MERIS
Middle East Rating & Investors Service

January 2019

STRUCTURED FINANCE Annual Review

Sarwa Securitization Company S.A.E. – 21st Issue 2016-2021
(Real Estate Receivables Pool Originated by Palm Hills Companies)

Real Estate Receivables/Egypt

POOL CUTOFF DATE:
November 1, 2016

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DEFINITIVE RATINGS

Class	Description	Amount (EGP mn)	% of Notes	Legal Maturity	Fixed Coupon (%)	Coupon & Principal Frequency	Initial Ratings	Current Ratings
A	Senior	-	-	Jan-18	15.79%	Quarterly	**AA+(sf)**	**Redeemed**
B	Subordinated	**71.9**	42.6%	Jan-20	16.69%	Monthly	**AA (sf)**	**AA (sf)**
C	Junior Subordinated	**97.0**	57.4%	Dec-21	17.39%	Monthly	**A (sf)**	**A (sf)**
Total		**168.9**						

RATING OPINION AND SPECIFIC COMMENTARY

This is the 21th asset-backed bond issued by Sarwa Securitization Company S.A.E. (SSC) and the first securitization of real estate receivables originated by Palm Hills Development and its subsidiaries, which are some of the leading real estate developers in Egypt. The pool of receivables has been originated by four companies, Palm Hills Development and three of its subsidiaries, namely New East Cairo for Real Estate Development, Palm Hills Middle East Real Estate Investment Company, and Rakeen Egypt Company. At issuance, the bond issue size was EGP 404,000,000 and was backed by 465 installment-sale contracts (EGP 416,787,921 outstanding receivable balance on the closing date of the transaction) related to 465 residential units located in six of the Originator's new projects (New Cairo Katameya Ext., North Coast Hacienda Bay 1, Golf Ext., Katameya, North Coast Hacienda white 2, October Golf View). The contracts have been written over the period between April 2007 and May 2016 and as of the issuance date all the properties were fully constructed and delivered to the buyers.

The rating addresses the expected loss to investors by the legal final maturity. In **MERIS** opinion, the structure allows for timely payment of interest and ultimate repayment of principal by the final maturity of the bond. **MERIS** portfolio performance analysis is mainly based on the monitoring of the delinquencies, defaults, repossessions, recoveries and prepayments. **MERIS** relies on the audited monthly performance reports issued by the Custodian (AAIB), as well as on data provided by the Issuer.

To date the coupon and principal of the bond have been paid according to schedule. The bond issue was amortizing on a quarterly basis during the first 13 months and has thereafter shifted to a monthly amortization schedule. The aggregate notes currently stand at EGP 168,885,126, equivalent to 58.2% redemption of the original balance. Given the senior-subordinated structure of the bond and following the full amortization of Class A notes as of January 31, 2018, the principal amortization has been directed to class B notes, which currently stands at EGP 71,885,126 or 38.9% of the original balance. The asset pool backing the issue has been amortized at 61.9%, and currently equals EGP 205,294,569.

As of November 30, 2019, the transaction benefits from a residual cash account due to the initial overcollateralization, in the amount of EGP 5,638,305, coupled with a Default Reserve Account in the form of a time deposit with the Custodian amounting to EGP 45,579,056 (27.0% of the outstanding bond size). In addition, there is a Liquidity Reserve Account in the amount of EGP 10,707,473 (6.3% of the outstanding bond size). As of 30/11/2018, the total credit support represents 36.7% of the bond principal outstanding.

The transaction benefits from credit enhancement in the form of overcollateralization net of expenses in the size of 1.8% of the bond size. 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 5,638,305, as well as the Liquidity Reserve Account in the amount of EGP 10,707,473. The calculation does not consider any collection of the currently delinquent installments in the total amount of EGP 10.9 million. In addition the transaction benefits from an external credit enhancement in the form of a Default Reserve Account amounting to EGP 45,579,056, which represents 27.0% of the outstanding bond balance. Thus, the total credit support available to the transaction measures 28.8% compared to 12.8% at the closing of the transaction.

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 23% to EGP 35 million effective immediately. Following the adjustment, the overall credit support will measure 22.5% of the outstanding principal balance of the bond.

