

STRUCTURED FINANCE

Annual Review

Sarwa Sukuk Company S.A.E. – First Mudarabah Sukuk Issue 2020-2027

Mudarabah Sukuk based on Auto Receivables originated by Contact Credit Company and its subsidiaries & sister companies

DEFINITIVE RATINGS

Description	Amount (EGP bn)*	Tenor (Month)	Expected Maturity	Rate of Return	Repayment Frequency	Initial Rating	Current Rating*
Single Tranche Sukuk	1.73	84	Nov-2027	Variable rate	Monthly	A- (sf)	A- (sf)

*As of 31/12/2022

**The (sf) insertion refers to structured finance.

RATING OPINION AND SPECIFIC COMMENTARY

This is the first Sukuk issue by Sarwa Sukuk Company S.A.E. (SSC). It is the first Mudarabah Sukuk issued in Egypt. The Mudarabah Sukuk proceeds were used to finance auto receivables portfolios, which were originated by Contact Credit Company and its subsidiaries and sister companies (Originators) during the initial two-year revolving period. The 7-year Mudarabah Sukuk was issued in one tranche in the total size of EGP 2.5 billion and is callable from the 25th month after the date of Sukuk issuance. The Sukuk yields a variable rate of return for the Sukuk holders that is paid on a monthly basis starting from the closing date of the Sukuk subscription. This Mudarabah Sukuk is the first structured finance instrument in the Egyptian market to feature a prefunded account and a two-year revolving period, which ended in November 2022.

MERIS has affirmed the initially assigned national scale rating at **A- (sf)** for the 1st Mudarabah Sukuk transaction, issued by Sarwa Sukuk Company S.A.E. The rating is considered an investment grade on the National Rating Scale. “**A-**” rated issuers or issues are considered Above Average in Creditworthiness relative to other domestic issuers or issues. The **(+/-)** signs denote relative status within each rating category and the **(sf)** insertion stands for structured finance.

The rating addresses the expected loss posed to investors by the legal final maturity. In **MERIS**'s opinion, the transaction structure allows for timely payment of the Sukuk expected return and ultimate repayment of principal with respect to the Sukuk maturity. **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 (Banque Misr), as well as on the data provided by the Issuer.

As of December 2022, Sarwa Sukuk Company acquired 44 auto receivables portfolios in the total size of EGP 4.1 billion, including EGP 2.9 billion of principal. As of the same date, the present value of the assigned portfolios stood at EGP 3.3 billion. Given the revolving feature of the Sukuk, the monthly collections from the acquired portfolios net of expenses (amounting to EGP 1.6 billion up to November 2022) have been used to finance new portfolios of auto receivables, rather than for principal amortization. After the end of the revolving period (in November 2022), all monthly collections will be used in the Sukuk principal amortization, as per the Sukuk structure. Accordingly, the outstanding Sukuk balance reached EGP 1.7 billion, which translates into 30.6% redemption of the Sukuk original balance, as of December 2022.

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The Sukuk transaction benefits from the available credit enhancement in the form of default reserve account in the size of 3.6% of the purchase price of each portfolio, (which is the present value of each portfolio at the time of acquisition) and it is held in a separate cash reserve account with the agent (custodian) of the transaction. It is to be used to cover any delinquencies and/or defaults of the clients over the tenor of each portfolio. As of December 31st, 2022, the default reserve account reached EGP 59.2 million, representing 3.6% of the outstanding portfolios' present value. It is worthy to mention that in case the default reserve account balance falls below 3.6% of the outstanding portfolios' present value, the project manager (Contact Credit Company) is obliged to replenish it to reach the required level.

MERIS has been also monitoring the default and delinquency rates under the transaction on a monthly basis. As of December 2022, the assigned portfolios' delinquencies have reached around EGP 14.7 million, representing arrears of more than 30 days from the due date. On average, the collection rate is around 59% during the same month and jumps to 99% after 120 days from the installment due date. Up to date, Contact Credit Company, as the project manager of the Sukuk transaction, has covered all the outstanding delinquencies within the Sukuk transaction, (mainly from the collection fees, which are amounts in the default reserve account that are in excess of the 3.6% threshold mentioned earlier), thus effectively maintaining 100% collection rate for the Sukuk holders.

