

Cairo, August, 2018

Press Release: **Sarwa Securitization Company S.A.E. – 19th Issue 2016-2021**

MERIS (MIDDLE EAST RATING & INVESTORS SERVICE) AFFIRMS THE NATIONAL SCALE RATINGS (NSR) TO THE 19th MULTIPLE-TRANCHE ASSET-BACKED SECURITIZATION BOND ISSUED BY SARWA SECURITIZATION COMPANY AND BACKED BY A PORTFOLIO OF REAL ESTATE RECEIVABLES ORIGINATED BY AMER AND PORTO GROUP COMPANIES

MERIS (Middle East Rating & Investors Service) has reviewed and affirmed as of 30/04/2018 the following ratings on the national scale to the 19th multiple-tranche asset backed securitization bond issued by Sarwa Securitization Company S.A.E. and backed by a single pool of real estate receivables originated by Amer and Porto Group companies:

Tranche A: fully redeemed in May 2017;

Tranche B: **"A+ (sf)"** to the EGP 30.3 million Subordinated Fixed-Rate Notes due in May 2019, representing 49.4% of the aggregate issue size, with a coupon of 13.03% p.a. payable monthly;

Tranche C: **"A (sf)"** to the EGP 31 million Junior Subordinated Fixed-Rate Notes due in February 2021, representing 50.6% of the aggregate issue size, with a coupon of 13.73% p.a. payable monthly.

The notes are redeemed sequentially in order of seniority. Tranche A followed a pre-determined quarterly amortization schedule, whereas Tranche B and C are paid according to a pass-through monthly amortization schedule.

All of the above ratings are considered 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 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 November 2005. The current notes are backed by a static pool of real estate receivables arising from installment sale contracts related to 329 residential units (56 first home units and 273 holiday home units) located in five of AMER Holding Company's projects (Porto Soukhna, Golf Sokhna, Porto Marina, Golf Marina, Porto Matrouh) and one of Porto Holding Company's projects (Porto October). The contracts have been co-originated by five companies belonging to Amer and Porto Groups.

As of 30/04/2018, the date of our review, the transaction benefits from credit enhancement in the form of overcollateralization net of expenses in the size of 27% of the bond size, compared to 4.3% upon 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 4,802,721, as well as the Liquidity Reserve Account in the amount of EGP 3,717,988. In addition, the transaction benefits from an external credit enhancement in the form of a Default Reserve Account (bank letter of guarantee issued by Al Baraka Bank) amounting to EGP 36 million, which currently represents 58.7% of the outstanding bond balance. In view of the amortization of the bond and the performance of the receivables, there has been a buildup of credit enhancement that is currently above the requirements for the ratings of the notes. To maintain the existing ratings of the notes, the external credit enhancement in the form of a bank letter of guarantee can be reduced by 50% to EGP 18 million effective immediately.

The ratings of the notes are based on: (1) the level of protection provided to investors by the credit enhancements in the form of (i) over-collateralization in the amount of 27% net of expenses; (ii) subordination of tranche B and C to the more senior tranches; (iii) availability of a default reserve account (Letter of Guarantee issued by Al Baraka Bank) in the amount

of EGP 36 million representing 58.7% of the outstanding notes' balance; (2) the additional credit supported provided through 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. 2017); (3) the liquidity support in the form of a cash reserve account currently in the size of 6.1% of the outstanding balance of Tranches B and C that is to be maintained at the target level of 5.5% and adjusted on a monthly basis in accordance with the notes' amortization; (4) the relatively low weighted average loan-to-value (LTV) ratio (26% of the original purchase price) of the portfolio, which 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; (5) the additional level of protection stemming from the fact that all of the receivables are backed by post-dated cheques, which is considered an incentive for timely payment of the installments as a bounced cheque constitutes a criminal offence under the Egyptian law; (6) the reasonable geographic diversification of the portfolio including units across 6 projects, set in 4 different geographic locations across Egypt, and (7) the availability of a contractually appointed back-up servicer.

The assigned ratings also take into consideration the following weaknesses of the transaction: (1) the small size of the pool, with notably high individual obligor concentrations, with the top 20 obligors accounting for 23.9% of the portfolio ; (2) no security interest in the underlying properties for the benefit of the note holders, and hence no direct recourse over the properties; (3) the ratings of class B and more so class C notes are highly dependent on the creditworthiness of the external credit support provider (L/G issuing bank). A material deterioration of the creditworthiness of the credit support provider will inevitably result in a downgrade of these notes; (4) the credit insurance is a relatively new product in the Egyptian market, which has not been tested extensively in practice; (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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