

STRUCTURED FINANCE

Annual Review

Sarwa Securitization Company S.A.E. – 31st Issue 2019-2024 (Real Estate Receivables Pool Originated by Palm Hills Companies)

Real Estate Receivables/Egypt

DEFINITIVE RATINGS

Class	Description	Amount (EGP mn)	% of Notes	Expected Maturity	Fixed Coupon (%)	Coupon & Principal Payment Frequency	Initial Ratings	Current Ratings
A	Senior	-	-	Oct 2020	12.85%	Quarterly	AA+ (sf)	Redeemed
B	Subordinated	-	-	Oct 2022	13.50%	Monthly*	AA (sf)	Redeemed
C	Junior Subordinated	84.2	100.0%	Nov 2024	14.00%	Monthly*	A (sf)	A (sf)
Total		84.2						

*As of 30/11/2022

POOL CUT OFF DATE:

October 1, 2019

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RATING OPINION AND SPECIFIC COMMENTARY

This is the 31st asset-backed bond issued by Sarwa Securitization Company S.A.E. (SSC) and the fourth 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 five companies, Palm Hills Development and four of its subsidiaries. At issuance, the bond issue size was EGP 601,000,000 backed by 578 installment-sale contracts (EGP 630,292,826 outstanding receivable balance on the closing date of the transaction) related to 578 residential units located in nine of the Originator's new projects. The contracts were written over the period between November 2012 and February 2019 and as of the issuance date all the properties were fully constructed and delivered to the buyers.

It is worth noting that on December 13, 2022, **MERIS** placed the rating of Tranche C 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 rating.

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

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 was amortizing on a quarterly basis and switched to a monthly amortization schedule thereafter. As of 30/11/2022, the bond stands at EGP 84,253,820 equivalent to 86.0% redemption of the original balance. Given the senior-subordinated structure of the bond, and following the full amortization of class A and B notes as of October 31, 2020 and August 31, 2022 respectively, the bond principal amortization has been directed to class C notes, which, as of the review date, stand at EGP 84,253,820, or 74.6% of the original balance. The asset pool backing the issue has been amortized at 85.9%, and equals EGP 109,124,631.

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 5,695,272, coupled with a Default Reserve Account amounting to EGP 48,857,365 (58.0% of the outstanding bond size). In addition, there is a Liquidity Reserve Account currently in the amount of EGP 5,527,812 (6.6% 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 B, and is now adjusted on a monthly basis to measure not less than 5.66% of tranche C.

The credit enhancement available to the transaction in the form of overcollateralization net of expenses is currently in the size of 5.6% of the bond size, compared to 3.7% 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 5,695,272, as well as the Liquidity Reserve Account in the amount of EGP 5,527,812. The calculation does not consider any collection of the currently delinquent installments in the total amount of EGP 18,089,265. In addition, the transaction benefits from an external credit enhancement in the form of a Default Reserve Account amounting to EGP 48,857,365, which represents 58.0% of the outstanding bond balance. Thus, the total credit support available to the transaction measures 63.6% compared to 13.2% 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 56.8% compared to 63.6%. It is worth mentioning that upon the last renewal dated November 2021 the external credit enhancement in the form of a default reserve account was adjusted downwards to EGP 43,000,000 from 57,095,000.

In terms of liquidity, the transaction currently has sufficient accumulated cash reserves to cover on average 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 1.5% of the initial portfolio balance in November 2022. As of 30/11/2022 there were 28 clients with overdue rentals above 30 days in the total size of EGP 11,994,365, accounting for 10.7% 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) net credit support in the size of 63.6% of the outstanding bond balance (default reserve in the amount of EGP 48,857,365 representing 58.0% of the outstanding notes' balance plus the over-collateralization in the amount of 5.6% net of expenses) .
- Additional credit support is provided through the 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 5,527,812, or 6.6% of the outstanding notes balance, which is sized to cover minimum 6 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 nine of Palm Hills Development Company's new projects (October Palm Park, North Coast Hacienda Bay 1, Golf Extension, Woodville, Palm Valley, October Golf View, New Cairo Katameya Extension, North Coast Hacienda white 2, and Katameya). All the units are fully constructed and delivered to their owners.

