

BlueOrchard[®]

Microfinance Investment Managers

BlueOrchard Microfinance Securities 1

INVESTORS' UPDATE October 2009

Dear Investor:

In this newsletter, we provide an overview of the performance of BOMS1 and its 13 participating MFIs from June 2008 to June 2009.¹ In addition to the portfolio update, please note that effective December 15, 2008, HSBC BANK USA, N.A. ("HSBC") has succeeded Bank of New York Mellon ("BONY") as the Note Registrar, Authenticating Agent, Paying Agent, Collateral Agent and Securities Intermediary.

Ninth Interest Payment: January 2009

All 13 MFIs made their 15 July, 2009 interest payment on schedule. Interest payments were subsequently disbursed to the Senior and Subordinated Noteholders on 31 July, 2009. Since the July 2004 closing, BOMS1 has made nine interest payments to investors.

Investment Monitoring: The 13 MFIs:

Name	Country	Outstanding
ACLEDA BANK	Cambodia	5,000,000
BANCO SOLIDARIO	Ecuador	15,750,000
BANCOSOL	Bolivia	3,000,000
BANEX	Nicaragua	10,000,000
CMAC TRUJILLO	Peru	2,500,000
EDYFICAR	Peru	3,000,000
FDL NITLAPAN	Nicaragua	3,750,000
FFP FIE	Bolivia	8,000,000
FORUS BANK	Russia	3,500,000
MIBANCO	Peru	7,000,000
PRODEM	Bolivia	4,500,000
WWB - BUCARAM	Colombia	5,000,000
WWB - CALI	Colombia	3,000,000

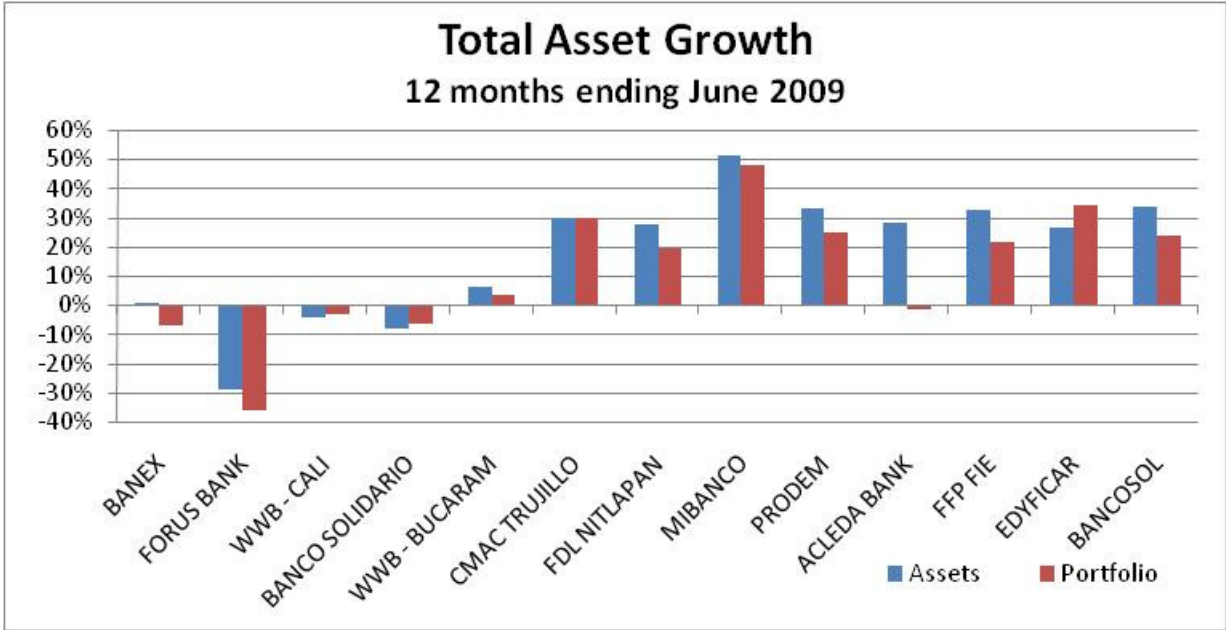
(1) Asset and Portfolio Growth:

For the 12 month period between June 2008 and June 2009, the combined total assets of the BOMS1 MFIs grew on average of 17.7% to USD 4.7 billion. This is substantially below the

¹ KMB pre-paid its loan in full in 2007. The data is from unaudited management accounts provided by the MFIs.

