

STRUCTURED FINANCE

Annual Review

Sarwa Securitization Company S.A.E. – 36th Issue 2021-2028 (Real Estate Receivables Pool Originated by Palm Hills Companies)

Real Estate Receivables/Egypt

*As of 30/11/2022

Class	Description	Amount (EGP mn)	% of Notes	Expected Maturity	Fixed Coupon (%)	Coupon & Principal Payment Frequency	Rating	Current Rating
A	Senior	-	-	Nov-22	10.70%	Quarterly	AA+ (sf)	Redeemed
B	Subordinated	349	50.4%	Nov-24	10.00%	Monthly*	AA (sf)	AA (sf)
C	Subordinated	207	30.0%	Oct-26	10.25%	Monthly*	A+ (sf)	A+ (sf)
D	Junior Subordinated	136	19.6%	Oct-28	10.75%	Monthly*	A- (sf)	A- (sf)
Total		692	100%					

OPINION

This is the 36th asset-backed bond issued by Sarwa Securitization Company S.A.E. (SSC) and the seventh securitization of real estate receivables originated by Palm Hills Development and its subsidiaries, which is one of the leading real estate developers in Egypt. The pool of receivables has been originated by six companies, Palm Hills Development and five of its subsidiaries. At issuance, the bond issue size was EGP 779,000,000 and was backed by 331 installment-sale contracts (EGP 826,868,148 outstanding receivable balance on the closing date of the transaction) related to 331 residential units located in 11 of the Originator's real estate development projects. The contracts have been written over the period between April 2008 and August 2021 and as of the issuance date all the properties are fully constructed and delivered to the buyers.

It is worth noting that on December 13, 2022, **MERIS** placed the ratings of Class B, C and D notes on review. The review was based on concerns that some of the obligations of the Servicer (Palm Hills Development Group of Companies) under the Servicing Agreement of the transaction may have been violated, as communicated to **MERIS** by the Issuer – Sarwa Securitization Company – in a formal communication dated 12 December 2022. **MERIS** reviewed all relevant information and conducted operational review meetings with the Servicer and the Issuer in order to ensure that all issues of concern are being properly addressed and in the process of being rectified by Palm Hills. During its review, **MERIS** also assessed the impact of the Servicer's violation of its servicing obligations on the transactions' cash flows in relation to the credit enhancement levels available to the notes. The review showed no material impact on the quality of the underlying pool, as the existing delinquencies and default rates are within the initial assumptions of the transaction. On January 19, 2023, **MERIS** removed the review status and confirmed the existing ratings.

As of the date of this report, the transaction is performing well with regular payments of coupon and principal amortization to the bondholders.

POOL CUT OFF DATE:
November 1, 2021

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DEFINITIVE RATINGS

The rating addresses the expected loss to investors by the legal final maturity. In **MERIS's** opinion, the structure allows for timely payment of interest and ultimate repayment of principal by the final maturity of the bond. **MERIS** portfolio performance analysis is mainly based on the monitoring of the delinquencies, defaults, reposessions, recoveries and prepayments. **MERIS** relies on the audited monthly performance reports issued by the Custodian (Banque Misr), as well as on data provided by the Issuer.

To date the coupon and principal of the bond have been paid according to schedule. During the first 13 months, the bond issue was amortizing on a quarterly basis and will switch to a monthly amortization schedule thereafter. As of 30/11/2022, the bond stands at EGP 692,000,000, equivalent to 11.2% redemption of the original balance. Given the senior-subordinated structure of the bond, the principal amortization has been directed to Class A notes, which were fully redeemed as of 30 November 2022. Class B notes stand at EGP 349,000,000, representing 100.0% of the original balance. As of the same date, the asset pool backing the issue has been amortized at 25.0%, and currently equals EGP 813,284,189.

The transaction benefits from credit enhancement in the form of a residual cash account due to the initial overcollateralization of the transaction, currently in the amount of EGP 63,741,519, coupled with a Default Reserve Account / Letter of Guarantee amounting to EGP 98,635,279 (14.3% of the outstanding bond size). In addition, there is a Liquidity Reserve Account currently in the amount of EGP 47,681,921 (6.9% of the outstanding bond size). The Liquidity Reserve Account was maintained at 5.66% of the initial bond size during the life of tranche A, and is now adjusted on a monthly basis to measure not less than 5.66% of tranche B, C and D.

