

Trustco Group Holdings Limited

Namibia Financial Institution Analysis

July 2013

Security class	Rating scale	Rating	Rating outlook	Review date
Long term	National	BBB _(NA)	Stable	07/2014
Short term	National	A3 _(NA)		

Financial data:

(US\$m Comparative)

	31/03/12	31/03/13
NAD/US\$ (avg.)	7.0	8.0
NAD/US\$ (close)	7.3	8.7
Total assets	208.2	184.0
Total capital	125.1	114.7
Total borrowings	35.3	41.6
Net advances	34.2	40.7
Liquid assets	13.8	8.4
Operating income	69.9	46.0
Profit after tax	34.2	9.2
Market cap.*	NAD516m/US\$55m	
Market share	not available	

*Valuation on 2/7/2013 (price: 70c/share).

Rating history:

Initial/Last rating (July 2012)

Long-term: BBB_(NA)

Short-term: A3_(NA)

Rating outlook: Stable

Related methodologies/research:

[Banking Criteria \(updated 2013\)](#)

[Bank Assessment Principles \(2013\)](#)

[Previous Rating Reports \(up to 2010\)](#)

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Summary rating rationale

The ratings are based on the following key factors:

- The ratings underpin Trustco Group Holdings Limited's ("Trustco" or "the group") growing franchise in micro-finance and insurance, across the main Southern-African markets, as well as its sound capitalisation and loan/credit portfolio quality. Further, the ratings do not incorporate any systemic support uplift, given the low intervention prospect.
- The outlook/s on the ratings, in turn, reflect a forward looking view around the sustainability of the group's performance, and takes into account its overall strategic focus/direction.
- In general, the group continues to build capital at a rate in excess of what is being consumed for organic growth, with all floor minimums satisfied. Further, the atypical earnings and retention trend was offset by a fresh equity issue during the year; and while that helped boost the group's capital ratios, the share price and market capitalisation fell hard (albeit post the release of the group's financial statements).
- Portfolio quality within the group's credit/lending business remained strong; the micro-finance unit registered only a small increase in impairments - although, with arrears fully covered by provisions, default risk is considered low; the mortgage finance unit reflected a similar position with no arrear accounts (with that a genesis, fully secured portfolio).
- Reflecting the cyclical nature of the local property market (and lower asset offload activity), as well as the recent cost impact of the South African micro-insurance unit, the consolidated results of the group fell sharply, reversing the upward trend in revenue. However, though the year-end turnout is well below expectations, the group's long-term trend is still within acceptable norms, whilst its outlook is positive; the performance should be seen in the context of a business undergoing a notable shift in its operation - yet, the change does not come without its fair share of caution.

Factors that could trigger a rating action

Positive movement/s: The variability seen in the group's income and operational business structure invariably increases the error margin on all forward looking scenarios, offsetting any upgrade.

Negative movement/s: The ratings will be sensitive to a slide in asset quality, long-term earnings and/or a decline in capital levels.

Organisational profile

Business overview¹

Trustco serves as the umbrella company for the business' operations - on a basic level, this can be split between micro-financial and group services.

Business unit/s	Description of services offered
Micro-finance	Educational finance and distance learning courses
Micro-insurance	Mass market insurance plan/s and administration
Property products	Mortgage finance and real estate trading (for self)
H/O and support	Support services and strategic (brand) businesses

Ownership structure

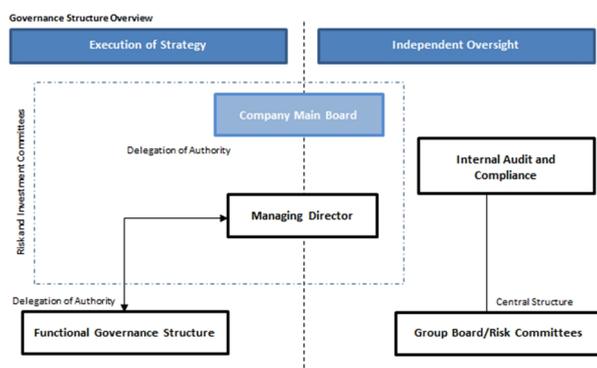
The table below provides a brief breakdown of the group's major shareholders as at year-end, 2013.