30% growth in the previous year, though in light of the severity of the global financial crisis, a positive growth rate in most microfinance markets is impressive and an encouraging sign of the health of the sector. The crisis is indeed the principal cause of the decline in growth: In many cases the demand for micro loans decreased as borrowers suffered the effects of the economic crisis and many borrowers worried about making investments in these environments. Many MFIs also implemented more conservative lending policies in the face of uncertain economic times. Clear regional differences are apparent in the growth figures, and Eastern Europe and Central America have been significantly more impacted by the crisis than South America and Asia. It is also worth noting that many of the markets in this transaction are mature so the growth rates tend to decline over time.

The MFIs with the strongest asset growth over the last twelve months were Mibanco of Peru (51.3%) and BancoSol and Prodem of Bolivia (33.7% and 33.5% respectively). The MFIs with the fastest portfolio growth were: MiBanco (48.2%), Edyficar (34.2%) and CMAC Trujillo (29.9%). All of these institutions are in Peru where the impact of the crisis was relatively mild.



Three MFIs experienced a contraction in assets during the last twelve months: Forus of Russia (-28.3%), BancoSolidario (-8.0%) and WWB Cali (-4.1%).

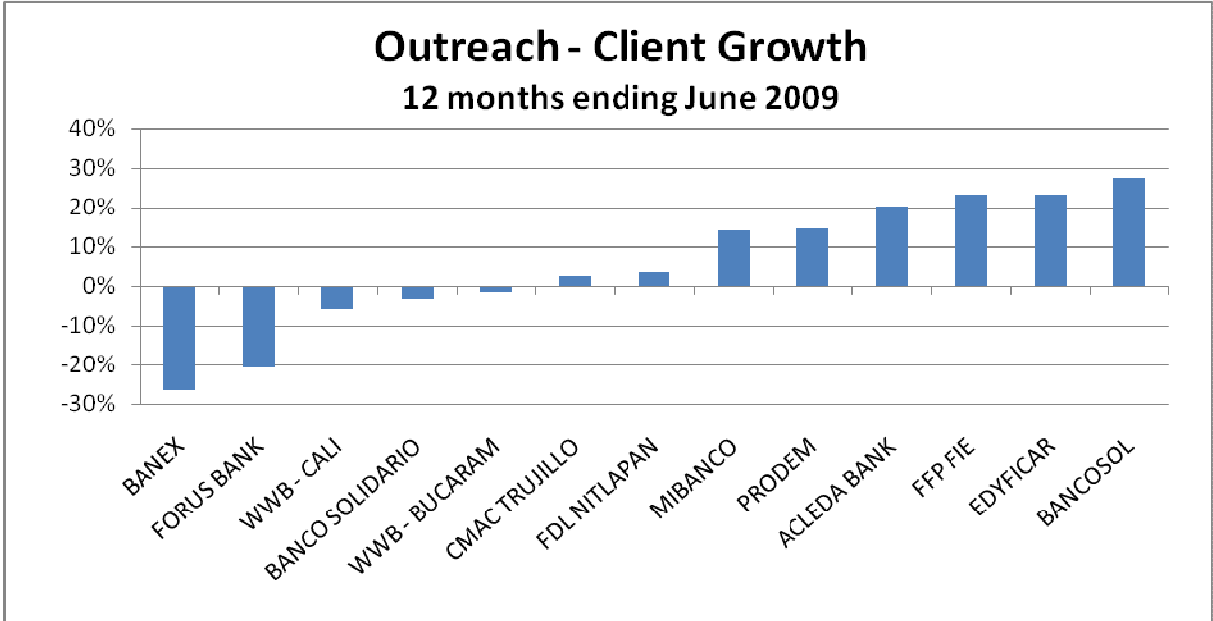
The decline at Banco Solidario is related to their strategy of pruning non-core assets and more conservative placement polices. The decline in Forus is a result of the crisis on the Russian economy on the bank’s clients (See section 6 below)

(2) Client Outreach:

As of June 30 2009, the MFIs in BOMS1 were providing loans to slightly more than 2.1 million clients, representing an 8.7% increase from 12 months earlier. The YTD growth in 2009 of clients is only 1.7%. These figures are below rates in previous years, due both to the financial crisis but also to the maturation of many of the institutions.