The credit enhancement available to the transaction in the form of overcollateralization net of expenses is currently in the size of 1.4% of the bond size, compared to 4.6% at issuance. Thus calculated, the overcollateralization takes into account the net present value of the future cash flows, the residual cash with the Custodian in the amount of EGP 63,741,519, as well as the Liquidity Reserve Account in the amount of EGP 47,681,921. The calculation does not consider any collection of the currently delinquent installments in the total amount of EGP 31,681,463. In addition, the transaction benefits from an external credit enhancement in the form of a Default Reserve Account / Letter of Guarantee amounting to EGP 98,635,279, which represents 14.3% of the outstanding bond balance. Thus, the total credit support available to the transaction measures 15.6% compared to 17.1% at the closing of the transaction. **MERIS** performed a stress case scenario, whereby all cashflows related to clients with overdue installments exceeding 90 days were excluded from the credit support calculation. The stress case scenario resulted in an overall credit support of 9.5% compared to 15.6% under the base case scenario.

In terms of liquidity, the transaction currently has sufficient accumulated cash reserves to cover minimum 6 months of scheduled payments (senior fees and expenses and coupons) under the bond. **MERIS** has performed various stress case scenarios and believes that the current ratings are commensurate with the risks associated with the bond.

MERIS has been also monitoring on a monthly basis the default and delinquency rates under the transaction. Delinquencies above 30 days reached 1.8% of the initial portfolio balance in November 2022. As of 30/11/2022 there were 39 clients with overdue rentals above 30 days in the total size of EGP 19,554,989, accounting for 2.4% of the outstanding portfolio balance. The servicers of the transaction are working diligently with all the clients to collect the overdue rentals.

Given the amortization of the bond and the credit enhancement currently available to the transaction, **MERIS** affirms the initially assigned ratings to the outstanding notes.

Strengths of the Transaction

- The credit enhancement available to the notes comes in the form of (i) over-collateralization in the amount of 1.36% net of expenses; (ii) subordination of the junior tranches to the more senior tranches; (iii) availability of a default account (Cash Reserve / Letter of Guarantee) in the amount of EGP 98,635,279 representing 14.25% of the original notes' balance.
- Additional credit support is provided through credit insurance for 90% coverage on the individual sale by installment contracts provided by the government owned Misr Insurance Company (AM Best Financial Strength Rating: B++ (Good) and Long-Term Issuer Credit Rating: bbb with Stable Outlook, Dec. 2022). The credit insurance covers the risk of non-payment of any of the individual property buyers.
- The notes also benefit from a liquidity reserve account, currently in the size of EGP 47,681,921, or 6.9% of the outstanding notes balance, which is sized to cover minimum 4 months of coupon and senior fees.
- The notes are backed by a static amortizing pool of receivables with no balloon payments.
- The receivables are related to the sale of newly constructed residential properties located in 11 of Palm Hills Development Company's real estate development projects (Golf Extension, the Crown, North Coast Hacienda Bay 1, Woodville, New Cairo Katameya Extension, October Palm Park, Palm Valley, Capital Gardens, October Golf View, Katameya and North Coast Hacienda White 2). All the units are fully constructed and delivered to their owners.
- The portfolio is relatively well-diversified geographically. It spans 11 projects, set in various geographic locations across East and West Cairo and the North Coast. The portfolio includes 84% of first home units, and 16% of holiday homes.

- The receivables are backed by post-dated cheques. This is an incentive to ensure timely payment of installments as a bounced cheque constitutes a criminal offence under the Egyptian law.
- Contractual appointment of Banque Misr (the Custodian) as a back-up servicer to the transaction. As a Custodian, Banque Misr 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 Banque Misr in the performance of the pool will ensure a smooth and speedy transfer of the Servicer's role to Banque Misr in the event of Servicer's bankruptcy. Banque Misr'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. Banque Misr is rated B2 with a Stable Outlook by Moody's (June 2022).

Weaknesses of the Transaction

- Due to the relatively small size of the pool, the latter exhibits notably high individual obligor concentrations, with the top 20 obligors accounting for 29.4% of the portfolio. **MERIS** has factored this feature in the quantitative analysis of the transaction.
- There is lack of relevant and consistent time series data across market participants regarding historical arrears, default and recovery rates related to real estate receivables through the economic cycle.
- The Servicer's actions under the Servicing and Collection Agreement have been delayed, especially with regard to activating the credit insurance, and filing legal suits against defaulting customers. This has resulted in some delinquencies exceeding 300 days.
- There is no security interest in the underlying properties for the benefit of the noteholders, and thus there is no direct recourse over the properties. Partially mitigated by the recovery mechanism in place which envisages reselling the units of cancelled contracts by the Originator/Servicer. The sales proceeds thereof will be channeled firstly through the SPV in order to cover any outstanding amounts to the noteholders under the terminated contract. **MERIS** notes, however, that the recovery mechanism is not bankruptcy remote, as it involves significant linkages to the Originator.
- The pool has a relatively high weighted average loan-to-value (LTV) ratio (53% of the original purchase price). The higher the LTV ratio, the higher the buyers' propensity to default.
- It is worth noting that the credit insurance is a newly-introduced product in the Egyptian market, which has not been tested extensively in practice.
- 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 opinion provided by the transaction's legal advisor on issues such as true sale, separateness of accounts, commingling and consolidation risk and concluded that the legal risks were consistent with the assigned ratings.