Table 1: Shareholding composition	%
Q van Rooyen (founding director)	53.3
Renaissance Capital (consolidated)	10.0
Standard Bank (consolidated)	6.9
Snowball Wealth	5.0
Other investors (all ≤ 4% max.)	24.8
Held by public investors	45.1
Held by directors and staff	54.9

Source: Trustco.

Governance structure²

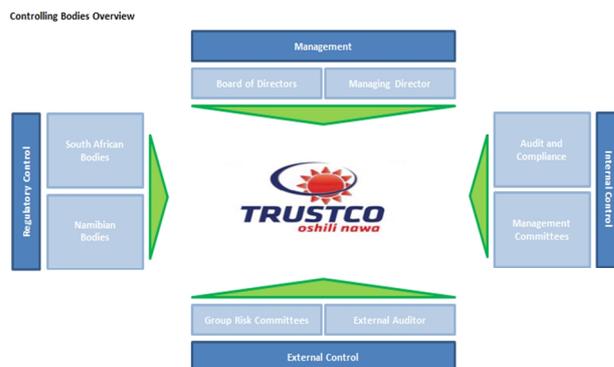
The layered group structure extends through all business entities, aimed at ensuring coherence in relation to strategy and also operational efficiency - this is done by using a multi-layered corporate structure, governance guideline and also policies.



It should be noted though, that whilst no issues were found in the overhead group structure, our analysis did not look through into the individual business units - although, oversight was confirmed.

Control structure

Furthermore, the group's operations are subject to several layers of internal oversight and external control, all of which are considered as positive - augmenting control through the reporting process.



Notable highlights and changes from the group's preceding review were identified and consist of:

- The group audit and risk committee lost two members during the period (resignation and retirement) albeit, both vacancies have been filled (at interim); moreover, further work is ongoing to strengthen/increase the resources of the internal audit and compliance units; and
- The group's self-assessment procedures were improved through a board evaluation process and enhanced technology steering committee.

Human resources and staffing

The executive/senior management combines a wealth of experience in cross cut credit fields, and has been instrumental in the business' evolution.

Table 2: Staffing breakdown

By management layer:	Avg. int. tenure	Avg. experience
Executive team	3.4 years	19.1 years
Senior management	2.0 years	18.7 years
Middle management	3.1 years	17.0 years
Servicing employees	2.1 years	12.3 years
By business function:	# of employees	Avg. experience
Business management	772	13.0 years
Financial control	31	14.5 years
Legal and compliance	10	14.6 years
IT and operations	42	15.7 years
Human resources & admin.	9	14.5 years

Source: Trustco.

From a staffing perspective, the absolute number of hands is considered adequate to support and/or maintain the group's business flow/operations.

Reporting structure and access to information

The group's accounts are in accordance with international accounting standards and the annual and interim reporting information is detailed and transparent. Regularly updated information and performance memos, including any anticipated movements in risk, is posted on its website, local stock exchange news and e-mail release/services.

Further, the group's external auditors issued an unqualified report for the annum under review.

¹ For a detailed breakdown of the group, refer to past rating reports.

² Given the intricacies associated with good corporate governance, GCR recommends an independent assessment to test compliance.

Financial profile

Likelihood of support

To date, the group has been well supported by its shareholders via a dividend policy supportive of a business in its expansion phase (and capital need).