The fastest growing MFIs in the last 12 months in terms of client outreach were BancoSol of Bolivia (27.5%), Edyficar (23.0%), and FFP FIE (23.1%). Over the same time period, five institutions experienced a contraction in clients including Forus Bank (-20.7%) and Banex of Nicaragua (-26.5%). In both cases the decrease comes from a combination of lower demand

due to the economic crisis and a decision to tighten lending practices (see the update on Forus and Banex below in Section 6). The other MFIs that suffered a less severe reduction in clients were WWB Cali and WWB Bucaramanga (both of Colombia) and Banco Solidario of Ecuador. In the case of the Colombian MFIs the main cause was the increased overindebtedness in the market. These MFIs, like Banco Solidario, are being more cautious with placements due to the difficult environment.

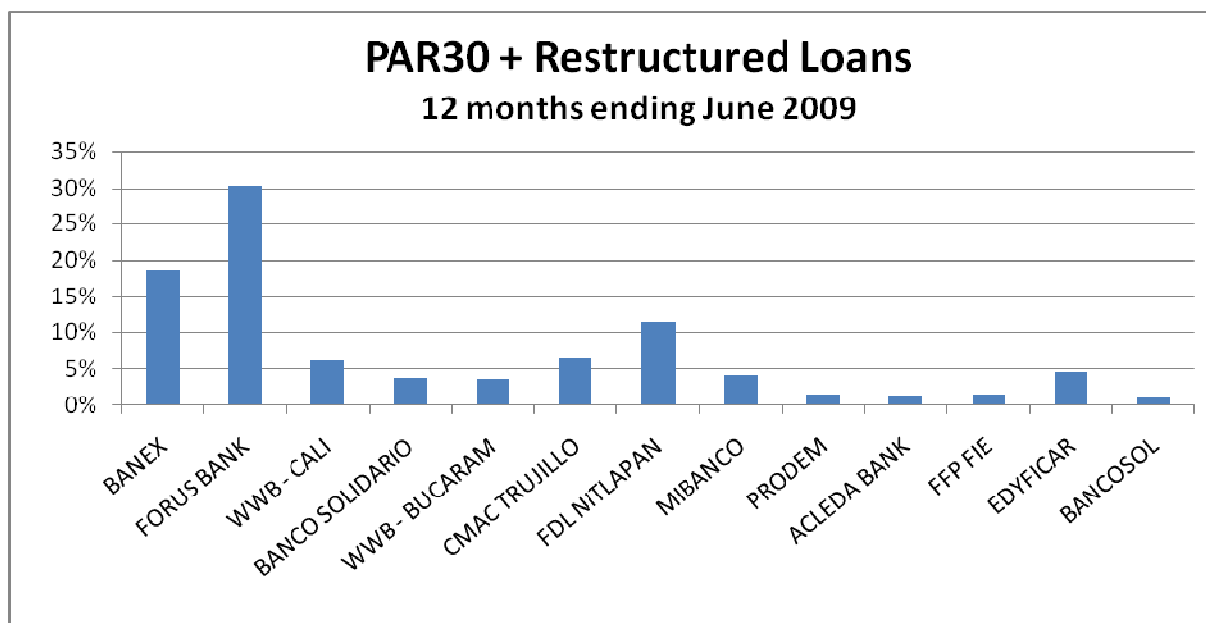


(3) Portfolio quality:

In this newsletter we show a modified portfolio quality measure as compared with previous newsletters. This ratio is more conservative than the “PAR30” typically used in the microfinance industry. It measures “portfolio at risk” as the sum of the loans more than 30 days delinquent (PAR 30) plus the amount of restructured and refinanced loans. We feel that this measure controls for the potentially uneven treatment by MFIs of PAR30 and restructured loans.