KEY TRANSACTION DATA

Deal Closing Date:	November 2021
Issuer:	Sarwa Securitization Company S.A.E.
Seller (s) /Originator (s):	Palm Hills Development SAE, Eastern New Cairo for Real Estate Development, Palm Hills Middle East Co. for Real Estate Investment, Saudi Company for Urban Developments, Rakeen Egypt for Real Estate Investment Company, and Palm Real Estate Development
Servicer:	Palm Hills Development SAE, Eastern New Cairo for Real Estate Development, Palm Hills Middle East Co. for Real Estate Investment, Saudi Company for Urban Developments, Rakeen Egypt for Real Estate Investment Company, and Palm Real Estate Development
Back-up Servicer:	Banque Misr
Custodian:	Banque Misr
Structuring Advisor, Lead Manager and Arranger:	Sarwa Capital
Arrangers and Underwriters:	Ahli United Bank and Egyptian Gulf Bank
Structure type:	Senior Subordinated Structure, Tranche A: Predetermined amortization; Tranche B, C & D: Pass-Through amortization
Pool Currency:	EGP
Pool Reporting Frequency:	Monthly
Last Reporting Date:	30/11/2022

COLLATERAL SUMMARY (see APPENDIX I)

Receivables:	Installment-sale contracts for the purchase of newly built properties.
Current Pool Balance (as of 01/11/21):	EGP 781,602,726
Number of Contracts:	294 fully amortizing contracts
Number of Clients:	275
Type of Properties*:	100% residential (84% - first homes, 16% - second homes)
Type of Clients*:	100% individuals
Avg Current Loan Balance:	EGP 2,658,513
Avg Current Client Balance:	EGP 2,842,192
WA Seasoning:	36 months
WA Remaining Maturity:	56 months
WA Original Tenor	92 months
WA Current LTV (Original Price):	53%

* Percentage calculated is based on the total outstanding balance of the receivables.

CREDIT SUPPORT

Class	Subordination	Over collateralization	External Support (L/G or Cash Reserve)
B	49.56%	1.36%	Default reserve account / Letter of Guarantee in the size of EGP 98,635,279 or 14.25% of the initial notes' balance;
C	19.65%		
D	None		

ISSUE DETAILS

COLLATERAL

<i>In EGP</i>				
Class A Principal - Original	87,000,000	A/R – Original		1,083,800,777
Class B Principal - Original	349,000,000	A/R - Current*		813,284,189
Class C Principal - Original	207,000,000			
Class D Principal - Original	136,000,000			
Class A Principal - Outstanding*	-			
Class B Principal - Outstanding*	349,000,000	Number of Contracts - Original		331
Class C Principal - Outstanding*	207,000,000	Number of Contracts - Current*		299
Class D Principal - Outstanding*	136,000,000			
Interest Rate - Class A	10.70%			
Interest Rate - Class B	10.00%			
Interest Rate - Class C	10.25%			
Interest Rate - Class D	10.75%			
Frequency – 1 st 13 months	Quarterly	Cum. Delinquencies (% of Pool Balance)		
After 13 months	Monthly			
Seasoning (months)	12	30-60 days/Current Pool Balance		0.87%
Maturity	2028	60-90 days/Current Pool Balance		0.50%
Remaining Tenor (months)	72	90+ days/Current Pool Balance		1.03%
Residual Account Balance	63,741,519			
Default Reserve Account / LG	98,635,279			
Liquidity Reserve Account	47,681,921			
Total Credit Support/Bond Principal	30.4%	Cum. Losses (% of Pool Principal)		0.00%