In terms of liquidity, the transaction currently has sufficient accumulated cash reserves to cover on average 4 months of scheduled payments (senior fees and expenses and coupons) under the bond. **MERIS** has performed various stress case scenarios and believes that the current ratings are commensurate with the risks associated with the bond.

MERIS has been also monitoring on a monthly basis the default and delinquency rates under the transaction. Delinquencies above 30 days have not exceeded 1.7% of the initial portfolio balance. As of 30/11/2018 there were 22 clients with overdue rentals above 30 days in the total size of EGP 3,681,830 or 0.68% of the initial pool balance. The servicers of the transaction are working diligently with all the clients to collect the overdue rentals.

Given the amortization of the bond and the credit enhancement currently available to the transaction, **MERIS** affirms the initially assigned ratings to the outstanding notes.

Strengths of the Transaction

- The credit enhancement available to the notes comes in the form of (i) over-collateralization in the amount of 1.8% net of expenses; (ii) subordination of tranche C to the more senior tranche B; (iii) availability of a default account in the amount of EGP 45,579,056 representing 27.0% of the outstanding notes' balance.

- 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. 2018). 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 currently in the amount of 6.3% of the outstanding notes balance, which is sufficient to cover approximately 4 months of coupon and senior fees.

- 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 properties located in six of Palm Hills Development Company's new projects (New Cairo Katameya Ext., North Coast Hacienda Bay 1, Golf Ext., Katameya, North Coast Hacienda White 2, October Golf View). All the units are fully constructed and delivered to their owners.

- The pool has a relatively low weighted average loan-to-value (LTV) ratio (33% of the original purchase price). The low LTV ratio 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.

- The portfolio comprises seasoned receivables (weighted average seasoning of 55 months and weighted average remaining term to maturity of 23 months.

- The portfolio is relatively well-diversified geographically. It spans 6 projects, set in various geographic locations across Cairo and the North Coast, with the highest concentration being New Cairo accounting for 55% of the portfolio. The portfolio includes 64% of first home properties, and the remaining are second home units.

- 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 Arab African International Bank (the Custodian) as a back-up servicer to the transaction. As a Custodian, AAIB 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 AAIB in the performance of the pool will ensure a smooth and speedy transfer of the Servicer's role to AAIB in the event of Servicer's bankruptcy. AAIB'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. AAIB is currently rated B+ with a Stable outlook by Capital Intelligence (Sept. 2018).

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 17.6% of the portfolio. **MERIS** has factored this feature in the quantitative analysis of the transaction.

- There is no consistent historical data tracking the performance of the 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 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.

- 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.

KEY TRANSACTION DATA

Deal Closing Date:		December 2016
Issuer:		Sarwa Securitization Company S.A.E.
Seller (s) /Originator (s):		Palm Hills Development SAE, New East Cairo for Real Estate Development, Palm Real Estate Investment Company, and Rakeen Egypt Company
Servicer:		Same as Originators
Custodian & Back-up Servicer:		Arab African International Bank (AAIB) (Long-Term Foreign Currency Rating 'B+' by Capital Intelligence, Sept. 2018)
Arrangers & Underwriters:		Sarwa Capital, AAIB & Banque Misr
Structure Type		Senior Subordinated Structure
	Class A:	Pre-determined amortization schedule
	Class B&C:	Pass through amortization schedule
Pool Currency:		EGP
Pool Reporting Frequency:		Monthly
Last Reporting Date:		30/11/2018

COLLATERAL SUMMARY (see page 8 for more details)

Receivables:	Installment-sale contracts for the purchase of newly built properties.
Pool Balance (as of 30/11/2018):	EGP 190,963,968
Number of Contracts:	289 fully amortizing contracts
Number of Clients:	283
Type of Properties*:	100% residential (64% - first homes, 36% - second homes)
Type of Clients*:	100% individuals
Avg Current Contract Size:	EGP 660,775
Avg Current Client Exposure:	EGP 674,784
WA Seasoning:	55 months
WA Remaining Maturity:	23 months
WA Original Tenor	78 months
WA LTV (Original Price):	33%

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

CREDIT SUPPORT

Class	Subordination	Over collateralization	External Support (L/G)
B	57.4%	1.8%	Default reserve account in the size of EGP 45.6 million or 27% of the outstanding notes' balance;
C	None		

