating Triggers

There is limited upside movement to the international scale rating over the outlook horizon, outside sustained higher capital levels. However, we may lower the ratings should we see a reduced countercyclical role, with credit losses above our expectations, the GCR capital ratio managed below 15%, and or deteriorating funding and liquidity positions.

Eastern and Southern African Trade and Development Bank

The ratings on Eastern and Southern African Trade and Development Bank ('TDB', 'the Bank') balances its geographical concentration to high risk operating environments, modest membership strength and diversity, demonstrated PCT, adequate status within the region and good track record of fulfilling mandate, fairly strong capitalisation, good risk position, adequate funding and liquidity.

TDB's operating environment score is relatively lower in comparison to peers because of the geographical concentration of its developmental exposures to higher risk environments of countries in the Eastern and Southern Africa. Positively, the ratings benefit from a fairly diverse membership base and fairly strong demonstrated PCT track record.

TDB is a fairly large regional MDB that has a mandate to promote social and economic development in Eastern and Southern Africa. With developmental exposures at around US\$5bn, TDB has a respected status especially given the demand for development capital in the region. The Bank is recognised as a credible intermediary and conduit of financing for international financial institutions unable to lend directly to the region. The MDB is also building a sound track record of fulfilling its mandate.

Capitalisation is considered to be at good levels, with a GCR total capital ratio of c.18% at 1H19 and also benefitting from some capital protection tools. The sound capital management of the Bank requiring equity growth to surpass risk asset growth is also considered broadly positive. In addition, earnings are good with Bank consistently returning 11-12% of shareholders' funds (although most are reinvested) and good profit retention is supportive of a strong capital position. Loan loss reserve coverage of c.81% at 1H19 is considered appropriate, given the highly collateralised nature of lending. The loan book is largely secured with good quality collateral and about 40% is insured by highly rated international insurers.

The risk position is good, balancing exceptionally low credit losses with significant risk concentrations relative to peers. Through the cycle losses have averaged 0.3% while NPLs are somewhat higher at 2.7% at 1H19. Concentrations pre-risk mitigation are very high, as is typical of MDBs, with top 20 loans accounting for 93% of total exposures and 3.1x of equity as of Dec. 2018. High collateralised lending (123%) and low values of clean risk is viewed positively nonetheless. We expect future credit losses to remain below 0.5% as long as the Bank's exposures continue to be dominated short-term ring-fenced trade finance loans. Furthermore, demonstrated PCT has broadly supported recoveries through the cycle. Market and FX lending risks are well controlled.

Funding is good, supported by well diversified funding sources from regional and international capital markets. Whereas the significant portion of funding (c.50%) originates from short term facilities, over 80% of the facilities have maturity longer than two years, lessening potential refinancing risks. Liquidity is also good, supported by fairly strong and low risk cash flows from trade finance loans, which results in positive asset/liabilities gap.

We provide uplift to the ratings for callable capital. Qualifying callable capital from A- and above shareholders including insured by highly rated counterparties covers net debt by about 25% as of 1H19.

Outlook Statement

The outlook is stable, reflecting our opinion that the Bank continues to build its status within the region, credit losses sustained at historical levels, stronger capitalisation, and stable funding and liquidity risks. With this, we think that Bank remains relevant and important to its shareholders.

Rating Triggers

The ratings may benefit from a growing development exposures book, more examples of PCT, and reduction in single name concentrations pre-risk mitigation. Reduction in geographical concentrations to weak operating environments is also viewed positively. The ratings could be lowered if capital deteriorates, credit losses exceed our expectations, and/or increase in funding and liquidity risks.

East African Development Bank

The ratings on East African Development Bank ('EADB', 'the Bank') balances its geographical risk concentrations, concentrated membership base, demonstrated preferential creditor treatment 'PCT', very strong capitalisation, relatively modest risk position, limited funding and strong liquidity.

The operating environment score balances the geographical concentration of developmental exposures to its relatively stronger grouping of East African countries, with its concentrated membership base, and adequately demonstrated track record of preferential treatment, which we think is evidence of the relevance and importance of this institution to its shareholders.

EADB is a relatively small regional MDB established with a mandate to promote socio-economic development and regional integration in East Africa. Its modest size (with developmental exposures of just over US\$160m at FY18) is a relative strain to its ability to play a significant countercyclical role and self-fund very large infrastructure or developmental projects. However, we view the Bank's mandate to be broad and stronger in comparison to peers, due to the clearer developmental outcomes of the loan book. This is supported by its mandate, which allows for higher risk, earlier stage projects including providing equity finance to start-ups.

