

Cairo, August 2018

Press Release: **Sarwa Securitization Company S.A.E. – 28<sup>th</sup> Issue 2018-2023**

**MERIS (MIDDLE EAST RATING & INVESTORS SERVICE) ASSIGNS NATIONAL SCALE RATINGS (NSR) TO THE 28<sup>th</sup> MULTIPLE-TRANCHE ASSET-BACKED SECURITIZATION BOND ISSUED BY SARWA SECURITIZATION COMPANY**

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MERIS (Middle East Rating & Investors Service) has assigned the following ratings on the national scale to the 28<sup>th</sup> multiple-tranche asset backed securitization bond issued by Sarwa Securitization Company S.A.E. and backed by a single pool of receivables in the amount of EGP 2,400,632,009:

Tranche A: **“AA+(sf)”** to the EGP 625 million Senior Fixed-Rate Notes due in August 2019, representing 35.7% of the aggregate issue size, with a coupon of 15.58% p.a. payable monthly;

Tranche B: **“AA (sf)”** to the EGP 800 million Subordinated Fixed-Rate Notes due in August 2021, representing 45.7% of the aggregate issue size, with a coupon of 16.38% p.a. payable monthly;

Tranche C: **“A (sf)”** to the EGP 326 million Junior Subordinated Fixed-Rate Notes due in June 2023, representing 18.6% of the aggregate issue size, with a coupon of 16.88% p.a. payable monthly.

The notes will be redeemed sequentially in order of seniority and will follow a pass-through monthly amortization schedule, with the exception of the 1<sup>st</sup> tranche, which will follow a pre-determined 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) (44% of the principal outstanding balance), Bavarian – Contact Car Trading (BCCT) (13%), Star Auto Credit (33%), Contact Egyptian International Motor Auto Credit (CEIM) (7%), Ezz El Arab-Contact Financial LLC (ECF) (2%) and Modern Finance (1%). The collateral portfolio comprises a static pool of 6,248 fully amortizing fixed-rate contracts for financing the purchase of brand new (78%) and used (22%) passenger vehicles. At issuance, the total outstanding receivables will amount to EGP 1,914,721,770 (net present value of the portfolio discounted at the notes weighted average coupon rate).

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 2.9% net of expenses; (ii) subordinated administration fees in the amount of 2.5% p.a. of the principal outstanding balance of the portfolio that will be available on a monthly basis and will be paid only if the collection account has sufficient funds to cover the liquidity reserve, default reserve, senior fees and expenses, as well as coupons and principal amortization of Tranche A; and (iii) structural subordination of tranches B and C to the more senior tranches; (3) the liquidity support in the form of a cash reserve account in the size of 3.5% of the outstanding aggregate notes balance, which is to be funded up front from

the first month of collections and adjusted on a monthly basis thereafter in accordance with the notes' amortization; (4) the availability of a default reserve account to be funded 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; (5) the granularity of the pool (concentrations per client less than 0.08% 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 (63.5%) and reasonable seasoning, which accelerates the build-up of owner's equity into the assets and hence increase the recovery potential in case of defaults; the overall; (7) the significant experience of the Servicer and efficiency of its operating systems as reflected in the low-default historical performance of the auto receivables originated by Contact Auto Credit; and (8) 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, 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 administration 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) 22% of the securitized receivables are related to the sale of used cars, which are associated with a greater probability of default, due to the relatively riskier credit profile of the buyers; nevertheless, the majority of the used cars included in the securitization portfolio are premium brands, which indicate high creditworthiness of the buyers; (4) the administration fee subordination provides limited support to Class B and C notes, and is most useful during the life of class A notes due to the predetermined amortization schedule of the notes, in addition to the more sizeable amount of the subordinated fees during the first 13 months; (5) 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.

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