ISSUE DETAILS		COLLATERAL	
In EGP			
Class A Principal - Original	122,000,000	A/R – Original,	539,090,656
Class B Principal - Original	185,000,000	A/R - Current*	205,294,569
Class C Principal - Original	97,000,000		
Class A Principal - Outstanding*	-		
Class B Principal - Outstanding*	71,885,126		
Class C Principal - Outstanding*	97,000,000	Number of Contracts - Original	465
Interest Rate - Class A	15.79%	Number of Contracts - Current*	281
Interest Rate - Class B	16.69%		
Interest Rate - Class C	17.39%		
Frequency – 1st 13 months	Quarterly	Cum. Delinquencies (% of Pool Balance)	
After 13 months	Monthly		
Seasoning (months)	23	30-60 days/Current Pool Balance	0.26%
Maturity	2021	60-90 days/Current Pool Balance	0.43%
Remaining Tenor (months)	37	90+ days/Current Pool Balance	1.10%
Residual Account Balance	5,638,305		
Default Reserve Account	45,579,056		
Liquidity Reserve Account	10,707,473		
Total Credit Support/Bond Principal	36.7%	Cum. Losses (% of Pool Principal)	0.00%

**Current data is as of 30/11/2018*

PORTFOLIO AND PERFORMANCE DATA

Period	Portfolio Outstanding Amount	# of Contracts	TRR	Default Reserve Account (EGP)	Liquidity Reserve Account (EGP)	Residual Account Balance (EGP)	Bond Principal Outstanding (EGP)	Total Credit Support/ Bond Principal Outstanding
Nov-16	539,090,656	465		0	-		0	
Dec-16	539,090,656	456	0.0%	0	-	39,657,068	404,000,000	9.8%
Jan-17	490,916,903	451	67.5%	45,689,182	1,195,933	33,507,363	391,800,000	20.5%
Feb-17	483,491,794	445	16.7%	45,689,182	1,195,933	40,743,595	391,800,000	22.4%
Mar-17	460,748,129	432	43.9%	45,689,182	3,582,087	60,071,896	391,800,000	27.9%
Apr-17	445,890,128	422	32.5%	46,860,388	4,805,593	40,580,913	373,500,000	24.7%
May-17	427,777,260	408	39.2%	46,860,574	6,005,813	57,501,213	373,500,000	29.5%
Jun-17	418,517,399	400	23.1%	46,860,759	6,005,813	66,957,202	373,500,000	32.1%
Jul-17	393,975,207	375	51.6%	48,663,919	8,511,526	43,899,040	343,000,000	29.5%
Aug-17	382,121,306	371	30.7%	49,011,627	9,788,519	54,478,914	343,000,000	33.0%
Sep-17	369,379,078	362	33.4%	50,197,367	11,190,069	67,750,994	343,000,000	37.6%
Oct-17	351,281,804	350	45.3%	50,262,605	12,437,735	40,635,338	312,500,000	33.1%
Nov-17	342,607,115	343	25.9%	50,581,567	13,776,736	48,399,540	312,500,000	36.1%
Dec-17	330,468,228	333	35.1%	52,432,223	14,969,970	59,717,636	312,500,000	40.7%
Jan-18	311,708,280	325	50.4%	52,955,589	16,270,279	35,028,173	282,000,000	37.0%
Feb-18	303,968,727	324	26.0%	53,035,182	15,522,625	7,248,049	248,761,298	30.5%
Mar-18	295,962,004	321	27.4%	45,591,950	13,848,742	7,181,515	242,483,820	27.5%
Apr-18	282,189,798	318	43.5%	45,579,056	13,380,105	12,844,011	237,147,711	30.3%
May-18	270,924,860	312	38.7%	45,579,056	13,070,531	10,164,874	226,057,608	30.4%
Jun-18	260,131,462	308	38.6%	45,579,056	12,640,022	9,558,150	217,359,411	31.2%
Jul-18	244,659,536	299	52.1%	45,579,056	12,053,825	14,291,748	208,695,084	34.5%
Aug-18	234,088,689	296	41.1%	45,579,056	12,125,121	8,871,866	195,434,309	34.1%
Sep-18	228,334,364	295	25.8%	45,579,056	10,506,818	5,045,044	186,662,865	32.7%
Oct-18	211,936,241	287	59.1%	45,579,056	10,374,526	15,324,553	182,906,089	39.0%
Nov-18	205,294,569	281	31.8%	45,579,056	10,707,473	5,638,305	168,885,126	36.7%

