Middle East Rating & Investors Service

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STRUCTURED FINANCE — New Issue Report

Sarwa Securitization Company S.A.E. – 23rd Issue 2017-2022

(Real Estate Receivables Pool Originated by Amer and Porto Group Companies)

Real Estate Receivables/Egypt

*This report addresses the structure and characteristics of the transaction based on the information provided to **MERIS** by the Originator **as of May 2017.** The ratings address the expected loss posed to investors by the final maturity of the notes. In **MERIS** opinion the structure allows for timely payment of interest and ultimate repayment of principal at par on or before the final maturity date. **MERIS** ratings address only the credit risk associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.*

POOL CUT OFF DATE:
April 1, 2017

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DEFINITIVE RATINGS

Class	Description	Amount (EGP mn)	% of Notes	Expected Maturity	Fixed Coupon (%)	Coupon & Principal Payment Frequency	Rating
A	Senior	**40**	23.0%	Jun-18	17.40%	Quarterly	**AA+ (sf)**
B	Subordinated	**100**	57.5%	Jun-20	18.30%	Monthly*	**AA (sf)**
C	Junior Subordinated	**34**	19.5%	May-22	19.00%	Monthly*	**A (sf)**
Total		**174**					

*Coupon of Class B & C notes will be paid quarterly during the first 13 months and monthly thereafter.

OPINION

This is the 23rd asset-backed bond issued by Sarwa Securitization Company S.A.E. (SSC) and the 3rd securitization of real estate receivables originated by Amer and Porto Holding Companies, which are some of the leading real estate developers in Egypt. The pool of receivables has been originated by three companies, Delmar for Touristic Development S.A.E. and Troppi 2 for Touristic Development S.A.E, which are part of AMER Holding Company and Delmar for Real Estate Development which belongs to Porto Holding Company. The bond issue size is EGP 174,000,000 and is backed by 316 installment-sale contracts (EGP 188,224,055 outstanding receivable balance on the closing date of the transaction[1]) related to 260 holiday home units located in five of AMER Holding Company's new projects (Porto Soukhna, Golf Sokhna, Porto Marina, Golf Marina, and Porto Lagoons) and 56 office units located in Meeting Point, New Cairo. The contracts have been written over the period between July 2014 and March 2017 and as of the issuance date all the properties are fully constructed and delivered to the buyers.

Strengths of the Transaction

- The credit enhancement available to the notes comes in the form of (i) over-collateralization in the amount of 3.4% net of expenses; (ii) subordination of tranche B and C to the more senior tranches; (iii) availability of a default reserve account (Letter of Guarantee) in the amount of EGP 28 million representing 16.1% of the original notes' balance.

1 *Net present value of the total receivables portfolio discounted at the notes' weighted average coupon rate. The total value of the pool before discounting equals EGP 281,324,236.*

- Additional credit support is 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). The credit insurance covers the risk of non-payment of any of the individual property buyers.

- The notes also benefit from a liquidity reserve account in the amount of 5.5% of Tranche B and C's initial balance, which is sized to cover approximately 6 months of coupon and senior fees. The liquidity buffer will be built up from the first 13 months' cash inflows until it reaches the target level and adjusted on a monthly basis thereafter in accordance with the notes' amortization.

- The notes are backed by a static amortizing pool of receivables with no balloon payments.

- The receivables are related to the sale of newly constructed residential (65% of total outstanding receivables) and commercial properties (35% of total portfolio) located in six different projects belonging to the three Originators. All the units are fully constructed and delivered to their owners.

- The portfolio is moderately diversified geographically. It spans 6 projects, set in 3 different geographic locations across Egypt, with the highest concentration of properties in the North Coast (60% of the portfolio), followed by New Cairo – 35%, and the remaining 5% in the Red Sea.

- All of the receivables are backed by post-dated cheques. This is an incentive to ensure timely payment of installments as a bounced cheque constitutes a criminal offence under the Egyptian law.

- Contractual appointment of CIB (the Custodian) as a back-up servicer to the transaction. As a Custodian, CIB has access to the Servicer's systems and database and follows up daily on the performance of the pool. **MERIS** believes that the daily involvement of CIB in the performance of the pool will ensure a smooth and speedy transfer of the Servicer's role to CIB in the event of Servicer's bankruptcy. CIB's ability to serve as a back-up servicer of the transaction is also supported by its solid experience in servicing a large number of corporate and retail clients in Egypt.

Weaknesses of the Transaction

- Due to the relatively small size of the pool, the latter exhibits notably high individual obligor concentrations, with the top 20 obligors accounting for 25% of the portfolio. **MERIS** has factored this feature in the quantitative analysis of the transaction.

- The pool has a high weighted average loan-to-value (LTV) ratio (79% of the original purchase price). High LTV contracts carry relatively higher credit risk due to the minimal owner's equity accumulated in the property value.

- There is no consistent historical data tracking the performance of the Originators' receivables provided to **MERIS**. Furthermore, there is lack of relevant and consistent time series data across market participants regarding historical arrears, default and recovery rates related to real estate receivables through the economic cycle.

- There is no security interest in the underlying properties for the benefit of the note holders, and thus there is no direct recourse over the properties. Partially mitigated by the recovery mechanism in place which envisages reselling the units of cancelled contracts by the Originator/Servicer. The sales proceeds thereof will be channeled firstly through the SPV in order to cover any outstanding amounts to the note holders under the terminated contract. **MERIS** notes, however, that the recovery mechanism is not bankruptcy remote, as it involves significant linkages to the Originator.

- Unlike class A notes, the ratings of class B and even 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.

- The portfolio is relatively young with 85% of the receivables having seasoning below 12 months (weighted average seasoning of 4 months).

- It is worth noting that the credit insurance is a newly-introduced product in the Egyptian market, which has not been tested extensively in practice.

- The transaction relies on key legal concepts that remain largely untested in judicial proceedings or in practice in Egypt. **MERIS** took comfort from the legal opinion provided by the transaction's legal advisor on issues such as true sale, separateness of accounts, commingling and consolidation risk and concluded that the legal risks were consistent with the assigned ratings.