- The pool has a relatively low weighted average current loan-to-value (LTV) ratio (20% 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 62 months and weighted average remaining term to maturity of 17 months).
- The portfolio is relatively well-diversified geographically. It spans nine projects, set in various geographic locations across Cairo and the North Coast, with the highest concentration being West Cairo accounting for 77% of the portfolio. The portfolio includes 88% of first home units, and 12% 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.
- Arab African International Bank (the Custodian) is contractually appointed 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 (March 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 37.6% of the portfolio. **MERIS** has factored this feature in the quantitative analysis of the transaction.
- 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 360 days in some cases.
- 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:	October 2019
Issuer:	Sarwa Securitization Company S.A.E.
Seller (s) /Originator (s):	Palm Hills Development, New East Cairo for Real Estate Development, Palm Hills Middle East Co. for Real Estate Investment, Saudi Company for Urban Developments, and Rakeen Egypt for Real Estate Investment Company
Servicer:	Same as Originators
Custodian & Back-up Servicer:	Arab African International Bank (AAIB) (Long-Term Foreign Currency Rating 'B+' by Capital Intelligence, March 2022)
Arrangers & Underwriters:	Sarwa Capital, Ahli United Bank and Egyptian Gulf Bank
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:	30/11/2022

COLLATERAL SUMMARY (see APPENDIX I)

Receivables:	Installment-sale contracts for the purchase of newly built properties.
Current Pool Balance (as of 30/11/22):	EGP 91,035,393
Number of Contracts:	137 fully amortizing contracts
Number of Clients:	134
Type of Properties*:	100% residential (88% - first homes, 12% - second homes)
Type of Clients*:	100% individuals
Avg Current Contract Size:	EGP 664,492
Avg Current Client Exposure:	EGP 679,369
WA Seasoning:	62 months
WA Remaining Maturity:	17 months
WA Original Tenor	79 months
WA Current LTV (Original Price):	20%

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

CREDIT SUPPORT

Class	Subordination	Over collateralization	External Support (Default Reserve)
C	None	5.6%	Default reserve account in the size of EGP 48,857,365 or 58.0% of the outstanding notes' balance;

