

STRUCTURED FINANCE

Annual Review

Sarwa Securitization Company S.A.E. – 35th Issue 2021-2028 (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 Rating
A	Senior	-	-	Apr-22	10.70%	Quarterly	AA+ (sf)	Redeemed
B	Subordinated	7.8	1.6%	Apr-24	10.00%	Monthly	AA (sf)	AA (sf)
C	Subordinated	290.0	58.7%	Mar-26	10.25%	Monthly	A+ (sf)	A+ (sf)
D	Junior Subordinated	196.0	39.7%	Mar-28	10.75%	Monthly	A- (sf)	A- (sf)
Total		493.8	100%					

*As of 30/04/2023

OPINION

POOL CUT OFF DATE:

April 1, 2021

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This is the 35th asset-backed bond issued by Sarwa Securitization Company S.A.E. (SSC) and the sixth 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 has been originated by six companies, Palm Hills Development and five of its subsidiaries, namely 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. At issuance, the bond issue size was EGP 881,000,000 and was backed by 355 installment-sale contracts related to 355 residential units located in 11 of the Originator'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). The contracts had been written over the period between September 2007 and January 2021 and as of the issuance date all the properties were fully constructed and delivered to the buyers.

The ratings address 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.

As of the review date 30/04/2023, 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. The bond currently stands at EGP 493,797,781, equivalent to 44.0% redemption of the original balance. Given the senior-subordinated structure of the bond, the principal amortization was directed to Class A notes, which were fully redeemed as of 30 April 2022. Class B notes currently stand at EGP 7,797,781, representing 2.6% of the original balance. As of the same date, the asset pool backing the issue has been amortized at 44.5%, and currently equals EGP 695,143,583.

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 4,724,812, coupled with a Default Reserve Account amounting to EGP 106,131,536 (21.5% of the outstanding bond size). In addition, there is a Liquidity Reserve Account currently in the amount of EGP 29,737,082 (6.0% of the outstanding bond size). The Liquidity Reserve Account was built during the first five months after closing to reach 5.66% of the initial bond size, and after the amortization of tranche A, is adjusted on a monthly basis to measure not less than 5.66% of tranches 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 - 6.0% of the bond size, compared to 4.2% at issuance. Thus calculated, the overcollateralization takes into account the net present value of the future cash flows within the bond tenor, the residual cash with the Custodian in the amount of EGP 4,724,812, as well as the Liquidity Reserve Account in the amount of EGP 29,737,082. The calculation does not consider any collection of the currently delinquent installments in the total amount of EGP 31,520,769, representing 6.4% of the outstanding bond balance. In addition, the transaction benefits from an external credit enhancement in the form of a Default Reserve Account amounting to EGP 106,131,536, which represents 21.5% of the outstanding bond balance. Thus, the total credit support available to the transaction measures 27.5% compared to 16.0% at the closing of the transaction.

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. As of April 2023, delinquencies above 30 days reached EGP 13,628,727, representing 1.1% of the initial portfolio balance. It is worth noting that there is only one severely delinquent client with 182 days overdue, and the remaining are below 121 days overdue. 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 6.0% of the outstanding bond size net of expenses; (ii) availability of default reserve in the amount of EGP 106,131,536 representing 21.5% of the outstanding notes' balance; (iii) subordination of the junior tranches to the more senior tranches;
- 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 29,737,082, or 6.0% 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 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). At issuance, all the units were 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, with the highest concentration being West Cairo accounting for 77% of the portfolio. 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 B3 with a Stable Outlook by Moody's (February 2023).