STRUCTURE SUMMARY (see page 4-5 for more details)

Amount Rated:	EGP 174,000,000
Issuer:	Sarwa Securitization Company S.A.E.
Seller (s) /Originator (s):	Delmar for Touristic Development S.A.E, Delmar for Real Estate Development, Troppi 2 for Touristic Development S.A.E.
Servicer:	Delmar for Touristic Development S.A.E, Delmar for Real Estate Development, Troppi 2 for Touristic Development S.A.E.
Back-up Servicer:	Commercial International Bank (CIB) (LT Deposit Rating “B3” by Moody’s Investor Service, April 2017)
Custodian:	CIB
Lead Manager, Financial Adviser:	Sarwa Capital
Arrangers and Underwriters:	Sarwa Capital, Banque Misr
Structure type:	Senior Subordinated Structure, Tranche A: Predetermined amortization; Tranche B&C: Pass-Through amortization
Credit Support:	• 3.4% over collateralization (net of expenses); • Subordination of tranche B & C to the more senior tranches; • Default cash reserve account for 16.1% of the note’s initial size (through an irrevocable and unconditional Letter of Guarantee); • Credit insurance by Misr Insurance (rated B++ by AM Best, Dec. 2016) for each individual sale by installment contract covering 90% of any uncollected installments.

COLLATERAL SUMMARY (see page 8 for more details)

Receivables:	Installment-sale contracts for the purchase of newly built properties.
Initial Pool Balance (as of 01/04/17):	EGP 281,324,236
Number of Contracts:	316 fully amortizing contracts
Number of Clients:	293
Type of Properties*:	65% residential (holiday homes), 35% commercial (office space)
Type of Clients*:	100% individuals
Avg Current Contract Size:	EGP 890,267
Avg Current Client Exposure:	EGP 960,151
WA Seasoning:	4 months
WA Remaining Maturity:	58 months
WA Original Tenor	61 months
WA LTV (Original Price):	78.7%

** Percentage calculated is based on the total outstanding balance of the receivables.*

CREDIT SUPPORT

Class	Subordination	Over collateralization	External Support (L/G or Cash Reserve)
A	77.0%	3.4%	Default reserve account in the size of EGP 28 million or 16.1% of the initial notes’ balance (L/G);
B	19.5%		
C	None		

TRANSACTION SUMMARY

This is the 23rd asset-backed bond issued by Sarwa Securitization Company S.A.E. (SSC) and the 3rd securitization of real estate receivables originated by Amer and Porto Holding Companies. The portfolio of real estate receivables has been originated by 3 companies belonging to Amer and Porto Holding Companies, some of the prominent real estate developers in Egypt. The securitized assets represent a static pool of real estate receivables stemming from the sale of newly constructed residential (65%) and commercial (35%) properties to individual customers. The installment-sale contracts have been originated over the period between July 2014 and March 2017 by two wholly-owned subsidiaries of Amer Holding Company, namely Delmar for Tourism Development and Troppi 2 for Touristic Development S.A.E, and one subsidiary belonging to Porto Holding Company - Delmar for Real Estate Development. As of the issuance date, all of the units have been fully constructed and delivered to the final buyers.

At closing of this transaction, the three Originators will transfer to the Issuer the securitized assets, i.e. the outstanding monetary receivables related to the purchase price of properties. In order to finance the purchase of the securitized assets, the Issuer, Sarwa Securitization Company (SSC), will issue three classes of notes with different maturities suited to the needs of various investors. The notes' aggregate amount equals the net present value of the portfolio (the NPV of the portfolio is calculated by using the notes' weighted average coupon rate as the discount rate) less the net present value of the transaction senior fees and expenses and over-collateralization. It is worth noting that the portfolio includes contracts, whose cash flows extend well beyond the bond maturity date. However, these cash flows are excluded from the calculation of the portfolio's NPV. The notes will be paying a fixed coupon of 17.40%, 18.30% and 19.00% in order of seniority. The coupons of all the tranches will be paid quarterly during the first 13 months and monthly thereafter. Class B and C notes will be callable starting from July 2018, following the repayment of Tranche A. Tranche A will follow a predetermined amortization structure, whereas Tranches B and C will follow a pass-through amortization structure. The liquidity risk will be mitigated by building up and maintaining a cash reserve account in the amount of 5.5% of the outstanding balance of Tranche B and C. The liquidity reserve is sized to cover at all times 6 months of senior fees and coupon payments. Additional liquidity will be available through the credit support available to the transaction in the form of (i) over-collateralization of 3.4% net of expenses, (ii) a default reserve account (an irrevocable and unconditional bank guarantee) in the size of 16.1% of the notes' initial balance (EGP 28 million) to cover any shortfall in senior fees and expenses, coupon and/or principal redemption of the notes, as well as (iii) the subordination of class B and C notes to the more senior notes.

