MERIS
Middle East Rating & Investors Service

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Press Release: Sarwa Securitization Company S.A.E. – 20th Issue 2016-2021

MERIS (MIDDLE EAST RATING & INVESTORS SERVICE) AFFIRMS THE NATIONAL SCALE RATINGS (NSR) TO THE 20th MULTIPLE-TRANCHE ASSET-BACKED SECURITIZATION BOND ISSUED BY SARWA SECURITIZATION COMPANY

MERIS (Middle East Rating & Investors Service) has reviewed the performance of the 20th multiple-tranche asset backed securitization bond issued by Sarwa Securitization Company S.A.E. and has affirmed the following national scale ratings:

Tranche A: redeemed in September 2017;

Tranche B: "**AA (sf)**" to the EGP 51,426,579 Subordinated Fixed-Rate Notes due in September 2019, representing 27.7% of the aggregate issue size, with a coupon of 13.97% p.a. payable monthly;

Tranche C: "**A (sf)**" to the EGP 134,000,000 Junior Subordinated Fixed-Rate Notes due in June 2021, representing 72.3% of the aggregate issue size, with a coupon of 14.67% 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. 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 current notes are backed by fixed-rate receivables arising from car installment-sales contracts to customers domiciled in Egypt. The contracts have been initially co-originated by Contact Auto Credit (CAC) (48% of the principal outstanding balance), Contact Egyptian International Motor Credit (CEIM) (21%), Bavarian – Contact Car Trading (BCCT) (13%), Star Auto Credit (13%), Ezz El Arab-Contact Financial LLC (ECF) (4%) and Modern Finance (Modern) (2%), at the date of issuance.

As of August 31st, 2018, the coupon and principal amortization of the bond have been paid on time. As of the same date the principal outstanding of the bond stood at EGP 185,426,579, which translates into 68.4% amortization of the original balance. Furthermore, 74.8% of the asset pool backing the issue has been amortized. Delinquencies above 30 days have been within the norm and stood at 0.09% of the original pool balance. As of August 2018, cumulative defaults measure 0.31% of the initial principal pool balance. It is worth noting that there have been 5 cases of credit default as of August 2018, which have resulted in full recovery of the amounts due.

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 and an external credit support, in the form of a default reserve account, in the total of 10.8% net of expenses; (ii) a structural subordination of tranche B to tranche C; (3) the granularity of the pool (concentrations per client less than 0.42% of the total principal outstanding) as well as the pool's relative diversification in terms of car make and geographic distribution; (4) the relatively low weighted average loan-to-value ratio at origination (68.2%), which accelerates the build-up of owner's equity into the assets and hence increase the recovery potential in case of defaults; (5) the overall historical performance of auto receivables originated by Contact Auto Credit; (6) the significant experience of the Servicer and efficiency of its operating systems; and (7) 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) at issuance 24%, of the securitized receivables were 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. Nevertheless, the majority of the used cars included in the securitization portfolio are premium brands, which indicate high creditworthiness of the buyers; and (3) 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.