Strengths of the Transaction

- The credit enhancement available to the Sukuk comes in the form of default reserve account in the size of 3.6% of outstanding portfolio present value, amounting to EGP 59.2 million;
- With 6,602 individual contracts, the underlying pool of receivables is granular with individual concentrations of less than 0.2% and the top 30 clients accounting collectively for 4.1% of the total principal outstanding balance. Additionally, the pool is considered relatively diversified in terms of car make and geographic distribution;
- The pool has a relatively low current weighted average loan-to-value (LTV) ratio at 52.1%. The lower current loan-to-value accelerates the build-up of owner's equity into the assets and hence increases the recovery potential in case of default.
- The portfolio comprises relatively seasoned receivables (weighted average seasoning of 16 months and weighted average remaining term to maturity of 34 months).
- The receivables are backed by post-dated checks. The cheques are an incentive to ensure timely payment of installments as bounced checks constitute a criminal offence under the Egyptian law;
- The low-default rate historical performance of auto receivables originated by the originators, in addition to the significant experience of the Servicer and efficiency of its operating systems;
- The availability of a contractually appointed back-up servicer Banque Misr (LT Deposit Rating "B2" by Moody's Investor Service - 2022);
- The appointment of Sarwa Investment Management Company to act as the calculation agent in the Sukuk issue, where it is following up on the portfolios' collection performance, calculation of the portfolios' present values at the time of assignment, the calculation of the 3.6% default reserve balance at the time of portfolio assignment, as well as producing monthly performance data over the life of each portfolio, calculating the project manager fees, the transaction expenses account, the Sukuk holders return and principal repayment over the Sukuk tenor and others as per the legal agreements.

Weaknesses of the Transaction

- In general, **MERIS** perceives greater uncertainty associated with unrated originators. However, this is mitigated by the originators' experienced management teams and strict adherence to its underwriting policies and procedures, which assure a high-quality receivables pool.
- The Sukuk structure is fully prefunded, whereby the auto receivables to be acquired by the transaction are generated after the Sukuk issuance date. Prefunded structures entail greater risks of uncertainty related to portfolio performance compared to transactions with already existing and fully identifiable portfolios. This risk is mitigated, to some extent, by having the legal and auditor advisors produce due diligence reports on each portfolio before it is assigned to the Sukuk company, in addition to the auditor verification that the portfolio meets the pre-determined set of characteristics, as per the transaction documents.

- The Sukuk issue had an initial two-year revolving period, where any collections from the acquired portfolios were used to finance new portfolios instead of being returned to the Sukuk holders. **MERIS** considers revolving/dynamic pools to be riskier than static/fixed portfolios of receivables.
- Even though the obligation on the servicer/project manager to ensure that the default reserve will equal, at any point of time during the Sukuk tenor, 3.6% of the present value of the outstanding portfolios, is considered a supporting factor to the Sukuk transaction, it creates a limited recourse on the originator (who is acting as the servicer/project manager). Hence, in case of bankruptcy of the servicer/project manager, this feature will no longer be available to the Sukuk structure. Additionally, the backup servicer agreement does not assign this obligation to the appointed backup servicer. Nevertheless, **MERIS** believes that it is highly unlikely that the servicer/project manager will face bankruptcy over the Sukuk tenor, given the strong capitalization of the company and solid financial metrics.
- As per the transaction documents of the Sukuk issue, assigned portfolios can have up to 30% of the auto receivables related to the sale of used vehicles. In general, used cars are associated with a greater probability of default due to the perceived higher credit risk of the buyers. Nevertheless, the originators have a conservative policy towards used vehicles, as it is mainly focusing on premium brands, which indicates high creditworthiness of the buyers. Currently, around 22% of the assigned receivables are related to used cars.
- Legal uncertainties exist, given that this is the first Mudarabah Sukuk transaction in Egypt and it 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, and concluded that the legal risks were consistent with the assigned rating.