Capital and leverage is the strongest ratings factor for the Bank. Capital is managed at very strong levels, with the GCR total capital ratio trending above 68% as of 1H19. We expect the 12-18 months forward looking GCR capital ratio to remain above 60% given the current muted growth in lending, although risk asset growth may soften the ratio with a number of deals already approved but not yet disbursed. Earnings are modest and profit retention is good, both supporting a healthy internal capital build. Loan loss reserve coverage of 22% is considered low, but there are strong recovery fundamentals and if we adjusted capital downwards for this shortfall there would be an immaterial impact on the capital ratio.

The risk position is a neutral ratings factor, balancing significant loan book concentrations and comparable good credit losses to those of peers. Concentrations are largely because of the small size of the institution, with the top twenty loans accounting for c.95% of total loans at FY18. Through the cycle losses have ranged between 0.7% to 1%, although there was a spike in NPLs in 2017 due to a significant single name exposure, in addition to the broadly deteriorating credit conditions within the region and impact of IFRS9. We think restructuring loans has benefited recoveries through the cycle, and given the current conservative lending practices, future credit losses are expected to remain below 1% over the next 18-24 months. Market risk is minimal with limited equity investments, and FX lending risks are well managed using natural hedging and PCT when needed.

Our slightly positive view on funding and liquidity balances the concentrated funding sources with very strong liquidity levels. Funding is concentrated (comprising eight funders) given the relatively low funding needs. However, we view this concentration negatively as it limits the Bank's funding flexibility. We consider the expected new funders in the next 12-18 months a positive. Liquidity on the other hand is very strong supported by a negative net debt position as at 1H19. The liquidity coverage ratio was c.159% over the same period, although liquid assets are placed with local Banks, causing higher asset concentrations.

Outlook Statement

We expect asset quality to improve, demonstrated by gradual reduction in concentrations, while sustained low NPLs and credit losses as well as strong levels of capital and liquidity should be maintained. We also factor into outlook the Bank's target growth in development exposures which would benefit its track record of fulfilling mandate and its relevance and importance within the region.

Rating Triggers

The ratings may benefit from a growing development reach, more examples of PCT, and reduction in single name concentrations. The ratings could be lowered if capital deteriorates substantially, credit losses exceed our expectations, and/or increase in funding and liquidity risks.

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Related Criteria and Research

- Criteria for the GCR Ratings Framework, May 2019
- Criteria for Rating Supranational Institutions, May 2019
- GCR Ratings Scale, Symbols & Definitions, May 2019
- GCR Country Risk Scores, June 2019
- GCR Financial Institutions Sector Risk Score, July 2019

Ratings History

African Export-Import Bank

Rating class	Review	Rating scale	Rating class	Outlook	Date
Issuer Long and Short-Term	Initial	International	BBB+/A2	Stable	February 2017
	Last	International	BBB+/A2	Stable	November 2018
	Initial	National	AAA _(EG) /A1 _{+(EG)}	Stable	February 2017
	Last	National	AAA _(EG) /A1 _{+(EG)}	Stable	November 2018
	Initial	National	AAA _(BW) /A1 _{+(BW)}	Stable	February 2017
	Last	National	AAA _(BW) /A1 _{+(BW)}	Stable	November 2018
	Initial	National	AAA _(CI) /A1 _{+(CI)}	Stable	February 2017
	Last	National	AAA _(CI) /A1 _{+(CI)}	Stable	November 2018
	Initial	National	AAA _(GH) /A1 _{+(GH)}	Stable	February 2017
	Last	National	AAA _(GH) /A1 _{+(GH)}	Stable	November 2018
	Initial	National	AAA _(KE) /A1 _{+(KE)}	Stable	February 2017
	Last	National	AAA _(KE) /A1 _{+(KE)}	Stable	November 2018
	Initial	National	AAA _(MU) /A1 _{+(MU)}	Stable	February 2017
	Last	National	AAA _(MU) /A1 _{+(MU)}	Stable	November 2018
	Initial	National	AAA _(NA) /A1 _{+(NA)}	Stable	February 2017
	Last	National	AAA _(NA) /A1 _{+(NA)}	Stable	November 2018
	Initial	National	AAA _(TZ) /A1 _{+(TZ)}	Stable	February 2017
	Last	National	AAA _(TZ) /A1 _{+(TZ)}	Stable	November 2018
	Initial	National	AAA _(UG) /A1 _{+(UG)}	Stable	February 2017
	Last	National	AAA _(UG) /A1 _{+(UG)}	Stable	November 2018

