MERIS
Middle East Rating & Investors Service

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Press Release: Sarwa Securitization Company S.A.E. – 16th Issue 2015-2020

MERIS (MIDDLE EAST RATING & INVESTORS SERVICE) AFFIRMS THE NATIONAL SCALE RATINGS (NSR) TO THE 16th MULTIPLE-TRANCHE ASSET-BACKED SECURITIZATION BOND ISSUED BY SARWA SECURITIZATION COMPANY

MERIS (Middle East Rating & Investors Service) has reviewed the performance of the 16th multiple-tranche asset backed securitization bond issued by Sarwa Securitization Company S.A.E. and has affirmed the following national scale ratings:

Tranche A: "**AA+(sf)**" to the EGP 18,333,333 Senior Fixed-Rate Notes due in December 2016, representing 3.6% of the aggregate issue size, with a coupon of 9.89% p.a. payable monthly;

Tranche B: "**AA (sf)**" to the EGP 327,842,583 Subordinated Fixed-Rate Notes due in December 2018, representing 65.0% of the aggregate issue size, with a coupon of 10.69% p.a. payable monthly;

Tranche C: "**A (sf)**" to the EGP 158,000,000 Junior Subordinated Fixed-Rate Notes due in October 2020, representing 31.4% of the aggregate issue size, with a coupon of 11.19% p.a. payable monthly.

The notes are redeemed sequentially in order of seniority and follow a pass-through monthly amortization schedule.

All of the above ratings are considered investment grade on the National Rating Scale. An "**AA**" grade represents **Very Strong** Creditworthiness relative to other domestic issuers. "**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 ratings are a relative ranking of risk and address the expected loss posed to investors by the bond maturity. In **MERIS**'s opinion, the transaction structure allows for timely payment of interest and ultimate repayment of principal with respect to the bond maturity.

Sarwa Securitization Company S.A.E. – a special purpose entity – was incorporated in Egypt in November 2005. The current notes are backed by fixed rate receivables arising from car sales contracts to customers domiciled in Egypt. The contracts have been initially co-originated by Contact Auto Credit (CAC) (45% of the principal outstanding balance), Bavarian – Contact Car Trading (BCCT) (16%), Star Auto Credit (17%), Contact Egyptian International Motor Credit (CEIM) (14%), Ezz El Arab-Contact Financial LLC (ECF) (4%) and Modern Finance (Modern) (3%). As of November 30th, 2016, the coupon and principal of the bond have been paid according to schedule.

As of the same date the principal outstanding of the bond stood at EGP 504,175,916, which translates into 31.2% amortization of the original balance. 43.7% of the asset pool backing the issue has been amortized. Delinquencies above 30 days have been within the norm and stood at 0.12% of the original pool balance. Cumulative defaults to date measure 0.19% of the initial principal pool balance. It is worth noting that there have been 7 cases of credit default up to date, which have resulted in full recovery of the amounts due.

The ratings of the notes are based on: (1) a credit assessment of the initial portfolio of underlying auto receivables, which reflects the Originators' strict underwriting, collection and monitoring guidelines and procedures; (2) the level of protection provided to investors by the credit enhancements in the form of (i) over-collateralization in the amount of 0.5% net of expenses; (ii) subordinated servicing fees in the amount of 2.25% p.a. of the principal outstanding balance of the portfolio that will be available on a monthly basis; and (iii) structural subordination of tranches B and C to the more senior tranches;

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and (iv) an external credit support via an irrevocable and unconditional LG from Ahli United Bank in the amount of EGP 7 million as part of the default reserve account; (3) the liquidity support in the form of a cash reserve account in the size of 3.5% of the outstanding aggregate balance of Class B and C notes that was funded from the pool collections and is adjusted on a monthly basis thereafter in accordance with the notes' amortization; (4) the availability of a default reserve account to be funded partially from the overcollateral by setting aside 0.6% p.a. (0.05% monthly) from the previous month's beginning principal portfolio balance on a monthly basis, and partially from the LG in the amount of EGP 7 million as mentioned above; (5) the granularity of the pool (concentrations per client is 0.19% of the total principal outstanding) as well as the pool's relative diversification in terms of car make and geographic distribution; (6) the relatively low weighted average loan-to-value ratio at origination (67.3%), which accelerates the build-up of owner's equity into the assets and hence increase the recovery potential in case of defaults; (7) the overall historical performance of auto receivables originated by Contact Auto Credit; (8) the significant experience of the Servicer and efficiency of its operating systems; and (9) the availability of a contractually appointed back-up servicer.

The assigned ratings also take into consideration the following weaknesses of the transaction: (1) the generally greater uncertainty associated with unrated Originators, and the use of securitization proceeds to fund the Originator's growing phase, mitigated, however, by the Originator's experienced management team and strict adherence to its underwriting policies and procedures, which assure a high quality receivables pool; (2) no independent calculation agent for the subordinated servicing fees, partially mitigated by the performance reports to be issued by the Custodian and verified by the Auditors within a month after the actual cash disbursement date; (3) 15.6% of the securitized receivables are related to the sale of used cars, which are generally associated with a greater probability of default, due to the perceived higher credit risk of the buyers; (4) the existence of legal uncertainties, given that the key legal concepts underpinning securitization remain largely untested in judicial proceedings or in practice in Egypt, mitigated by the legal opinions provided by the transaction's legal advisor on issues such as true sale, separateness of accounts, commingling and consolidation risk.

MERIS will monitor the transaction on an on-going basis and will issue regular performance reports.