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 29.3% 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.
- 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/Service. 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:	May 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:	Same as Originators
Custodian & Back-up Servicer:	Banque Misr
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 & D: Pass through amortization schedule
Pool Currency:	EGP
Pool Reporting Frequency:	Monthly
Last Reporting Date:	30/04/2023

COLLATERAL SUMMARY

Receivables:	Installment-sale contracts for the purchase of newly built properties.
Current Pool Balance (as of 30/04/23):	EGP 695,143,583
Number of Contracts:	249 fully amortizing contracts
Number of Clients:	242
Type of Properties*:	100% residential (84% - first homes, 16% - second homes)
Type of Clients*:	100% individuals
Avg Current Loan Balance:	EGP 2,791,741
Avg Current Client Balance:	EGP 2,872,494
WA Seasoning:	40 months
WA Remaining Maturity:	51 months
WA Original Tenor	91 months
WA Current LTV (Original Price):	51.7%

* 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	98.4%		Default reserve account in the size of
C	39.7%	6.0%	EGP 106,131,536 or 21.5% of the initial
D	None		notes' balance;

ISSUE DETAILS				COLLATERAL	
<i>In EGP</i>					
Class A Principal – Original	90,000,000			A/R – Original	1,253,260,286
Class B Principal – Original	305,000,000			A/R - Current*	695,143,583
Class C Principal – Original	290,000,000				
Class D Principal – Original	196,000,000				
Class A Principal - Outstanding*	-				
Class B Principal - Outstanding*	7,797,781				
Class C Principal - Outstanding*	290,000,000			Number of Contracts - Original	355
Class D Principal - Outstanding*	196,000,000			Number of Contracts - Current*	249
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)	25			30-60 days/Current Pool Balance	1.13%
Maturity	2028			60-90 days/Current Pool Balance	0.57%
Remaining Tenor (months)	59			90+ days/Current Pool Balance	0.26%
Residual Account Balance	4,724,812				
Default Reserve Account	106,131,536				
Liquidity Reserve Account	29,737,082				
Total Credit Support/Bond Principal	28.5%			Cum. Losses (% of Pool Principal)	0.00%

*Current data is as of 30/04/2023

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	1,253,260,286	355	-	-	-	-	-	-
Apr-21	1,226,274,887	355	23.0%	-	-	26,985,399	881,000,000	3.1%
May-21	1,208,506,804	354	16.1%	103,958,000	19,945,840	26,830,142	881,000,000	17.1%
Jun-21	1,203,792,748	352	4.6%	103,988,701	19,948,092	30,950,246	881,000,000	17.6%
Jul-21	1,180,222,463	350	21.1%	104,246,607	37,718,308	18,874,993	878,075,000	18.3%
Aug-21	1,158,426,490	349	20.0%	104,275,389	50,184,490	27,354,640	878,075,000	20.7%
Sep-21	1,137,346,076	344	19.8%	104,325,168	50,184,501	48,160,226	878,075,000	23.1%
Oct-21	1,114,359,572	343	21.7%	104,461,154	50,741,310	23,560,757	852,650,000	21.0%
Nov-21	1,093,967,749	341	19.9%	104,519,491	51,284,702	43,933,412	852,650,000	23.4%
Dec-21	1,073,710,675	340	20.1%	104,519,491	51,710,933	64,632,358	852,650,000	25.9%
Jan-22	1,050,787,244	337	22.8%	104,519,566	51,945,219	35,230,420	821,825,000	23.3%
Feb-22	1,027,912,812	334	23.2%	104,519,600	51,945,261	58,194,034	821,825,000	26.1%
Mar-22	1,009,981,063	333	19.0%	104,519,641	51,945,311	75,888,815	821,825,000	28.3%
Apr-22	992,706,395	331	18.7%	104,519,687	51,945,367	40,822,026	791,000,000	24.9%
May-22	972,591,532	330	21.8%	104,519,741	45,132,617	15,529,372	743,708,812	22.2%

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 May 2021.