ISSUE DETAILS**COLLATERAL**

<i>In EGP</i>			
Class A Principal - Original	131,000,000	A/R – Original,	776,354,822
Class B Principal - Original	357,000,000	A/R - Current*	109,124,631
Class C Principal - Original	113,000,000		
Class A Principal - Outstanding*	-		
Class B Principal - Outstanding*	-		
Class C Principal - Outstanding*	84,253,820	Number of Contracts - Original	578
Interest Rate - Class A	12.85%	Number of Contracts - Current*	159
Interest Rate - Class B	13.50%		
Interest Rate - Class C	14.00%		
Frequency – 1 st 13 months	Quarterly	Cum. Delinquencies (% of Pool Balance)	
After 13 months	Monthly		
Seasoning (months)	38	30-60 days/Current Pool Balance	0.93%
Maturity	2024	60-90 days/Current Pool Balance	1.55%
Remaining Tenor (months)	24	90+ days/Current Pool Balance	8.20%
Residual Account Balance	5,695,272		
Default Reserve Account	48,857,365		
Liquidity Reserve Account	5,527,812		
Total Credit Support/Bond Principal	71.3%	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 (EGP)	Liquidity Reserve Account (EGP)	Residual Account Balance (EGP)	Bond Principal Outstanding (EGP)	Total Credit Support/ Bond Principal Outstanding
At Issuance	776,354,822	578	-	-	-	-	-	-
Oct-19	756,543,585	574	26.7%	57,316,569	11,344,710	11,287,917	601,000,000	13.3%
Nov-19	751,346,082	573	7.9%	57,094,975	22,677,534	4,934,058	601,000,000	14.1%
Dec-19	715,916,163	562	44.0%	57,130,382	34,061,938	26,701,356	601,000,000	19.6%
Jan-20	704,726,370	561	17.2%	57,130,357	34,362,111	5,856,566	591,830,000	16.4%
Feb-20	677,131,989	555	38.1%	57,130,427	34,362,213	33,282,839	591,830,000	21.1%
Mar-20	650,568,362	545	38.1%	57,130,453	34,372,285	59,929,544	591,830,000	25.6%
Apr-20	632,132,333	543	29.2%	59,620,368	34,372,306	18,502,738	551,220,000	20.4%
May-20	612,446,622	536	31.6%	59,620,422	34,372,379	38,190,859	551,220,000	24.0%
Jun-20	598,200,676	529	24.6%	61,635,215	36,010,976	52,481,729	551,220,000	27.2%
Jul-20	570,500,368	515	43.4%	61,635,248	36,418,129	21,170,609	510,610,000	23.3%
Aug-20	542,741,815	499	45.0%	61,636,298	36,418,131	48,849,905	510,610,000	28.8%
Sep-20	532,531,239	492	20.4%	61,674,609	36,440,319	59,076,240	510,610,000	30.8%
Oct-20	509,556,230	482	41.1%	61,674,663	36,533,447	24,998,647	470,000,000	26.2%
Nov-20	490,516,632	469	36.7%	61,858,757	27,302,715	19,170,196	440,020,887	24.6%
Dec-20	452,974,326	436	61.5%	61,858,816	24,970,356	37,455,430	423,420,557	29.4%
Jan-21	436,999,556	424	35.0%	61,858,875	23,992,645	16,135,249	389,997,176	26.2%
Feb-21	413,180,005	410	49.0%	61,858,928	22,150,996	23,905,296	376,028,369	28.7%
Mar-21	398,664,469	399	34.9%	61,858,987	21,321,307	14,463,713	355,370,587	27.5%
Apr-21	379,600,912	386	44.5%	61,859,045	20,180,908	5,898,363	331,040,350	26.6%
May-21	348,928,212	356	63.6%	61,859,156	18,859,640	13,812,195	309,935,864	30.5%
Jun-21	332,165,181	348	44.6%	61,859,215	18,847,459	13,108,659	294,609,434	31.8%
Jul-21	317,058,252	336	42.8%	61,859,276	16,835,629	2,666,346	270,287,461	30.1%
Aug-21	295,255,497	313	57.5%	61,970,728	15,504,060	11,241,264	258,445,133	34.3%
Sep-21	285,755,580	304	32.5%	62,308,027	14,702,110	7,388,426	247,174,594	34.1%
Oct-21	269,942,617	298	49.5%	62,369,057	14,116,305	5,577,936	231,694,216	35.4%
Nov-21	257,148,370	281	44.2%	62,369,132	13,132,815	1,761,975	216,676,704	35.7%
Dec-21	242,051,779	257	51.6%	62,369,211	12,816,917	8,018,774	209,347,921	39.7%
Jan-22	223,989,968	245	60.6%	62,369,290	11,970,393	3,762,967	188,410,851	41.5%
Feb-22	207,666,688	237	59.7%	62,369,362	10,672,102	6,566,078	175,626,874	45.3%
Mar-22	192,546,041	226	59.6%	62,369,442	9,949,962	10,933,349	165,767,503	50.2%
Apr-22	187,747,265	226	26.1%	62,369,528	9,393,928	3,976,936	155,668,188	48.7%
May-22	172,515,198	221	63.8%	62,369,634	8,840,177	6,101,553	143,895,839	53.7%
June-22	164,583,558	216	43.2%	62,369,738	8,840,210	7,279,571	139,004,167	56.5%
July-22	151,143,564	202	64.0%	62,369,738	8,840,210	4,887,907	124,592,527	61.1%
Aug-22	136,954,527	190	69.4%	48,672,580	7,470,232	7,917,771	113,000,000	56.7%
Sep-22	132,131,773	184	35.0%	48,754,557	6,596,092	3,751,512	104,311,239	56.7%
Oct-22	117,488,927	167	75.6%	48,754,655	5,908,280	9,398,008	95,715,247	66.9%
Nov-22	109,124,631	159	58.8%	48,857,365	5,527,812	5,695,272	84,253,820	71.3%

