

## STRUCTURED FINANCE

## Annual Review

### Sarwa Securitization Company S.A.E. – 25th Issue 2018-2023

(Real Estate Receivables Pool Originated by Palm Hills Companies)

#### Real Estate Receivables/Egypt

##### POOL CUTOFF DATE:

March 1, 2018

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#### DEFINITIVE RATINGS

Class	Description	Amount (EGP mn)*	% of Notes	Legal Maturity	Fixed Coupon (%)	Coupon & Principal Frequency	Initial Ratings	Current Ratings
A	Senior	-		April 2019	13.85%	Quarterly	AA+(sf)	Redeemed
B	Subordinated	143	71.9%	April 2021	14.75%	Monthly	AA (sf)	AA (sf)
C	Junior Subordinated	56	28.1%	March 2023	15.25%	Monthly	A (sf)	A (sf)
<b>Total</b>		<b>199</b>						

\*As of 30/04/2019

#### RATING OPINION AND SPECIFIC COMMENTARY

This is the 25th asset-backed bond issued by Sarwa Securitization Company S.A.E. (SSC) and the second securitization of real estate receivables originated by Palm Hills Development and its subsidiaries, which are some of the leading real estate developers in Egypt. The pool of receivables was originated by three companies, Palm Hills Development and two of its subsidiaries, namely New East Cairo for Real Estate Development, and Rakeen Egypt Company. At issuance, the bond issue size was EGP 261,000,000, backed by 232 installment-sale contracts (EGP 273,189,020 outstanding receivable balance on the closing date of the transaction ) related to 232 residential units located in six of the Originator's new projects (New Cairo Katameya Ext., Golf Ext., Katameya, North Coast Hacienda white 2, October Golf View and October Palm Park). The contracts were written over the period between August 2007 and November 2017 and as of the issuance date all the properties were fully constructed and delivered to the buyers.

The rating addresses the expected loss to investors by the legal final maturity. In **MERIS** 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, repossessions, recoveries and prepayments. **MERIS** relies on the audited monthly performance reports issued by the Custodian (AAIB), 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 is amortizing on a quarterly basis and currently stands at EGP 199,000,000, equivalent to 23.8% redemption of the original balance. Given the senior-subordinated structure of the bond, the principal amortization during the first 13 months was directed to class A notes, which was fully repaid as of April 30, 2019. The asset pool backing the issue has been amortized at 38.8%, and currently equals EGP 212,124,073.

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 24,066,077, coupled with a Default Reserve Account in the form of a time deposit with the Custodian amounting to EGP 35,267,623 (17.7% of the outstanding bond size). In addition, there is a Liquidity Reserve Account currently in the amount of EGP 16,564,902 (8.3% of the outstanding bond size). The Liquidity Reserve Account is to be maintained at the current balance (5.66% of the initial bond size) during the life of tranche A and then adjusted on a monthly basis to

measure 5.5% of tranche B and C. As of 30/04/2019, the total credit support represents 38.1% of the bond principal outstanding.

The transaction benefits from credit enhancement in the form of overcollateralization net of expenses in the size of 2.9% of the bond size. 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 24,066,077, as well as the Liquidity Reserve Account in the amount of EGP 16,564,902. The calculation does not consider any collection of the currently delinquent installments in the total amount of EGP 2.3 million. In addition, the transaction benefits from an external credit enhancement in the form of a Default Reserve Account amounting to EGP 35,267,623, which represents 17.7% of the outstanding bond balance. Thus, the total credit support available to the transaction measures 20.6% compared to 15.2% at the closing of the transaction.