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
June-22	948,176,307	326	26.3%	104,519,806	42,271,320	14,050,743	721,958,122	22.3%
July-22	922,859,770	324	27.7%	104,519,806	42,271,320	7,431,563	695,437,065	22.2%
Aug-22	905,878,719	324	20.0%	105,200,744	41,769,814	4,683,269	678,749,681	22.3%
Sep-22	890,641,337	321	18.4%	105,343,270	39,111,591	7,105,528	668,976,349	22.7%
Oct-22	866,195,486	316	28.4%	105,420,102	37,871,653	8,036,649	649,550,396	23.3%
Nov-22	826,962,103	308	42.7%	105,542,009	37,442,654	21,588,502	628,422,874	26.2%
Dec-22	787,594,050	299	44.3%	105,542,120	35,582,354	29,684,544	601,013,133	28.4%
Jan-23	761,403,293	289	33.4%	105,717,327	34,713,342	26,712,597	574,587,812	29.1%
Feb-23	737,658,918	277	31.6%	105,906,144	33,043,095	11,022,018	537,441,402	27.9%
Mar-23	711,432,314	269	35.2%	105,906,432	30,537,714	15,513,958	517,625,724	29.4%
Apr-23	695,143,583	249	24.3%	106,131,536	29,737,082	4,724,812	493,797,781	28.5%

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 May 2021.