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 October 2019.

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

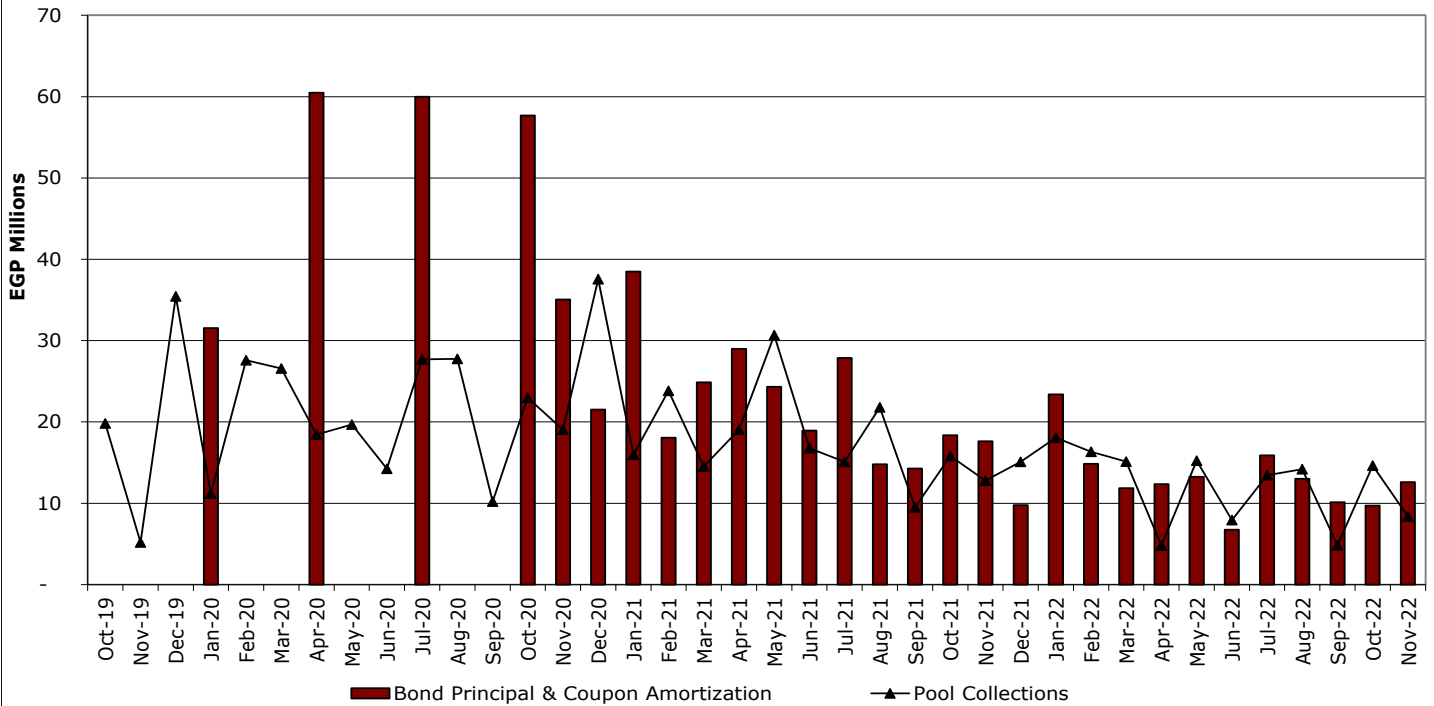


Chart 2:
Pool Cover & Credit Support vs. Bond Principal Outstanding

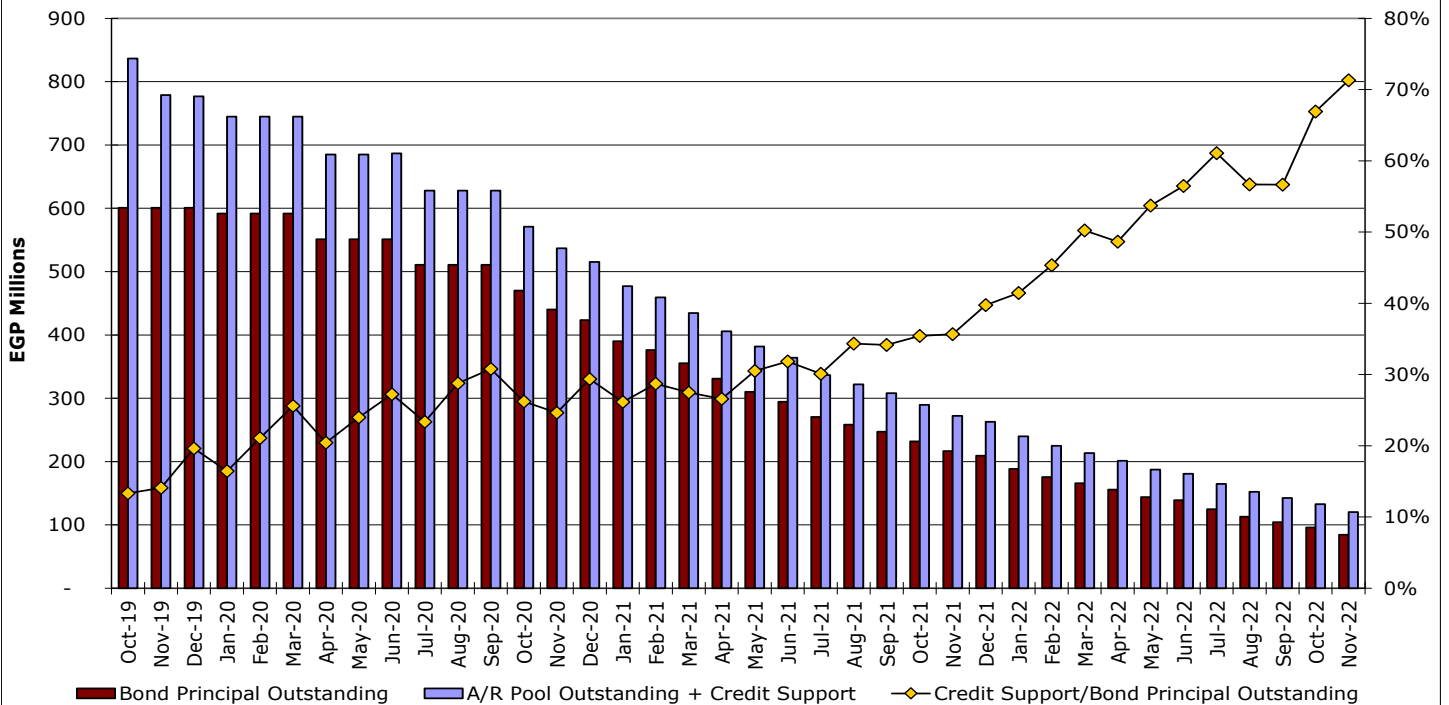


Chart 3:
Total Delinquencies (Above 30 Days) in Nominal Value and as a Percentage of the Total Outstanding Pool Balance