Funding composition

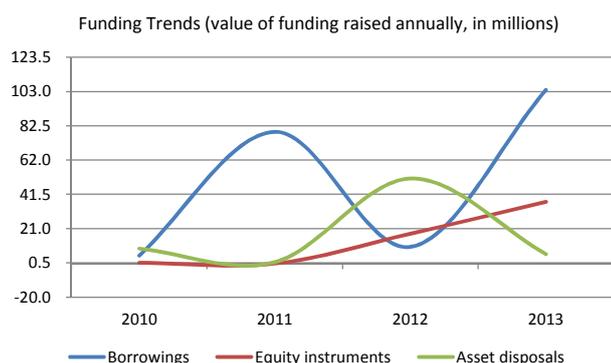
Discussed below, is the observed y/y funding trends:

	F12		F13	
	NAD'm	%	NAD'm	%
Short-term funding	47.3	18.5	65.9	18.1
<i>Current of long-term</i>	34.1	13.3	42.4	11.7
<i>Bank loans/overdraft</i>	11.8	4.6	21.8	6.0
<i>Related party loans†</i>	1.4	0.6	1.8	0.5
Long-term funding	208.9	81.5	297.5	81.9
<i>Term loans and other</i>	208.9	81.5	297.5	81.9
Total	256.2	100.0	363.5	100.0

† Included/reflected under other liabilities on the balance sheet.

Source: Trustco.

In support of the group's intermediation actions, funding is sourced from the open market by its credit unit, as well as through internal 'treasury' operations: monetising parcels of own property and traditional asset backed/unsecured channels.



Moreover, the group's emphasis on enabling and financing the bottom of the pyramid has made it an attractive partner for development financiers, especially those with social uplift agendas/goals.

Lender/provider	Facility limit	Current status
International Finance Corporation	US\$8.1m max.	US\$7.3m due
Development Bank of Namibia	US\$0.7m max.	Fully drawn
African Development Bank	US\$6.6m max.	All available
German Development Corporation	US\$5.0m max.	All available
French Development Corporation	US\$5.0m max.	All available

In support of the group's future endeavours, plans to tap the capital markets are at an advanced stage, with the proposed issue to be partially guaranteed.

Capital adequacy

In general, the group continues to build capital at a rate in excess of what is being consumed for organic growth, with all floor minimums satisfied.

	F12	F13
	NAD'm	NAD'm
Total reported capital	935.2	1 010.7
<i>Paid up common shares</i>	162.6	194.1
<i>Eligible reserves</i>	772.6	816.6
Add: Net capital instruments	19.8	25.1
Total primary capital	955.0	1 035.8
Less: Net capital instruments	(41.7)	(37.9)
Total available capital	913.3	997.9
Total balance sheet assets	1 520.0	1 600.9

Selected ratios:

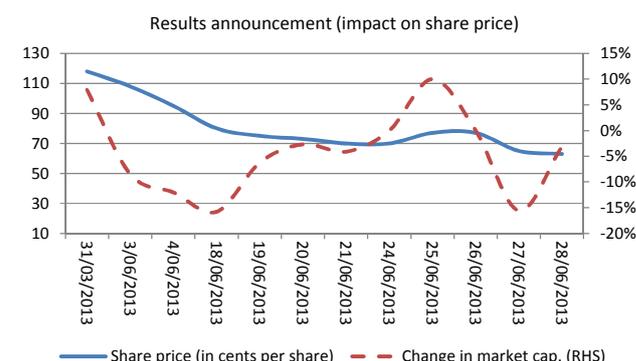
Total capital: Total assets†	60.1%	62.3%
Annual dividend pay-out rate	89.2%	59.4%
Total borrowings: Total capital	28.1%	36.4%

† Minimum level of 25% required under DFI/IFC funding agreement.

Source: Trustco.

Overall, the group's available capital is considered adequate for the level of business risk assumed.

Notwithstanding the above, the atypical earnings and retention trend was offset by a fresh equity issue during the year; and while that helped boost the group's ratios, the share price was punished (market capitalisation lost nearly half its value).



Operational profile

Credit risk (strategic overview)

Risk taking, in general, remained at fairly modest levels, with the group offsetting the impact of a larger loan asset pool with an equivalent increase in easily monetisable/cover yielding instruments.

	F12		F13	
	NAD'm	%	NAD'm	%
Loans and placements	339.2	22.3	404.8	25.3
<i>Net customer loans</i>	249.9	16.4	353.9	22.1
<i>Bank loans/deposits</i>	89.2	5.9	50.9	3.2
Other instruments	660.8	43.5	639.9	40.0
<i>Investment assets</i>	318.0	20.9	348.2	21.8
<i>Other assets</i>	342.8	22.6	291.7	18.2
Total B/S assets	1 520.0	65.8	1 600.9	65.3

Source: Trustco.