*Current data is as of 30/11/2022

PORTFOLIO AND PERFORMANCE DATA

Period	Portfolio Outstanding Amount	# of Contracts	TRR	Default Reserve Account / LG (EGP)	Liquidity Reserve Account (EGP)	Residual Account Balance (EGP)	Bond Principal Outstanding (EGP)	Total Credit Support/ Bond Principal Outstanding
At Issuance	1,083,800,777	331	-	-	-	-	-	-
Dec-21	1,062,618,905	330	21.1%	98,137,771	6,613,738	14,794,557	779,000,000	15.3%
Jan-22	1,038,066,594	330	24.5%	98,192,374	25,132,159	20,791,711	779,000,000	18.5%
Feb-22	1,018,984,223	330	20.0%	98,192,391	33,249,251	8,910,588	775,955,000	18.1%
Mar-22	1,003,375,045	328	16.9%	98,192,391	44,340,374	13,332,622	775,955,000	20.1%
Apr-22	977,388,762	326	27.0%	98,192,436	44,368,487	39,194,222	775,955,000	23.4%
May-22	951,120,177	321	27.9%	98,192,464	44,374,145	22,060,258	752,465,000	21.9%
June-22	933,139,404	321	20.5%	98,192,498	44,375,696	39,848,017	752,465,000	24.2%
July-22	905,641,447	319	30.2%	98,192,498	44,375,696	67,350,097	752,465,000	27.9%
Aug-22	879,570,096	314	29.6%	98,192,534	46,054,443	44,066,271	721,580,000	26.1%
Sep-22	861,330,585	311	22.2%	98,528,288	46,826,293	62,754,119	721,580,000	28.8%
Oct-22	839,256,976	308	26.8%	98,575,323	46,900,940	84,661,360	721,580,000	31.9%
Nov-22	813,284,189	299	31.4%	98,635,279	47,681,921	63,741,519	692,000,000	30.4%

1. TRR (Total Redemption Rate)

TRR Calculation = $1 - (1 - (\text{Current Period Total Principal Payments} / (\text{Current Period Outstanding Pool Balance} + \text{Current Period Total Principal Payments})))^{\text{reporting frequency}}$ where reporting frequency equals (monthly reporting = 12, quarterly reporting = 4, semi-annual = 2, annual = 1).

2. Total Credit Support = Default Reserve + Liquidity Reserve + Residual Account Balance

*The bond was issued in December 2021.