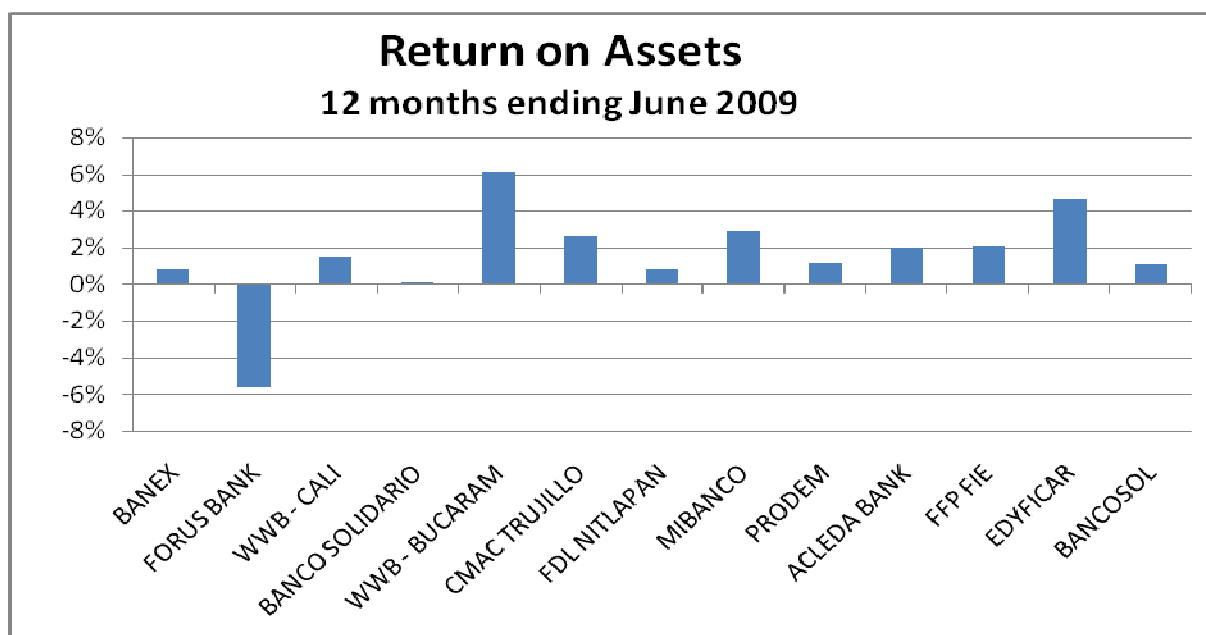
As of June 2009, the average for the ratio was 6.9%. This is an increase over prior years and reflects the impact of the financial crisis and overindebtedness in some markets. Three institutions had particularly high rates: Forus Bank (30.2%) Banex (18.6%) and FDL Nitlapan (11.3%). These MFIs are in Russia (Forus) and Nicaragua (Banex and FDL Nitlapan), countries that have suffered particularly severe economic downturns brought on primarily due to the global financial crisis. More detail is provided in Sections 5 and 6 on these institutions and the countries where they are located.

It is important to highlight, however, that the majority of the MFIs in the portfolio (8 of the 12), show portfolio at risk ratios lower than 5%, and four have very low rates in the 1 – 1.4% range, demonstrating the continuing high repayment rates of microfinance clients.



(4) Profitability:

The global economic crisis has affected the profitability of many of the MFIs in this transaction, though it remains positive for all but one institution in the portfolio. The average ROA for the previous 12 months was 1.5%, which is significantly below the 2.42% for 2008 and 3.5% for 2007, due principally to higher provisioning at many MFIs brought on by the decline in portfolio quality detailed above, and in some cases, foreign exchange losses. Greater competition is also reducing margins for many MFIs in mature microfinance markets, such as Ecuador, Bolivia, and Peru. This trend is expected to continue as the supply of microfinance loans continues to grow in these countries.



The MFIs with the highest 12 month ROA for the year were WWB Bucaramanga at 6.1% and Edyficar at 4.6%. They have been among the top 5 performers since 2005. One MFI, Forus Bank, showed negative ROA of 5.6% over the last 12-month period resulting from

significant write-offs, provisioning and extremely high hedging costs (See section MFI update).

FDL posted a loss of USD 789,000 for the six months ending June 2009 due to a deterioration of the portfolio and subsequent increased provisioning costs. Banex shows a positive ROA and net income through June 2009 but in July the net income became negative because of increased provisioning following a flare-up by the “no-pay” movement in northern parts of the country. Both situations will be discussed below.

(5) Global Economic and Political Environment

The global financial crisis has eased significantly since the time of the last newsletter in March, and many developed countries, including the United States, Japan and most of the EU, are now thought to have emerged from recession. Stock markets globally have rallied since the spring, many currencies have rebounded from their weak levels, and credit markets have normalized to some extent. Many weaknesses still exist, however, and it is clearly too soon to say whether the recovery will be a strong, lasting one, or rather be followed by a “double dip” recession. Moreover, the impact of the crisis on developing countries continues to be felt through low remittances, low exports, and tight credit. Again, the impact of the crisis varies significantly from region to region and country to country, and we see much stronger negative effects in countries such as Russia and Nicaragua than in, for example, Peru and Bolivia.