KEY TRANSACTION DATA

Deal Closing Date:	November 2020
Outstanding Sukuk Principal:	EGP 1,734,867,689
Issuer:	Sarwa Sukuk Company S.A.E.
Seller (s) /Originator (s):	Contact Credit Company S.A.E. and its subsidiaries and sister companies
Servicer/Project Manager:	Contact Credit Company S.A.E.
Custodian:	Banque Misr (LT Deposit Rating "B2" by Moody's Investor Service - 2022)
Back-up Servicer/Project Manager:	Banque Misr (LT Deposit Rating "B2" by Moody's Investor Service - 2022)
Underwriters and Promoters:	Sarwa Capital, Misr Capital, Banque Misr, CIB, and Ahli United Bank
Structure type:	Single Tranche – 100% Prefunded Account, with a two-year Revolving Period; Pass Through Amortization Structure
Pool Currency:	EGP
Pool Reporting Frequency:	Monthly
Last Reporting Date:	31/12/2022

COLLATERAL SUMMARY* (see APPENDIX I for more details)

Receivables:	Car installment-sale contracts.
Pool Principal Balance:	EGP 1,480,564,335
Number of Contracts:	6,602 fully amortizing contracts
Type of Vehicles*:	90% passenger vehicles, 10% commercial vehicles (heavy trucks and pickups)
New vs. Used Vehicles:	78% new vehicles, 22% used vehicles
Make of Vehicles:	Mercedes: 16%, Chevrolet: 6%, Hyundai: 6%, Skoda: 6%, Toyota: 6%, Kia: 6%, BMW: 5%, Range Rover: 5%, MG: 4%, Peugeot: 4%, Others: 36%
Geographic Diversity:	Greater Cairo: 55%, Alexandria: 10%, Others: 35%
WA Seasoning:	16 months
WA Remaining Maturity:	34 months
WA Original Tenor:	50 months
WA LTV (at origination):	71.1%
WA Current LTV:	52.1%

* The analysis of the pool is based on the pool data as of 31/12/2022

CREDIT SUPPORT

Sukuk Outstanding Principal Balance	Credit Support
EGP 1,734,867,689	Default Reserve Account in the size of 3.6% of the outstanding portfolios present value, amounting to EGP 59,209,361.

ISSUE DETAILS		COLLATERAL	
In EGP			
Sukuk Original Balance	2,500,000,000	A/R – Outstanding Amount *	1,968,271,317
Sukuk Outstanding Balance*	1,734,867,689	A/R – Outstanding Amount Present Value*	1,644,682,270
Rate of Return	Variable rate		
Frequency	Monthly	Number of Contracts - Current*	6,602
Seasoning (months)	25	Cum. Delinquencies (% of Pool Balance)	
Maturity	2027	30-60 days/Current Pool Balance	0.00%
Remaining Tenor (months)	59	60-90 days/Current Pool Balance	0.00%
Net Cash Available*	88,900,347	90+ days/Current Pool Balance	0.00%
Net Cash Available % Sukuk Outstanding Balance*	5.1%	Arrears in Processing**/Current Pool Balance	0.00%
Default Reserve Account *	59,209,361		
Default Reserve Account % Sukuk Outstanding Balance*	3.4%	Cum. Losses (% of Initial Pool Principal)	0.00%