In terms of liquidity, the transaction currently has sufficient accumulated cash reserves to cover on average 4 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 have not exceeded 1.3% of the initial portfolio balance. As of 30/04/2019 there were 14 clients with overdue rentals above 30 days in the total size of EGP 2,314,701 or 0.67% of the initial pool 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 2.9% net of expenses; (ii) subordination of tranche C to the more senior tranche B; (iii) availability of a default reserve account in the amount of EGP 35,267,623, representing 17.7% of the outstanding 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 Mistr Insurance Company (AM Best Financial Strength Rating: B++ (Good) and Long Term Issuer Credit Rating: bbb with Stable Outlook, Dec. 2018). 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 16,564,902, or 8.3% 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 six of Palm Hills Development Company's new projects (New Cairo Katameya Ext., Golf Ext., Katameya, North Coast Hacienda white 2, October Golf View and October Palm Park). All the units were fully constructed and delivered to their owners at issuance.
- The pool has a relatively low weighted average current loan-to-value (LTV) ratio (32% of the original purchase price). The low LTV ratio accelerates the build-up of owner's equity into the properties and hence minimizes the buyers' propensity to default, while at the same time increasing the recovery potential in case of default.
- The portfolio comprises seasoned receivables (weighted average seasoning of 49 months and weighted average remaining term to maturity of 29 months).
- The portfolio is relatively well-diversified geographically. It spans 6 projects, set in various geographic locations across Cairo and the North Coast. The portfolio includes 70% of first home properties, and the remaining are second home units.
- 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 Arab African International Bank (the Custodian) as a back-up servicer to the transaction. As a Custodian, AAIB 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 AAIB in the performance of the pool will ensure a smooth and speedy transfer of the Servicer's role to AAIB in the event of Servicer's bankruptcy. AAIB'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. AAIB is rated "B+" with a Stable Outlook by Capital Intelligence (December 2018).

## 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 49% of the portfolio. **MERIS** has factored this feature in the quantitative analysis of the transaction.
- There is no consistent historical data tracking the performance of the receivables provided to **MERIS**. Furthermore, 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.
- There is no security interest in the underlying properties for the benefit of the note holders, 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 note holders under the terminated contract. **MERIS** notes, however, that the recovery mechanism is not bankruptcy remote, as it involves significant linkages to the Originator.
- 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:	April 2018
Issuer:	Sarwa Securitization Company S.A.E.
Seller (s) /Originator (s):	Palm Hills Development SAE, New East Cairo for Real Estate Development, and Rakeen Egypt Company
Servicer:	Same as Originators
Custodian & Back-up Servicer:	Arab African International Bank (AAIB) (Long-Term Foreign Currency Rating 'B+' with a Stable Outlook by Capital Intelligence, Dec. 2018)
Arrangers & Underwriters:	Sarwa Capital, AAIB & Banque Misr
Structure Type	Senior Subordinated Structure
	Class A: Pre-determined amortization schedule
	Class B&C: Pass through amortization schedule
Pool Currency:	EGP
Pool Reporting Frequency:	Monthly
Last Reporting Date:	30/04/2019

## COLLATERAL SUMMARY (see page 8 for more details)

Receivables:	Installment-sale contracts for the purchase of newly built properties.
Pool Balance (as of 30/04/2019):	EGP 203,212,133
Number of Contracts:	171 fully amortizing contracts
Number of Clients:	168
Type of Properties*:	100% residential (70% - first homes, 30% - second homes)
Type of Clients*:	100% individuals
Avg Current Contract Size:	EGP 1,188,375
Avg Current Client Exposure:	EGP 1,209,596
WA Seasoning:	49 months
WA Remaining Maturity:	29 months
WA Original Tenor	78 months
WA LTV (Original Price):	32%

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

## CREDIT SUPPORT

Class	Subordination	Over collateralization	External Support (L/G)
B	28.1%	2.9%	Default reserve account in the size of EGP 35.3 million or 17.7% of the outstanding notes' balance;
C	None		

ISSUE DETAILS		COLLATERAL	
In EGP			
Class A Principal - Original	62,000,000	A/R – Original,	346,358,656
Class B Principal - Original	143,000,000	A/R - Current*	212,124,073
Class C Principal - Original	56,000,000		
Class A Principal - Outstanding*	-		
Class B Principal - Outstanding*	143,000,000		
Class C Principal - Outstanding*	56,000,000	Number of Contracts - Original	232
Interest Rate - Class A	13.85%	Number of Contracts - Current*	176
Interest Rate - Class B	14.75%		
Interest Rate - Class C	15.25%		
Frequency – 1 <sup>st</sup> 13 months	Quarterly	Cum. Delinquencies (% of Pool Balance)	
After 13 months	Monthly		
Seasoning (months)	13	30-60 days/Current Pool Balance	0.32%
Maturity	2023	60-90 days/Current Pool Balance	0.37%
Remaining Tenor (months)	48	90+ days/Current Pool Balance	0.40%
Residual Account Balance	24,066,077		
Default Reserve Account	35,267,623		
Liquidity Reserve Account	16,564,902		
Total Credit Support/Bond Principal	38.1%	Cum. Losses (% of Pool Principal)	0.00%