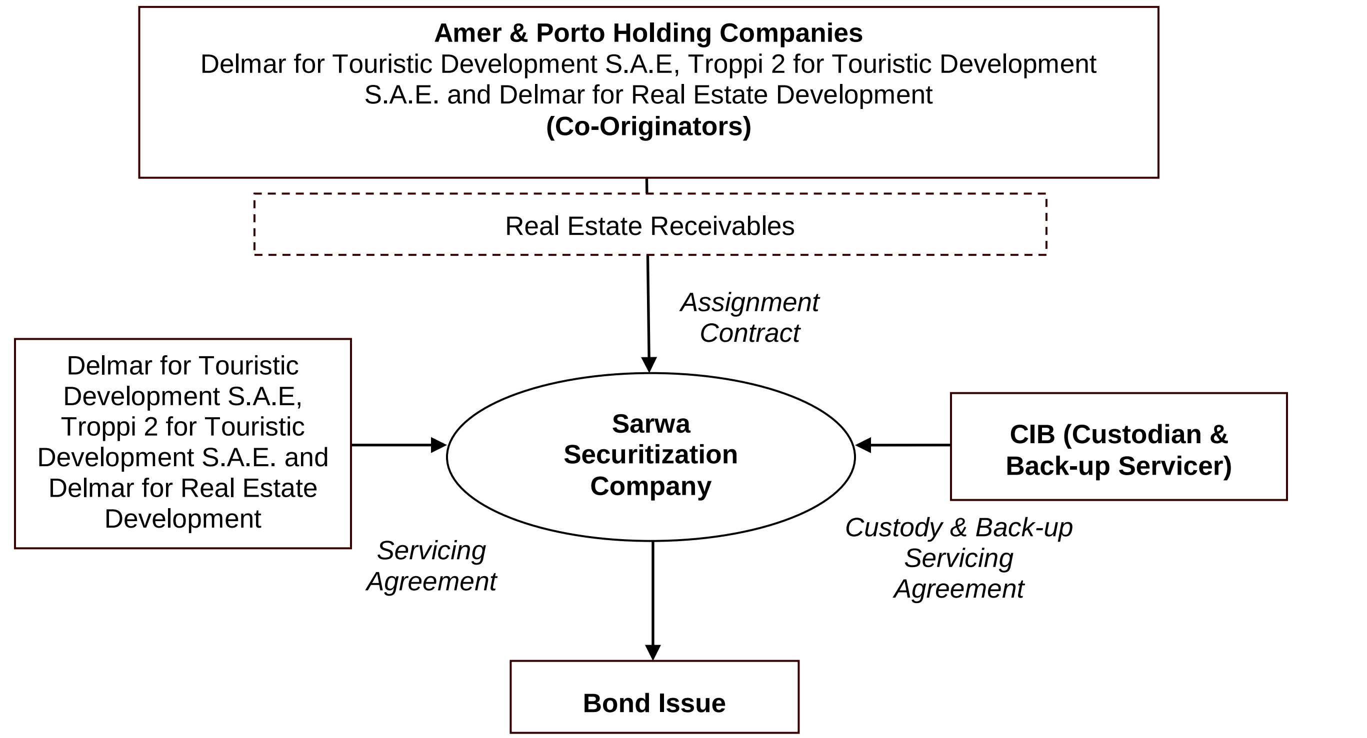
On the closing date, the three originators will entrust their pools of receivables to the Custodian. The combined portfolio is non-revolving (static) and amortizing. All of the receivables are backed by cheques, which will be endorsed in favour of the Issuer and transferred to the Custodian. The Custodian will be responsible for collecting the cheques from the clients and depositing the amounts immediately to the accounts of the Issuer, thus effectively mitigating the risk of commingling the transaction's funds with the Servicers' own funds. Furthermore, the Custodian will produce daily collection reports to be dispatched to the Servicers, showing any bounced cheques. Uncollected cheques will then be picked up by the respective Servicer after 5 business days from the due date, and any collected amounts by the Servicer will be deposited immediately (within a maximum of three days) to the account of the Issuer with the Custodian.

STRUCTURAL AND LEGAL ASPECTS

Securitization is structured to isolate the receivables from the insolvency risks of the originator(s)/seller(s). This is done by the originator(s)/seller(s) transferring the installment-sale contracts by means of true sale to a bankruptcy-remote special purpose entity, which will ultimately issue the notes to the investors. Under the structure – please refer to the following diagram – the originators of the receivables sell and assign all their rights and benefits in the receivables to Sarwa Securitization Company, a special purpose bankruptcy remote shareholding company, the Issuer. **MERIS** has received a legal opinion stating that the sale of the receivables from the originator to the Issuer (based on an Assignment Contract dated 7/03/2017) constitutes a true sale.

It is worth noting that the underlying physical assets, the properties themselves, are not assigned to the SPV. The current structure, however, envisages that in case a contract is cancelled whether voluntarily or due to default of a client, and following the failure of the Servicer to resell the property within a designated period of time (90 days) from the due date, the SPV will obtain an irrevocable power of attorney from the Originators authorizing it to resell the unit for which its contract is being terminated. Sarwa Securitization Company will be responsible for appointing and dealing with a real estate brokerage firm in order to sell the unit in the secondary market. The sale proceeds will then be first applied to settle any uncollected amounts under the cancelled contract, and any excess funds thereof will be returned to the Originators.

Chart 1:
Structure Diagram



** A true sale according to the Capital Market Law 95/92 and its directives.*

Collections, Commingling Risk and Separateness of Accounts

According to the Servicing Agreement (between Sarwa Securitization Co. and the three co-originators, signed on 7/03/2017) and the Custody Agreement (between SSC and CIB, signed on 7/03/2017), the periodic installments related to each of the 316 individual installment-sale contracts in the pool will be collected by the Custodian, who will be responsible for collecting the cheques on their due dates. All of the regular installments are backed by cheques issued from the buyers' bank accounts across Egypt. Cheque collections will then be deposited immediately to the accounts of the Issuer with the Custodian for the benefit of the bondholders, thus circumventing completely the accounts of the Servicers. The Custodian will generate daily collection reports to be dispatched to the Servicers, showing any bounced cheques. Uncollected cheques will then be picked up by the respective Servicer within 5 business days from the due date, and any amounts collected by the Servicer will be deposited immediately (within maximum 3 business days) to the account of the Issuer with the Custodian. **MERIS** believes that the mechanism for cheque collections by the Custodian and the limited role of the Servicers in handling only bounced cheques mitigates significantly the risk of commingling the funds collected by the Servicer on behalf of the SPV with its own funds. In addition, the opinion furnished by the legal advisor regarding commingling risk states that funds collected by the Servicer on the securitized assets are the property of the bondholders and cannot be subject to claims by the Servicer's creditors if trapped in the Servicer's bankruptcy estate.

In accordance with the Capital Market Law requirements, the Custodian will maintain six separate accounts: (1) an account for bond amortization; (2) an account for coupon payments; (3) an account for reinvesting any surplus cash; (4) an account for collections; (5) a liquidity reserve account, and (6) default reserve account. Transactions on these accounts have to take place based on written instructions from the Issuer. On the due dates, the Custodian will pay the senior servicing fees and the coupons related to the three classes of notes, and the remaining cash will be applied towards replenishing the reserve account and principal amortization of the notes in accordance with the specified cash waterfall.