Chart 1:
Bond Coupon & Principal Amortization / Asset Pool Collections

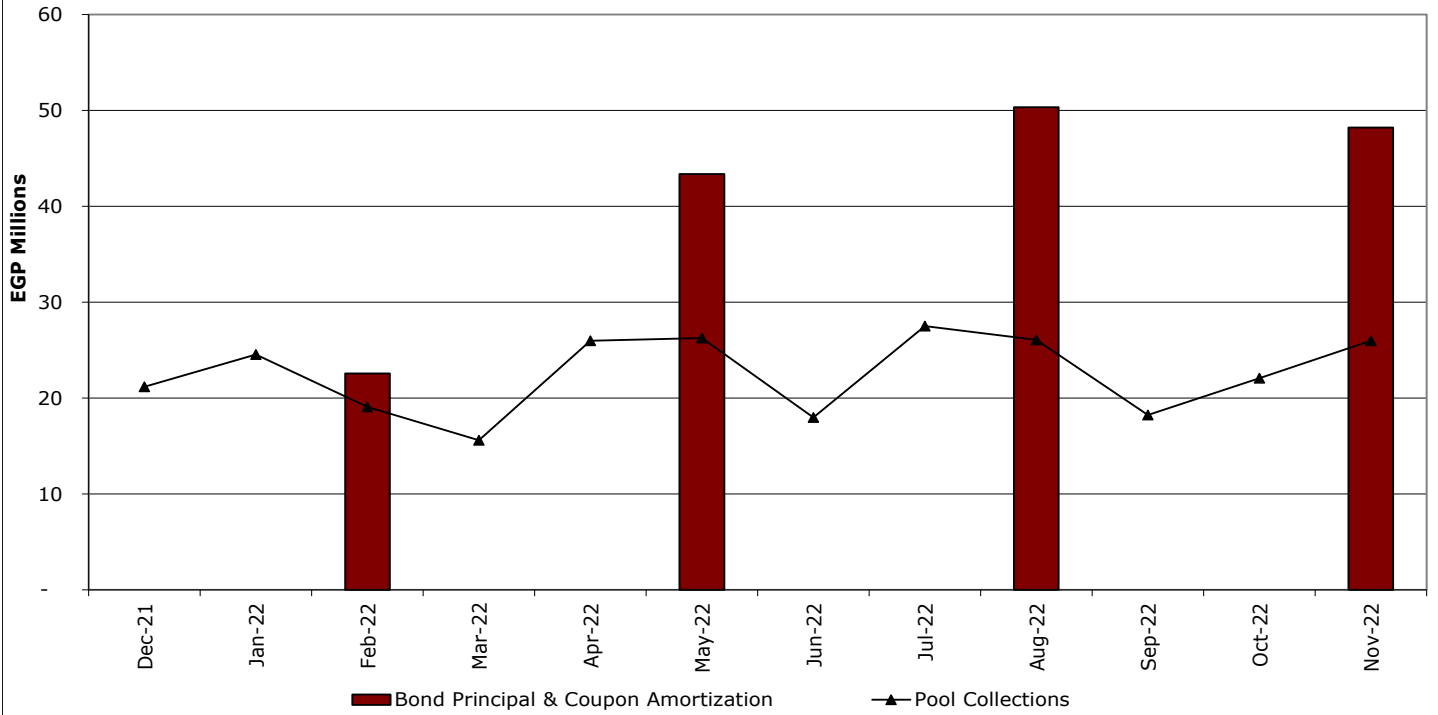


Chart 2:
Pool Cover & Credit Support vs. Bond Principal Outstanding

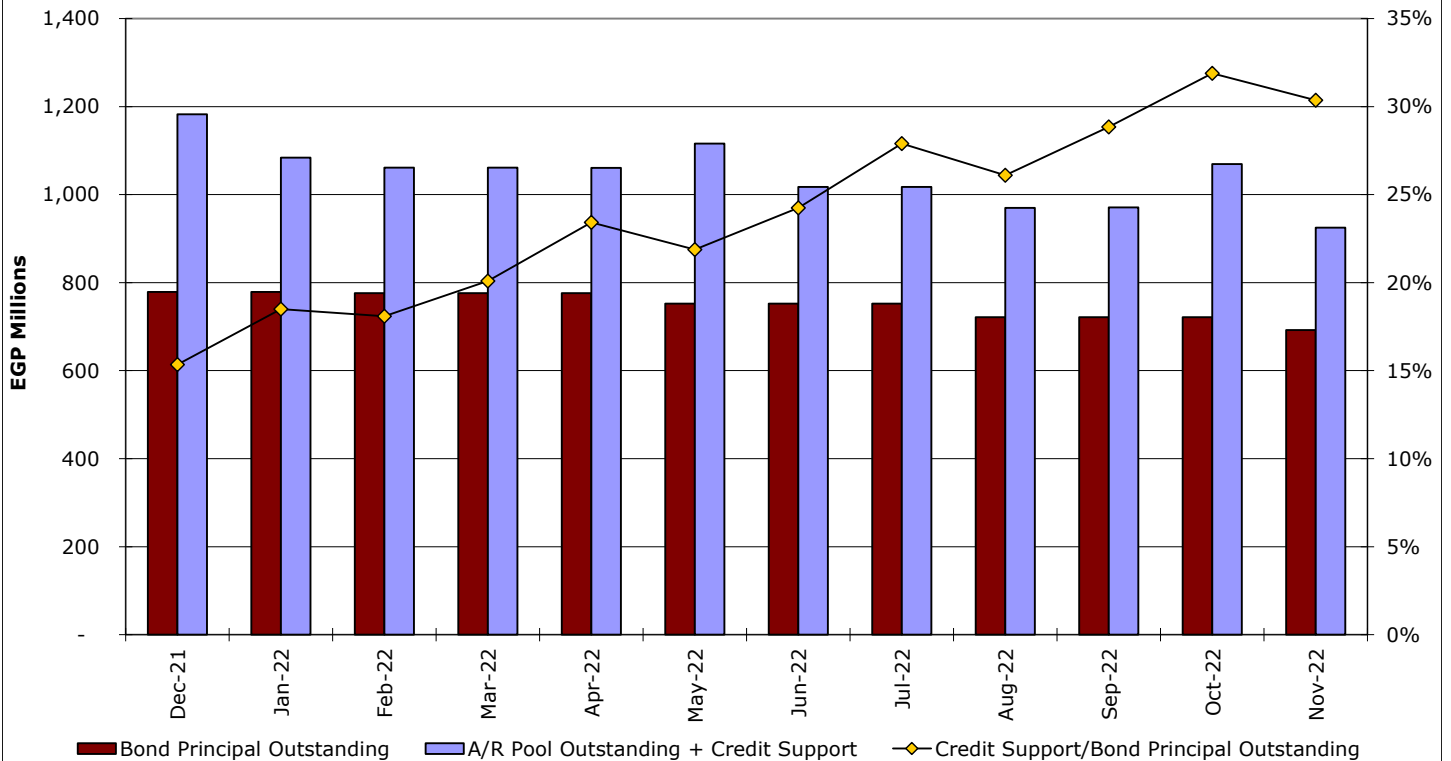


Chart 3:
Total Delinquencies (Above 30 Days) in Nominal Value and as a Percentage of the Total Outstanding Pool Balance