\*Current data is as of 30/04/2019

## PORTFOLIO AND PERFORMANCE DATA

Period	Portfolio Outstanding Amount	# of Contracts	TRR	Default Reserve Account (EGP)	Liquidity Reserve Account (EGP)	Residual Account Balance (EGP)	Bond Principal Outstanding (EGP)	Total Credit Support/ Bond Principal Outstanding
Mar-18	346,358,656	232	-	-	-	-	-	-
Apr-18	346,358,656	227	0.0%	32,103,000		23,754,684	261,000,000	21.4%
May-18	319,112,233	226	62.6%	32,174,407	9,870,262	18,201,433	261,000,000	23.1%
Jun-18	314,171,130	224	17.1%	32,174,407	9,870,262	22,640,703	261,000,000	24.8%
Jul-18	297,655,680	217	47.7%	32,174,409	14,794,462	19,715,452	256,040,000	26.0%
Aug-18	293,377,776	216	15.9%	32,174,407	14,794,362	24,044,339	256,040,000	27.7%
Sep-18	284,926,741	212	29.6%	32,174,407	14,794,362	32,519,460	256,040,000	31.0%
Oct-18	265,740,137	199	56.7%	32,647,580	14,794,362	23,241,022	237,440,000	29.8%
Nov-18	260,065,591	196	22.8%	33,436,409	14,794,365	28,853,385	237,440,000	32.5%
Dec-18	246,448,017	189	47.6%	33,436,409	14,794,374	42,499,301	237,440,000	38.2%
Jan-19	240,040,042	187	27.1%	33,436,403	14,882,327	22,185,383	218,840,000	32.2%
Feb-19	231,141,917	184	36.4%	33,436,403	14,882,369	31,155,675	218,840,000	36.3%
Mar-19	220,480,278	181	43.3%	33,436,432	14,882,369	41,963,367	218,840,000	41.3%
Apr-19	212,124,073	176	37.1%	35,267,623	16,564,902	24,066,077	199,000,000	38.1%

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 April 2018.

