

STRUCTURED FINANCE

New Issue Report

Sarwa Securitization Company S.A.E. (SSC) – 20th Issue 2016-2021

Auto Receivables/Egypt

This report addresses the structure and characteristics of the transaction based on the information provided to MERIS by Sarwa Securitization Company as of July 2016. The ratings address the expected loss posed to investors by the final maturity. In MERIS opinion the structure allows for timely payment of interest and ultimate repayment of principal at par on or before the final maturity date. MERIS ratings address only the credit risk associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

POOL CUT-OFF DATE:

July 1, 2016

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DEFINITIVE RATINGS

Class	Description	Amount (EGP mn)	% of Notes	Expected Maturity	Fixed Coupon (%)	Frequency	Rating
A	Senior	189	32.2%	Sept-17	13.37%	Monthly	AA+(sf)
B	Subordinated	263	44.9%	Sept-19	13.97%	Monthly	AA(sf)
C	Junior Subordinated	134	22.9%	Jun-21	14.67%	Monthly	A(sf)
Total		586					

OPINION

This is the twentieth asset-backed bond issued by Sarwa Securitization Company S.A.E. (SSC). The bond issue is EGP 586,000,000 and is backed by 4,102 auto installment-sale contracts (EGP 779,692,284 outstanding receivable balance as of the pool cut-off date) initially co-originated by Contact Auto Credit (CAC) (48% of the principal outstanding balance), Contact Egyptian International Motor Credit (CEIM) (21%), Star Auto Credit (13%), Bavarian – Contact Car Trading (BCCT) (13%), Ezz El Arab-Contact Financial (ECF) (4%) and Modern Finance (Modern) (2%). The contracts have been written over the period between 14/1/2013 and 13/06/2016.

SSC's previous transactions auto-receivable securitizations are summarized in the following table:

Issue No.	Bond Tenor	Issue Size* (EGP Million)	# Contracts*	Bond Principal Outstanding (EGP)**
1	2005-2010	140	1,549	Called in 2008
2	2006-2011	159	1,895	Fully redeemed in 2011
3	2007-2012	275	3,070	Fully redeemed in 2012
4	2008-2013	392	4,913	Fully redeemed in 2013
5	2009-2014	495	5,719	Fully redeemed in 2014
6	2010-2015	470	5,554	Fully redeemed in 2015
7	2010-2015	420	4,796	Fully redeemed in 2015
8	2011-2016	350	3,763	Fully redeemed in 2014, balance refinanced through SCC 12 th Issue
9	2012-2017	814	9,859	Fully redeemed in 2014, balance refinanced through SCC 12 th Issue
10	2013-2018	629	6,259	119,739,355
12	2014-2019	899	12,298	221,225,727
13	2014-2019	603	4,860	278,246,178
15	2015-2020	621	4,891	380,102,206
16	2015-2020	733	5,403	586,270,162

*At Initial Rating

**As of 31 July 2016

Up to date, all of the above transactions are performing well, with regular payments of interest and principal.

Strengths of the Transaction

- This is a repeat transaction by the same Issuer. Backing the issue is a static pool of receivables, initially co-originated by six companies, CAC, Star, BCCT, CEIM, ECF and Modern under the same underwriting and servicing standards and procedures. The existing issues are performing well with reported cumulative credit default rates well below 1% and not less than 99% cumulative recovery rates as of the time of writing this report.
- The rating is based on the credit quality of the underlying auto receivables, which reflects the originators' strict underwriting, collection and monitoring policies and procedures.
- The credit enhancement available to the notes comes in the form of (i) default reserve account in the size of 5.5% of the initial bond balance; (ii) structural subordination of tranches B and C to the more senior tranches.
- The bond is backed by a static amortizing pool of auto receivables with no balloon payments. The receivables are related to the sale of brand new passenger vehicles, except for 24% (in terms of principal outstanding) related to the sale of used cars. The pool is granular (concentrations per client less than 0.18% of the total outstanding principal pool value) and well diversified in terms of car make and geographic distribution.
- The pool has a relatively low weighted average loan-to-value ratio at origination (66.5%) which accelerates the build-up of owner's equity into the assets and hence increases the recovery potential in case of default.
- The Servicer, Contact Auto Credit (CAC), has built up a significant experience over the past 10 years. Its efficiency of operations is supported by an automated file management system. **MERIS** has conducted an operational review of the Servicer and believes that management, procedures and systems in place permit CAC to adequately perform its duties as a Servicer.
- Contractual appointment of CIB (the Custodian) as a back-up servicer to the transaction. As a Custodian, CIB has access to the Servicer's systems and database, and follows up daily on the performance of the pool. **MERIS** believes that the daily involvement of CIB in the performance of the pool will ensure a smooth and speedy transfer of the Servicer's role to CIB in the unlikely event of Servicer's bankruptcy. CIB's ability to serve as a back-up servicer of the transaction is also supported by its solid experience in servicing a large number of corporate and retail clients in Egypt.

Weaknesses of the Transaction

- In general, **MERIS** perceives greater uncertainty associated with unrated Originators, and the use of securitization proceeds to fund the Originator's growing phase. However, this is mitigated by the Originator's experienced management team and strict adherence to its underwriting policies and procedures, which assure a high quality receivables pool.
- Class A notes will follow a predetermined amortization schedule. Although, the predetermined repayment schedule provides greater visibility of expected cash flows to investors, it presents extra challenges to the transaction in terms of liquidity management and prepayment risk. The liquidity risk is partially mitigated by maintaining sufficient cash reserves to ensure a minimum of three months senior fees and coupon payments. Class A notes are completely insulated from prepayment risk, as the scheduled principal amortization includes no prepayment expectation, with 30% of actual prepayments being passed through to Class B note holders as principal amortization, and the remaining 70% of prepayments being retained in the residual cash balance supporting Class A notes.

- 24% of the securitized receivables are related to the sale of used cars. In general, used cars are associated with a greater probability of default due to the perceived higher credit risk of the buyers. Nevertheless, the majority of the used cars included in the securitization portfolio are premium brands, which indicate high creditworthiness of the buyers.
- The securitized pool is relatively young, with an average seasoning of only three months. 92% of the contracts have been generated over the last 6 months. Younger pools exhibit relatively higher frequencies of default as compared to relatively more seasoned portfolios.
- Although this is the 20th securitization transaction by the same issuer, legal uncertainties still exist, given that the transaction relies on key legal concepts that remain largely untested in judicial proceedings or in practice in Egypt. **MERIS** took comfort from the legal opinions provided by the transaction's legal advisor on issues such as true sale, separateness of accounts, and concluded that the legal risks were consistent with the assigned ratings.

