

Cairo, December 2020

Press Release: **Sarwa Sukuk Company S.A.E. – 1st Issue 2020-2027**

MERIS (MIDDLE EAST RATING & INVESTORS SERVICE) ASSIGNS NATIONAL SCALE RATINGS (NSR) TO THE 1st MUDARABAH SUKUK TRANSACTION ISSUED BY SARWA SUKUK COMPANY S.A.E.

MERIS (Middle East Rating & Investors Service) has assigned the national scale rating of "**A-**" (**sf**) to the first Mudarabah Sukuk transaction, issued by Sarwa Sukuk Company S.A.E.. The assigned rating is 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 Sukuk rating is a relative ranking of risk and address the expected loss posed to investors by the Sukuk maturity. In **MERIS**'s opinion, the transaction structure allows for timely payment of the Sukuk expected return and ultimate repayment of principal with respect to the Sukuk maturity.

This is the first Sukuk issue by **Sarwa Sukuk Company S.A.E.**. It is the first Mudarabah Sukuk to be issued in the Egyptian market. The Mudarabah Sukuk proceeds will be used to finance auto receivables portfolios, which will be originated by **Contact Credit Company and its subsidiaries and sister companies** (Originators). The 7-year Mudarabah Sukuk will be issued on one tranche in the total size of EGP 2.5 billion, and will be callable from the 25th month after the date of Sukuk issuance. The Sukuk will yield a variable rate of return for the Sukuk holders, which is to be paid on a monthly basis starting from the closing date of the Sukuk subscription.

The Sukuk is the first structured finance instrument in the Egyptian market to feature a prefunded account and a revolving period. The transaction is based on a fully prefunded structure, whereby the Sukuk proceeds will be kept with the custodian and will be disbursed on tranches to finance portfolios of auto receivables with predetermined characteristics, as per the Sukuk transaction documents. Furthermore, the Sukuk has a two-year revolving period, during which any monthly collections from the acquired portfolios will be used to finance new portfolios of auto receivables, instead of being returned to the Sukuk holders.

The ratings of the Mudarabah Sukuk is based on the following strengths: 1) the strict underwriting, collection/servicing and monitoring policies and procedures of the Originators; 2) the credit enhancement in the form of default reserve account in the size of 3.6% of the price of each portfolio, (which is the present value of each portfolio at the time of acquisition), to be used to cover any delinquencies and/or defaults of the clients over the tenor of each portfolio; 3) With every new disbursement (new portfolio to be financed by the Sukuk Company), the legal and auditor advisors to the transaction will issue due diligence reports on this portfolio and the auditor will verify that the new portfolio meets the credit criteria specified in the transaction's legal agreements; 4) Sarwa Investment Management Company will assume the role of the calculation agent in the Sukuk issue; 5) the Servicer/Project Manager, Contact Credit Company, has built up a significant experience over the past 20 years; 6) the appointment of the back-up project manager for the Sukuk transaction.

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 Originators' experienced management teams and strict adherence to its underwriting policies and procedures, which assure high quality receivables pools; 2) the Sukuk structure is fully prefunded, which entails greater risks of uncertainty related to portfolio performance compared to transactions with already existing and fully identifiable portfolios. This risk is mitigated, to some extent, by having the legal and auditor advisors produce due diligence reports on each portfolio before it is assigned to the Sukuk company, in addition to the auditor verification that the portfolio meets the pre-determined set of characteristics, as per the transaction documents; 3) the Sukuk issue has an initial two-year revolving period, **MERIS** considers revolving/dynamic pools to be riskier than static/fixed portfolios of receivables; 4) the limited recourse on the originator, (who is acting as the servicer/project manager), due to its obligation to ensure that the default reserve will equal, at any point of time during the

Sukuk tenor, 3.6% of the present value of the outstanding portfolios; 5) the purchased auto receivables portfolios can have up to 30% of portfolios related to the sale of used vehicles. In general, used cars are associated with a greater probability of default due to the perceived higher credit risk of the buyers. Nevertheless, the originators have a conservative policy towards used vehicles, as it is mainly focusing on premium brands, which will indicate high creditworthiness of the buyers; 6) the auto receivables portfolios to be transferred to the Sukuk Company may have a very low seasoning, with a minimum of only one monthly installment. Younger pools exhibit relatively higher frequencies of default as compared to more seasoned portfolios; 7) Legal uncertainties exist, given that this is the first Mudarabah Sukuk transaction in Egypt and it relies on key legal concepts that 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.

Copyright 2020 Middle East Rating and Investors Service ("**MERIS**"). All rights reserved.

CREDIT RATINGS AND PUBLICATIONS ISSUED BY MERIS ARE OR CONTAIN MERIS' CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MERIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MERIS' OPINIONS INCLUDED IN MERIS' PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MERIS' PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MERIS' PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MERIS' PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MERIS ISSUES ITS CREDIT RATINGS AND PUBLISHES MERIS' PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MERIS' CREDIT RATINGS AND MERIS' PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND RETAIL INVESTORS SHOULD NOT CONSIDER MERIS' CREDIT RATINGS OR MERIS' PUBLICATIONS IN MAKING ANY INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MERIS' PRIOR WRITTEN CONSENT .

All information contained herein is obtained by **MERIS** from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind. **MERIS** adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources **MERIS** considers to be reliable including, when appropriate, independent third-party sources. However, **MERIS** is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the **MERIS** publications .

To the extent permitted by law, **MERIS** and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if **MERIS** or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by **MERIS**.

To the extent permitted by law, **MERIS** and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, **MERIS** or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MERIS IN ANY FORM OR MANNER WHATSOEVER.