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

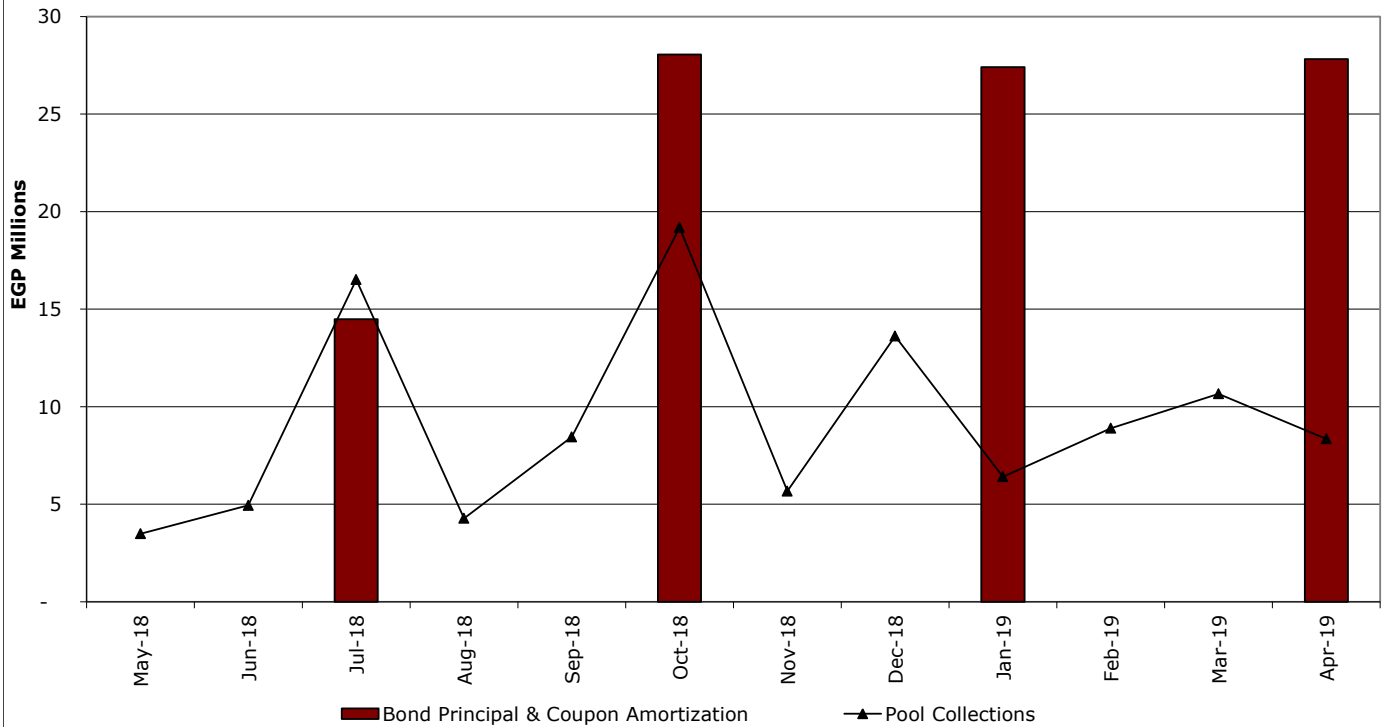


Chart 2:  
Pool Cover & Credit Support vs. Bond Principal Outstanding

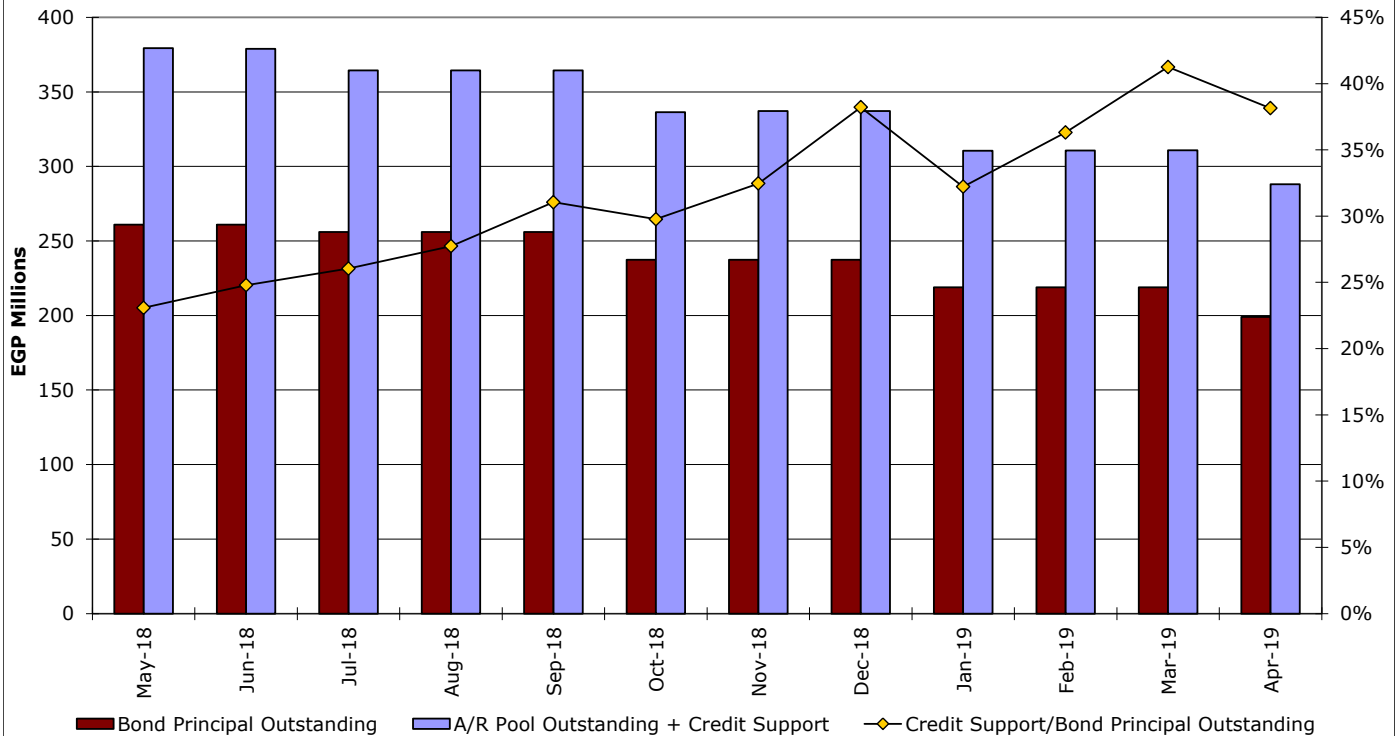


Chart 3:  
Total Delinquencies (Above 30 Days) in Nominal Value and as a Percentage of the Total Outstanding Pool Balance