STRUCTURE SUMMARY (see page 5-6 for more details)

Amount Rated:	EGP 586,000,000
Issuer:	Sarwa Securitization Company S.A.E.
Seller (s) /Originator (s):	Contact Auto Credit (CAC), Bavarian–Contact Car Trading (BCCT), Star Auto Credit (SAC), Contact Egyptian International Motor Credit (CEIM), Ezz El Arab-Contact Financial (ECF), and Modern Finance (Modern).
Servicer:	Contact Auto Credit (CAC)
Back-up Servicer:	Commercial International Bank (CIB) (LT Deposit Rating “B3” by Moody’s Investor Service)
Custodian:	CIB
Arrangers and Underwriters:	Banque Misr, Commercial International Bank, and Arab Bank
Lead Manager, Book Runner, and Financial Advisor:	Sarwa for Promoting and Underwriting
Asset Manager:	Sarwa Asset Management
Structure type:	Senior Subordinated Structure, Class A – Predetermined Amortization, Class B & C - Pass-Through Amortization
Credit Support:	<ul style="list-style-type: none">• A default reserve account in the size of 5.5% of the initial bond size (EGP 32.23 million)• Structural subordination of class B and C to the more senior tranches

COLLATERAL SUMMARY (see page 8 for more details)

Receivables:	Car installment-sale contracts.
Initial Pool Balance (NPV):	EGP 616,721,260
Number of Contracts:	4,102 fully amortizing contracts
Type of Vehicles:	76% new vehicles, 24% used
Make of Vehicles*:	Mercedes: 13.3%, Kia 12.6%, BMW: 12.2%, Hyundai: 9.0%, Renault: 8.4%, Jeep: 7.9%, Nissan: 5.0%, Mitsubishi 4.3%, Opel 4.2%, Chevrolet: 3.5%, Other non-luxury: 15.2%, Other luxury: 4.4%
Geographic Diversity*:	Greater Cairo: 62.1%, Alexandria: 16.1%, Other: 21.7%
WA Seasoning:	3 months
WA Remaining Maturity:	44 months
WA LTV (at origination):	66.5%

* Percentage calculated is based on the outstanding principal balance.

CREDIT SUPPORT

Class	Subordination	Over collateralization	External Credit Enhancement
A	67.8%		A default reserve account in the size of 5.5% of the initial bond size (EGP 32.23 million)
B	22.9%	0%	
C	None		

TRANSACTION SUMMARY

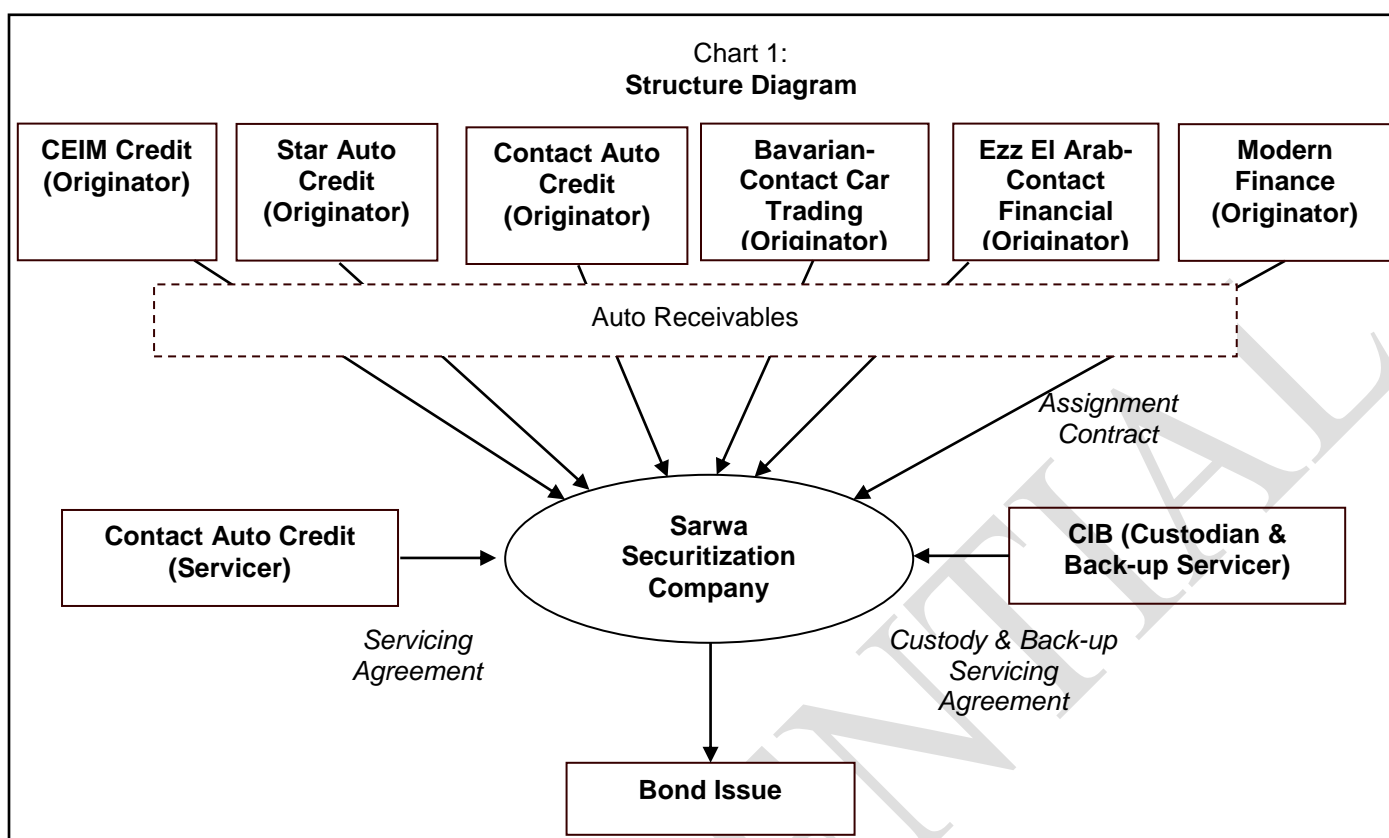
This is the 20th repeat transaction of auto receivables securitization by the same issuer, Sarwa Securitization Company. Like all previous issues, the securitized assets represent a static pool of fixed-rate auto receivables stemming from the sale of brand new passenger vehicles (76% of the pool) and used cars (24%) to customers domiciled in Egypt. The installment-sale contracts have been initially co-originated by CAC, BCCT, Star Auto Credit, CEIM, ECF and Modern. It is worth noting, that all six originators are managed by CAC and apply exactly the same underwriting policies and criteria. The auto receivables are secured by the cars, which are fully insured and subject to a resale restriction by the Traffic Directorate.

At closing of this transaction, the Originators will transfer to the Issuer the securitized assets. In order to finance the purchase of the securitized assets, the Issuer, Sarwa Securitization Company (SSC), will issue three classes of notes with different maturities suited to the needs of various investors. The notes' aggregate amount equals the net present value of the portfolio (the NPV of the portfolio is calculated by using the notes' weighted average coupon rate as the discount rate, leaving the transaction with zero excess spread) less net present value of the senior fees and expenses. The notes will be paying a monthly fixed coupon of 13.37%, 13.97% and 14.67% p.a. in order of seniority. They will be callable starting from the 13th coupon payment, following the repayment of Tranche A. Similar to the last six issues, the current notes will follow a pass-through amortization structure, except for class A notes, the money market tranche, which will have a pre-determined amortization schedule. **MERIS** notes that while having a predetermined repayment schedule provides investors with greater visibility of cash flows, it presents additional challenges to the transaction in terms of liquidity management and prepayment risk. The liquidity risk will be partially mitigated by maintaining at all times a cash reserve account that is sufficient to cover a minimum of three months of senior fees and coupon payments. The installment-sale contracts include certain features such as prepayment penalty or various prepayment restrictions that in effect try to limit the impact of prepayments on the transaction cash flows. It is worth noting that class A notes are completely insulated from prepayment risk, as the principal amortization schedule assumes no prepayments, with 30% of actual prepayments being passed through to the Class B note holders as principal payments, and the remaining 70% being retained within the residual cash balance to provide liquidity support to Class A notes. The notes benefit from internal credit enhancement in the form of structural subordination in the size of 67.8% for class A notes, and 22.9% for class B notes, as well as external credit support in the form of a cash reserve account equal to 5.5% of the bond's initial size. The cash reserve account will serve as both liquidity and default reserve.