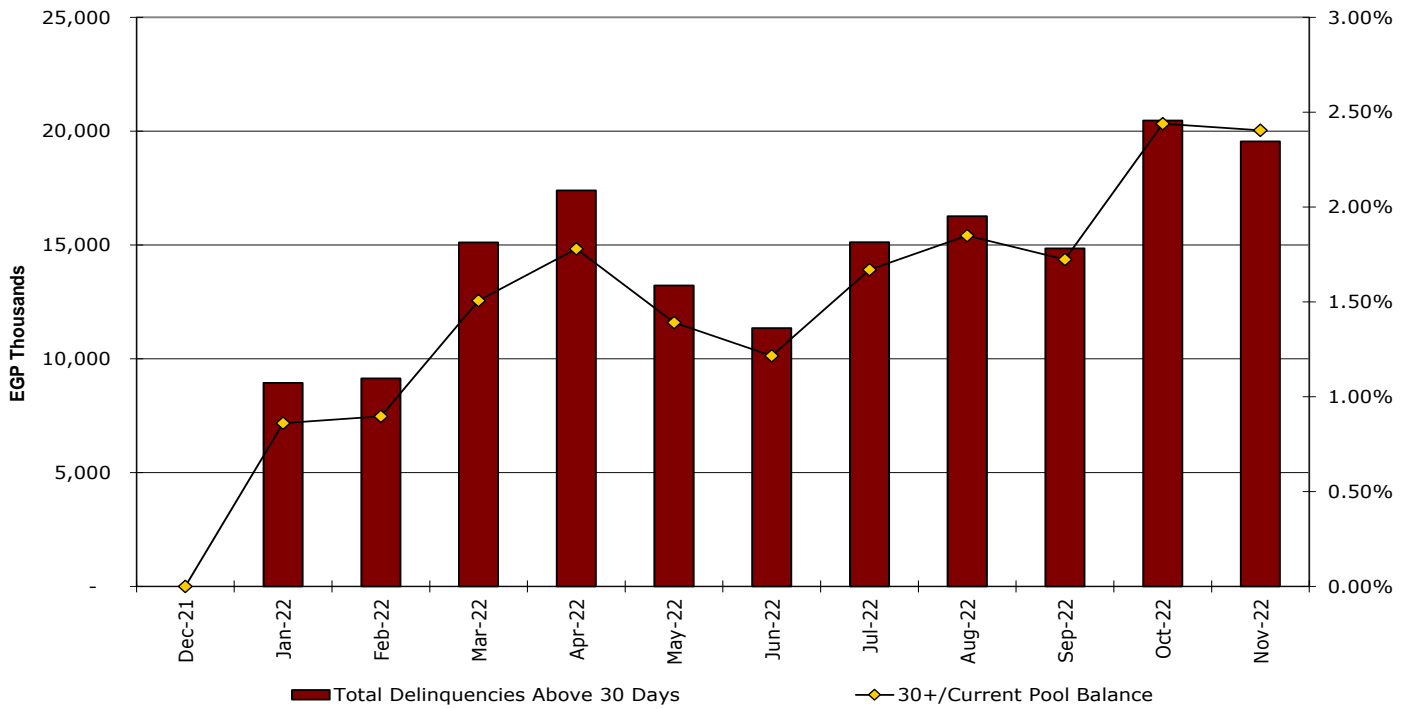
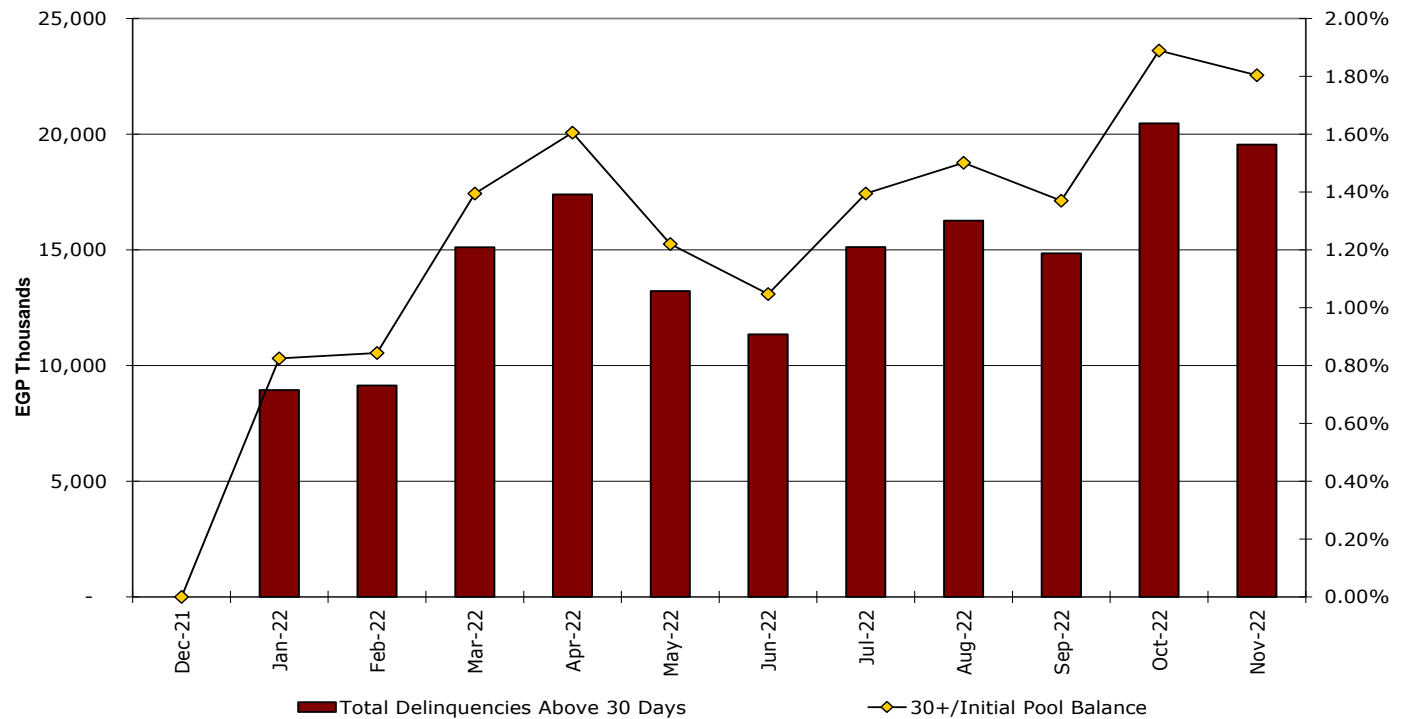