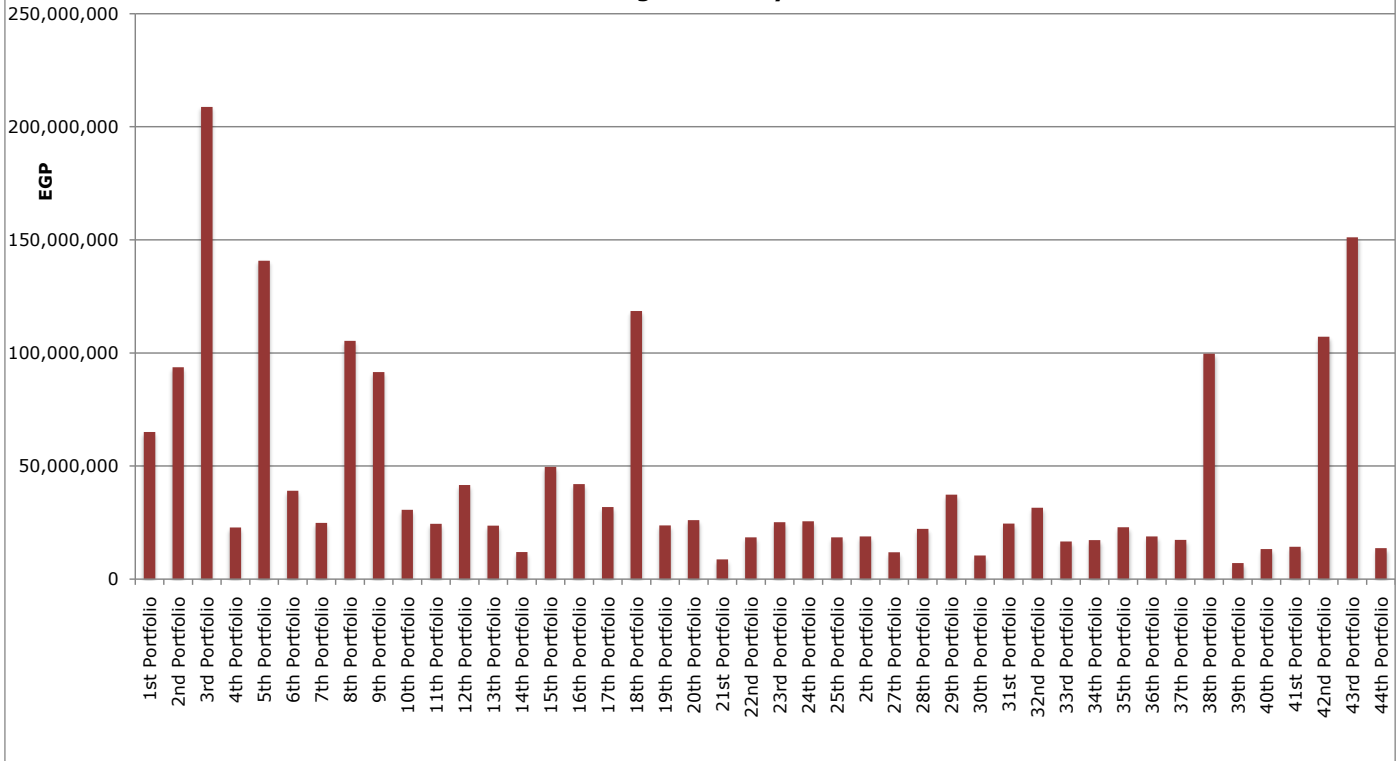
*Current data is as of 31/12/2022.