1. TRR (Total Redemption Rate)

TRR Calculation = 1-(1-(Current Period Total Principal Payments divided by Current Period Outstanding Pool Balance plus Current Period Total Principal Payments))^[reporting frequency] where reporting frequency equals (monthly reporting = 12, quarterly reporting = 4, semi-annual = 2, annual = 1).

2. Total Credit Support = Default Reserve + Liquidity Reserve + Residual Account Balance

*The bond was issued in December 2016.

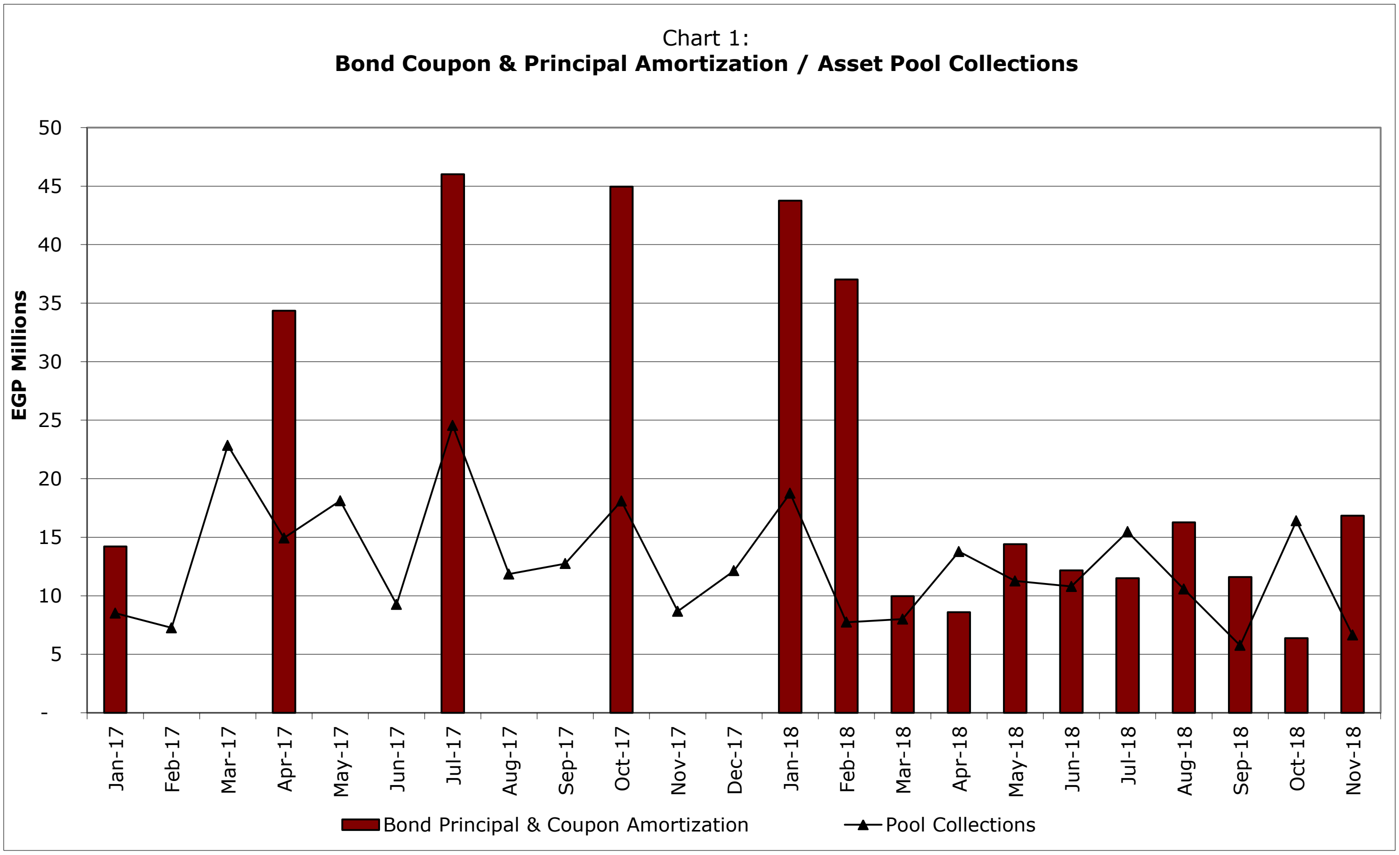


Chart 1:
Bond Coupon & Principal Amortization / Asset Pool Collections
EGP Millions
50
45
40
35
30
25
20
15
10
5
-
Jan-17
Feb-17
Mar-17
Apr-17
May-17
Jun-17
Jul-17
Aug-17
Sep-17
Oct-17
Nov-17
Dec-17
Jan-18
Feb-18
Mar-18
Apr-18
May-18
Jun-18
Jul-18
Aug-18
Sep-18
Oct-18
Nov-18
Bond Principal & Coupon Amortization
Pool Collections