Chart 4:
Total Delinquencies (Above 30 Days) in Nominal Value and as a Percentage of the Initial Pool Balance



APPENDIX I: POOL DATA

Distribution by Original Term To Maturity				
Years	Current Balance	% Total	# of Contracts	# of Contracts %
4	37,826,329	5%	30	10%
5	67,642,453	9%	47	16%
6	28,656,610	4%	12	4%
7	82,467,516	11%	65	22%
8	167,318,258	21%	68	23%
9	189,738,515	24%	27	9%
10	175,479,271	22%	32	11%
11-17 years	32,473,774	4%	13	4%
Total	781,602,726	100%	294	100%

Distribution by Seasoning				
Months	Current Balance	% Total	# of Contracts	# of Contracts %
15-36	480,664,634	61%	134	46%
40-48	133,279,240	17%	29	10%
49-60	118,859,450	15%	50	17%
61-72	38,619,319	5%	38	13%
73-84	6,497,135	1%	37	13%
85-178	3,682,948	0.5%	6	2%
Total	781,602,726	100%	294	100%

Distribution by Remaining Term To Maturity				
Years	Current Balance	% Total	# of Contracts	# of Contracts %
1	23,686,384	3%	68	23%
2	93,378,956	12%	72	24%
3	91,912,351	12%	45	15%
4	92,813,272	12%	39	13%
5	108,325,946	14%	15	5%
6	63,833,720	8%	9	3%
7-9	307,652,097	39%	46	16%
Total	781,602,726	100%	294	100%

Distribution by Original Purchase Price per Unit				
EGP (million)	Current Balance	% Total	# of Contracts	# of Contracts %
21-55	49,470,500	6%	2	1%
11-20	256,004,852	33%	32	11%
8-10	127,854,956	16%	33	11%
6-8	137,811,029	18%	52	18%
4-6	116,051,848	15%	59	20%
3-4	73,809,753	9%	61	21%
2-3	15,337,878	2%	24	8%
1-2	5,261,910	1%	31	11%
Total	781,602,726	100%	294	100%

The total outstanding portfolio balance and number of contracts exclude any overdue and uncollected amounts.