PORTFOLIO AND PERFORMANCE DATA

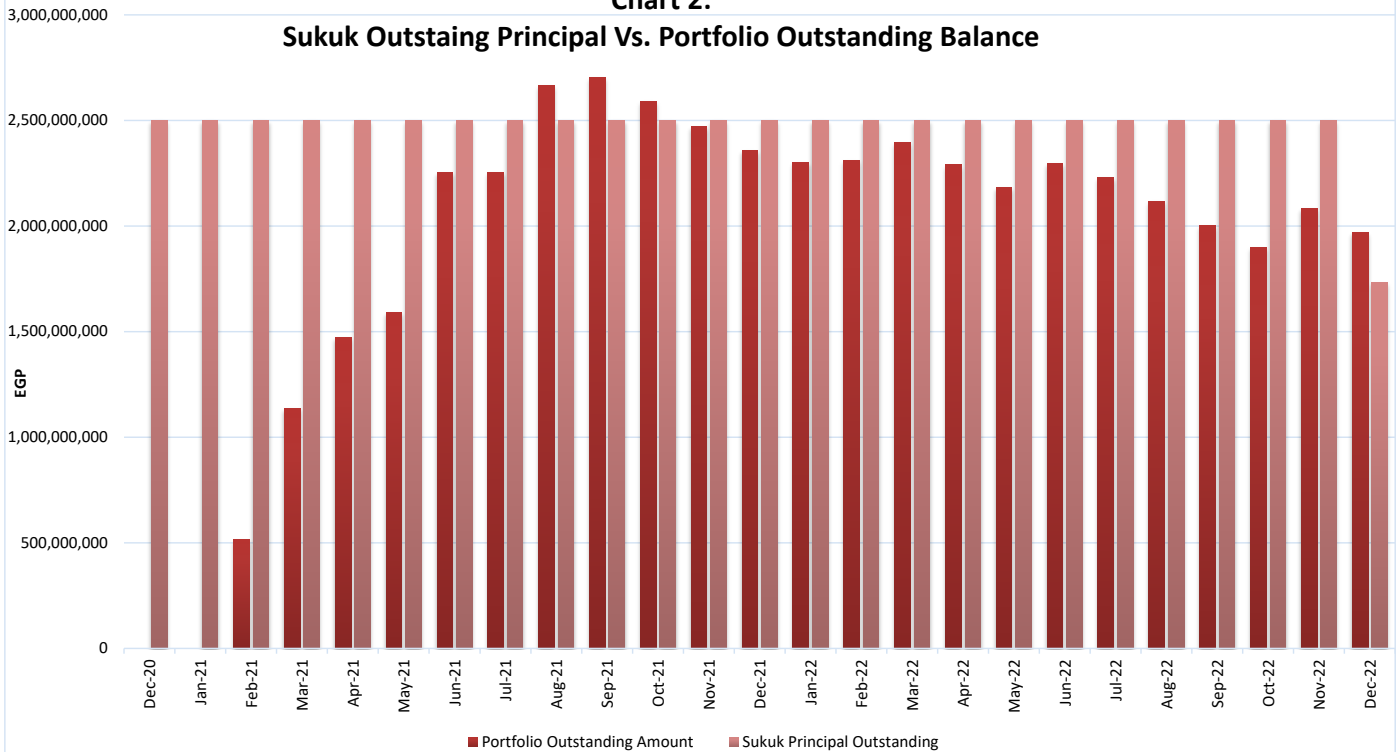
Period	Portfolio Outstanding Amount	Present Value of Portfolio Outstanding Amount	# of Contracts	Net Cash Available*	Net Cash Available % Sukuk Outstanding Balance	Default Reserve Account	Default Reserve Account % Sukuk Outstanding Balance	Sukuk Principal Outstanding
Nov-20	-	-	-	2,500,000,000	100.0%	-	-	2,500,000,000
Dec-20	-	-	-	2,501,429,759	100.1%	-	-	2,500,000,000
Jan-21	-	-	-	2,500,705,767	100.0%	-	-	2,500,000,000
Feb-21	515,392,141	416,150,325	1,202	2,084,531,704	83.4%	15,235,137	0.6%	2,500,000,000
Mar-21	1,135,445,925	914,374,929	2,566	1,586,859,138	63.5%	32,919,404	1.3%	2,500,000,000
Apr-21	1,473,259,241	1,192,738,381	3,411	1,304,906,357	52.2%	42,937,683	1.7%	2,500,000,000
May-21	1,592,203,190	1,293,497,377	3,730	1,208,155,978	48.3%	48,483,322	1.9%	2,500,000,000
Jun-21	2,251,703,428	1,832,841,221	5,274	666,600,397	26.7%	65,965,607	2.6%	2,500,000,000
Jul-21	2,254,079,409	1,841,368,074	5,406	657,348,472	26.3%	66,300,481	2.7%	2,500,000,000
Aug-21	2,666,298,116	2,178,804,768	6,483	321,693,822	12.9%	78,419,169	3.1%	2,500,000,000
Sep-21	2,705,355,918	2,214,214,459	6,669	285,312,915	11.4%	79,711,436	3.2%	2,500,000,000
Oct-21	2,589,077,713	2,125,860,331	6,590	373,792,880	15.0%	76,530,443	3.1%	2,500,000,000
Nov-21	2,472,159,418	2,036,081,110	6,478	463,559,192	18.5%	73,298,749	2.9%	2,500,000,000
Dec-21	2,359,983,606	1,949,754,551	6,340	550,960,297	22.0%	70,207,617	2.8%	2,500,000,000
Jan-22	2,302,161,797	1,907,620,260	6,353	592,977,876	23.7%	68,669,249	2.7%	2,500,000,000
Feb-22	2,308,803,001	1,914,543,795	6,475	585,274,799	23.4%	68,918,103	2.8%	2,500,000,000
Mar-22	2,395,556,395	1,987,596,109	6,786	512,827,544	20.5%	71,542,661	2.9%	2,500,000,000
Apr-22	2,289,123,361	1,905,011,940	6,665	590,714,189	23.6%	68,556,842	2.7%	2,500,000,000
May-22	2,181,042,463	1,821,685,484	6,553	677,256,851	27.1%	65,550,796	2.6%	2,500,000,000
Jun-22	2,296,413,510	1,914,100,658	6,865	583,311,820	23.3%	68,908,792	2.8%	2,500,000,000
Jul-22	2,231,163,193	1,863,685,151	6,858	636,280,020	25.5%	67,092,525	2.7%	2,500,000,000
Aug-22	2,118,594,980	1,775,730,945	6,766	724,816,586	29.0%	63,910,754	2.6%	2,500,000,000
Sep-22	2,004,092,030	1,684,743,859	6,650	813,487,087	32.5%	60,639,275	2.4%	2,500,000,000
Oct-22	1,898,607,891	1,601,200,719	6,536	899,927,422	36.0%	57,642,219	2.3%	2,500,000,000
Nov-22	2,081,534,407	1,734,665,870	6,832	765,390,274	30.6%	62,446,746	2.5%	2,500,000,000
Dec-22	1,968,271,317	1,644,682,270	6,602	88,900,347	5.1%	59,209,361	3.4%	1,734,867,689