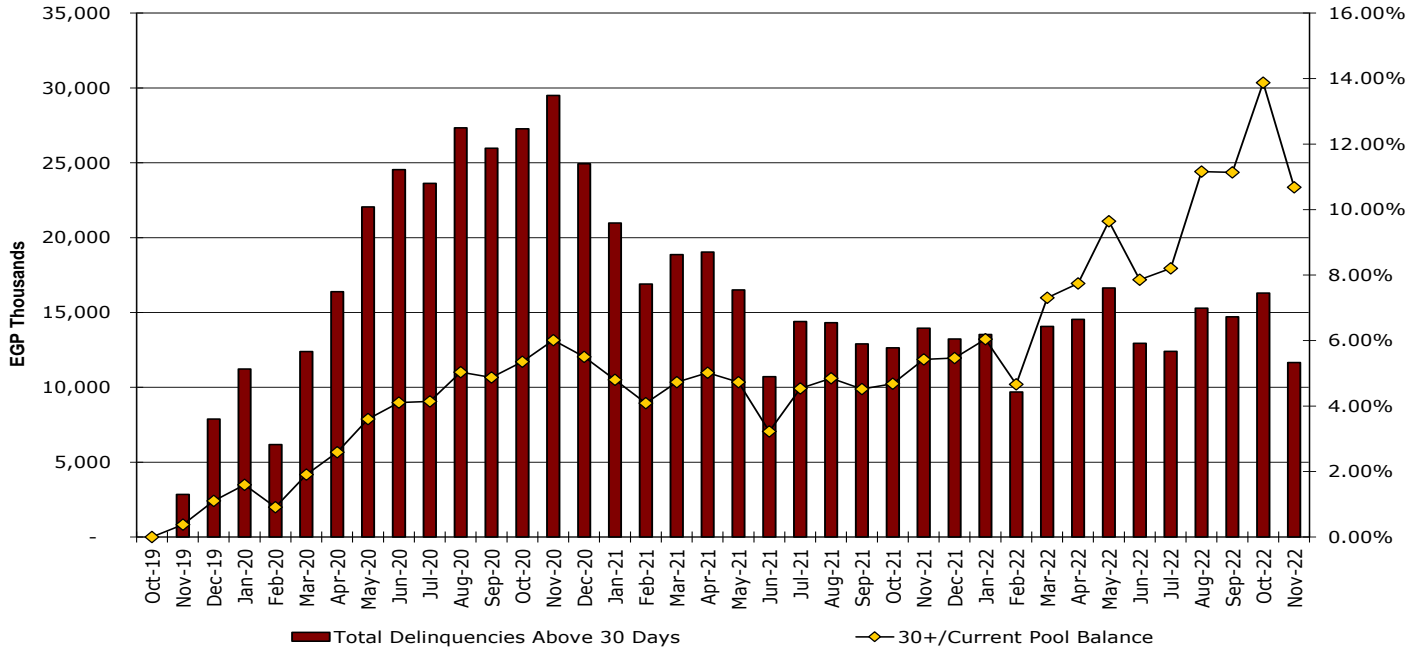