APPENDIX I: POOL DATA - CONTINUED

Distribution by Current Outstanding Balance per Client				
EGP (million)	Current Balance	% Total	# of Contracts	# of Contracts %
10,000-36,000	119,415,600	15%	8	3%
5,000-9,999	228,266,588	29%	31	11%
2,500-4,999	241,248,790	31%	67	23%
1,000-2,499	164,948,043	21%	101	34%
500-1,000	12,264,499	2%	18	6%
<500	15,459,206	2%	69	23%
Total	781,602,726	100%	294	100%

Distribution by Original Loan Value (Purchase Price less Down payment)				
EGP (million)	Current Balance	% Total	# of Contracts	# of Contracts %
15-50	114,388,800	15%	8	3%
11-15	158,515,152	20%	20	7%
8-10	96,965,647	12%	20	7%
6-8	148,635,526	19%	52	18%
4-6	154,109,323	20%	68	23%
3-4	58,561,313	7%	43	15%
2-3	39,644,367	5%	38	13%
1-2	10,782,598	1%	45	15%
Total	781,602,726	100%	294	100%

Distribution by Current LTV (Original Purchase Price)				
LTV	Current Balance	% Total	# of Contracts	# of Contracts %
<=10%	14,989,998	2%	58	20%
11%-20%	14,546,721	2%	27	9%
21%-30%	31,632,031	4%	17	6%
31%-41%	109,262,976	14%	65	22%
41%-50%	131,564,881	17%	50	17%
51%-60%	141,580,354	18%	30	10%
61%-70%	268,709,565	34%	40	14%
71%-76%	69,316,200	9%	7	2%
Total	781,602,726	100%	294	100%

Distribution by Installment Frequency				
EGP	Current Balance	% Total	# of Contracts	# of Contracts %
Monthly	44,158,750	6%	3	1%
Quarterly	539,033,583	69%	213	72%
Semi Annually	37,438,994	5%	19	6%
Annually	9,868,000	1%	4	1%
Other	151,103,399	19%	55	20%
Total	781,602,726	100%	294	100%

The total outstanding portfolio balance and number of contracts exclude any overdue and uncollected amounts.

APPENDIX I: POOL DATA - CONTINUED

Distribution by Installment Value				
Installment (EGP '000)	Current Balance	% Total	# of Contracts	# of Contracts %
1,000-2,500	69,682,510	9%	13	4%
400-1,000	432,926,445	55%	91	31%
300-400	31,597,764	4%	12	4%
200-300	133,946,397	17%	51	17%
100-200	97,723,094	13%	72	24%
<100	15,726,516	2%	55	19%
Total	781,602,726	100%	294	100%

Distribution by Unit Type				
Unit Type	Current Balance	% Total	# of Contracts	# of Contracts %
First Home	655,991,476	84%	207	70%
Vacation Home	125,611,250	16%	87	30%
Total	781,602,726	100%	294	100%

Distribution by Originator				
Originator	Current Balance	% Total	# of Contracts	# of Contracts %
Palm Hills Development	555,089,481	71%	129	44%
Palm Hills Middle East Co. For Real Estate Investment	107,116,361	14%	60	20%
Rakeen Egypt Co. For Real Estate Investment	57,466,543	7%	40	14%
Eastern New Cairo for Real Estate Development	32,716,959	4%	17	6%
Saudi Co. For Urban Developments	15,145,700	2%	3	1%
Palm Real Estate Development	14,067,682	2%	45	15%
Total	781,602,726	100%	294	100%

Distribution by Project				
Project	Current Balance	% Total	# of Contracts	# of Contracts %
The Crown	437,529,012	56%	104	35%
North Coast Hacienda Bay 1	107,116,361	14%	60	20%
WoodVille	41,655,606	5%	12	4%
October Palm Park	38,971,654	5%	13	4%
October Golf View	37,403,770	5%	2	1%
Golf Ext.	37,253,557	5%	9	3%
New Cairo Katameya Ext.	32,716,959	4%	17	6%
North Coast Hacienda white 2	18,494,889	2%	27	9%
Palm Valley	15,145,700	2%	3	1%
Capital Gardens	14,067,682	2%	45	15%
Total	781,602,726	100%	294	100%

The total outstanding portfolio balance and number of contracts exclude any overdue and uncollected amounts.

APPENDIX II: National Rating Scale

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

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