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

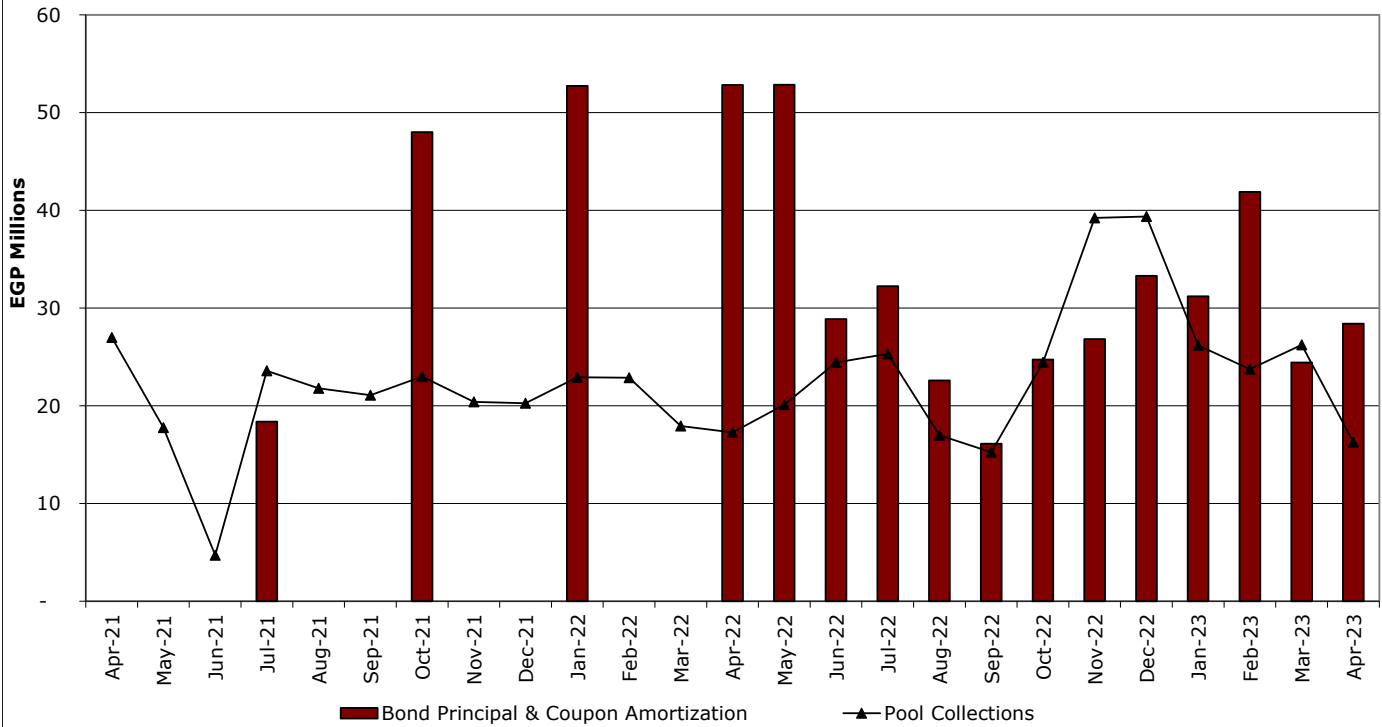


Chart 2:
Pool Cover & Credit Support vs. Bond Principal Outstanding

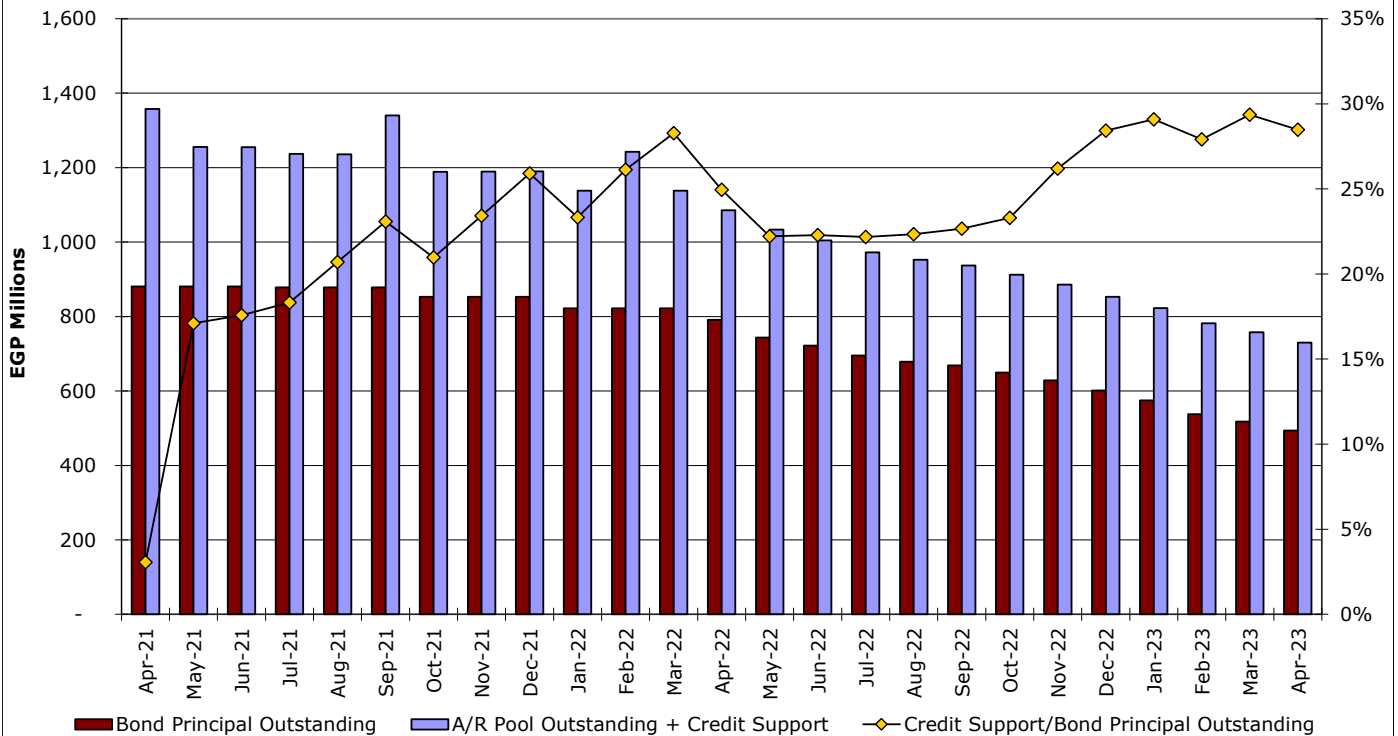


Chart 3:
Total Delinquencies (Above 30 Days) in Nominal Value and as a Percentage of the Total Outstanding Pool Balance