The Issuer: Sarwa Securitization Company (SSC)
SSC, previously known as Contact Securitization Co., was established as a shareholding company on 8/11/2005 according to CMA Law 95/1992 (Commercial register No. 17199 Giza). The company's shareholding structure is as follows:

Shareholders	# of Shares	EGP	% Ownership
Egyptian International Co. for Trade & Investments L.L.C	40,500	4,050,000	81%
Contact Auto Credit S.A.E	9,000	900,000	18%
Bavarian Contact Car Trading S.A.E	500	50,000	1%
Total	**50,000**	**5,000,000**	**100%**

It is worth noting that the Originators do not have any ownership stake in the Issuer and therefore the transaction is in compliance with the CMA Law 95/1992, which imposes a ceiling of 20% on the Originators' ownership in the Issuer. Thus, the transaction does not run the risk involuntary/substantive consolidation between the Originators and the Issuer in case of the Originators' bankruptcy. In addition, **MERIS** took comfort from the legal opinion addressing this issue, which rules out the possibility of consolidation and reaffirms the isolation of the securitized pool from the creditors of the Originator. According to the legal opinion and referring to the Egyptian Capital Market Law no. 95 of year 1992, the rights associated with the issued notes belong exclusively to the bondholder.

Credit Enhancements:

1) **Internal Credit Support**

a. **Over-collateralization:** The assets backing the securities amount to EGP 188,224,055, representing the net present value of the total outstanding receivables (modeled at 0% default and 0% prepayment) stemming from the securitized installment-sale contracts discounted at the bond weighted average coupon rate. The assets will be purchased at a discount of 7.6% by the Issuer, creating an over collateralization of EGP 14 million at the beginning of the transaction. However, it is worth noting that a significant part of the over-collateral will be used to cover the transaction expenses with an estimated NPV of EGP 8.2 million. Thus, the transaction is left with only 3.4% of over collateralization net of expenses that could be used to provide pure credit support. It is worth mentioning that the above estimate does not take into account any reinvestment income.

b. **Tranche Subordination:** Given the sequential senior subordinated structure of the transaction, the senior tranche benefits from the subordination of the more junior tranches, by a total of 77%, whereas tranche B is supported by the subordination of tranche C, which represents 19.5% of the total notes size.

c. **Liquidity Reserve Account:** The Originator will also establish a cash reserve account in the initial size of 5.5% of the outstanding aggregate balance of Tranche B and C. The liquidity reserve is to be funded gradually from the transaction's monthly inflows during the first 13 months after closing. Any amounts used will be replenished immediately from the following month's cash collections. The cash reserve is sized to provide liquidity support to the transaction by roughly covering 6 months of senior fees and coupon payments at any given month.

2) **External Credit Support**

a. **Default Reserve Account:** The Originator will provide 16.1% of the notes' initial aggregate size (EGP 28 million) of reserve cover by means of an irrevocable and unconditional letter of guarantee. The reserve funds will be available until the final maturity of the notes to cover any shortfall in principal due to the bondholders as a result of eventual defaults related to the securitized contracts (credit support), as well as to provide liquidity support if needed. **MERIS** notes that unlike Tranche A, the ratings of Tranche B and especially Tranche C notes are highly linked to this external credit support, and therefore any material deterioration in the creditworthiness of the L/G issuing bank will inevitably result in a rating downgrade of these notes.

b. **Credit Insurance:** All individual sale by installment contracts will be insured against the risk of nonpayment with Misr Insurance Company (rated B++ by AM Best, Dec. 2016). The insurance policy will cover 90% of the due and uncollected amount and will be triggered after one overdue installment.

Priority of Payments

Allocation of the collections from the securitized contracts will be applied in the following order of priority:

1. Cash Reserve Account to be maintained at 5.5% of the outstanding aggregate notes' balance of class B and C. To be built up over the first 13 months by setting aside EGP 566,923 monthly until the final maturity of class A. Any used amounts will be replenished in the following month.

2. Senior transaction fees and expenses, such as servicing, custody, listing, rating, advertising fees, etc.

3. Coupon of class A, B and C notes – quarterly during the first 13 months, and monthly thereafter.

4. Principal amortization of the most senior outstanding tranche, whereby Tranche A will follow a predetermined quarterly amortization schedule. Tranche B and C will follow a monthly pass through amortization schedule, in which the amount of principal amortization in any given month will equal the current month cash inflows less the amounts under (1), (2), and (3) above.

Given the sequential senior subordinated structure of the transaction, Class B note holders will only start receiving principal repayments after the full amortization of Class B notes (no later than 13 months after the transaction close). Class C note holders will start receiving principal repayments after the full amortization of Class B and no later than 37 months after the transaction close. Class C note holders are to be fully repaid within 60 months from the notes' issuance date.

Reassignment of Existing Units in the Securitization Portfolio to New Buyers

The assignment contract allows existing buyers to reassign their unit in the securitized portfolio to a new buyer subject to the following conditions:

- The new buyer has to have a positive I-score;
- The new buyer has to be an Egyptian national with a valid ID;
- There is a signed annex to the original purchase agreement;
- The repayment schedule is based on the same installment values and same dates as the old contract;
- The new buyer has to settle the initial downpayment, any paid installments by the original buyer as well as all outstanding overdues;
- The credit insurance policy has to be modified to cover the new buyer over the bond tenor;
- The new buyer must not have any other units in the securitized portfolio;
- The new buyer must provide new checks to replace the existing checks.

The approval to exchange buyers is to be granted on an exceptional basis, and the total value of all exchanges cannot exceed cumulatively 11.5% (EGP 20 million) of the initial bond balance.

COLLATERAL (See Appendix I for more details)

The portfolio consists of a static pool of real estate receivables stemming from the sale of newly constructed first and second home residential (65%) and commercial (35%) properties to individual customers. The installment-sale contracts have been originated by three fully owned subsidiaries of AMER and Porto Holding Companies over the period between July 2014 and March 2017. As of the issuance date, all of the units have been fully constructed and delivered to the final buyers. All of the contracts relate to sales of properties in one of the following projects: Porto Soukhna, Golf Sokhna, Porto Marina, Golf Marina, Porto Lagoons, and Meeting Point. The portfolio is diversified geographically with projects located along the North Coast, in Ain Sokhna or in New Cairo. Porto Marina, Golf Marina and Porto Lagoons, which share the same geographic location in the North Coast account for the biggest share with 60% of the total portfolio, followed by the company's New Cairo project "Meeting Point" with 35%, and the balance being the two projects in Ain Sokhna.

