Middle East Rating & Investors Service

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Press Release: Sarwa Securitization Company S.A.E. – 14th Issue 2015-2020

MERIS (MIDDLE EAST RATING & INVESTORS SERVICE) AFFIRMS THE NATIONAL SCALE RATINGS (NSR) TO THE 14th MULTIPLE-TRANCHE ASSET-BACKED SECURITIZATION BOND ISSUED BY SARWA SECURITIZATION COMPANY AND BACKED BY A PORTFOLIO OF REAL ESTATE RECEIVABLES ORIGINATED BY WADI DEGLA COMPANIES

MERIS (Middle East Rating & Investors Service) has reviewed and affirmed as of 30/04/2017 the following ratings on the national scale to the outstanding tranches of the 14th securitization bond issued by Sarwa Securitization Company S.A.E. and backed by a single pool of real estate receivables originated by Wadi Degla companies:

Tranche B: "**AA (sf)**" to the EGP 17.4 million Subordinated Fixed-Rate Notes due in May 2018, representing 25.1% of the aggregate outstanding issue size, with a coupon of 10.63% p.a. payable monthly.

Tranche C: "**A (sf)**" to the EGP 52 million Junior Subordinated Fixed-Rate Notes due in February 2020, representing 74.9% of the aggregate outstanding issue size, with a coupon of 11.33% p.a. payable monthly.

The notes are being redeemed sequentially in order of seniority. Tranche A, which followed a predetermined quarterly amortization schedule, was fully repaid in May 2016. 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 installment sale contracts related to 314 holiday homes and 56 first home units located in one of four projects owned by Wadi Degla Holding– Blumar El Dome, Blumar North Coast, Marina El Sokhna and Pyramids Walk. The contracts have been co-originated by four companies, Al Ikhlas, Iskan Misr, Suez Gulf and Arab Investments, which are all subsidiaries of Wadi Degla Holding Company.

As of 30/04/2017, the date of our review, the transaction benefits from credit enhancement in the form of overcollateralization net of expenses in the size of 13% of the bond size, compared to 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 2,948,345, as well as the Liquidity Reserve Account in the amount of EGP 4,227,622. In addition, the transaction benefits from an external credit enhancement in the form of a Default Reserve Account (bank letter of guarantee) amounting to EGP 19 million, which represents 27.4% 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 transaction the external credit enhancement in the form of a bank letter of guarantee can be adjusted downwards by 40% to EGP 11.4 million effective immediately. Following the adjustment, the overall credit support will measure 29.3% 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 13% net of expenses; (ii) subordination of tranche C to the more senior tranche B; (iii) availability of a default reserve account (Letter of Guarantee issued by Arab African International Bank) in the amount of EGP 19,000,000 representing 27.4% 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. 2016); (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, which is adjusted on a monthly basis in accordance with the notes' amortization to be no less than 5.5%; (4) the relatively low weighted average loan-to-value (LTV) ratio (31% of the original purchase price) of the portfolio and the relatively high seasoning (41 months), 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; 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) the lack of relevant and consistent historical data tracking the performance of the receivables; (2) small size of the pool, with notably high individual obligor concentrations, with the top 20 obligors currently accounting for 17% of the portfolio ; (3) no security interest in the underlying properties for the benefit of the note holders, and hence no direct recourse over the properties; (4) unlike class B notes, the ratings of 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; (5) the credit insurance is a newly-introduced product in the Egyptian market, which has not been tested extensively in practice; (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.