On the closing date, CAC will entrust a pool of auto receivables to the Custodian. The pool is non-revolving (static) and amortizing. It is entirely composed of new (76%) and used (24%) passenger vehicles installment-sale contracts generated over the past four years. It is worth noting that for the most part collections on the pool will by-pass the Servicer (CAC) and be credited directly to the accounts of Issuer (SSC), thus effectively mitigating the risk of commingling the transaction's funds with the Servicer's own funds. With regards to occasional cash collections, the Servicer will undertake a commitment to deposit them within three working days to the accounts of the Issuer. Direct debit payments account for approximately 84% of the pool, whereas the rest of the monthly payments represent cheques.

STRUCTURAL AND LEGAL ASPECTS

Auto receivables securitization is structured to isolate the auto receivables from the insolvency risks of the originator(s)/seller(s). This is done by the originator(s)/seller(s) transferring the auto installment-sale contracts by means of true sale to a bankruptcy-remote special purpose entity, who will ultimately issue the bond to the investors. Under the structure – please refer to the following diagram – all six originators of the receivables, sell and assign all their rights and benefits in the receivables to SSC, a special purpose bankruptcy remote shareholding company, the Issuer. **MERIS** has received a legal opinion stating that the sale of the receivables from the originators to the Issuer (based on an Assignment Contract dated 15/08/2016) constitutes a true sale. The pool of receivables is secured by the cars, which are fully insured and subject to a resale restriction by the Traffic Directorate.



* A true sale according to the Capital Market Law 95/92 and its directives.

Collections, Commingling Risk and Separateness of Accounts

According to the Servicing Agreement (between SSC and CAC, signed on 15/08/2016) and the Custody Agreement (between SSC and CIB, signed on 15/08/2016), the collections of the monthly installments related to each of the 4,102 individual auto installment-sale contracts in the pool will bypass for the most part the accounts of the Servicer and will be credited directly to the accounts of the Issuer (SSC). The funds will then be transferred to the Issuer's account with the Custodian for the benefit of the bondholders. The majority of the installments (83.5%) are collected through direct debit of the borrowers' bank accounts across Egypt through the Automated Clearing House system, which facilitates the collection process. The remaining balance is paid by post-dated cheques (16.3%) or deducted directly from credit cards (0.2%). Any occasional cash collections by the Servicer will have to be deposited within three business days in the accounts of the Issuer. **MERIS** believes that the by-pass collection mechanism, whereby direct debit and cheque collections are credited directly to the accounts of the Issuer, along with the 3-day sweep mechanism for any cash collections by the Servicer itself, mitigate the risk of commingling the funds collected by the Servicer on behalf of the SPV with its own funds. In addition, the opinion furnished by the legal advisor regarding commingling risk states that funds collected by the Servicer on the securitized assets are the property of the bondholders and cannot be subject to claims by the Servicer's creditors if trapped in the Servicer's bankruptcy estate.

In accordance with the Capital Market Law requirements, the Custodian will maintain five separate accounts: (1) an account for bond amortization; (2) an account for coupon payments; (3) an account for reinvesting any surplus cash; (4) an account for collections; and (5) a default reserve account. Transactions on these five accounts have to take place based on written instructions from the Issuer. Once a month, the Custodian will pay the senior servicing fees and the coupons related to the three classes of notes, and the remaining cash will be applied towards principal amortization of the notes in accordance with the specified cash waterfall.

The legal advisor of the transaction provided a legal opinion regarding the clarification of the clauses in the Capital Market Law 95/1992 regarding the need of the Issuer, Servicer, and Custodian to maintain separate accounts for different securitization transactions. The CMA law 95/1992 explicitly addresses the issue of separateness and non-consolidation of different securitization transactions by the same Issuer. The opinion provided is consistent with the rating assigned to the notes, notwithstanding the fact that similar structures have not been tested in Egyptian courts yet.

The Issuer: Sarwa Securitization Company (SSC)

SSC, previously known as Contact Securitization Co., was established as a shareholding company on 8/11/2005 according to CMA Law 95/1992 (Commercial register No. 17199 Giza). The company's shareholding structure is as follows:

Shareholders	# of Shares	EGP	% Ownership
Egyptian International Co. for Trade & Investments L.L.C	40,500	4,050,000	81%
Contact Auto Credit S.A.E	9,000	900,000	18%
Bavarian Contact Car Trading S.A.E	500	50,000	1%
Total	50,000	5,000,000	100%

It is worth noting that Sarwa Capital acquired CAC's stake in the Egyptian International Company for Trade and Investment and currently holds 99.9% of the company. Thus, the originator's direct and indirect stake has been reduced from 97% to only 18% direct stake, which is currently in compliance with EFSA's requirements.

Credit Enhancements:

- 1) Structural Subordination:** Given the sequential senior subordinated structure of the transaction, the senior tranches benefit from the subordination of the more junior tranches, as follows: Class A is supported by a total of 67.8% of subordinated notes, whereas class B benefits from 22.9% in terms of subordination, provided by the most junior tranche.
- 2) External Support:** The Default Reserve Account will be funded from the initial bond proceeds and will equal 5.5% of the initial bond balance, or EGP 32,230,000. The cash reserve is sized to provide credit support as well as liquidity support to the transaction roughly covering three months of senior fees and coupon payments at any given month. Hence, the cash reserve can be used to cover any shortfall in senior fees and expenses, as well as coupon and principal payments under the notes. The cash reserve account is partially amortizing with a maximum amortization ceiling of EGP 11,720,000, representing 2% of the initial bond size. The amortization will commence after the maturity of Tranche A, and will be done semiannually thereafter on 9 installments that are proportionate to the amortization of the bond in the preceding period. However, in case of any unscheduled withdrawals from the cash reserve account, the scheduled amortization immediately following the withdrawal will be dropped and the missed installment will only go back to the Originator after the full repayment of the bond.

Other features:

Over-collateralization: The assets backing the securities amount to EGP 616,721,260, representing the net present value of the total outstanding principal and interest receivables stemming from the securitized auto installment-sale contracts discounted at the bond weighted average coupon rate. The six originators will sell their combined portfolios to the Issuer at a discount of 5%, creating an over collateralization of approximately EGP 31 million at the beginning of the transaction. However, it is worth noting that this over-collateral will be entirely used to cover the transaction expenses, such as servicing fees and insurance premiums, as well as other fees and expenses, thus leaving the transaction with no extra over-collateral that could be used to provide pure credit support. It is worth mentioning that the above estimate does not take into account any reinvestment income.

Priority of Payments

Allocation of the collections from the securitized contracts will be applied in the following order of priority:

1. Senior transaction fees and expenses, such as servicing, custody, listing, rating, insurance, advertising fees, etc.
2. Coupon of class A notes
3. Coupon of class B notes
4. Coupon of class C notes
5. Principal amortization of the most senior outstanding tranche, whereby Class A will follow a predetermined amortization schedule, and Class B & C - a pass through amortization schedule, in which the amount of principal amortization in any given month will equal the current month cash inflows less the amounts under (1), (2), (3), and (4).

6. Any prepayments during the lifetime of Class A will be passed at 30% on to class B notes as principal amortization, while the remaining 70% will be retained in the residual cash balance.

Given the sequential senior subordinated structure of the transaction, Class B note holders will only start receiving principal repayments after the full amortization of Class A notes (no later than 13 months after the transaction close), except for any prepayments received during the lifetime of Class A notes. Similarly, Class C note holders, being subordinated to Class B notes, will only start receiving principal repayments after the full redemption of Class B notes, which is to be no later than 37 months after the transaction closing date. Class C note holders are to be fully repaid within 58 months from the notes' issuance date.