The global financial crisis led some banks to reduce lending to MFIs and many investors sought to reduce risk in their portfolios. Consequently, lending to MFIs dropped in late 2008 and early 2009. Most Microfinance Investment Vehicles (MIVs) were strapped for cash as investor inflows slowed or halted and took defensive positions with regards to liquidity management. This was a serious situation for MFIs needing to refinance outstanding debt. In other cases it resulted in the curtailing of growth plans. The situation was less severe for those institutions that take deposits and in certain countries where the government and/or local banking sources continued to finance MFIs.

The situation improved by mid-2009 as many private investments planned for late 2008 materialized, providing ample liquidity to MIVs. In addition, new funds, mostly sponsored by development banks have been or are in the process of being created, many of which are not yet fully deployed. Stronger MFIs, such as those represented in the BOMS1 portfolio, are generally able to refinance their current liabilities and finance projected growth without too much difficulty. However liquidity remains a challenge for some MFIs facing weakened portfolios as a result of the international financial crisis and of investors in the industry becoming more cautious in the financing of Tier II and Tier III institutions.

The following are brief updates of the countries represented in BOMS1 that have been particularly impacted by the global crisis, or which are undergoing important political and/or microfinance policy changes:

Bolivia

In comparison with most countries in Latin America, Bolivia has proven to be somewhat resilient to the global economic and financial crisis. In fact, on September 8, 2009 Fitch Ratings increased the sovereign debt rating from B- with a stable outlook to B with a stable outlook. Fitch stated that “Bolivia endured reduced commodity prices, contracting export volumes and lower workers’ remittances.... Nevertheless, limited foreign participation in Bolivia’s banking system as well as the absence of toxic assets or sizeable international funding shielded the country from fallout from the global crisis through direct financial channels. Fitch expects real GDP growth to decelerate to 1.6% in 2009 in response to the

less favourable external environment before recovering to 2.8% in 2010 with some support from informal economic activity.”

The economy is clearly not performing as well as 2008 when it grew at nearly 6%, but has held up fairly well. There could be some political turbulence as we get closer to the Presidential elections in December 2009, but Bolivia has dealt with these situations in the past without a major impact on the economy. The likely outcome is Morales' re-election and greater concentration of power. This has negative implications over the medium and long term as the business investment environment is not favourable but should not have major consequences in the near term. The economy is still quite dependent on gas exports and if oil prices fall again, this could decrease reserves particularly in 2010 and beyond.

To date neither inflation nor the global recession seem to be affecting most microfinance borrowers' ability to pay loans as Bolivian MFIs continue to show strong portfolio quality. There does however seem to be an important impact on the demand for microcredit, and portfolio growth at MFIs ranges from 3 to 12% YTD through July 2009 as compared with levels as high as 40% in 2008. The microfinance sector in Bolivia is one of the most developed in the world and competition is fierce. As a result, margins and yields are amongst the lowest and leverage is amongst the highest in the world. Nevertheless, the existence of sophisticated credit-bureaus and capable management teams serve as important risk mitigants.

US Dollar lending is still prevalent, accounting for 50-70% of the MFIs' loan portfolios, making exposure to a major Boliviano devaluation a medium term threat, though the government currently has healthy FX reserves. The banking regulators have instituted additional provisioning requirements for current US dollar loans (from 1% to 2.5%) in an attempt to encourage more lending in local currency. Thus far this requirement has not increased the MFIs capability to offer Boliviano loans significantly as the depositors still prefer US dollar deposits in spite of lower interest rates. The banking regulators have also required an extraordinary reserve due to the global financial crisis.

Ecuador:

Ecuador appears to have recovered from a near collapse of the economy and threats to dollarization. The country faced fiscal and commercial deficits from the dramatic drop in oil prices, and a significant loss of remittances and reduction in exports. This situation was further compounded by the December 15, 2008 sovereign bond default which limited the government's ability to finance this deficit.