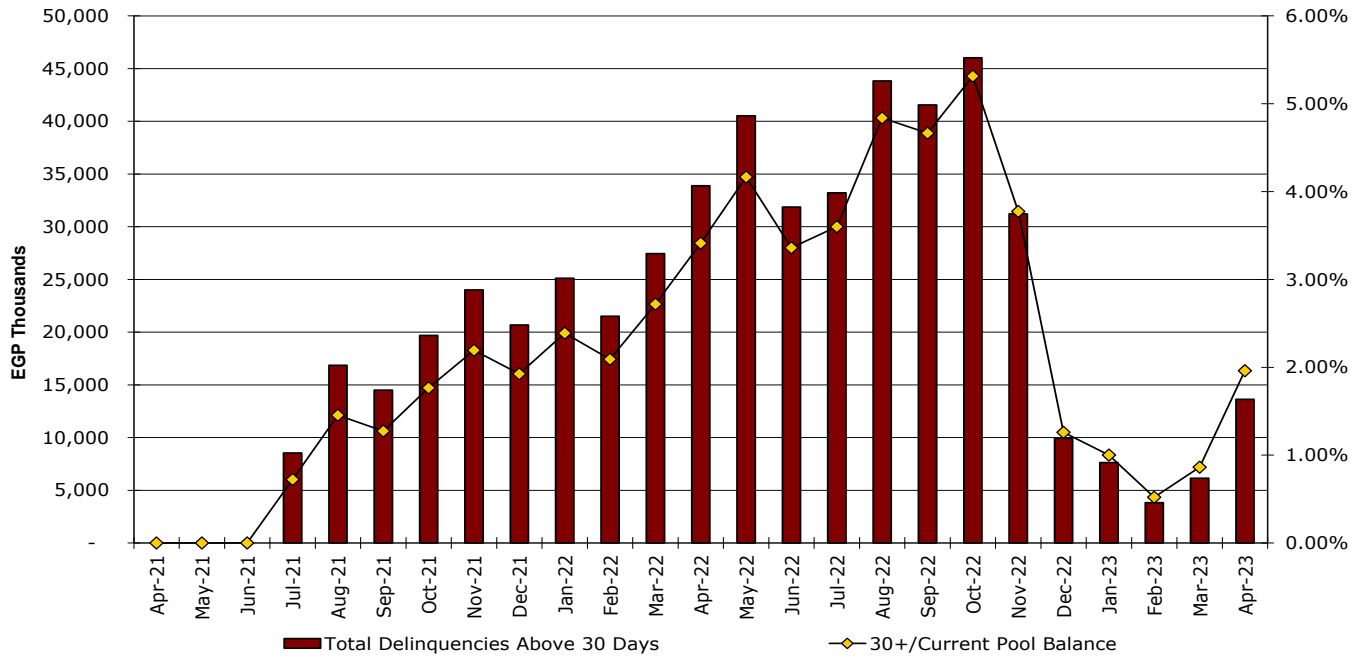
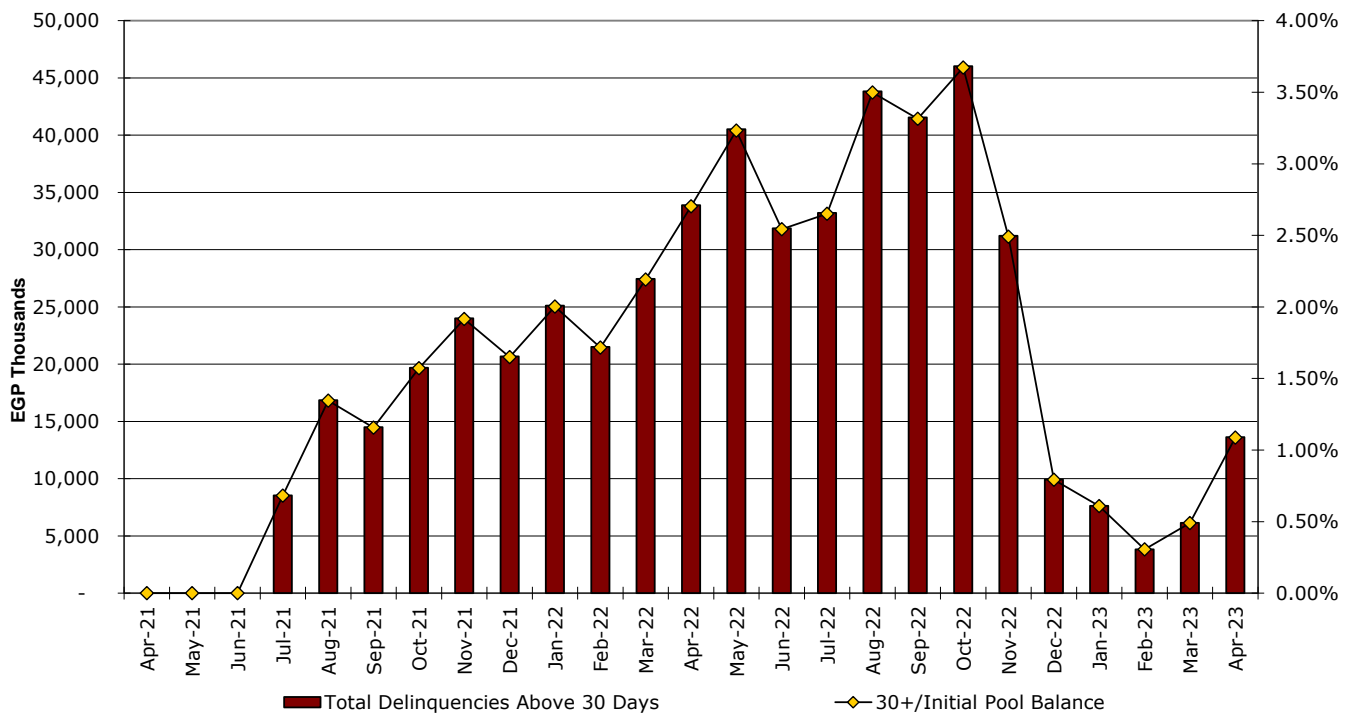