COLLATERAL (See Appendix I for more details)

The portfolio consists of auto receivables in an amount equal to EGP 779,692,284 arising under car installment-sale contracts initially co-originated Contact Auto Credit (CAC) (48% of the principal outstanding balance), Contact Egyptian International Motor Credit (CEIM) (21%), Star Auto Credit (13%), Bavarian – Contact Car Trading (BCCT) (13%), Ezz El Arab-Contact Financial (ECF) (4%) and Modern Finance (Modern) (2%). The contracts have been written over the period between 14/1/2013 and 13/06/2016. The contracts are concluded with retail clients domiciled in Egypt to finance the purchase of brand new (76%) and used (24%) passenger vehicles.

Similar to the previous seven issues, the current securitization pool includes a portion of used cars sales installment contracts, under the Originator's recently launched used car program. The minimum down payment is 20% or 30% depending on the car make. The used cars eligible for refinancing also have to meet certain criteria in terms of mileage (max. 65,000-85,000km) and maximum age at the date of application (3-5 years) and by the end of the contract date (7-9 years). The maximum available tenor is still 60 months, provided that the car does not exceed the maximum age by the end of the contract date. The current portfolio also includes a small part (1% of total principal outstanding) of staff car finance contracts, both used and new, which allow for only 15% minimum down payment for regular employees and 0% down payment for managers.

The maximum original maturity of all contracts in the securitization pool is 60 months and the weighted average original maturity is 47 months. The weighted average remaining term to maturity is 44 months. It is worth noting that with an average seasoning of 3 months, this portfolio is relatively young. Almost the entire portfolio, 92%, has been originated over the last 6 months.

The number of contracts included in the portfolio is 4,102. The largest obligor in the pool accounts for only 0.18% of the total portfolio amount, given the company's single obligor limit of maximum 3 contracts and EGP 1,000,000 of principal outstanding for Mercedes or BMW, and EGP 750,000 for any other car make. The single obligor exposure is calculated on a consolidated basis across Contact Auto Credit and all of its subsidiaries.

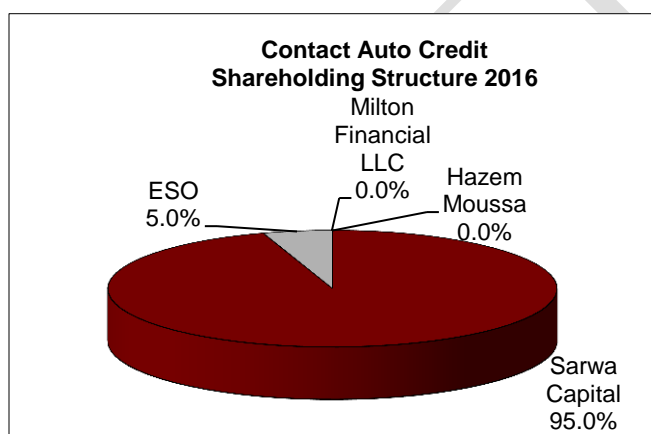
The portfolio is well diversified in terms of car make including a total of 43 different brands. The top 5 brands account for 55.6% of the total principal outstanding of the pool, the top 10 – for a total of 80.5%, whereas the remaining 19.5% consist of less popular brands with concentrations below 3%. As different car brands exhibit different rates of depreciations, a diversified pool is more likely to experience stable depreciation rate and successful recoveries on defaulted contracts, if any. It is also worth noting that luxury brands (for the purposes of this report **MERIS** has used EGP 400,000 as the cut-off point between luxury and non-luxury cars) account for approximately 30% of the total outstanding principal amount of the portfolio, which is an indication of the relatively high credit quality of the obligors.

The securitized receivables bear a fixed interest rate, and the weighted average yield is 19.7% p.a. The obligors are geographically spread across Egypt; however, significant concentrations exist around the Greater Cairo area (approx. 62% of the total principal outstanding), followed by Alexandria (16%).

1. Contact Auto Credit (CAC)

Incorporated in 2001, CAC, initially under the name of Contact Car Trading, is a private joint stock company. CAC has built itself into a leading auto financing company in Egypt. The company offers auto finance products to private customers, and currently accounts for 5.8% of the total passenger car market in Egypt. In addition to car financing, the company provides car insurance services, which are considered complementary to its core business activities.

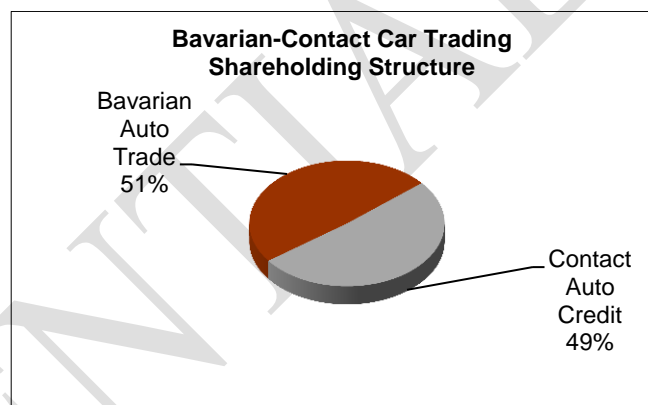
In January 2008, Contact Auto Credit underwent a major change in ownership. In order to avoid conflict of interest with its biggest shareholder, Commercial International Bank, the founding management team of the company acting in a consortium with Amwal Khaleej under the name of Sarwa Investments, arranged for a management buy-out of the company, whereas they acquired 56.7% equity stake in the company, previously owned by CIB (38.4%) and Egyptian Investment Direct Fund (18.3%). In 2013, Sarwa Capital further consolidated its ownership by acquiring the remaining 12.6% stake of Banque Misr. In February 2016, the stake of Amwal Khaleej in Sarwa Capital was acquired by the Egyptian American Enterprise Fund. The shareholders are working closely with the management to diversify and expand the company's activities into other complementary retail financial services - consumer finance, small and medium sized leasing, as well as mortgages - and position the company as a fully-fledged retail finance provider as opposed to a specialized auto finance company.



*Sarwa Capital is 99% owned by Consolidated Financial, which is fully owned by Tamweel Holding. Tamweel Holding in turn is majority owned by the Egyptian American Enterprise Fund (72.29%); Milton Financial owns 13.91% and the remaining shares belong to the original private investors who established Contact Auto Credit in 2001.

2. Bavarian-Contact Car Trading (BCCT)

Bavarian-Contact Car Trading was established in 2004 for the purpose of providing financial services to the BMW and MINI brands. The company has the shareholding structure presented in the figure below. Since 2003, the Bavarian Auto Group (a consortium of Egyptian, Gulf and German investors) has had exclusive rights for assembly, importation, distribution and after-sales support for BMW Group products in Egypt.



3. Star Auto Credit (SAC)

SAC was incorporated in February 2009 to exclusively provide financial services for clients of Mercedes-Benz passenger vehicles in Egypt, purchasing vehicles from showrooms owned directly and indirectly by the National Company for Cars (NATCO), being the majority shareholder of Star Auto Credit (66.6%). The remaining 33.4% of the company is owned by Contact Auto Credit.

4. Contact Egyptian International Motor Credit LLC (CEIM)

CEIM was established in April 2009, as a 50/50 joint venture company between Contact Auto Credit and Egyptian International Motors (EIM), the exclusive distributor for Kia and Renault passenger vehicles in Egypt. The purpose of the company is to exclusively provide financial services for clients of Kia and Renault passenger vehicles in Egypt, purchasing vehicles from showrooms owned directly or indirectly by EIM.