The maximum original maturity of the contracts in the securitization pool is 120 months, however the weighted average original maturity is 61 months, given that majority of contracts have tenors of 3 or 4 . The weighted average seasoning of the portfolio is 4 months, and the remaining term to maturity is 58 months.

It is worth mentioning that all of the receivables/periodic installments are backed by post-dated cheques, which provide an additional incentive for timely payment by the obligors, given that bounced cheques constitute a criminal offense under the Egyptian law. The table below summarizes the key characteristics of the collateral portfolio. A detailed analysis of the pool is included in Appendix I at the end of the report.

	Amount	**% Total**
Number of Clients:	293	
Number of Contracts/Properties:	316	
Original Balance:	EGP 332,343,123	
Current Balance:	EGP 281,324,236	
Avg current balance per client:	EGP 960,151	
Avg current contract balance:	EGP 890,267	
WA Current LTV	78.7%	
WA Seasoning (months):	4	
WA Remaining Term (months):	58	
Top obligor:	EGP 5,905,992	2%
Top 10 obligors:	EGP 41,405,685	15%
Top 20 obligors:	EGP 68,995,944	25%

High Loan to Value Profile

As per the company's policy, the contracts become valid upon successfully collecting the initial downpayment of 10%, along with a full set of duly signed personal cheques covering all future installments. The pool is relatively young, and thus the average amortization at the closing date equals only 15% of the original value. The weighted portfolio average LTV of 79% is one the highest among all the previously securitized real estate portfolios in the market. High LTV contracts carry relatively higher credit risk due to the minimal owner's equity accumulated in the property value. **MERIS** has factored this in the quantitative analysis of the portfolio.

Relatively Young Pool

The collateral portfolio is relatively young with 85% of the receivables having seasoning of less than 12 months. With a weighted average seasoning of 4 months, most of the clients in the portfolio have not been tried and tested over a reasonably long period of time, especially in view of the fact that the vast majority of the clients (89%) are paying on quarterly installments.

Moderate High Obligor Concentration

The portfolio is relatively small and due to the nature of the underlying assets and existence of repeated clients, the average client outstanding balance is considerably high. Thus, the pool exhibits notably high individual obligor concentrations, with the topmost obligor accounting for 2% of the current portfolio balance, the top 10 – for 15%, and the top 20 - for 25%. It is worth noting that the concentration of the portfolio increases overtime. The table below shows the expected evolution of the concentration level of the portfolio based on the contractual amortization schedule of the receivables.

Portfolio Concentration	Apr-17	Apr-18	Apr-19	Apr-20	Apr-21
Top 10 Clients	15%	14%	15%	20%	22%
Top 20 Clients	25%	24%	26%	35%	38%
Top 30 Clients	32%	32%	35%	48%	54%
Top 50 Clients	45%	45%	51%	71%	81%
Top 80 Clients	60%	62%	71%	91%	97%
Top 100 Clients	69%	72%	80%	97%	100%
Total Number of Contracts	316	307	257	124	106
Total Number of Clients	293	284	238	120	102
Total Portfolio	281,324,236	203,850,227	127,507,341	72,590,456	51,520,228

Moderate Geographic Concentration

The portfolio is moderately diversified geographically. The properties are spread across 6 different projects, set in 3 different geographic locations across Egypt. The properties in the North Coast account for the biggest share in the portfolio – 60%, followed by those in New Cairo – 35%. The remaining 5% are located in Ain Soukhna at the Red Sea. **MERIS** views positively geographically diversified portfolios, as this reduces the exposure of investors to event risk. Furthermore, all the properties are insured against normal property risks, such as fire, earthquakes, floods, etc.

It is worth noting that the land of Porto Marina project, which accounts for 8% of the outstanding receivables, is subject to an ongoing litigation even though there are no outstanding financial obligations related to the land. However, based on the opinion of the company's legal counsel, which was examined by the transaction's legal counsel, the outcome of the litigation is not expected to have any material impact over the securitization, as the likelihood of the land being withdrawn from the developer is considered minimal. Nonetheless, **MERIS** notes that in the remote event of such land withdrawal the collection of the receivables related to this project might deteriorate significantly and this might adversely affect the liquidity of the transaction. The bondholders are protected by an undertaking signed by the Originator to cover any outstanding receivables related to this project in case of land withdrawal. However, **MERIS** notes that this undertaking is not bankruptcy remote, as it has a direct recourse on the originator.

ORIGINATORS, SERVICERS AND OPERATIONS REVIEW

Amer Holding Company & Porto Holding Company

Two of the Originators - Delmar for Touristic Development S.A.E. and Troppi 2 for Touristic Development S.A.E. - are fully owned by Amer Holding Company. Established in 2007, the company is one of the leading listed and publicly traded real estate developers in the Egyptian stock exchange with a market capitalization of EGP 1.5 billion. In July 2015 the company split and formed two separate entities Amer Holding Company S.A.E. and Porto Group Holding. The latter, whose market capitalization is currently EGP 1.7 billion, owns the other originator of the portfolio - Delmar for Real Estate Development. Amer and Porto Holding Companies are fully integrated real estate developers specialized in building mixed-use, family-oriented resort destinations in Egypt, under its well-known "Porto" brand. Besides real estate activities, the group business operations include the following segments offering complementary services: hospitality, healthcare, education, hotels, malls, sports clubs, vacation clubs and facility management. Historically the group has been a strong player in the holiday-home market. It has, however, recently made decisive strides into the first-home market by launching residential projects within Greater Cairo. Collectively Amer and Porto Holding have a total land bank of 10.4 million square meters across Egypt and the MENA region (Syria, Jordan and Morocco), including 2 million square meters of undeveloped land. The two groups currently have a total of 12 projects in Egypt.

Delmar for Touristic Development S.A.E, Troppi 2 for Touristic Development S.A.E, and Delmar for Real Estate Development are the originators of the 316 installment-sale contracts. The three companies will act as Servicers on behalf of the SPV. According to the Servicing Agreement between the Servicers and Sarwa Securitization Company (SPV) dated 7/03/2017, the Servicers will be responsible for collecting any of the bounced cheques for the installments under each one of the 316 securitized contracts, and transfer such collections immediately (within maximum 3 business days) to the account of the SPV held with the Custodian (CIB) for the benefit of the bondholders.