The total balance sheet, including non-risk items, can also be split amongst the group's operating units, and further once more between countries.

Table 6: Asset mix	F12		F13	
	NAD'm	%	NAD'm	%
Micro-finance	272.0	17.9	376.7	23.5
<i>Namibia</i>	272.0	17.9	376.7	23.5
Micro-insurance	374.2	24.6	371.3	23.2
<i>Namibia</i>	89.3	5.9	127.6	8.0
<i>South Africa</i>	252.5	16.6	203.5	12.7
<i>Zimbabwe</i>	32.4	2.1	40.2	2.5
Property products	648.5	42.7	589.5	36.8
<i>Namibia</i>	637.2	41.9	575.6	36.0
<i>South Africa</i>	11.2	0.7	13.9	0.9
HO and support	225.5	14.8	263.4	16.5
Total B/S assets	1 520.2	100.0	1 600.9	100.0

Source: Trustco.

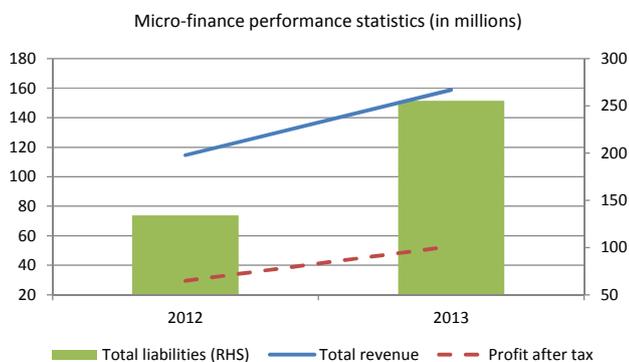
To provide context to the above, the activity and performance of these units are discussed below.

Micro-finance (education)

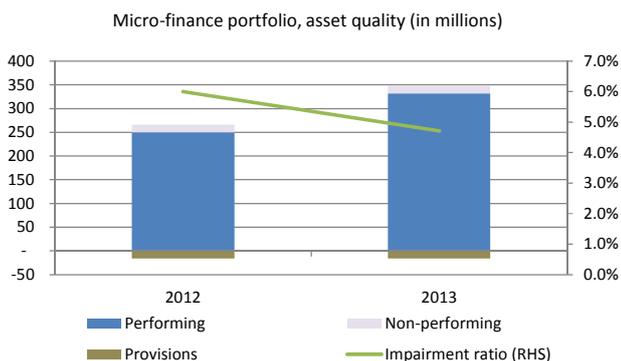
This unit focuses on the education value chain, providing access to distance learning courses and material, as well as financing for these programs - risk hereon is considered minimal, given that loans are collection by way of payroll deductions.

Segment (under Trustco Education)	Description of services offered
Institute for Open Learning	Academic arm, course provider
Trustco Finance	Finance arm, educational loans

Reflecting the cost efficiencies established in the previous annum, as well as less elastic demand, the micro-finance unit absorbed the most funding but also created the most value over the annum.



Performance wise, the book did well, registering only a small increase in impairments - albeit, with arrears fully covered by provisions, risk is low.

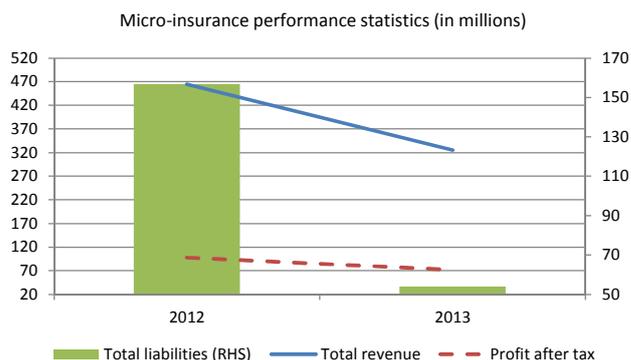


Micro-insurance (technology)

This unit provides a bouquet of direct/indirect personal insurance related products, as well as a claims administration service to direct providers - the former is also distributed on an agency basis, in combination with mobile telephony providers.