5. Ezz El Arab-Contact Financial (ECF)

ECF was established in December 2013, as a 51/49 joint venture company between Contact Auto Credit and Ezz El Arab, the exclusive distributor for Volvo, Citroen, and Proton passenger vehicles in Egypt. The purpose of the company is to exclusively provide financial services for clients of Volvo, Citroen, Jeep and Proton passenger vehicles in Egypt, purchasing vehicles from showrooms owned directly or indirectly by Ezz El Arab Automotive group.

6. Modern Finance (Modern)

Modern was established in May 2014, as a 50/50 joint venture company between Contact Auto Credit and Modern Motors, the exclusive distributor for Suzuki, Nissan and Changan passenger vehicles in Egypt. The purpose of the company is to exclusively provide financial services for clients purchasing Suzuki, Nissan and Changan passenger vehicles in Egypt.

Upon their incorporation, all CAC subsidiaries, namely BCCT, SAC, CEIM, ECF and Modern, have entered into operating agreements with Contact Auto Credit, to fully manage the operations of those auto finance companies, capitalizing on its experience as the leading company in providing car finance in Egypt. Hence, all of the subsidiaries offer car financing and insurance programs for their respective brands with exactly the same terms and conditions offered by CAC as described below.

Origination and Underwriting Process

Currently the company activities are centralized in the head office in Cairo, complemented by other branches inside Cairo (Zamalek, New Cairo, Downtown, Nasr City), as well as other remote branches located in Alexandria, Mansoura, Tanta, Ismailia, Hurghada and Sharm El Sheikh. Other areas outside of Cairo are covered through floating sales teams visiting the major auto dealerships. The sales team includes 96 sales people, covering the aforementioned different geographic areas and the call center. Approximately 70-75% of the business origination comes through the auto dealerships. CAC is expanding its network by building strong alliances with well-established auto dealerships and having a dedicated sales representative in the dealer's premises.

Underwriting decisions are centralized and are based both on quantitative and qualitative analysis of the applicant's credit history. CAC has an internally developed score card in place that is automatically generated by the system based on the information filled in the borrower's initial application. It takes into account factors such as stability in employment, education, sector of activity, previous credit history, real estate ownership, debt to income ratio, etc. The information is subject to verification by the company's credit officers through a field investigation, including a personal meeting with the prospect client, as well as third party cross-checks. The credit officers issue a recommendation based on their assessment of the applicant's ability and willingness to honor its financial obligations under the contract. Credit approvals are granted following independent voting on each application by the credit committee, which consists of the Credit Risk Head and the Head of the Investigation Department. In case of a disagreement between the two, the final credit decision goes to the Managing Director. Approximately 15% of prospect clients get rejected at the initial screening by the sales people, before the application enters the credit cycle. Another 20% of all initially filtered applications are further rejected during the credit process, indicating the company's tight scrutiny and strict approval procedures. The standard approval process takes between 3 and 5 working days depending on the responsiveness of the applicant with regard to any additional information requirements.

Contact's main underwriting criteria include the following:

- The obligor's age ranges from 21 to 65;
- Any car makes are eligible for refinance except Chinese made cars (with the exception of Great Wall, Brilliance and Speranza, but the minimum down payment required is at least 30% instead of 25%);
- The minimum down payment is 25%, except for certain used cars where it can go down to 20%. A recently introduced staff scheme allows for only 15% down payment and 0% for managers.

The company has a number of credit-related directives stipulating various credit limits to avoid any significant concentrations within the portfolio in terms of assets (car make), borrower employment type, industry classification, etc. There is a single obligor limit of EGP 1,000,000 for Mercedes and BMW and EGP 750,000 for all other car makes of outstanding principal. In addition, a single obligor is allowed a maximum of three outstanding contracts at any point of time, provided that the first contract has been performing for at least 2 years. The borrower's income has to cover the monthly installment 3 to 5 times depending on his type and sector of employment.

Collection and Recovery Process

Installments are due on two collection dates – the 15th and the 30th day of the month. The majority of the customers pay by direct debit order (currently 83.5%), and the remaining pay by checks (16.3%) or credit cards (0.2%). According to a recently signed arrangement, monthly collections are credited directly to the accounts of the Issuer (SSC), circumventing the accounts of the Servicer. Any occasional cash payments made by the clients at the premises of the Servicer will be deposited immediately (maximum next day) with the accounts of the Issuer. Approximately 90% of the receivables are collected within 60 days from the due date. Delays up to 60 days from the due date are handled by the company's credit officers. Upon failure of the customer to pay two installments in a row, the company has the right to repossess the car, and in case of no settlement to sell it. Repossessed cars are sold directly, relying on CAC's well-established relationships with the auto dealers. In case the customer is not satisfied with the offer price, he has the right to find another buyer. Since the beginning of its operations, the company's default rate has been negligible. Reportedly, out of the 74,407 contracts generated and securitized by the company up to date, there have been a total of 623 cases of repossession (credit default), in addition to 941 total loss cases (insurance coverage) and 276 cases of obligor's death (life insurance coverage). Recoveries in case of credit default have been sufficient to cover at least 99% of the loan outstanding value, and the time frame for repossessing and selling the cars in the secondary market has been within the range of two to eight weeks.

The servicing agreement signed between SSC and CAC details the responsibility of the Servicer including, among others, the following:

- Sending notification letters to borrowers;
- Issuing monthly reports on collections, delays, and defaults to the Custodian;
- Renewing the insurance policies of the cars in the securitized pool on an annual basis;
- Original contract documents are kept with the Custodian and are made available to the Servicer to take necessary action when needed.

Given the experience of CAC as a Servicer, its strict follow-up and monitoring guidelines, as well as the IT & management information systems currently in place, **MERIS** believes that CAC is capable of adequately servicing the receivables in this pool. The collection activities for all six originators are performed by CAC.

CUSTODIAN AND BACK-UP SERVICER

CIB (rated by Moody's at B3 local currency deposit rating)

CIB was founded in 1975 as a joint venture bank by the state-controlled National Bank of Egypt (NBE) and the Chase Manhattan Bank. Since its inception, CIB has been run independently from NBE, while its impressive performance and management strength is in part a legacy of its former association with Chase. The bank is Egypt's leading private sector company with 153 branches and over 500 ATMs. It serves 700 corporate and 400 small and medium sized enterprises, as well as 500,000 retail clients.

In May 2014, CIB's largest shareholder since 2009 - Actis, a private equity firm with over 60 years of investment experience in emerging markets and a vast knowledge of consumer banking (Strategic Investor), sold its remaining stake of 6.5% to Fairfax Financial Holdings. Approximately 90% of the shares are free float, and the balance is held by local institutional investors.

CIB is one of the leading financial services conglomerate in Egypt. The Bank is a medium-sized player with an approximate 7% market share in terms of assets as of Dec. 2015. Among its key strengths are its strong corporate banking franchise, sound management, strong credit culture and well-trained workforce. The bank's strong position in Egypt is currently tested by the challenging domestic operating environment, which is putting pressure on asset quality and profitability.

The bank's reputation as being one of the largest private sector banks in Egypt and its track record are considered positive factors to act as a Custodian to the proposed transactions. CIB is also formally appointed as a back-up Servicer to the transaction. As a custodian, CIB already has daily access to Contact's collection system and databases. In addition, the fact that the majority of the obligors have their accounts with CIB is likely to facilitate the collection procedures, in case CIB needs to assume the role of a Servicer.

MERIS ANALYSIS

Historical Data and Modeling

Based on the historic default data, the default distribution of granular portfolios is expected to follow closely the log-normal distribution. Therefore, the probabilities for default scenarios for entirely granular pools are derived from the log-normal default distribution. The exact shape of this distribution is determined by the cumulative mean default rate and its standard deviation.