Chart 4:
Total Delinquencies (Above 30 Days) in Nominal Value and as a Percentage of the Initial Pool Balance



APPENDIX I: POOL DATA

Distribution by Original Term To Maturity				
Months	Current Balance	% Total	# of Contracts	# of Contracts %
31-36	1,488,087	0.2%	2	1%
37-48	9,330,640	1%	6	2%
49-60	39,670,719	6%	14	6%
61-72	37,274,953	5%	11	4%
73-84	124,835,867	18%	72	29%
85-96	207,412,470	30%	96	39%
97-108	144,481,950	21%	25	10%
109-120	96,647,792	14%	15	6%
121-124	34,001,105	5%	8	3%
Total	695,143,583	100%	249	100%

Distribution by Seasoning				
Months	Current Balance	% Total	# of Contracts	# of Contracts %
27-36	351,663,490	51%	69	28%
37-48	252,310,091	36%	57	23%
49-60	44,129,868	6%	13	5%
61-89	47,040,134	7%	110	44%
Total	695,143,583	100%	249	100%

Distribution by Remaining Term To Maturity				
Months	Current Balance	% Total	# of Contracts	# of Contracts %
<12	40,801,534	6%	108	43%
13-24	47,053,896	7%	20	8%
25-36	87,323,428	13%	26	10%
37-48	151,210,195	22%	35	14%
49-60	38,782,361	6%	9	4%
61-72	215,582,715	31%	29	12%
73-84	70,306,231	10%	11	4%
85-93	44,083,223	6%	11	4%
Total	695,143,583	100%	249	100%

