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 rating:

Tranche A: redeemed in December 2016;

Tranche B: redeemed in July 2018.;

Tranche C: "**A (sf)**" to the EGP 116,882,943 Junior Subordinated Fixed-Rate Notes due in October 2020, representing 74.0% of the tranche initial 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. "**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%) at closing of the transaction.

As of November 30th, 2018, 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 116,882,943, which translates into 84.1% amortization of the original balance. 87.0% of the asset pool backing the issue has been amortized. Delinquencies above 30 days have been within the norm and stood at 0.10% of the original pool balance. Cumulative defaults to date measure 0.34% of the initial principal pool balance. It is worth noting that there have been 14 cases of credit default up to date, which have resulted in full recovery of the amounts due.

As of November 30th, 2018, the date of our review, the transaction benefits from credit enhancement in the form of overcollateralization net of expenses in the size of 11.1% of the outstanding bond size, compared to 2.02% upon issuance. Thus calculated, the overcollateralization takes into account the net present value of the future cash flows, the residual cash with the custodian, liquidity reserve and part of the default reserve (accumulated from the pool monthly collections). In addition the transaction benefits from an external credit enhancement, as a part of the default reserve account amounting to EGP 7 million, which represents 6.0% of the outstanding bond balance. In view of the steady amortization of the bond and the reasonable 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 transaction the external credit enhancement in the form of a bank letter of guarantee can be adjusted downwards by 50% to EGP 3.5 million effective immediately. Following the adjustment, the overall credit support will measure 14.1% of the outstanding principal balance of the bond.

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 11.1% net of expenses; (ii) subordinated servicing fees in the amount of 2.25% p.a. of the principal outstanding balance of the portfolio that is available on a monthly basis; and (iii) 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 3.8% of the outstanding aggregate balance of Class C notes; (4) the availability of a default reserve account to be funded partially from the over-collateral 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 0.42% 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 (68.3%), 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) 10.3% 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.