MERIS
Middle East Rating & Investors Service

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Press Release: Sarwa Securitization Company S.A.E. – 41st Issue 2023-2028

MERIS (MIDDLE EAST RATING & INVESTORS SERVICE) ASSIGNS NATIONAL SCALE RATINGS (NSR) TO THE 41st MULTIPLE-TRANCHE ASSET-BACKED SECURITIZATION BOND ISSUED BY SARWA SECURITIZATION COMPANY AND ORIGINATED BY CONTACT CREDIT COMPANY AND ITS AFFLIATES.

MERIS (Middle East Rating & Investors Service) has assigned the following ratings on the national scale to the 41st 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 3,041,045,409. The notes will be redeemed sequentially in order of seniority and will follow a pass-through monthly amortization schedule, with the exception of the 1st tranche, which will follow a pre-determined amortization schedule.

Tranche A: "**AA+(sf)**" to the EGP 390 million Senior Fixed-Rate Notes due in June 2024, representing 21.0% of the aggregate issue size, with a coupon of 19.75% p.a. payable monthly.

Tranche B: "**AA (sf)**" to the EGP 932 million Subordinated Fixed-Rate Notes due in June 2026, representing 50.1% of the aggregate issue size, with a coupon of 20.50% p.a. payable monthly; Tranche B is callable from the 14th coupon.

Tranche C: "**A (sf)**" to the EGP 537 million Junior Subordinated Fixed-Rate Notes due in June 2028, representing 28.9% of the aggregate issue size, with a coupon of 21.00% p.a. payable monthly. Tranche C is callable from the 14th coupon.

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 notes are backed by a portfolio of consumer finance receivables stemming from auto loans contracts (new and used), as well as purchases of goods and services on installments by Contact Credit and its affiliates clients. The collateral portfolio originated by Contact Credit and its affiliates comprises a static pool of 17,330 individual obligors. At issuance, the total outstanding receivables will amount to EGP 1,968,977,368 (net present value of the portfolio discounted at the notes coupon rate net of expenses and after adding the issuance fees).

The ratings of the notes are based on: (1) a credit assessment of the initial portfolio of underlying consumer finance 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 6.0% net of expenses; (ii) subordination of tranche B and C to the more senior tranche A; (iii) subordinated administration fees in the amount of 2.5% p.a. of the principal outstanding balance of the portfolio; (3) the transaction benefits from liquidity support in the form of a cash reserve account in the size of 3.5% of the outstanding aggregate bond balance; (4) the transaction also benefits from a default reserve account to be funded from the over collateral by setting aside 0.6% p.a.; (5) the bond is backed by a static amortizing pool of auto and consumer finance receivables representing 48% and 52%, respectively with no balloon payments; (6) the granularity of the pool (concentrations per client less than 0.3% of the total principal outstanding); (7) the experience of the Servicer and efficiency of its operating systems; 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 Originators' 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) 21% of the securitized receivables are 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 majority of the used cars included in the securitization portfolio are premium brands, which indicate high creditworthiness of the buyers; (4) The securitized pool is relatively young, with an average seasoning of only one month; (5) The consumer finance contract will not be assigned to the bondholders, only copies on these contracts will be submitted to the custodian of the transaction. Nevertheless, the supporting securities (Cheques and promissory notes) will be delivered to the custodian as per the transaction's legal documents. It is worthy to mention that the promissory notes' beneficiary is closed to the originators. Thus, the bondholders don't have direct recourse on the contract nor the promissory note; (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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