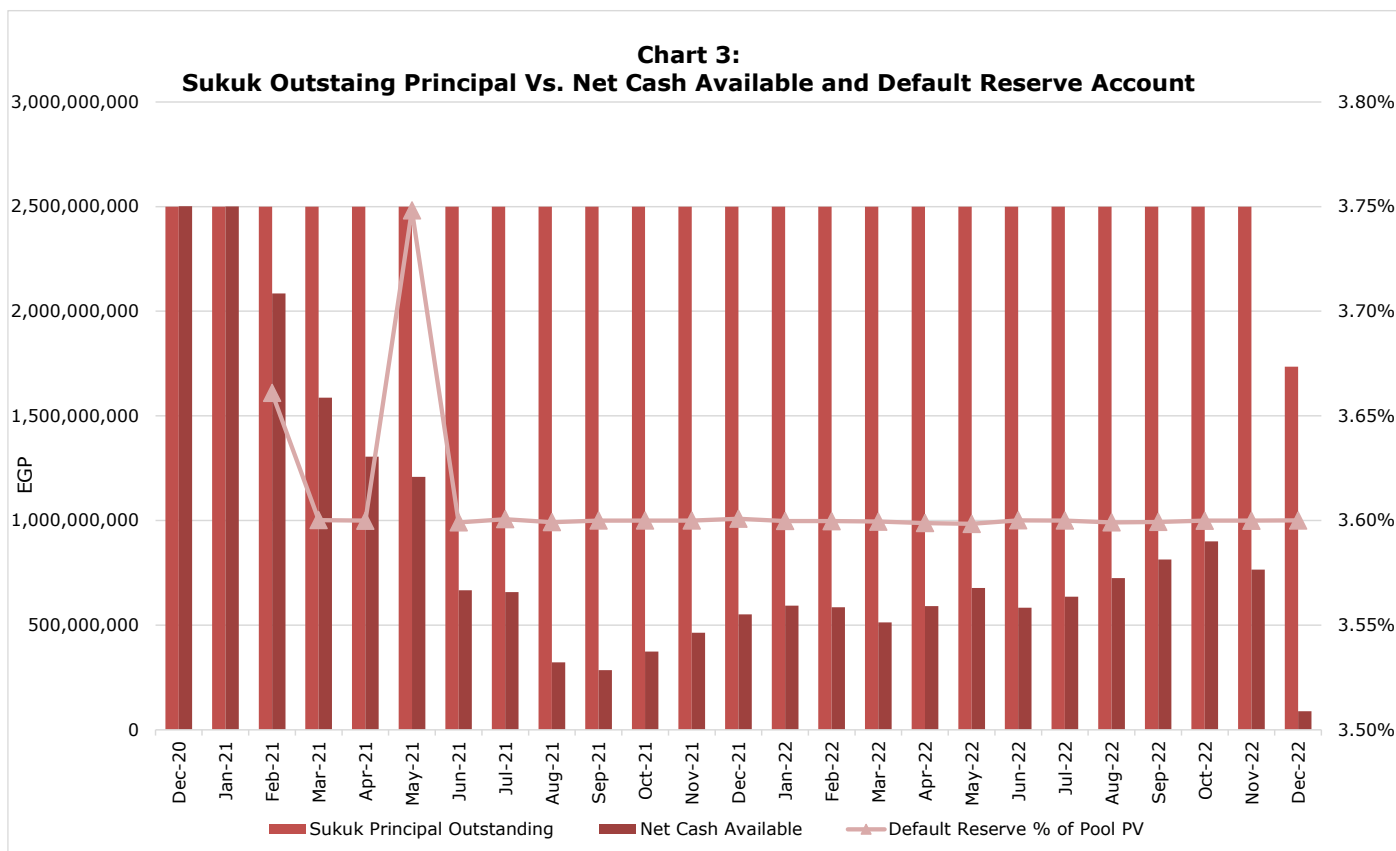
*Net Cash Available for future portfolio purchases till the end of revolving period, which ended in November 2022.