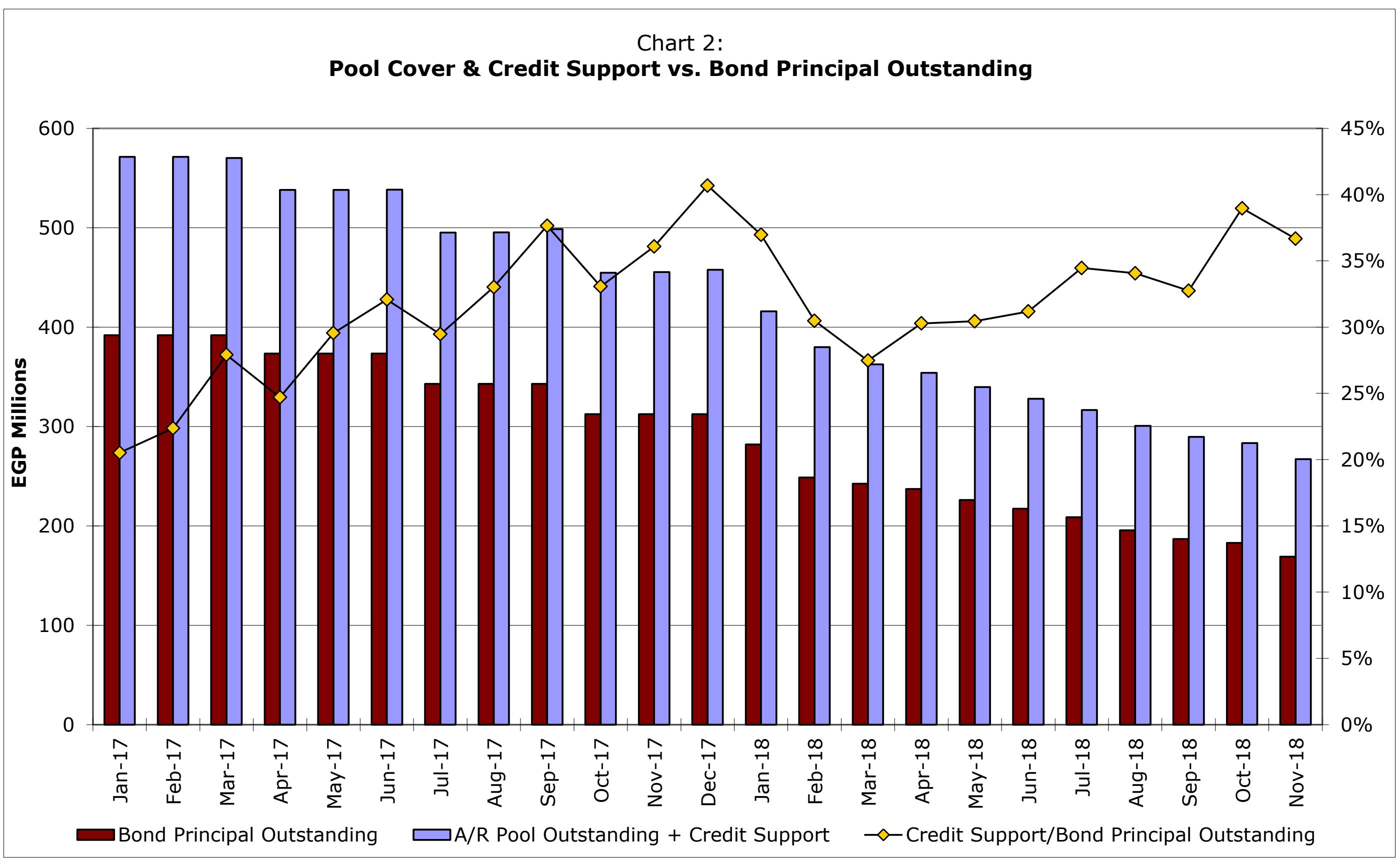


Chart 2:
Pool Cover & Credit Support vs. Bond Principal Outstanding
EGP Millions
600
500
400
300
200
100
0
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
Jan-17
Feb-17
Mar-17
Apr-17
May-17
Jun-17
Jul-17
Aug-17
Sep-17
Oct-17
Nov-17
Dec-17
Jan-18
Feb-18
Mar-18
Apr-18
May-18
Jun-18
Jul-18
Aug-18
Sep-18
Oct-18
Nov-18
Bond Principal Outstanding
A/R Pool Outstanding + Credit Support
Credit Support/Bond Principal Outstanding

Chart 3:
Total Delinquencies (Above 30 Days) in Nominal Value and as a Percentage of the Total Outstanding Pool Balance