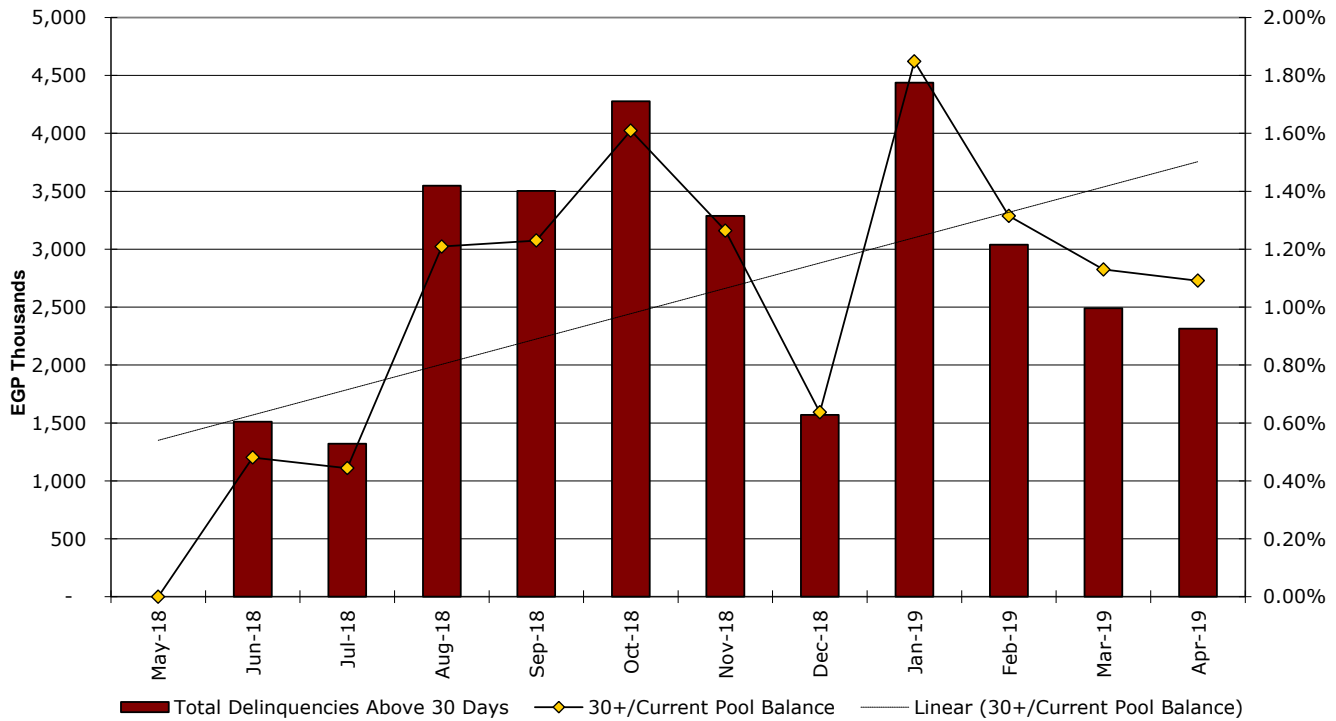
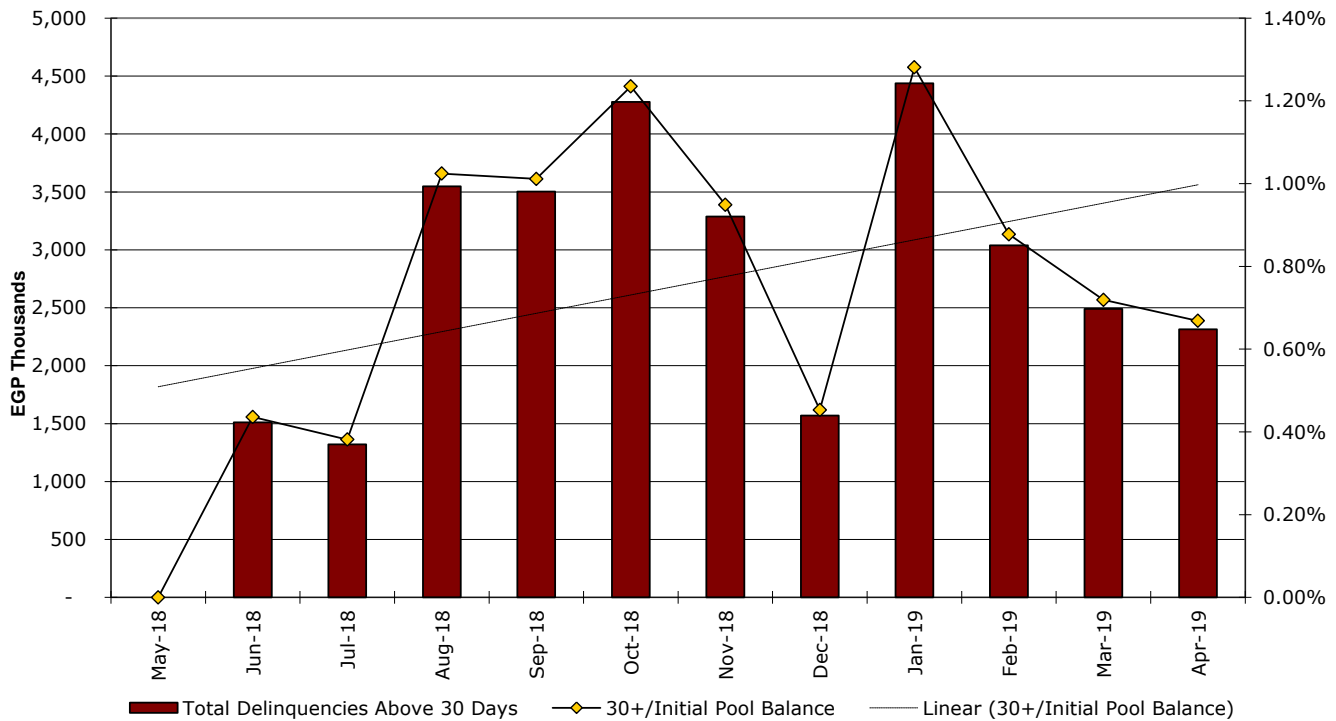