Distribution by Original Purchase Price per Unit				
EGP (million)	Current Balance	% Total	# of Contracts	# of Contracts %
10-26	392,057,669	56%	62	25%
8-10	92,952,386	13%	26	10%
6-8	128,553,304	18%	46	18%
4-6	51,605,329	7%	24	10%
3-4	19,804,438	3%	18	7%
2-3	4,033,217	1%	13	5%
<2	6,137,240	1%	60	24%
Total	695,143,583	100%	249	100%

APPENDIX I: POOL DATA - CONTINUED

Distribution by Current Outstanding Balance per Client				
EGP (million)	Current Balance	% Total	# of Contracts	# of Contracts %
10,000-14,940	108,468,064	16%	9	4%
7,000-10,000	132,155,567	19%	17	7%
5,000-7,000	145,298,772	21%	25	10%
3,000-5,000	191,655,970	28%	48	19%
2,000-3,000	59,003,209	8%	25	10%
1,000-2,000	33,169,465	5%	23	9%
<1,000	25,392,536	4%	102	41%
Total	695,143,583	100%	249	100%

Distribution by Current LTV (Original Purchase Price)				
LTV	Current Balance	% Total	# of Contracts	# of Contracts %
<=30%	74,645,833	11%	126	51%
31%-40%	59,878,312	9%	21	8%
41%-50%	151,368,587	22%	36	14%
51%-60%	121,913,255	18%	26	10%
61%-70%	248,173,131	36%	34	14%
71%-74%	39,164,465	6%	6	2%
Total	695,143,583	100%	249	100%

Distribution by Installment Frequency				
EGP	Current Balance	% Total	# of Contracts	# of Contracts %
Monthly	4,064,904	1%	2	1%
Quarterly	419,517,044	60%	182	73%
Semi Annually	57,085,630	8%	19	8%
Annually	120,113,361	17%	25	10%
Other	94,362,644	14%	21	8%
Total	695,143,583	100%	249	100%

Distribution by Unit Type				
Unit Type	Current Balance	% Total	# of Contracts	# of Contracts %
First Home	582,448,087	84%	212	85%
Vacation Home	112,695,496	16%	37	15%
Total	695,143,583	100%	249	100%

APPENDIX I: POOL DATA - CONTINUED

Distribution by Originator				
Originator	Current Balance	% Total	# of Contracts	# of Contracts %
Saudi Co. For Urban Developments	644,465,380	93%	176	71%
Palm Hills Development	36,478,283	5%	10	4%
Palm Hills Middle East Co. For Real Estate Investment	7,622,690	1%	4	2%
Palm Real Estate Development	5,602,830	1%	58	23%
Rakeen Egypt Co. For Real Estate Investment	974,400	0.1%	1	0.4%
Total	695,143,583	100%	249	100%

Distribution by Project				
Project	Current Balance	% Total	# of Contracts	# of Contracts %
Golf Ext.	195,258,213	28%	36	14%
The Crown	151,524,195	22%	32	13%
North Coast Hacienda Bay 1	112,469,148	16%	36	14%
WoodVille	85,088,762	12%	23	9%
New Cairo Katameya Ext.	29,640,146	4%	14	6%
October Palm Park	52,826,414	8%	21	8%
Palm Valley	33,663,800	5%	7	3%
Capital Gardens	11,140,357	2%	74	30%
October Golf View	15,221,200	2%	4	2%
Katameya	8,085,000	1%	1	0.4%
North Coast Hacienda white 2	226,348	0.03%	1	0.4%
Total	695,143,583	100%	249	100%

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+		
	BBB		
	BBB-		
Weak quality	BB+	Not Prime	Speculative Grade
Poor quality	BB		
	BB-		
	B+		
	B		
	B		
Very poor	CCC+		
	CCC		
	CCC-		
	CC		
	C		

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