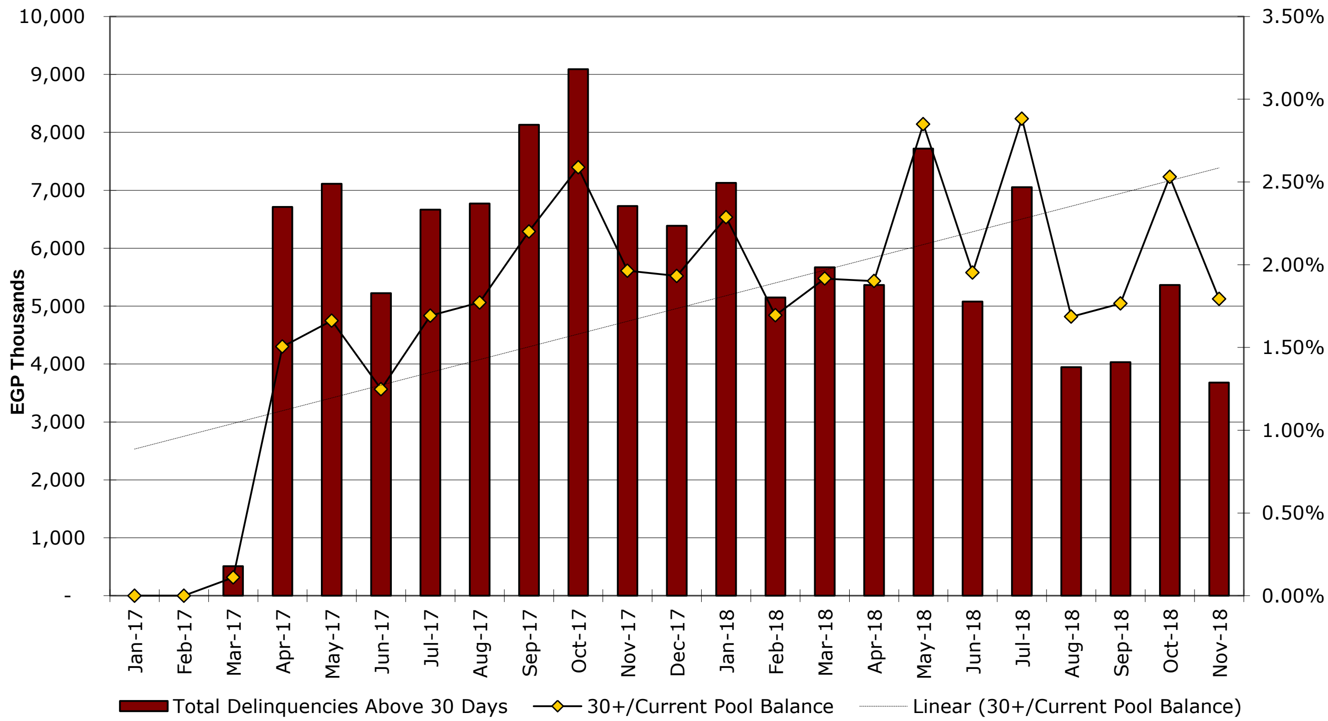
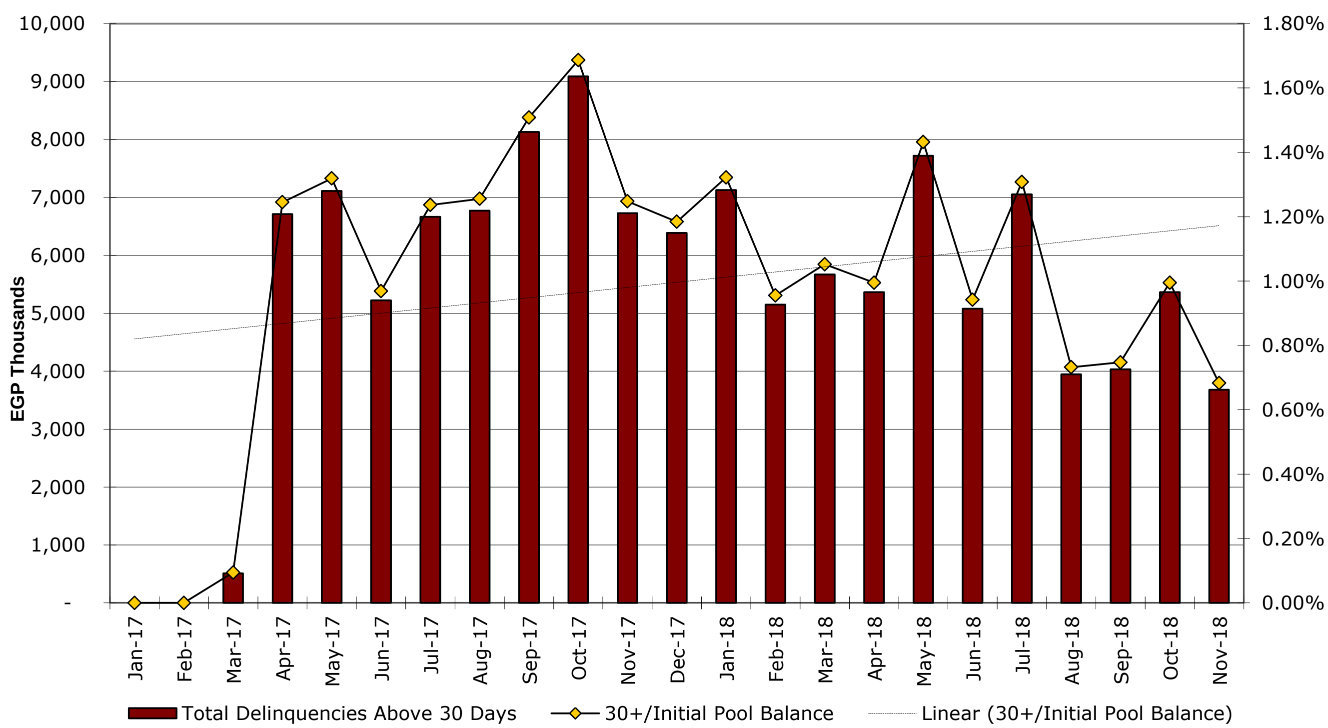


Chart 4:
Total Delinquencies (Above 30 Days) in Nominal Value and as a Percentage of the Initial Pool Balance



APPENDIX I: POOL DATA (as of Nov. 30, 2018)

Distribution by Original Term To Maturity				
Months	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
30-36	254,000	0%	2	1%
37-48	190,389	0%	3	1%
49-60	21,423,668	11%	10	3%
61-72	28,080,529	15%	76	26%
73-84	101,090,574	53%	144	50%
85-96	31,248,645	16%	47	16%
97-108	4,327,692	2%	4	1%
109-120	2,650,575	1%	2	1%
121-124	4,348,471	2%	3	1%
Total	**190,963,968**	**100%**	**289**	**100%**