Chart 4:  
Total Delinquencies (Above 30 Days) in Nominal Value and as a Percentage of the Initial Pool Balance



**APPENDIX I: POOL DATA (as of April 30, 2019)**

Distribution by Original Term To Maturity				
Months	Current Balance	% Total	# of Contracts	# of Contracts %
27-48	1,488,689	1%	5	3%
49-60	34,786,733	17%	23	13%
61-72	13,868,175	7%	22	13%
73-84	96,322,124	47%	80	47%
85-96	50,197,438	25%	33	19%
97-108	2,481,022	1%	4	2%
109-120	2,931,017	1%	3	2%
121-168	1,136,935	1%	1	1%
<b>Total</b>	<b>203,212,133</b>	<b>100%</b>	<b>171</b>	<b>100%</b>

Distribution by Seasoning				
Months	Current Balance	% Total	# of Contracts	# of Contracts %
13-24	677,034	0%	2	1%
25-36	56,979,238	28%	14	8%
37-48	62,126,116	31%	26	15%
49-60	41,065,657	20%	50	29%
61-128	42,364,088	21%	79	46%
<b>Total</b>	<b>203,212,133</b>	<b>100%</b>	<b>171</b>	<b>100%</b>

Distribution by Remaining Term To Maturity				
Months	Current Balance	% Total	# of Contracts	# of Contracts %
<12	4,178,053	2%	13	8%
13-24	79,606,942	39%	112	65%
25-36	53,167,010	26%	31	18%
37-48	47,432,148	23%	13	8%
49-60	5,912,000	3%	1	1%
61-72	12,915,980	6%	1	1%
<b>Total</b>	<b>203,212,133</b>	<b>100%</b>	<b>171</b>	<b>100%</b>

Distribution by Original Purchase Price per Unit				
EGP million	Current Balance	% Total	# of Contracts	# of Contracts %
10-24	73,479,293	36%	13	8%
8-10	21,835,338	11%	6	4%
6-8	27,333,314	13%	19	11%
4-6	35,112,221	17%	34	20%
3-4	21,939,115	11%	32	19%
2-3	15,932,152	8%	35	20%
<2	7,580,700	4%	32	19%
<b>Total</b>	<b>203,212,133</b>	<b>100%</b>	<b>171</b>	<b>100%</b>