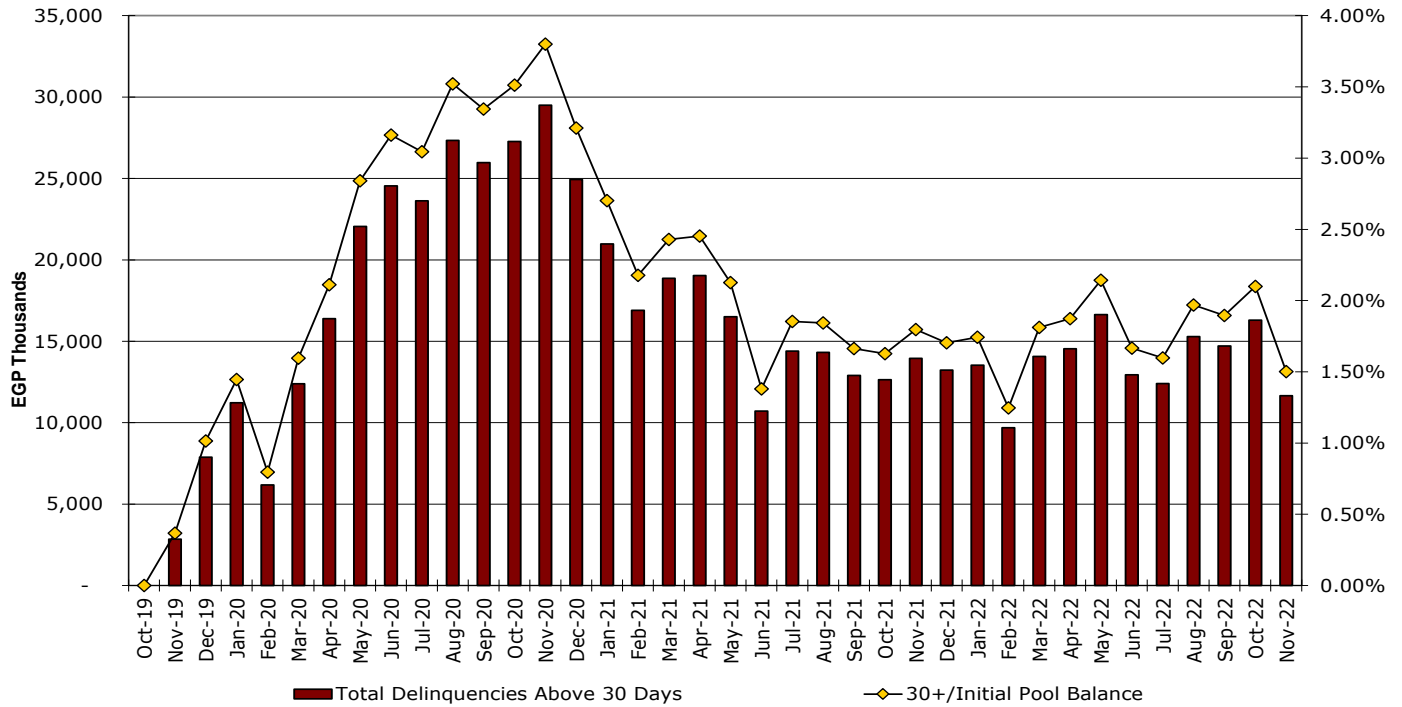