MERIS met with the management team of Amer and Porto groups and performed an operational review of the companies, focusing on the origination channels, underwriting guidelines and procedures, servicing and administration operations within the company. **MERIS** believes that the management and system capabilities are sufficient to comply with their responsibilities under the transaction.

Origination and Underwriting Process

Porto Group boasts one of the largest sales team among the real estate development companies in Egypt. The group sales and marketing activity is handled by its fully-owned subsidiary "Deals," which has its own CEO. The sales force includes more than 300 representatives divided into five competing teams, selling across all the group projects. The large in-house sales force ensures that approximately 98% of sales are originated directly through the company's own property consultants. The remaining 1-2% of sales are achieved through third party brokers and agents on a commission basis. It is worth noting that sales force remuneration is predominantly commission based, with a minimal fixed component. Subsequent cancellation of contracts is currently not reflected in the sales force compensation. Currently the group has 7 sales offices across Egypt, and regional agents in UAE, Bahrain and Kuwait.

The company's target clientele are mostly middle and upper middle class families. Amer's strategy is to sell small size second home units at a premium price due to the power of its "Porto" brand. Some 30-40% of the company's customers are repeat clients, with a proven track record with the group. In accordance with the current market practice, off-plan sales do not require any background checks or income verification of potential buyers. However, the companies are working with the credit bureau and potential buyers are assessed through their credit score available through i-score. Clients usually do not receive the desired property before 2 from the contract date, by which time they have paid more than 50% of the initial purchase price.

Amer typically follows an off-plan model for property development, where the company collects a cash down payment of 10% for unit sales, while the remaining balance is paid on installments over 2-3 . In order to move some slow-moving inventory in its projects, the company has exceptionally introduced several special programs involving a smaller downpayment or longer repayment period. Initially, the customer makes a small deposit (anything under 10%) to reserve a unit, which is subsequently converted into a contractual agreement within a week, depending on the project. All future installments are backed by personal cheques that are submitted within a week from contract signing. Once the property is contracted, should a client wish to cancel a unit purchase, he must wait to effectively re-sell it, with Amer acting as the broker and receiving commissions on the transaction. Upon successful resale of the unit, the customer is then refunded according to the same timeframe and payment frequency with which he had initially paid. The average cancellation rate has been around 10%, which is in line with the market norm. All cancellations are subject to a 10% penalty.

Collection and Recovery Process

The collection process is centralized and handled by the Collection department, which has 22 employees. All of the regular installments are backed by post-dated cheques. It is worth noting that under the Egyptian Law bounced cheques constitute a criminal offence, which carry a three-year prison sentence per cheque. Initially all customer cheques are deposited with the banks, which are responsible for collecting the cheques on the due dates and depositing the collecting amounts in the accounts of the company. On average 83-85% of installments are collected on the due date. Bounced cheques are returned to the Collection department for follow up with the clients.

Delays in payments are monitored through daily bounced cheque reports from the company's banks. Delinquent clients are contacted by the collection officers who seek to investigate and resolve any missed payments as soon as they are reported by the system. Around 2/3 of delinquent cases are successfully resolved within a month from the due date. The remaining cases are referred to the legal department after 1 month from the due date. Clients are then served a legal notification stating that the contract is in default. As a next step, the legal department files a criminal case against the client based on the bounced cheque, and in certain cases a civil case for repossessing and reselling the unit under the defaulted contract. As per the company's experience, a legal verdict to rescind the contract takes between 4 to 6 months, and including the appeal process it can be extended up to 1 year.

The projects have been completed and all the units related to the securitization transaction have been delivered to the clients. It is worth noting that for units that are ready for delivery, but the client has not shown up following the official notification from the company, the unit can still be legally delivered through a special notice that is served to the client. In such case, the property is still deemed delivered. For the residential units, customers who have not paid the purchase price in full, are only granted “guest status” in order to make use of their vacation homes. In case of delinquencies or default, the project company can restrict access to the facilities as a means of forcing clients to settle their dues.

For this specific transaction, the collection process as set out in the Securitization Agreements is as follows:

1) The custodian issues daily bounced cheque report, indicating the defaulting buyers;

2) Within 7 days from the date of the default the service and collection agent shall collect from the custodian a copy of the sale agreement as well as the original cheque covering the installment that was not honored;

3) The service and collection agent is given a period of 25 days to try to collect the due amounts from delinquent clients;

4) Upon the elapse of 30 days from the due date of the installment or as per the time frame set on the sale of installments agreement (assuming that the action under point 3 above is not fruitful), the service and collection agent shall take the following steps:

    a. File a criminal case using the cheque(s) issued by the buyer;
    b. Inform the insurance company and send the relevant documents;
    c. Offer the unit subject matter of the agreement with the defaulting buyer to “Deals” – Amer Group’s selling arm - to try to resell the unit;
    d. Commence civil procedures for repossession of the unit as per the terms of the agreement with the buyer.

5) If default continues for 90 days from the due date of the installment and/or failure of “Deals” to resell the unit and/or non-payment of the insurance company, the servicer is obliged to assign the sale of the unit to the party nominated by the client, under the service and collection agreement (Sarwa Securitization), including the obligation to issue and deliver a power of attorney to undertake the sale. Sarwa Securitization will be responsible for appointing and dealing with a real estate brokerage firm in order to sell the unit in the secondary market. The sale proceeds will then be first applied to settle any uncollected amounts under the contract in default, and any excess funds thereof will be returned to the Originator.

MERIS notes that the above recovery mechanism does not establish a security interest in the underlying properties, nor provides for a direct recourse over the units for the benefit of the bondholders. Moreover, the mechanism is not bankruptcy remote from the Originators, as its execution relies heavily on the Originators involvement through their sister company “Deals.” The recovery mechanism may also face additional obstacles if the possession of the property is with the customer in default. In that case, according to the legal advisor to the transaction, the Originators may need to take a legal action and obtain a court judgment in order to enforce the termination of the sale agreement and repossess the relevant unit.