Given the homogeneous (completely granular) nature of the pool, **MERIS** used the log normal method to model the cash flows of the transaction. The model is based on the expected loss methodology that reflects the notes expected cumulative loss and average life over various default rate scenarios. The final output is derived as the sum product of the various default rate scenario losses and lives of the notes weighted by the probability of default of each respective default rate scenario.

As per CAC's report, cumulative credit default rates up to date on the outstanding securitization transactions have been below 1%. Historic recoveries have been always sufficient to cover at least 99% of the defaulted amount (principal outstanding at default). However, given the limited track record of the originators, historical data can hardly be a reliable indicator of the pool's performance in the future. Therefore, **MERIS** used a log normal distribution to model the transaction, defined by cumulative mean default rates experienced in similar emerging markets (5.5% for new cars and 8% for used cars), coupled with a volatility (coefficient of variation = standard deviation/mean) above 50% to reflect the higher uncertainty associated with the lack of sufficient and reliable historical data.

Some of the other input parameters in the cash-flow model are summarized below:

- Amortization profile of the assets: the 0% default and 0% prepayment monthly amortization of the securitized assets according to the contractual amortization schedule;
- Timing of Default: The timing of default is used to calculate the defaulted amount per period expressed as a percentage of the cumulative defaults. **MERIS** has tested the transaction by using various default curves – front-loaded, flat, and back-loaded;
- Recovery lag: 50% after 6 months, 25% after 9 months, 25% after 12 months;
- Prepayment rate: **MERIS** has received monthly prepayment data on the previous securitizations of CAC, and has noted that historical average prepayment rates have varied between 3% and 20%. **MERIS** has tested the transaction using various prepayment rates between 0% and 20%;
- Credit Support: External credit support is provided through a default reserve account in the size of 5.5% of the initial bond size (EGP 32.23 million), in addition to the internal credit support in the form of structural subordination of the most junior tranches to the more senior ones.

MERIS performed sensitivity analysis around the main inputs listed above, to test the impact of structural and asset features on the rating of the notes. **MERIS** concluded that, in view of the conservative assumptions applied and taking into consideration the transaction's qualitative factors, the credit enhancement available to the transaction is in line with the assigned ratings.

RATING SENSITIVITIES AND MONITORING

MERIS will monitor the transaction on an ongoing basis to ensure that it continues to perform in the manner expected. The monitoring will include reviews of periodic servicing reports. Any subsequent changes in the rating will be publicly announced and disseminated through the media.

APPENDIX I: POOL DATA

Distribution by Original Term To Maturity				
Months	Principal Outstanding	% Total	# of Contracts	# of Contracts %
7-12	23,644,740	4%	226	6%
13-24	76,795,630	14%	507	12%
25-36	104,256,466	19%	746	18%
37-48	49,074,637	9%	383	9%
49-60	297,325,397	54%	2,240	55%
Total	551,096,870	100%	4,102	100%

Distribution by Seasoning				
Months	Principal Outstanding	% Total	# of Contracts	# of Contracts %
0	20,385,568	4%	114	3%
1	82,691,350	15%	544	13%
2	82,058,603	15%	578	14%
3	119,998,204	22%	866	21%
4	108,604,322	20%	847	21%
5	54,740,788	10%	420	10%
6	36,609,768	7%	309	8%
7-41	46,008,268	8%	424	10%
Total	551,096,870	100%	4,102	100%

Distribution by Remaining Term To Maturity				
Months	Principal Outstanding	% Total	# of Contracts	# of Contracts %
1-12	23,644,740	4%	226	6%
13-24	76,974,302	14%	512	12%
25-36	104,378,815	19%	746	18%
37-48	50,513,462	9%	387	9%
49-60	295,585,550	54%	2,231	54%
Total	551,096,870	100%	4,102	100%

Distribution by Original Principal Balance				
EGP ('000)	Principal Outstanding	% Total	# of Contracts	# of Contracts %
400-1,000	86,739,630	16%	181	4%
200-399	151,392,105	27%	627	15%
100-199	203,350,928	37%	1,636	40%
50-99	102,175,236	19%	1,447	35%
<50	7,438,971	1%	211	5%
Total	551,096,870	100%	4,102	100%

APPENDIX I: POOL DATA - CONTINUED

Distribution by Current Outstanding Principal Balance				
EGP ('000)	Principal Outstanding	% Total	# of Contracts	# of Contracts %
400-972	72,933,885	13%	142	3%
200-399	137,938,245	25%	516	13%
100-199	200,745,636	36%	1,456	35%
50-99	126,558,653	23%	1,651	40%
<50	12,920,450	2%	337	8%
Total	551,096,870	100%	4,102	100%

Distribution by Original LTV				
LTV	Principal Outstanding	% Total	# of Contracts	# of Contracts %
<=40%	25,866,488	5%	380	9%
41%-50%	55,680,715	10%	542	13%
51%-60%	68,041,022	12%	553	13%
61%-70%	107,305,613	19%	787	19%
71%-75%	210,036,534	38%	1,428	35%
76%-85%	82,988,326	15%	403	10%
85%-100%	1,178,172	0%	9	0%
Total	551,096,870	100%	4,102	100%

Distribution by Original Car Value (Purchase Price)				
EGP '000	Principal Outstanding	% Total	# of Contracts	# of Contracts %
600-1,900	77,542,658	14%	169	4%
400-599	92,048,959	17%	357	9%
300-399	71,156,224	13%	363	9%
200-299	108,681,480	20%	766	19%
100-199	183,520,213	33%	2,110	51%
<99	18,147,335	3%	337	8%
Total	551,096,870	100%	4,102	100%

Distribution by Monthly Installment Amount				
EGP	Principal Outstanding	% Total	# of Contracts	# of Contracts %
10,000-67,895	151,611,190	28%	479	12%
5,000-9,999	145,305,513	26%	809	20%
2,000-4,999	216,951,096	39%	2,136	52%
1000-1,999	36,327,786	7%	647	16%
<1000	901,285	0%	31	1%
Total	551,096,870	100%	4,102	100%

Distribution by Product Type				
EGP	Principal Outstanding	% Total	# of Contracts	# of Contracts %
Economy	196,600,382	36%	1,491	36%
Flexible	177,425,353	32%	1,502	37%
Used	133,549,622	24%	803	20%
Standard	31,456,801	6%	192	5%
Islamic	12,064,712	2%	114	3%
Total	551,096,870	100%	4,102	100%

APPENDIX I: POOL DATA - CONTINUED

Distribution by Originator				
EGP	Principal Outstanding	% Total	# of Contracts	# of Contracts %
Contact	262,782,239	48%	2,123	52%
CEIM	115,449,034	21%	1,183	29%
Star	73,459,123	13%	300	7%
BCCT	69,214,573	13%	244	6%
ECF	19,487,758	4%	107	3%
Modern	10,704,143	2%	145	4%
Total	551,096,870	100%	4,102	100%

Distribution by Payment Method				
EGP	Principal Outstanding	% Total	# of Contracts	# of Contracts %
Direct Debit	460,240,558	83.5%	3,614	88%
Checks	89,988,182	16.3%	479	12%
Credit card	868,130	0.2%	9	0%
Total	551,096,870	100%	4,102	100%