Distribution by Original Loan Value (Purchase Price less Downpayment)				
EGP million	Current Balance	% Total	# of Contracts	# of Contracts %
8-15	73,613,125	36%	13	8%
6-8	27,629,991	14%	10	6%
4-6	37,552,632	18%	28	16%
3-4	23,055,208	11%	30	18%
2-3	27,619,833	14%	41	24%
<2	13,741,344	7%	49	29%
<b>Total</b>	<b>203,212,133</b>	<b>100%</b>	<b>171</b>	<b>100%</b>



**APPENDIX I: POOL DATA (as of April 30, 2019)**

Distribution by Current Outstanding Balance per Client				
EGP ('000)	Current Balance	% Total	# of Contracts	# of Contracts %
10,000-13,000	32,941,280	16%	3	2%
7,000-10,000	7,273,239	4%	1	1%
5,000-7,000	5,912,000	3%	1	1%
3,000-5,000	43,804,942	22%	11	6%
2,000-3,000	7,276,324	4%	3	2%
1,000-2,000	57,934,087	29%	43	25%
<1,000	48,070,261	24%	109	64%
<b>Total</b>	<b>203,212,133</b>	<b>100%</b>	<b>171</b>	<b>100%</b>

Distribution by Current LTV (Original Purchase Price)				
LTV	Current Balance	% Total	# of Contracts	# of Contracts %
<=30%	105,649,832	52%	146	85%
31%-40%	39,972,643	20%	16	9%
41%-50%	37,273,887	18%	6	4%
51%-60%	14,403,771	7%	2	1%
61%-70%	5,912,000	3%	1	1%
<b>Total</b>	<b>203,212,133</b>	<b>100%</b>	<b>171</b>	<b>100%</b>

Distribution by Installment Frequency				
EGP	Current Balance	% Total	# of Contracts	# of Contracts %
1 Month	3,304,600	2%	1	1%
3 Months	113,274,569	56%	108	63%
6 Months	59,459,219	29%	34	20%
12 Months	18,886,131	9%	22	13%
Other	8,287,614	4%	6	4%
<b>Total</b>	<b>203,212,133</b>	<b>100%</b>	<b>171</b>	<b>100%</b>

Distribution by Installment Value				
Installment (EGP)	Current Balance	% Total	# of Contracts	# of Contracts %
1,000,000-2,750,000	29,911,117	15%	5	3%
400,000-1,000,000	50,016,441	25%	15	9%
300,000-400,000	27,853,485	14%	20	12%
200,000-300,000	30,201,333	15%	26	15%
100,000-200,000	41,032,577	20%	43	25%
<100,000	24,197,180	12%	62	36%
<b>Total</b>	<b>203,212,133</b>	<b>100%</b>	<b>171</b>	<b>100%</b>

Distribution by Unit Type				
Unit Type	Current Balance	% Total	# of Contracts	# of Contracts %
First Home	142,605,682	70%	141	82%
Second Home	60,606,451	30%	30	18%
<b>Total</b>	<b>203,212,133</b>	<b>100%</b>	<b>171</b>	<b>100%</b>

**APPENDIX I: POOL DATA (as of April 30, 2019)**

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<b>Distribution by Originator</b>				
<b>Originator</b>	<b>Current Balance</b>	<b>% Total</b>	<b># of Contracts</b>	<b># of Contracts %</b>
Palm Hills Development	111,639,105	55%	94	55%
Rakeen Egypt Co. For Real Estate Investment	60,606,451	30%	30	18%
New East Cairo for Real Estate Development	30,966,577	15%	47	27%
<b>Total</b>	<b>203,212,133</b>	<b>100%</b>	<b>171</b>	<b>100%</b>

<b>Distribution by Project</b>				
<b>Project</b>	<b>Current Balance</b>	<b>% Total</b>	<b># of Contracts</b>	<b># of Contracts %</b>
North Coast Hacienda white 2	60,606,451	30%	30	18%
Golf Ext.	48,090,598	24%	49	29%
Katameya	39,692,401	20%	15	9%
New Cairo Katameya Ext.	30,966,577	15%	47	27%
October Golf View	17,052,430	8%	8	5%
October Palm Park	6,803,676	3%	22	13%
<b>Total</b>	<b>203,212,133</b>	<b>100%</b>	<b>171</b>	<b>100%</b>

## APPENDIX IV: 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 3	
	BBB		
	BBB-		
Weak quality	BB+	Not Prime	Speculative Grade
Poor quality	BB		
	BB-		
	B+		
Very poor	B		
	B		
	CCC+		
	CCC		
	CCC-		
	CC		
	C		

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