

Cairo, July 2019

Press Release: **Sarwa Securitization Company S.A.E. – 23rd Issue 2017-2022**

MERIS (MIDDLE EAST RATING & INVESTORS SERVICE) AFFIRMS THE NATIONAL SCALE RATINGS (NSR) TO THE 23rd 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 the following ratings on the national scale to the 23rd 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: Redeemed in June 2018;

Tranche B: **“AA (sf)”** to the EGP 40.3 million Subordinated Fixed-Rate Notes due in June 2020, representing 54.3% of the aggregate issue size, with a coupon of 18.30% p.a. payable monthly.

Tranche C: **“A (sf)”** to the EGP 34 million Junior Subordinated Fixed-Rate Notes due in May 2022, representing 45.7% of the aggregate issue size, with a coupon of 19.00% 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 pay according to 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 November 2005. The current notes are backed by a static pool of real estate receivables arising from a total of 251 installment sale contracts related to 197 holiday home units and 54 office units located in six of AMER & Porto Holding Companies' new projects (Porto Soukhna, Golf Sokhna, Porto Marina, Golf Marina, Porto Lagoons, and Meeting Point). The contracts have been originated by three companies owned by Amer Holding and Porto Holding Groups.

To date the coupon and principal of the bond have been paid according to schedule. As of 30/04/2019 the aggregate notes stand at EGP 74,330,727, equivalent to 57.3% redemption of the original balance. The asset pool backing the issue has been amortized at 54.6%, and currently equals EGP 127,849,101. In view of the amortization of the bond and the reasonable performance of the portfolio, 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 from EGP 28 million to EGP 22 million effective immediately. Following the adjustment, the overall credit support will measure 38.3% of the outstanding principal balance of the bond.

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 8.7% net of expenses; (ii) subordination of tranche C to the more senior tranche B; (iii) availability of a default reserve account in the amount of EGP 28 million representing 37.7% 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. 2018); (3) the liquidity support in the form of a cash reserve account currently in the size of 5.9% of the outstanding bond balance; (4) 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; (5) the reasonable geographic diversification of the portfolio including units across 6 projects, set in 3 different geographic locations across Egypt, and (6) the availability of a contractually appointed back-up servicer.

The assigned ratings also take into consideration the following weaknesses of the transaction: (1) small size of the pool, with notably high individual obligor concentrations, with the top 20 obligors accounting for 27% 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 newly-introduced product in the Egyptian market, which has not been tested extensively in practice; (5) the lack of relevant and consistent historical data tracking the performance of the receivables; (6) 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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