Distribution by Governorate				
Governorate	Principal Outstanding	% Total	# of Contracts	# of Contracts %
Cairo	225,777,085	41.0%	1,513	36.9%
Giza	109,216,120	19.8%	835	20.4%
Alexandria	88,886,544	16.1%	729	17.8%
Gharbia	23,621,468	4.3%	186	4.5%
Dakahlia	14,658,407	2.7%	115	2.8%
Red Sea	13,403,308	2.4%	129	3.1%
Ismailia	13,248,774	2.4%	117	2.9%
Beheira	12,612,614	2.3%	111	2.7%
Qalyubia	7,287,877	1.3%	57	1.4%
Sharqia	6,623,052	1.2%	49	1.2%
Monufia	6,202,150	1.1%	49	1.2%
Port Said	5,543,257	1.0%	24	0.6%
Damietta	5,041,878	0.9%	40	1.0%
Kafr El-Sheikh	4,746,467	0.9%	41	1.0%
South Sinai	3,530,622	0.6%	28	0.7%
Suez	3,351,356	0.6%	21	0.5%
Marsa Matrouh	2,281,281	0.4%	20	0.5%
Faiyum	1,798,037	0.3%	10	0.2%
6th October	1,271,743	0.2%	14	0.3%
Beni Suef	759,050	0.1%	5	0.1%
Sohag	291,016	0.1%	2	0.0%
Minya	285,137	0.1%	2	0.0%
Asyut	260,608	0.0%	1	0.0%
Helwan	250,861	0.0%	2	0.0%
Sharm El Sheikh	148,158	0.0%	2	0.0%
Total	551,096,870	100%	4,102	100%

APPENDIX I: POOL DATA - CONTINUED

Distribution by Car Make					
	Make	Principal Outstanding	% Total	# of Contracts	# of Contracts %
1	Mercedes	73,459,123	13.3%	300	7.3%
2	Kia	69,326,247	12.6%	607	14.8%
3	BMW	67,479,285	12.2%	234	5.7%
4	Hyundai	49,549,930	9.0%	460	11.2%
5	Renault	46,520,480	8.4%	580	14.1%
6	Jeep	43,380,462	7.9%	156	3.8%
7	Nissan	27,505,224	5.0%	305	7.4%
8	Mitsubishi	23,703,713	4.3%	235	5.7%
9	Opel	23,063,794	4.2%	162	3.9%
10	Chevrolet	19,464,671	3.5%	254	6.2%
11	Toyota	16,477,085	3.0%	90	2.2%
12	Peugeot	8,590,678	1.6%	78	1.9%
13	Skoda	8,569,099	1.6%	68	1.7%
14	Volkswagen	7,070,090	1.3%	52	1.3%
15	Subaru	6,986,274	1.3%	49	1.2%
16	Volvo	6,756,319	1.2%	26	0.6%
17	Audi	5,842,691	1.1%	27	0.7%
18	Ford	5,552,520	1.0%	33	0.8%
19	Suzuki	4,675,390	0.8%	68	1.7%
20	Citroen	4,418,122	0.8%	42	1.0%
21	Seat	3,166,413	0.6%	32	0.8%
22	Fiat	2,809,759	0.5%	30	0.7%
23	Mazda	2,644,627	0.5%	20	0.5%
24	Land Rover	2,519,697	0.5%	4	0.1%
25	Range Rover	2,138,612	0.4%	4	0.1%
26	Geely	1,871,170	0.3%	33	0.8%
27	Mini	1,735,288	0.3%	10	0.2%
28	SsangYong	1,722,292	0.3%	15	0.4%
29	Daihatsu	1,635,598	0.3%	14	0.3%
30	Jaguar	1,574,139	0.3%	3	0.1%
31	Changan	1,538,284	0.3%	22	0.5%
32	Porsche	1,398,039	0.3%	3	0.1%
33	Lada	1,384,745	0.3%	24	0.6%
34	Dodge	1,137,816	0.2%	3	0.1%
35	Honda	1,091,985	0.2%	11	0.3%
36	Brilliance	1,017,589	0.2%	10	0.2%
37	Cherry	986,938	0.2%	14	0.3%
38	Proton	918,541	0.2%	15	0.4%
39	Maserati	757,206	0.1%	1	0.0%
40	MG	368,452	0.1%	5	0.1%
41	Alfa Romeo	178,939	0.0%	1	0.0%
42	Chrysler	76,853	0.0%	1	0.0%
43	Daewoo	32,691	0.0%	1	0.0%
Total		551,096,870	100%	4,102	100%