Distribution by Seasoning				
Months	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
30-36	2,720,575	1%	4	1%
37-48	53,439,975	28%	56	19%
49-60	77,485,020	41%	111	38%
61-72	50,213,055	26%	90	31%
>73	7,105,343	4%	28	10%
Total	**190,963,968**	**100%**	**289**	**100%**

Distribution by Remaining Term To Maturity				
Months	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
<12	7,477,596	4%	42	15%
13-24	116,113,651	61%	183	63%
25-36	52,195,811	27%	52	18%
37-48	13,479,014	7%	11	4%
49-55	1,697,896	1%	1	0%
Total	**190,963,968**	**100%**	**289**	**100%**

Distribution by Original Purchase Price per Unit				
EGP million	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
10-13	2,523,324	1%	3	1%
8-10	12,725,723	7%	11	4%
6-8	10,382,272	5%	15	5%
4-6	28,245,828	15%	34	12%
3-4	28,764,417	15%	42	15%
2-3	85,179,842	45%	140	48%
<2	23,142,562	12%	44	15%
Total	**190,963,968**	**100%**	**289**	**100%**

APPENDIX I: POOL DATA – CONTINUED (as of Oct. 31, 2017)

Distribution by Original Loan Value (Purchase Price less Downpayment)				
EGP million	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
8-10	10,233,215	5%	8	3%
6-8	9,780,833	5%	11	4%
4-6	12,181,316	6%	18	6%
3-4	25,119,545	13%	36	12%
2-3	65,181,945	34%	98	34%
<2	68,467,114	36%	118	41%
Total	**190,963,968**	**100%**	**289**	**100%**

Distribution by Current Outstanding Balance per Client				
EGP ('000)	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
1,500-3,000	32,137,296	17%	23	8%
1,000-1,500	62,351,507	33%	53	18%
500-1,000	66,803,890	35%	91	31%
<500	29,671,275	16%	122	42%
Total	**190,963,968**	**100%**	**289**	**100%**

Distribution by Current LTV (Original Purchase Price)				
LTV	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
<=30%	95,932,373	50%	200	69%
31%-40%	41,660,811	22%	44	15%
41%-50%	20,774,447	11%	21	7%
51%-90%	32,596,337	17%	24	8%
Total	**190,963,968**	**100%**	**289**	**100%**

Distribution by Installment Frequency				
EGP	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
1 Months	502,300	0%	1	0%
3 Months	157,541,581	82%	189	65%
6 Months	20,755,749	11%	54	19%
12 Months	9,982,211	5%	42	15%
No Standard	2,182,127	1%	3	1%
Total	**190,963,968**	**100%**	**289**	**100%**

Distribution by Installment Value				
Installment	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
>400,000	870,500	0%	2	1%
300,000-400,000	3,335,145	2%	5	2%
200,000-300,000	22,253,273	12%	21	7%
100,000-200,000	135,675,040	71%	170	59%
<100,000	28,830,010	15%	91	31%
Total	**190,963,968**	**100%**	**289**	**100%**

Distribution by Type of Homes				
Ownership	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
First Home	123,146,537	64%	194	67%
Second Home	67,817,431	36%	95	33%
Total	**190,963,968**	**100%**	**289**	**100%**

APPENDIX I: POOL DATA – CONTINUED (as of Oct. 31, 2017)

Distribution by Project				
Unit Type	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
New Cairo Katameya Ext.	85,782,858	45%	133	46%
North Coast Hacienda Bay 1	59,459,912	31%	81	28%
Katameya	19,003,547	10%	21	7%
Golf Ext.	17,872,745	9%	36	12%
North Coast Hacienda white 2	8,357,519	4%	14	5%
October Golf View	487,387	0%	4	1%
Total	**190,963,968**	**100%**	**289**	**100%**

Distribution by Originator				
Ownership	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
Palm Hills Development	37,363,679	20%	61	21%
Eastern New Cairo	85,782,858	45%	133	46%
Palm Hills Middle East Co.	59,459,912	31%	81	28%
Rakeen Egypt Co.	8,357,519	4%	14	5%
Total	**190,963,968**	**100%**	**289**	**100%**

APPENDIX IV: National Rating Scale