Segment (under Trustco Insurance)	Description of services offered
Trustco Insurance and Trustco Life	Legal, hospital and life assurance
Trustco Mobile	Life assurance via airtime buy-in
Trustco Financial Services	Outsourced back office services

Impacted by the (green fields) expansion of its offerings, micro-insurance had a tough period - having to absorb lower revenues and high costs.



It should be noted though, that the success of the group's operating model is a proven one, hence earnings from this unit should rebound once the distribution of products and cost offset takes off.

Notable highlights and changes from the group's preceding review were identified and consist of:

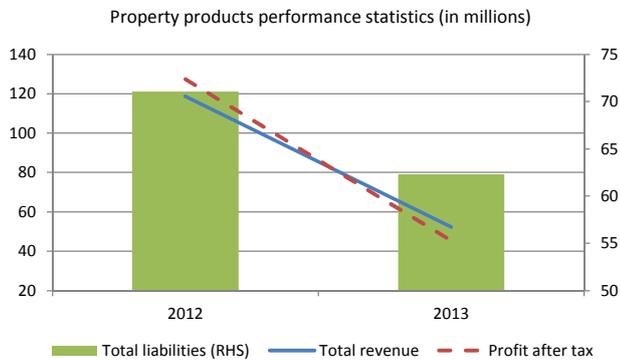
- The group executed the rollout of its agency life assurance product/s through the Shoprite Namibia chain of stores - whereby clients get 'free life cover' by simply buying groceries;
- The group rationalised its insurance premium and claims administration business in South Africa, given the competition in this market;
- The group exited the Zimbabwean market; all contracts and/or exposures have expired; and
- The group rolled out its insurance offerings, Yambu Life/Legal, in Namibia and South Africa.

Properties and mortgage loans

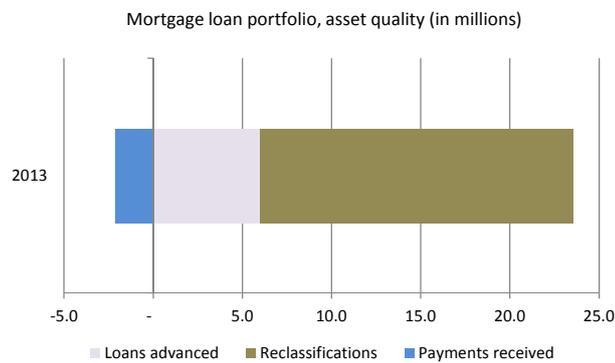
This unit houses the group's speculative trade/development and real estate financing activities - again, this encompasses a fairly low risk model.

Segment (under 'Land Bank')	Description of services offered
Trustco Properties	Acquisitions and release of land
Trustco Capital	Finance arm, mortgage finance

Despite the potential for higher margins on the group's portfolio of owned real estate, sales were lower than expected, impacting revenues notably.



The genesis mortgage loan book is self-funded by the group and is extended to purchasers of land parcels, released by the aforementioned business. - as it stands, there are no arrears accounts, thus offsetting the need for any credit loss provisions.

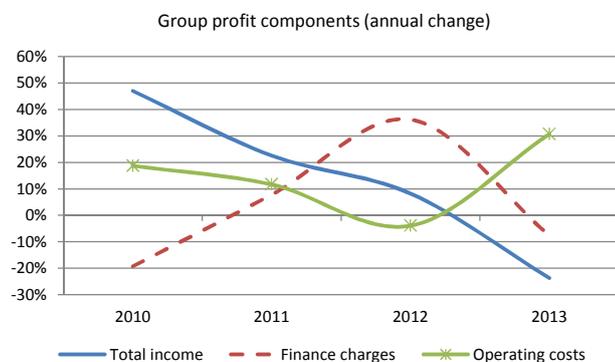


Over and above the operating vagaries of this unit, it is important to note that the property pool held by the group also functions as security/collateral under its funding agreements (active and pipeline).