In addition to repossessing and selling the unit, the structure relies also on a parallel track of recovery in case of default that involves the credit insurance. The credit insurance gets activated after one missed installment. Upon failure of the servicer to collect the amount under the bounced cheque within a month from the due date, and after filing a criminal case against the issuer of the bounced cheque, the Servicer makes an insurance claim request and the insurance company is obliged to pay within 45 days from the request date. Along with the insurance claim request form, the Servicer submits the following documents:

- Copy of the insurance policy;
- Copy of the criminal case filed against the issuer of the bounced cheque;
- Copy of the bounced cheque stamped by the bank;
- Outstanding balance under the contract in default;
- Copy of the sale by installment contract.

The claimant has to choose one of two payment options offered by the insurance company:

1) Receive 90% of the periodic installments;
2) Pay 90% of the net present value of all outstanding installments under the contract.

In case of exercising the second option, all cheques will be transferred from the Custodian to the insurance company, and the contract will be removed from the portfolio as it will have been effectively prepaid.

Given the multi-layer structure in place as well as the experience of all the parties, the strict follow-up and monitoring guidelines, as well as the IT & management information systems currently in place, **MERIS** believes that the servicing and collection agents are capable of adequately servicing the receivables in this pool.

CUSTODIAN AND BACK-UP SERVICER

CIB (rated by Moody's at B3 local currency deposit rating)

CIB was incorporated in 1975 as Chase National Bank of Egypt, a joint venture (JV) between National Bank of Egypt (NBE: 51%) and the Chase Manhattan Bank (Chase: 49%). Following Chase's divestment of its equity stake in 1987, NBE increased its shareholding to 99.9%, and the bank was renamed Commercial International Bank (Egypt) SAE. Since its inception, CIB has been run independently from NBE, while its impressive performance and management strength is in part a legacy of its former association with Chase. The bank is Egypt's leading private sector company with 168 branches and over 700 ATMs. It serves 700 corporate and 400 small and medium sized enterprises, as well as 500,000 retail clients.

Since 1995, CIB's shares have been listed on the Egyptian Stock Exchange (ISIN Code: EGS60121C018). As of 31 December 2016, the bank's largest and only major shareholder was Fairfax Financial Holding Ltd. (Fairfax), which, through its wholly owned subsidiaries, owned 6.7% of CIB'stotal share capital. The remaining 93.3% of the shares are free float.

CIB is one of the leading financial services conglomerate in Egypt. The Bank is a medium-sized player with an approximate 7% market share in terms of total consolidated assets as of 30 September 2016. As of 31 December 2016, it reported consolidated assets of EGP267.5 billion. Among its key strengths are its strong corporate banking franchise, sound management, strong credit culture and well-trained workforce. The bank's strong position in Egypt is currently tested by the challenging domestic operating environment, which is putting pressure on asset quality and profitability .

The bank's reputation as being one of the largest private sector banks in Egypt and its track record are considered positive factors to act as a Custodian to the proposed transactions. CIB is also formally appointed as a back-up Servicer to the transaction. As a custodian, CIB already has daily access to Contact's collection system and databases. In addition, the fact that the majority of the obligors have their accounts with CIB is likely to facilitate the collection procedures, in case CIB needs to assume the role of a Servicer.

MERIS ANALYSIS

Historical Data and Modeling

MERIS has been provided with very limited historical delinquency information from the originators for the securitized portfolio. In addition, given the limited track record of the originators and the concentrated nature of the portfolio, historical data can hardly be a reliable indicator of the pool's performance in the future. Therefore, **MERIS** used the log normal distribution to analyze the sensitivity of the ratings to the various levels of credit enhancement. The model is based on the expected loss methodology that reflects the notes expected cumulative loss and average life over various default rate scenarios. The final output is derived as the sum product of the various default rate scenario losses and lives of the notes weighted by the probability of default of each respective default rate scenario. **MERIS** used a mean cumulative default rate derived from the underlying credit quality of the obligors. **MERIS** derived a probability of default by assuming that the average rating of the individual obligors within the portfolio is within the BB range on the national scale for obligors with LTVs less than 60%. For the obligors with LTVs higher than 60%, the rating has been further stressed to the B range to capture the higher credit risk due to the minimal owner's equity accumulated into the properties. Thus, the rating of the obligors translates into a default probability of 30% over a two-year weighted average life of the portfolio. Furthermore, **MERIS** used a volatility metric (coefficient of variation = standard deviation/mean) of 70% to reflect the higher uncertainty associated with the lack of sufficient and reliable historical data, and also to account for the notable obligor concentration in the pool.

Some of the other input parameters in the cash-flow model are summarized below:

- Amortization profile of the assets: the 0% default and 0% prepayment monthly amortization of the securitized assets according to the contractual amortization schedule;
- Timing of Default: The timing of default is used to calculate the defaulted amount per period expressed as a percentage of the cumulative defaults. **MERIS** has tested the transaction by using various default curves – front-loaded, flat, and back-loaded;
- Recovery Rate: 55% (additionally stressed to account for the significant obligor concentrations in the pool);
- Recovery lag: 90% after 3 months, 10% after 18 months;
- Prepayment rate: **MERIS** has tested the transaction using various prepayment rates between 0% and 20%;
- Credit Support: Over collateralization of 3.4% (net of expenses), tranche subordination, in addition to an external credit support in the form of a Letter of Guarantee in the size of 16.1% of the initial notes' size.

MERIS performed sensitivity analysis around the main inputs listed above to test the impact of structural and asset features on the rating of the notes. **MERIS** concluded that, in view of the conservative assumptions applied and taking into consideration the transaction's qualitative factors, the credit enhancement available to the transaction is in line with the assigned ratings.

RATING SENSITIVITIES AND MONITORING

MERIS will monitor the transaction on an ongoing basis to ensure that it continues to perform in the manner expected. The monitoring will include reviews of periodic servicing reports. Any subsequent changes in the rating will be publicly announced and disseminated through the media.