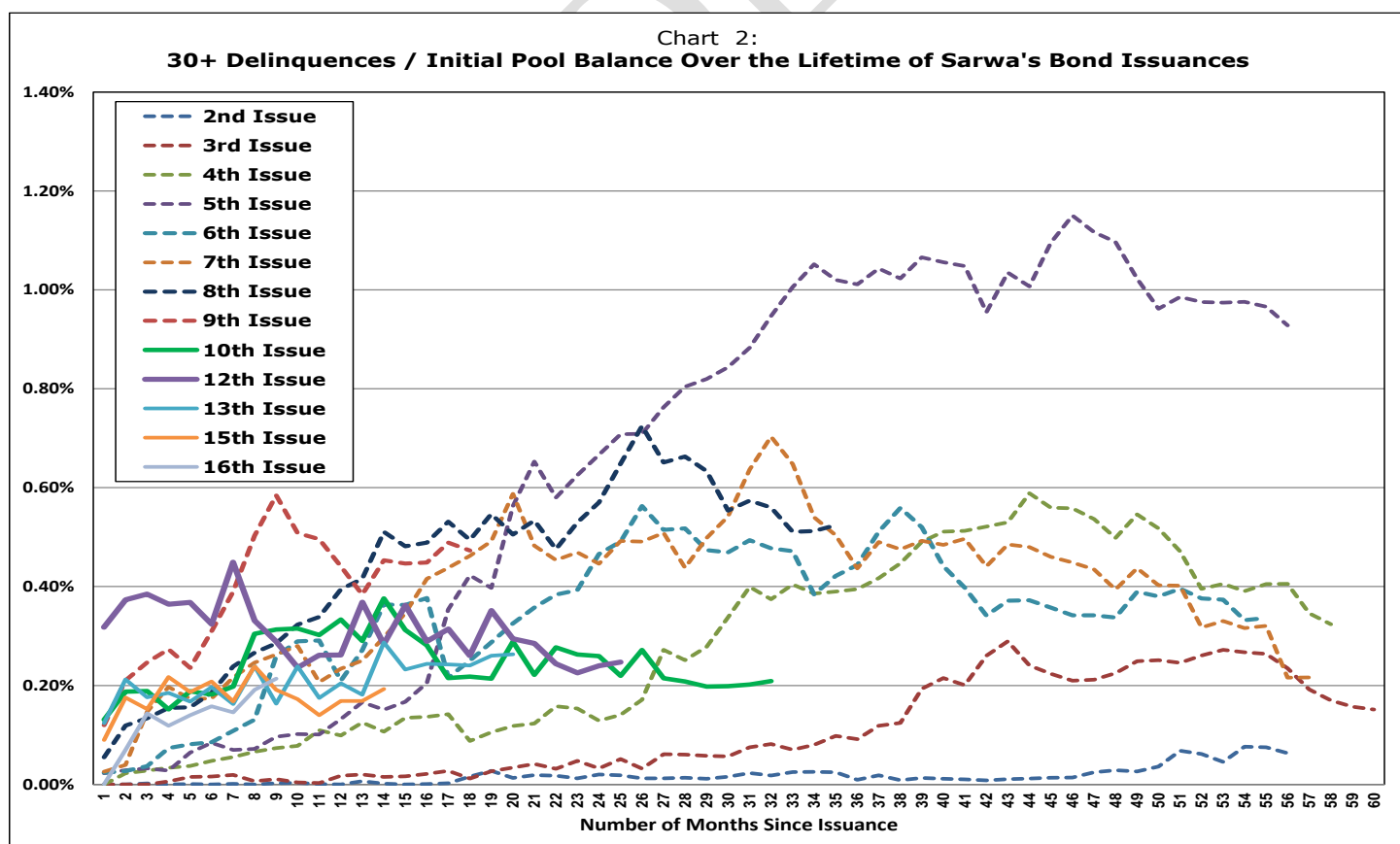
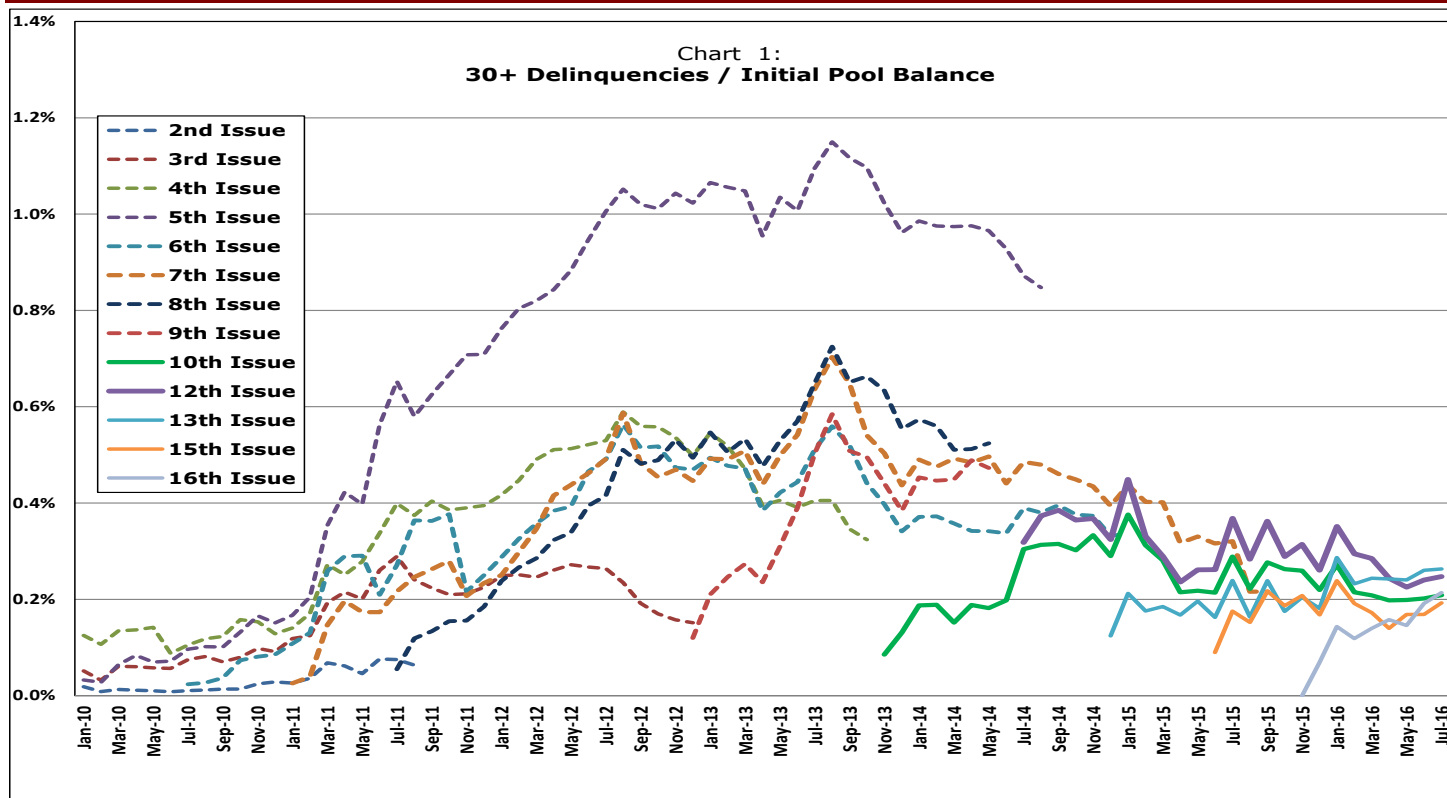
APPENDIX II: AUTO RECEIVABLES SECURITISATION DEALS COMPARISON

	20 th Issue (2016-2021)	16 th Issue (2015-2020)	15 th Issue (2015-2020)	13 th Issue (2014-2019)	12 th Issue (2014-2019)	10 th Issue (2013-2018)
Bond Size (EGP mn)	586	733	621	603	899	629
Bond Structure	Senior Subordinated Multiple class; Class A - Predetermined Amortization; Class B & C - Pass Through					
Coupon	Class A: 13.37% Class B: 13.97% Class C: 14.67%	Class A: 9.89% Class B: 10.69% Class C: 11.19%	Class A: 9.97% Class B: 10.77% Class C: 11.27%	Class A: 10.25% Class B: 11.05% Class C: 11.55%	Class A: 9.24% Class B: 9.84% Class C: 10.54%	Class A: 9.68% Class B: 10.28% Class C: 10.98%
Maturity	Class A: Sept-17 Class B: Sept-19 Class C: Jun-21	Class A: Dec-16 Class B: Dec-18 Class C: Oct-20	Class A: Jun-16 Class B: Jun-18 Class C: Apr-20	Class A: Dec-15 Class B: Dec-17 Class C: Oct-19	Class A: Jul-15 Class B: Jul-17 Class C: May-19	Class A: Nov-14 Class B: Nov-16 Class C: Oct-18
O/C at issuance*	0% *	2.02% *	3.5% *	3.4% *	2.7%*	2.7%*
Additional Credit Support:	Default reserve in the size of 5.5% of the initial bond size	Servicing Fee Subordination** Cash reserve/LG in the amount of EGP7mn	Servicing Fee Subordination**	Servicing Fee Subordination**	Servicing Fee Subordination**	Servicing Fee Subordination**
No. of Contracts	4,102	5,403	4,891	4,860	12,298	6,259
Seasoning (months)	3	3	3	3	16	6
WA LTV (at origination):	66.49%	66.37%	65.88%	66.46%	67.18%	66.80%
Used Cars	24.23%	18.11%	18.40%	17.21%	13.83%	16.69%
Assigned Rating:	Class A: AA+ Class B: AA Class C: A	Class A: AA+ Class B: AA Class C: A	Class A: AA+ Class B: AA Class C: A	Class A: AA+ Class B: AA Class C: A	Class A: AA+ Class B: AA Class C: A	Class A: AA+ Class B: AA Class C: A
WA Interest Rate	19.70	19.21	19.14	19.13	18.55	18.63%

*Net of expenses

**Additional credit support available on a monthly basis in the amount of 2.25% p.a. (0.19% per month) of the outstanding principal balance of the securitized portfolio of receivables, which represents performance-based servicing fees. The unused portion of the 0.19% monthly servicing fee will be paid to the Servicer on a monthly basis after settlement of all senior payments in the waterfall.

APPENDIX III: PERFORMANCE OF SARWA SECURITIZATION TRANSACTIONS



APPENDIX IV: National Rating Scale

Quality of credit	Long	Short	
Highest credit	AAA		
Very high	AA+ AA AA-	Prime 1	Investment Grade
Upper-medium	A+ A A-		
Medium grade	BBB+ BBB BBB-	Prime 2 Prime 3	
Weak quality	BB+ BB BB-		
Poor quality	B+ B B	Not Prime	Speculative Grade
Very poor	CCC+ CCC CCC- CC C		

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