**Chart 1:
Portfolio Outstanding Balance by Tranche**



**Chart 2:
Sukuk Outstanding Principal Vs. Portfolio Outstanding Balance**





APPENDIX I: POOL DATA (As of 31/12/2022)

Distribution by Original Term To Maturity				
Months	Principal Outstanding	% Total	# of Contracts	# of Contracts %
10-18	9,697,011	1%	57	1%
19-24	88,736,615	6%	744	11%
25-36	378,522,634	26%	1,932	29%
37-48	124,100,953	8%	565	9%
49-60	879,507,123	59%	3,304	50%
Total	1,480,564,335	100%	6,602	100%

Distribution by Seasoning				
Months	Principal Outstanding	% Total	# of Contracts	# of Contracts %
3-6	185,935,996	13%	438	7%
7-9	144,704,862	10%	483	7%
10-12	153,199,322	10%	655	10%
13-20	434,710,814	29%	2,048	31%
21-30	562,013,341	38%	2,978	45%
Total	1,480,564,335	100%	6,602	100%

Distribution by Remaining Term To Maturity				
Months	Principal Outstanding	% Total	# of Contracts	# of Contracts %
1-12	89,119,493	6%	923	14%
13-24	293,141,789	20%	1,543	23%
25-36	271,331,248	18%	1,144	17%
37-48	609,465,052	41%	2,372	36%
49-57	217,506,754	15%	620	9%
Total	1,480,564,335	100%	6,602	100%

Distribution by Original Principal Balance				
EGP ('000)	Principal Outstanding	% Total	# of Contracts	# of Contracts %
1,000-3,000	286,257,031	19%	306	5%
800-999	67,535,030	5%	120	2%
600-799	137,965,471	9%	309	5%
400-599	269,902,963	18%	874	13%
200-399	517,143,268	35%	2,840	43%
<200	201,760,572	14%	2,153	33%
Total	1,480,564,335	100%	6,602	100%

Distribution by Original Contract Balance				
EGP ('000)	Principal Outstanding	% Total	# of Contracts	# of Contracts %
1,000-5,230	425,706,292	29%	553	8%
600-999	308,534,061	21%	884	13%
400-599	318,046,803	21%	1,441	22%
200-399	365,125,933	25%	2,750	42%
<200	63,151,247	4%	974	15%
Total	1,480,564,335	100%	6,602	100%

APPENDIX I: POOL DATA (As of 31/12/2022) - CONTINUED

Distribution by Current Outstanding Principal Balance				
EGP ('000)	Principal Outstanding	% Total	# of Contracts	# of Contracts %
2,000-3,000	27,338,115	2%	11	0.2%
1,000-1,900	136,438,375	9%	105	2%
800-999	79,480,868	5%	89	1%
600-799	92,039,648	6%	135	2%
400-599	199,991,550	14%	419	6%
200-399	478,980,653	32%	1,755	27%
<200	466,295,126	31%	4,088	62%
Total	1,480,564,335	100%	6,602	100%

Distribution by Original Car Value (Purchase Price)				
EGP '000	Principal Outstanding	% Total	# of Contracts	# of Contracts %
1,000-4,300	409,747,520	28%	577	9%
600-999	310,336,264	21%	970	15%
400-599	307,019,604	21%	1,472	22%
300-399	240,601,741	16%	1,548	23%
200-299	172,619,352	12%	1,511	23%
<200	40,239,855	3%	524	8%
Total	1,480,564,335	100%	6,602	100%