APPENDIX I: POOL DATA

Distribution by Original Term To Maturity

	Current Balance	% Total	# of Contracts	# of Contracts %
2	9,086,018	3%	24	8%
3	107,703,134	38%	91	29%
4	34,977,724	12%	87	28%
5	44,324,806	16%	40	13%
6	4,790,394	2%	10	3%
7	3,021,821	1%	5	2%
9	7,336,000	3%	5	2%
10	70,084,339	25%	54	17%
Total	**281,324,236**	**100%**	**316**	**100%**

Distribution by Seasoning

Months	Current Balance	% Total	# of Contracts	# of Contracts %
<2	108,556,819	39%	76	24%
3-6	113,895,935	40%	88	28%
7-12	16,876,713	6%	24	8%
13-18	38,406,194	14%	120	38%
19-32	3,588,575	1%	8	3%
Total	**281,324,236**	**100%**	**316**	**100%**

Distribution by Remaining Term To Maturity

Months	Current Balance	% Total	# of Contracts	# of Contracts %
<24	19,238,126	7%	59	19%
25-36	121,529,084	43%	134	42%
37-48	14,705,961	5%	18	6%
49-60	42,860,905	15%	37	12%
61-72	5,569,821	2%	9	3%
97-108	3,263,651	1%	4	1%
108-120	74,156,688	26%	55	17%
Total	**281,324,236**	**100%**	**316**	**100%**

Distribution by Original Purchase Price per Unit

EGP million	Current Balance	% Total	# of Contracts	# of Contracts %
5-7	8,809,686	3%	2	1%
4-5	21,830,283	8%	6	2%
3-4	19,253,823	7%	7	2%
2-3	52,759,479	19%	28	9%
1-2	116,977,933	42%	98	31%
0.5-1	49,275,925	18%	117	37%
<0.5	12,417,107	4%	58	18%
Total	**281,324,236**	**100%**	**316**	**100%**

APPENDIX I: POOL DATA - CONTINUED

Distribution by Current Outstanding Balance per Client				
EGP million	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
3-6	47,647,433	17%	17	5%
2.5-3	40,812,435	15%	23	7%
1.5-2	47,406,151	17%	28	9%
1-1.5	73,772,038	26%	59	19%
0.5-1	33,948,244	12%	56	18%
<0.5	37,737,935	13%	133	42%
Total	**281,324,236**	**100%**	**316**	**100%**

Distribution by Original Loan Value (Purchase Price less Downpayment)				
EGP million	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
5-7	4,872,636	2%	1	0%
4-5	15,543,458	6%	4	1%
3-4	24,480,948	9%	8	3%
2-3	40,972,344	15%	20	6%
1-2	128,884,983	46%	99	31%
0.5-1	43,992,980	16%	88	28%
<0.5	22,576,887	8%	96	30%
Total	**281,324,236**	**100%**	**316**	**100%**

Distribution by Current LTV (Original Purchase Price)				
LTV	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
<=50%	21,694,188	8%	83	26%
51%-60%	19,300,344	7%	56	18%
61%-70%	7,319,339	3%	16	5%
71%-80%	80,031,210	28%	69	22%
81%-90%	80,057,444	28%	36	11%
91%-96%	72,921,711	26%	56	18%
Total	**281,324,236**	**100%**	**316**	**100%**

Distribution by Installment Frequency				
EGP	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
Monthly	9,600,987	3%	9	3%
Quarterly	249,722,098	89%	282	89%
Semi Annually	18,306,311	7%	22	7%
Annually	3,694,840	1%	3	1%
Total	**281,324,236**	**100%**	**316**	**100%**

Distribution by Installment Value				
Installment	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
300,000-460,000	17,284,530	6%	6	2%
200,000-300,000	46,222,786	16%	17	5%
100,000-200,000	69,309,888	25%	48	15%
50,000-100,000	22,794,846	8%	40	13%
20,000-50,000	80,602,309	29%	155	49%
3,000-20,000	45,109,877	16%	50	16%
Total	**281,324,236**	**100%**	**316**	**100%**

APPENDIX I: POOL DATA - CONTINUED

Distribution by Project				
Unit Type	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
Meeting Point	99,386,231	35%	56	18%
Porto Lagoons	48,254,584	17%	142	45%
Porto Marina	23,562,958	8%	9	3%
Golf Marina	97,455,986	35%	96	30%
Golf Sokhna	8,950,927	3%	11	3%
Porto Sokhna	3,713,550	1%	2	1%
Total	**281,324,236**	**100%**	**316**	**100%**

Distribution by Property Type				
Ownership	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
Apartment (2nd Home)	174,042,979	62%	255	81%
Office	99,386,231	35%	56	18%
Villa (2nd Home)	7,895,026	3%	5	2%
Total	**281,324,236**	**100%**	**316**	**100%**

Distribution by Originator				
Ownership	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
Delmar Real Estate	48,254,584	17%	142	45%
Delmar Touristic	221,217,375	79%	161	51%
Tropi2	11,852,277	4%	13	4%
Total	**281,324,236**	**100%**	**316**	**100%**

Distribution by Number of Owners				
Ownership	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
1	245,281,130	87%	276	87%
2	26,055,572	9%	30	9%
3	4,561,240	2%	6	2%
4	5,426,294	2%	4	1%
Total	**281,324,236**	**100%**	**316**	**100%**

Distribution by Governorate (as per Obligors ID)				
LTV	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
Cairo	144,741,932	51%	157	50%
Giza	46,920,464	17%	23	7%
Qalyubia	14,583,007	5%	11	3%
Alexandria	13,494,388	5%	14	4%
Gharbia	11,508,477	4%	2	1%
Sharqia	10,243,656	4%	15	5%
Port Said	9,853,446	4%	8	3%
Monoufiya	7,518,311	3%	3	1%
Dakahlia	3,702,390	1%	0	0%
Miniya	3,402,648	1%	0	0%
Kuwait	3,120,441	1%	2	1%
Suez	1,767,622	1%	1	0%
Others	10,467,454	4%	80	25%
Total	**281,324,236**	**100%**	**316**	**100%**

APPENDIX IV: National Rating Scale

Quality of credit	Long	Short	
Highest quality	AAA		Investment Grade
Very high	AA+ AA AA-	Prime 1	
Upper-medium	A+ A A-	Prime 2	
Medium grade	BBB+ BBB BBB-	Prime 3	
Weak quality	BB+ BB BB-		Speculative Grade
Poor quality	B+ B B	Not Prime	
Very poor	CCC+ CCC CCC- CC C		