Financial performance and prospects

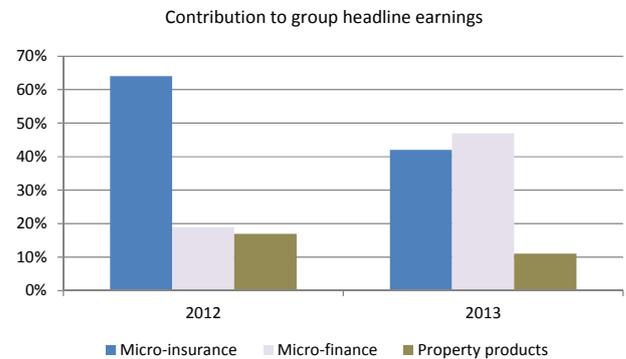
A 5-year financial synopsis is shown at the back of this report, supplemented by the commentary below.

Reflecting the struggles of both the property and micro-insurance units, the consolidated results of the group fell sharply, reversing the upward trend in revenue, capital generation and asset growth.



What is more, the departure from norm around the payout of dividends, at a time when group earnings are off its previous highs, further exacerbated the slide in bottom line performance and profitability.

Nevertheless, though the year-end turnout is well below expectations, the group's long-term trend is still within acceptable norms, whilst its outlook remain positive; the performance should be seen in the context of a business undergoing a notable shift in its operation - however, the change does not come without its fair share of cautionary risk.



Looking forward, and the group's earnings curve is premised on several efforts and initiatives within its insurance unit, as well as the opportunity to leverage its funding and assets to expand its credit offerings (both education and real estate finance) - as a listed company, the group's forecasts have been reviewed but is deemed sensitive and hence, is not published/elaborated on in too much detail.

Trustco Group Holdings Limited

(NAD in millions except as noted)

For the year ended: 31 March

Income Statement	2009	2010	2011	2012	2013
Insurance premium revenue	93.8	108.4	111.5	126.3	150.5
Total annuity type income	519.3	556.3	622.3	625.2	522.6
Realised Fair value gains/(losses)	4.1	25.9	59.1	117.3	49.8
Unrealised Fair value gains/(losses)	-	88.3	63.5	97.1	28.3
Total income	523.4	670.5	744.9	839.6	600.7
Cost of sales	(257.2)	(279.1)	(265.1)	(320.3)	(204.6)
Total income (excl. cost of sales)	266.2	391.4	479.8	519.3	396.1
Administrative expenses	(153.8)	(189.6)	(208.3)	(202.7)	(261.7)
Insurance benefits and claims	(21.8)	(16.9)	(21.4)	(18.9)	(27.8)
Transfer to policyholder liabilities	(0.5)	(2.4)	(3.4)	(2.4)	(5.0)
Change in unearned premium provision	(0.2)	(0.4)	(0.6)	(0.5)	1.0
Finance charges	(25.4)	(20.5)	(22.1)	(30.1)	(27.8)
Profit before tax	64.5	161.6	224.0	264.7	74.8
Taxation charge	28.9	(24.0)	(12.4)	(25.0)	(1.1)
Attributable earnings	93.4	137.6	211.6	239.7	73.7
Dividends paid	(6.7)	(14.1)	(10.2)	(25.8)	(29.9)
Retained earnings	86.7	123.5	201.4	213.9	43.8