Chart 4:
Total Delinquencies (Above 30 Days) in Nominal Value and as a Percentage of the Initial Pool Balance



APPENDIX I: POOL DATA

Distribution by Original Term To Maturity				
Months	Current Balance	% Total	# of Contracts	# of Contracts %
43-60	1,548,178	2%	4	3%
61-72	12,413,510	14%	23	17%
73-84	52,480,847	58%	85	62%
85-96	22,424,537	25%	21	15%
97-102	2,168,321	2%	4	3%
Total	91,035,393	100%	137	100%

Distribution by Seasoning				
Months	Current Balance	% Total	# of Contracts	# of Contracts %
40-48	3,552,871	4%	4	3%
49-60	49,457,833	54%	43	31%
61-72	27,066,171	30%	64	47%
73-90	10,958,518	12%	26	19%
Total	91,035,393	100%	137	100%

Distribution by Remaining Term To Maturity				
Months	Current Balance	% Total	# of Contracts	# of Contracts %
<12	29,148,834	32%	82	60%
13-24	45,092,756	50%	44	32%
25-36	13,367,526	15%	9	7%
37-44	3,426,277	4%	2	1%
Total	91,035,393	100%	137	100%

Distribution by Original Purchase Price per Unit				
EGP (million)	Current Balance	% Total	# of Contracts	# of Contracts %
10-26	4,374,480	5%	4	3%
8-10	11,809,825	13%	10	7%
6-8	18,868,171	21%	27	20%
4-6	36,849,911	40%	52	38%
3-4	17,147,064	19%	34	25%
2-3	1,374,802	2%	7	5%
1-2	611,140	1%	3	2%
Total	91,035,393	100%	137	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 (thousand)	Current Balance	% Total	# of Contracts	# of Contracts %
2,000-2,731	9,483,090	10%	4	3%
1,500-2,000	15,789,606	17%	10	7%
1,000-1,500	21,795,592	24%	19	14%
500-1,000	25,868,967	28%	34	25%
<500	18,098,138	20%	70	51%
Total	91,035,393	100%	137	100%

Distribution by Original Loan Value (Purchase Price less Down payment)				
EGP (million)	Current Balance	% Total	# of Contracts	# of Contracts %
8-22	9,349,190	10%	7	5%
6-8	9,507,385	10%	15	11%
4-6	34,395,225	38%	48	35%
3-4	28,775,039	32%	40	29%
2-3	7,331,101	8%	18	13%
1-2	1,677,453	2%	9	7%
Total	91,035,393	100%	137	100%

Distribution by Current LTV (Original Purchase Price)				
LTV	Current Balance	% Total	# of Contracts	# of Contracts %
<=10%	18,263,010	20%	67	49%
11%-20%	28,605,107	31%	36	26%
21%-30%	25,767,519	28%	23	17%
31%-41%	18,399,757	20%	11	8%
Total	91,035,393	100%	137	100%

Distribution by Installment Frequency				
EGP	Current Balance	% Total	# of Contracts	# of Contracts %
Monthly	1,789,600	2%	4	3%
Quarterly	62,608,259	69%	108	79%
Semi Annual	17,445,768	19%	16	12%
Annual	9,191,766	10%	9	7%
Total	91,035,393	100%	137	100%

Distribution by Installment Value				
Installment (thousand)	Current Balance	% Total	# of Contracts	# of Contracts %
1,000-2,000	2,995,352	3%	2	1%
400-1,000	9,854,826	11%	10	7%
300-400	14,206,907	16%	10	7%
200-300	15,902,695	17%	20	15%
100-200	39,543,708	43%	65	47%
<100	8,531,905	9%	30	22%
Total	91,035,393	100%	137	100%

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

APPENDIX I: POOL DATA - CONTINUED

Distribution by Unit Type				
Unit Type	Current Balance	% Total	# of Contracts	# of Contracts %
Residential	79,673,578	88%	118	86%
Vacation	11,361,815	12%	19	14%
Total	91,035,393	100%	137	100%

Distribution by Originator				
Originator	Current Balance	% Total	# of Contracts	# of Contracts %
Palm Hills Development	30,194,432	33%	57	42%
Rakeen Egypt Co. For Real Estate Investment	43,893,456	48%	50	36%
Palm Hills Middle East Co. For Real Estate Investment	11,361,815	12%	19	14%
Saudi Co. For Urban Developments	4,130,025	5%	7	5%
Eastern New Cairo for Real Estate Development	1,455,665	2%	4	3%
Total	91,035,393	100%	137	100%

Distribution by Project				
Project	Current Balance	% Total	# of Contracts	# of Contracts %
WoodVille	11,125,979	12%	19	14%
Golf Ext.	15,864,485	17%	34	25%
North Coast Hacienda Bay 1	11,361,815	12%	19	14%
October Palm Park	43,893,456	48%	50	36%
October Golf View	1,297,876	1%	3	2%
Katameya	1,906,092	2%	1	1%
Palm Valley	4,130,025	5%	7	5%
New Cairo Katameya Ext.	1,455,665	2%	4	3%
Total	91,035,393	100%	137	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 Prime 2 Prime 3	Investment Grade
Very high	AA+		
	AA		
	AA-		
Upper-medium	A+		
	A		
	A-		
Medium grade	BBB+		
	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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