Eastern and Southern African Trade and Development Bank

Rating class	Review	Rating scale	Rating class	Outlook	Date
	Initial	International	BB	Stable	November 2004
	Last	International	BBB	Stable	September 2019
Issuer Long and Short-Term	Initial	National	AA _(KE) /A1 _(KE)	Stable	November 2004
	Last	National	AAA _(KE) /A1+ _(KE)	Stable	September 2018
	Initial/last	International	A3	--	December 2019

East African Development Bank

Rating class	Review	Rating scale	Rating class	Outlook	Date
	Initial	International	BB-	Stable	November 2012
	Last	International	BB+	Stable	November 2018
Issuer Long and Short-Term	Initial	National	AA _(UG) /A1 _(UG)	Stable	November 2012
	Last	National	AAA _(UG) /A1+ _(UG)	Stable	November 2018
	Initial	National	AA _(KE) /A1 _(KE)	Stable	November 2012
	Last	National	AAA _(KE) /A1+ _(KE)	Stable	November 2018
	Initial	National	AA _(TZ) /A1 _(TZ)	Stable	November 2012
	Last	National	AAA _(TZ) /A1+ _(TZ)	Stable	November 2018
	Initial	National	AA _(RW) /A1 _(RW)	Stable	November 2012
	Last	National	AAA _(RW) /A1+ _(RW)	Stable	November 2018
Issuer Short Term	Initial/last	International	A3	--	December 2019

Risk Score Summary

Risk score	AfreximBank	TDB	EADB
Operating environment	14.0	11.5	13.0
Country risk score	3.5	2.5	4.0
Sector risk score	3.0	2.5	3.5
Membership Strength and Diversity	3.5	3.0	2.5
Preferential Creditor Treatment	4	3.5	3.0
Business profile	6.0	4.0	2.0
Status and Diversity	3.0	1.0	-1.0
Mandate and Track-record	3.0	3.0	3.0
Management and governance	0.0	0.0	0.0
Financial profile	5.5	5.0	5.5
Capital and Leverage	2.5	3.0	5.0
Risk	1.5	1.0	0.0
Funding structure and Liquidity	1.5	1.0	0.5
Additional factors	0.0	1.0	0.0
Callable Capital	0.0	1.0	0.0
Peer analysis	0.0	0.0	0.0
Total Score	25.5	21.5	20.5

Glossary

Benefits	Financial reimbursement and other services provided to insureds by insurers under the terms of an insurance contract.
Capital	The sum of money that is invested to generate proceeds.
Financial Institution	An entity that focuses on dealing with financial transactions, such as investments, loans and deposits.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Loan	A sum of money borrowed by a debtor that is expected to be paid back with interest to the creditor. A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan. Registration is a prerequisite for the existence of any mortgage loan. A mortgage can be registered over either a corporeal or incorporeal property, even if it does not belong to the mortgagee. Also called a Mortgage bond.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
National Scale Rating	National scale ratings measure creditworthiness relative to issuers and issues within one country.
Performing Loan	A loan is said to be performing if the borrower is paying the interest on it on a timely basis.
Performing	An obligation that performs according to its contractual obligations.
Private	An issuance of securities without market participation, however, with a select few investors. Placed on a private basis and not in the open market.
Release	An agreement between the creditor and debtor, in terms of which the creditor release the debtor from its obligations.
Risk Management	Process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Short Term	Current; ordinarily less than one year.

SALIENT POINTS OF ACCORDED RATINGS

GCR affirms that a.) no part of the ratings was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit ratings have been disclosed to the rated entities.

The ratings of the following entities were solicited by, or on behalf of, the rated entities, and therefore, GCR has been compensated for the provision of the ratings: African Export-Import Bank; Eastern and Southern African Trade and Development Bank; and East African Development Bank.

AfreximBank, TDB and EADB all participated in the rating process via face-to-face management meetings, and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from the entities and other reliable third parties to accord the credit rating included:

- Audited financial results as at 31 December 2018;
- Interim results for the half year 2019;
- Latest internal and/or external audit report to management; and
- A breakdown of facilities available and related counterparties.

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