Cash Flow Statement

Cash generated by operations	95.7	82.7	185.4	178.1	112.2
Working Capital (increase)/decrease	-	(9.0)	(169.3)	(79.0)	(86.2)
Net education loans advanced	(41.0)	(45.3)	(29.4)	(42.2)	(82.5)
Net interest/dividends received	4.5	7.9	29.3	24.5	3.8
Finance costs	(25.4)	(20.5)	(22.1)	(30.1)	(27.8)
Mortgage loan book	-	-	-	-	(21.5)
Taxation paid	(0.1)	(0.4)	(5.5)	(12.8)	(13.6)
Net cash flow from operations	33.7	15.4	(11.6)	38.5	(115.6)
Dividends paid - Ordinary shares	(6.7)	(14.2)	(10.2)	(25.8)	(29.9)
Net cash retained	27.0	1.2	(21.8)	12.7	(145.5)
Net investment (cost)/proceeds	(30.5)	(31.3)	(76.3)	8.9	(31.9)
Acquisitions/Additions to assets	(31.8)	(40.3)	(77.2)	(42.0)	(37.6)
Proceeds on sale of assets/investments	1.3	9.0	0.9	50.9	5.7
Decrease in policyholder under insurance contracts	0.5	2.4	3.4	2.4	5.0
Shares issued/(redeemed)	18.0	0.5	-	17.9	37.0
Net cash available/(consumed)	15.0	(27.2)	(94.7)	41.9	(135.4)
Borrowings raised/(repaid)	(4.9)	3.0	66.9	5.8	96.7
Net increase/(decrease) in cash and cash equivalents	10.1	(24.2)	(27.8)	47.7	(38.7)

Balance Sheet

Total shareholders' interest	370.5	478.6	732.8	913.3	998.0
Total interest-bearing debt	164.1	168.9	247.8	257.8	361.7
Policyholders liability under insurance contracts	2.5	4.9	8.3	10.7	15.7
Income tax liabilities	27.2	59.1	35.4	59.7	60.5
Accounts payable	179.4	187.6	167.3	256.3	136.3
Other liabilities	18.6	22.0	30.7	22.2	28.7
Total liabilities & equity	762.3	921.1	1 222.3	1 520.0	1 600.9
Fixed assets	154.2	139.4	129.7	160.5	172.3
Intangible assets	186.9	194.7	240.9	261.5	267.9
Educational microloans	133.0	178.3	207.8	249.9	332.5
Mortgage loan book	-	-	-	-	20.1
Investment property	33.8	143.2	232.8	318.0	348.2
Receivables	31.0	46.5	197.5	317.4	284.8
Cash and cash equivalent	108.5	91.0	82.7	101.0	72.7
Other assets	114.9	128.0	130.9	111.7	102.4
Total assets	762.3	921.1	1 222.3	1 520.0	1 600.9

Ratios

Cash flow:					
Operating cash flow : total debt (%)	20.5	9.1	(4.7)	14.9	(32.0)
Operating cash flow : Interest bearing debt (%)	20.5	9.1	(4.7)	14.9	(32.0)
Profitability:					
Annuity income growth (%)	50.1	7.1	11.9	0.5	(16.4)
Total income growth (%)	51.3	28.1	11.1	12.7	(28.5)
Effective tax rate (%)	(44.8)	14.9	5.5	9.4	1.5
Coverage:					
Dividend cover	13.9	9.8	20.7	9.3	2.5
Interest coverage (Total income excl. cost of sales)	9.5	5.2	4.6	5.8	7.0
Capitalisation:					
Equity : Total assets (%)	48.6	52.0	60.0	60.1	62.3
Retention rate (%)	92.8	89.8	95.2	89.2	59.4
Total debt : equity (%)	44.3	35.3	33.8	28.2	36.2
Net debt : equity (%)	15.0	16.3	22.5	17.2	29.0

SALEINT POINTS OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity; c.) such rating was an independent evaluation of the risks and merits of the rated entity; and d.) the validity of the rating is for 12 months, or as indicated by the applicable credit rating document.

The ratings were solicited by, or on behalf of, Trustco Group Holdings Limited, and therefore, GCR has been compensated for the provision of the ratings.

Trustco Group Holdings Limited participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of info received was considered adequate and has been independently verified where possible.

The credit ratings above were disclosed to Trustco Group Holdings Limited with no contestation of/changes to the ratings.

The information received from Trustco Group Holdings Limited and other reliable third parties to accord the credit rating included the latest available audited annual financial statements (plus four years of comparative numbers), latest internal and/or external report to management, full year detailed budgeted financial statements, most recent year to date management accounts, corporate governance and enterprise risk framework, reserving methodologies, capital management policy, Industry comparative data and regulatory framework and a breakdown of facilities available and related counterparties.

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