In response to this dire economic situation the government took several measures such as curbing its spending and placing temporary restrictions on imports in attempts to improve its commercial and budgetary balance. These measures seem to have eased the pressure on the fiscal and commercial deficit as imports dropped nearly 40% from a peak in November 2008. The government was also to obtain financing from multi-laterals, CAF and FLAR of USD 1 billion and USD 1 billion financing from the Chinese government guaranteed by Ecuador's oil revenues. This last financing has aided the fiscal situation and padded the country's reserves. It would seem that this type of oil-guaranteed financing will be necessary in the near future to secure financing when needed.

Most importantly the economy is beginning to reap the benefits of the recovery of the price of oil. Ecuadoran oil prices had fallen from a high of 115 USD per barrel to under 20 USD, but have since rebounded nicely and appear to be around 70 USD per barrel today. Through July of 2009 the economy contracted 1.8% but is expected to recover somewhat for the

remainder of the year and as long as the price of oil stays above 40 USD per barrel should improve in 2010.

The economy however is still heavily dependent on oil as is the government's ability to sustain the dollarization system over the long term. A de-dollarization scenario would likely be followed by a substantial depreciation of the local currency exposing MFIs to FX losses as loans obtained by foreign lenders cannot be redenominated as local loans and deposits can.

In addition, it would appear that President Correa is becoming more autocratic and continues to concentrate power. The business environment is not friendly as he has challenged certain concession and has publicly challenged the independence of the Central Bank.

The deterioration of the economy was evident in the growth rates of MFIs, most of which were negative throughout the first semester in 2009. Most MFIs also showed some deterioration of their portfolios but not at the extreme levels experienced elsewhere, and nearly all MFIs in Ecuador have stayed profitable in 2009 thus far.

Nicaragua:

In early 2009, the "no pay" movement of borrowers in the Northern provinces seeking to restructure or not to repay their debt to MFIs continued to be active, albeit in a less forceful manner. In 2008, this movement caused MFIs operating in the affected Northern areas to reschedule significant amounts of their loan portfolios. However, this movement is no longer supported by President Ortega who recently declared that borrowers should negotiate directly with MFIs and that a culture of defaulting on debt will not be allowed. This is a favourable development because the no pay movement contributed to increased PARs for most MFIs in Nicaragua throughout 2008. However, a few members of parliament that still support the "no pay" group.

In August 2009, the group restarted protests in 7 regions in the North of Nicaragua, seeking political support to approve a new law ("Ley de Moratoria") that looks to suspend for one year all judicial actions against agricultural and livestock clients. In response, ASOBANP (banking network) and ASOMIF (microfinance network) issued a press release listing the damages this law could bring to the financial system and economy. MFIs also said they will close branches (and therefore halt loan disbursements) in regions where they believe their personnel is at risk.

In 2008, real GDP growth slowed to an estimated 2.8% due to the local economy's close links to the US/Western economies through trade, remittances and budget support, its dependence on Chavez's waning generosity and the freezing of foreign aid in protest to the internal political strife. It is expected that the economy will contract by an estimated 3.1% in 2009 (it had contracted 1.1% as of April 2009). The official exchange rate continues to be adjusted daily according to a crawling peg which devaluates the Córdoba against the U.S. dollar at an annual rate of 5%.

Russia:

The economic recession seems to have troughed during the second quarter of 2009 and the risk of a systemic banking crisis has significantly diminished. However, private consumption is likely to remain weak until the last quarter of 2010, limiting recovery prospects. GDP is forecasted to contract by 8% in 2009, and then grow by only 2% to 3% per annum over the medium term. The pace of economic recovery will, however, be highly dependent on oil prices.

Increased oil prices during the second and third quarters (from USD 40/bbl to USD 75/bbl), crucially bolstered foreign investor confidence and, by extension, capital inflows. Net capital outflows ended in the second quarter, bringing liquidity back to the domestic market. The Rouble has stabilized at about RUR 30.00 – 33.00 /USD. Foreign exchange reserves have increased to USD 400 billion, after having dropped by USD 200 billion year-on-year. General expectations are for oil prices to remain above USD 65/bbl. Any further weakness would however entail pressure on the local currency and reduce perspectives for macroeconomic improvements.

The RUR 2.4 trillion (USD 80 billion) bank recapitalization plan announced in July has helped stabilize the sector and restore investor confidence. This plan only concerns banks with assets exceeding RUR 50 billion (USD 1.6 billion). Consolidation and merger transactions are expected among smaller regional players. Rising non-performing loans continue to be an issue. Increasing provisions will negatively impact banks' profitability beyond 2010. Banks will focus on cleaning their balance sheet before renewing with domestic credit growth, thereby limiting domestic demand recovery. Domestic demand is set to fall by 16% over 2009.