Distribution by Original LTV				
LTV	Principal Outstanding	% Total	# of Contracts	# of Contracts %
10%-40%	37,285,155	3%	386	6%
41%-50%	123,432,033	8%	777	12%
51%-60%	155,289,893	10%	878	13%
61%-70%	258,609,181	17%	1,280	19%
71%-80%	740,417,706	50%	2,801	42%
81%-90%	159,152,598	11%	447	7%
91%-100%	6,377,769	0.4%	33	0.5%
Total	1,480,564,335	100%	6,602	100%

Distribution by Current LTV				
LTV	Principal Outstanding	% Total	# of Contracts	# of Contracts %
1%-40%	344,411,669	23%	2,575	39%
41%-50%	257,320,559	17%	1,154	17%
51%-60%	368,338,205	25%	1,416	21%
61%-70%	334,160,897	23%	1,048	16%
71%-80%	138,077,584	9%	349	5%
81%-90%	38,255,421	3%	60	1%
Total	1,480,564,335	100%	6,602	100%

Distribution by Monthly Installment Amount				
EGP	Principal Outstanding	% Total	# of Contracts	# of Contracts %
30,000-150,000	297,436,255	20%	381	6%
15,000-29,999	312,270,183	21%	888	13%
10,000-14,999	286,854,848	19%	1,185	18%
5,000-9,999	435,731,461	29%	2,607	39%
>4,999	148,271,588	10%	1,541	23%
Total	1,480,564,335	100%	6,602	100%

APPENDIX I: POOL DATA (As of 31/12/2022) - CONTINUED

Distribution by Originator				
EGP	Principal Outstanding	% Total	# of Contracts	# of Contracts %
Contact Credit	1,267,554,656	86%	5,920	90%
BMW Financial Services	71,271,008	5%	196	3%
Ezz Elarab Contact Financial	52,561,076	4%	151	2%
Contact Egyptian International Motor	32,243,944	2%	217	3%
SMG Financial Services	28,884,298	2%	35	1%
Abou Ghaly Finance	26,696,561	2%	66	1%
Modern Finance	1,352,793	0.1%	17	0.3%
Total	1,480,564,335	100%	6,602	100%

Distribution by Payment Method				
EGP	Principal Outstanding	% Total	# of Contracts	# of Contracts %
Direct Debit	1,359,440,377	92%	6,169	93%
Checks	120,667,276	8%	430	7%
Credit card	456,682	0.03%	3	0.05%
Total	1,480,564,335	100%	6,602	100%

Distribution by Vehicle Type				
EGP	Principal Outstanding	% Total	# of Contracts	# of Contracts %
New	1,152,010,928	78%	5,175	78%
Used	328,553,407	22%	1,427	22%
Total	1,480,564,335	100%	6,602	100%

Distribution by Governorate				
Governorate	Principal Outstanding	% Total	# of Contracts	# of Contracts %
Cairo	536,448,410	36%	2,035	31%
Giza	242,598,898	16%	1,057	16%
Alexandria	146,640,355	10%	755	11%
Gharbia	74,326,955	5%	394	6%
Dakahlia	62,253,785	4%	267	4%
Beheira	53,188,757	4%	270	4%
Monufia	40,414,350	3%	162	2%
Sharqia	34,864,070	2%	173	3%
Red Sea	33,126,758	2%	190	3%
Damietta	31,551,628	2%	162	2%
Others	225,150,368	15%	1,137	17%
Total	1,480,564,335	100%	6,602	100%

Distribution by Car Make				
Make	Principal Outstanding	% Total	# of Contracts	# of Contracts %
1 Mercedes	234,213,611	16%	470	7%
2 Chevrolet	94,764,355	6%	703	11%
3 Hyundai	92,400,032	6%	527	8%
4 Skoda	84,835,850	6%	340	5%
5 Toyota	84,010,513	6%	397	6%
6 Kia	81,467,284	6%	383	6%
7 BMW	80,730,483	5%	206	3%
8 Range Rover	70,863,704	5%	78	1%
9 MG	62,331,632	4%	416	6%
10 Peugeot	56,740,428	4%	240	4%
11 Others	538,058,350	36%	2,839	43%
Total	1,480,564,335	100%	6,602	100%

APPENDIX II: National Rating Scale

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