The collapse in bank lending and, consequently, domestic demand has had an important impact on tax revenues. The government deficit is expected to average 8-9% of GDP in 2009 and 2010. Part of the deficit will be financed out of the two fiscal reserve funds built up on the past oil windfall. Both funds are likely to be depleted by 2012 since they will also be used to recapitalize the banking sector and the public pension system. The Russian government should move back to a net debtor in the medium term.

(6) MFI Updates

Forus Bank

Forus Bank's principal shareholder, Opportunity International, decided in August 2009 to sell the bank, as part of a broader divestment strategy in Eastern Europe. We have been informed that Opportunity had signed a Term Sheet with a potential purchaser in mid-September 2009. The purchaser has commenced due diligence and the anticipated closing date is mid December 2009. Included in the Term Sheet is a commitment by the purchaser to make significant capital injections into Forus. We should get more details on the identity of this investor shortly and appropriately review its financial capacity to support Forus. Investors in BOMS1 will be informed accordingly.

Forus Bank was severely affected by the financial crisis and needs to strengthen its equity to cover financial losses. During 2009, disbursements declined and the portfolio quality deteriorated, although non performing loan rates seem to be lower than at other regional banks. Total portfolio declined by 53% over the first 8 months of the year to USD 34 million, whilst PAR 30, restructured and written off loans averaged 41%. Forus reported cumulative losses of USD 3.6 million as of August 2009, compared to a total equity of USD 7.6 million. Losses are expected to worsen through H2 2009 as rescheduled loans come due. This will entail increased loan loss provision expenses and create an increasing pressure on the bank. Forus needs at least RUR 150 million of new capital to cover its financial losses.

During the summer 2009, Forus Bank slightly modified the structure of its existing capital to comply with a new regulatory requirement. According to a new regulation, Russian banks must report total equity greater than paid-in capital. Because Forus Bank is a recently created bank, it has not built up sufficient retained earnings in 2006-2007 to cover financial losses during 2008 and 2009. Forus Bank, with the advice of the Central Bank of Russia, decided to restructure its capital by decreasing its Tier 1 capital and replacing it with subordinated debt, recognized as Tier 2. As a result, Forus decreased its Tier 1 capital by

RUR 80 million in September. Its shareholder, the Fora fund, then provided an equivalent amount of subordinated debt to Forus. The new charter capital stands at RUR 300 million, which remains well above the minimum charter capital level required for banks.

Banex (formerly Findesa)

Banex' portfolio quality was severely impacted by the combination of a weak economy in Nicaragua, the presence of the "no pay" group and the levels of overindebtedness in the market. As of July 2009 PAR30 reached 6.9% (versus 3.9% in December 08 and 2.5% in December 2007) and the restructured and extended portfolio was 14.6% (6.6% in December 2008 and 0.4% in December 2007).

Around 55% of the restructured portfolio is "extended" loans, in which Banex granted borrowers a grace period (on average for 2.5 months) for principal and/or interest payments. These extensions started around April 2008 and have increased in specific months based on the "no-pay" movement, a major fire in a major market in Managua and a decision to delay the export of meat to the US by a group of farmers due to low prices (Banex, like all MFIs in the country, has a concentration in livestock). PAR30 of these "extended" loans have fluctuated around 6% in the first semester, whereas PAR30 for the restructured portfolio as a whole has ranged between 1 and 5% (2% as of August 2009).

Banex implemented measures to control arrears including concentrating efforts on recuperation (total portfolio has decreased by 8% year to date) and suspending lending in areas where the "no pay" group is present. It is worth noting that all loans in the livestock area (with concentration of arrears) have mortgages as guarantees. Given the significant size of restructured loans in this sector, we will continue to track performance closely.

The deterioration of the portfolio has affected profitability. As of July 2009, ROA over last 12 month ROA was 0.0% and cumulative net income year to date was negative \$1.1 million. This is mainly driven by the high levels of provisions. Risk coverage ratio is low, at 55.1% as of July 2009, and the Board has therefore approved a \$3 million capital injection that will be used to create more reserves. Banex expects to receive the money in September or October 2009.

Banco Solidario

Banco Solidario has been able to withstand the difficult macro-economic situation and in fact continues to improve its balance sheet by writing off non-core assets. Banco Solidario's portfolio shrunk 7.8% through July 2009 as it struggled with declining demand and its ongoing efforts to dispose of non-core assets. ROA remains a very low 0.39%, but this primarily reflects the Bank's continued reserving for real estate trusts (an additional USD 1.3 million reserved in 2009). The Bank is writing off these assets over 10 years, and has already reduced them from almost USD 19 million in August 2008 to USD 13 million in August 2009.

The effects of these write offs are manageable. The Banks has already provisioned 33% of the assets. The Bank's debt equity ratio has improved from 8.37 one year ago to a more manageable 6.77 as of June 2009. Even if Banco Solidario's non-core assets were valued at zero, the debt equity DE ratio would be a high but manageable 10.3. This improvement comes from a reduction in loan obligations and in non-core assets as well as a moderate increase in equity.

Finally, Banco Solidario appears to have controlled its PAR30, and restructured loans are now under 4%. The PAR30 improvement is due in part to the normalization of payments on

a large loan of USD 4 million which had been non-performing but has now been partially repaid and reprogrammed.

FDL Nitlapan

FDL is the biggest NGO in Nicaragua and is professional, transparent and socially-oriented. Its performance has been strong in the past, but indicators have deteriorated significantly because of the difficult Nicaraguan environment. PAR30 plus restructured loans reached 12.2% in July 09 (versus 3.5% in Dec08). Given the recent alarming developments related to the “no pay” movement, FDL closed 5 branches to protect their employees.

For an NGO, FDL's leverage is high at 5.84 and above FDL's internal 5.0x limit. The cause is declining equity due to losses of 1.2 million USD in the first seven months of 2009. To compensate for this deterioration management increased interest rates on urban microfinance to improve profitability, but it will take some time for this to show on their income statement.

The MFI has taken several measures to improve portfolio quality, including announcing that they would refinance all clients that pay on time (to avoid arrears from people that fear that if they pay, no new loan will be given). They have also increased collection efforts by hiring six external collectors. They have beefed up the checks in the credit bureaus not only checking for clients, but also for partners, guarantors and even people that this client has guaranteed. They have also started “marking” cows of livestock portfolio to prevent clients from selling these assets pledged as guarantees.

Although FDL's indicators have deteriorated significantly, its portfolio quality is still above the Nicaraguan average, even compared with the regulated MFIs. With its strong management, FDL has better resources to cope with the current crisis than most MFIs in Nicaragua. However, given the uncertainties in the market conditions we will continue to monitor it closely.

Edyficar

In September Banco de Crédito del Perú announced its intention to acquire CARE's majority stake in Financiera EDYFICAR. According to the press release, the agreement will mean no changes to EDYFICAR's business. EDYFICAR will continue as an independent entity, preserving its business model, its brand and personnel. It will continue to provide financial services to the same lower-income segment of the population of Peru.

Banco de Crédito del Perú's, is Peru's oldest and largest financial institution, The acquisition reflects its strategy to lead all segments of retail banking in Peru. It is also in line with its commitment to contribute to increase access to banking services in the country. According to the press release EDYFICAR's and Banco de Crédito's portfolios are complementary, so they do not anticipate changes to Banco de Crédito's strategy or loan products for small companies. Closing of the transaction is subject to customary closing conditions, including receipt of regulatory approvals, and is expected to occur in the coming weeks.

(7) Looking Ahead

Given the ongoing effects of the financial crisis, we expect to see some continued turbulence in some of the countries in this transaction. The global markets appear to have improved markedly as well as the price of commodities, however, and there are encouraging signs that the worst of the crisis may well be over. We also expect portfolio growth to pick up in most countries due to the seasonality of demand. Nevertheless, the macroeconomic situation in

various countries could change rapidly. BlueOrchard expects BOMS1 participating MFIs to generally perform better than their peers, given that they are all market leaders in their own countries and are aware of the challenges to come.

We will continue to monitor MFI performance closely. We anticipate significant near term developments on Forus Bank which is the institution in the portfolio most affected by the crisis. We will continue to keep investors apprised of material changes to the institutions in the BOMS1 portfolio or the environments in which they operate, and remain available to answer any questions you may have.

Sincerely yours,

The BlueOrchard Team

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