MERIS
Middle East Rating & Investors Service

March 2018

STRUCTURED FINANCE **New Issue Report**

Sarwa Securitization Company S.A.E. – 25th Issue 2018-2023

(Real Estate Receivables Pool Originated by Palm Hills 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 February 2018.** 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:
March 1, 2018

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DEFINITIVE RATINGS

Class	Description	Amount (EGP mn)	% of Notes	Expected Maturity	Fixed Coupon (%)	Coupon & Principal Payment Frequency	Rating
A	Senior	**62**	23.75%	April 2019	13.85%	Quarterly	**AA+ (sf)**
B	Subordinated	**143**	54.79%	April 2021	14.75%	Monthly*	**AA (sf)**
C	Junior Subordinated	**56**	21.46%	March 2023	15.25%	Monthly*	**A (sf)**
Total		**261**					

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

OPINION

This is the 25th asset-backed bond issued by Sarwa Securitization Company S.A.E. (SSC) and the second 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 three companies, Palm Hills Development and two of its subsidiaries, namely New East Cairo for Real Estate Development, and Rakeen Egypt Company. The bond issue size is EGP 261,000,000 and is backed by 232 installment-sale contracts (EGP 273,189,020 outstanding receivable balance on the closing date of the transaction[1]) related to 232 residential units located in six of the Originator's new projects (New Cairo Katameya Ext., Golf Ext., Katameya, North Coast Hacienda white 2, October Golf View and October Palm Park). The contracts have been written over the period between August 2007 and November 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 2.9% net of expenses; (ii) subordination of tranche B and C to the more senior tranches; (iii) availability of a default account (Cash Reserve or Letter of Guarantee) in the amount of EGP 32,103,000 representing 12.3% of the original notes' balance.

1 Net present value of the total receivables portfolio within the bond maturity date discounted at the notes' weighted average coupon rate. The total value of the pool before discounting equals EGP 346,358,656.

- 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. 2017). 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 5.66% of the outstanding notes balance, which is sized to cover approximately 4 months of coupon and senior fees. The liquidity buffer will be built up after closing from the first 3 months' cash inflows until it reaches EGP 14.77 million and will be adjusted on a monthly basis to stay at 5.5% of Tranche B and C balance after the amortization of Tranche A.

- 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., Golf Ext., Katameya, North Coast Hacienda white 2, October Golf View and October Palm Park). All the units are fully constructed and delivered to their owners.

- The pool has a relatively low weighted average loan-to-value (LTV) ratio (44% 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 38 months and weighted average remaining term to maturity of 38 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 6th of October accounting for 37% of the portfolio. The portfolio includes 72% 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 rated B with a Positive Outlook by Capital Intelligence (March 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 42% 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 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.

- 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 261,000,000
Issuer:	Sarwa Securitization Company S.A.E.
Seller (s) /Originator (s):	Palm Hills Development SAE, New East Cairo for Real Estate Development, and Rakeen Egypt Company
Servicer:	Palm Hills Development SAE, New East Cairo for Real Estate Development, and Rakeen Egypt Company
Back-up Servicer:	Arab African International Bank (AAIB) (Long-Term Foreign Currency Rating 'B' by Capital Intelligence, March 2018)
Custodian:	AAIB
Lead Manager, Financial Adviser:	Sarwa Capital
Arrangers and Underwriters:	Sarwa Capital, AAIB & Banque Misr
Structure type:	Senior Subordinated Structure, Tranche A: Predetermined amortization; Tranche B&C: Pass-Through amortization
Credit Support:	• 2.9% over collateralization (net of expenses); • Subordination of tranche B & C to the more senior tranches; • Default cash reserve account for 12.3% of the note's initial size; • Credit insurance by Misr Insurance (rated 'B++' by AM Best, Dec. 2017) 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 01/03/18):	EGP 346,358,656
Number of Contracts:	232 fully amortizing contracts
Number of Clients:	221
Type of Properties*:	100% residential (72% - first homes, 28% - second homes)
Type of Clients*:	100% individuals
Avg Current Contract Size:	EGP 1,492,925
Avg Current Client Exposure:	EGP 1,567,234
WA Seasoning:	38 months
WA Remaining Maturity:	38 months
WA Original Tenor	76 months
WA LTV (Original Price):	44%

** 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	76.2%	2.9%	Default reserve account in the size of EGP 32,103,000 or 12.3% of the initial notes' balance;
B	21.5%		
C	None		

TRANSACTION SUMMARY

This is the 25th asset-backed bond issued by Sarwa Securitization Company S.A.E. (SSC) and the second securitization of real estate receivables originated by Palm Hills Development. The portfolio of real estate receivables has been originated by three companies – Palm Hills Development and two of its subsidiaries. The securitized assets represent a static pool of real estate receivables stemming from the sale of newly constructed residential properties to individual customers. Approximately 72% of the receivables are related to first home units, while the remaining contracts represent holiday homes. The installment-sale contracts have been originated over the period between August 2007 and November 2017. As of the issuance date, all of the units have been fully constructed and delivered to the final buyers.

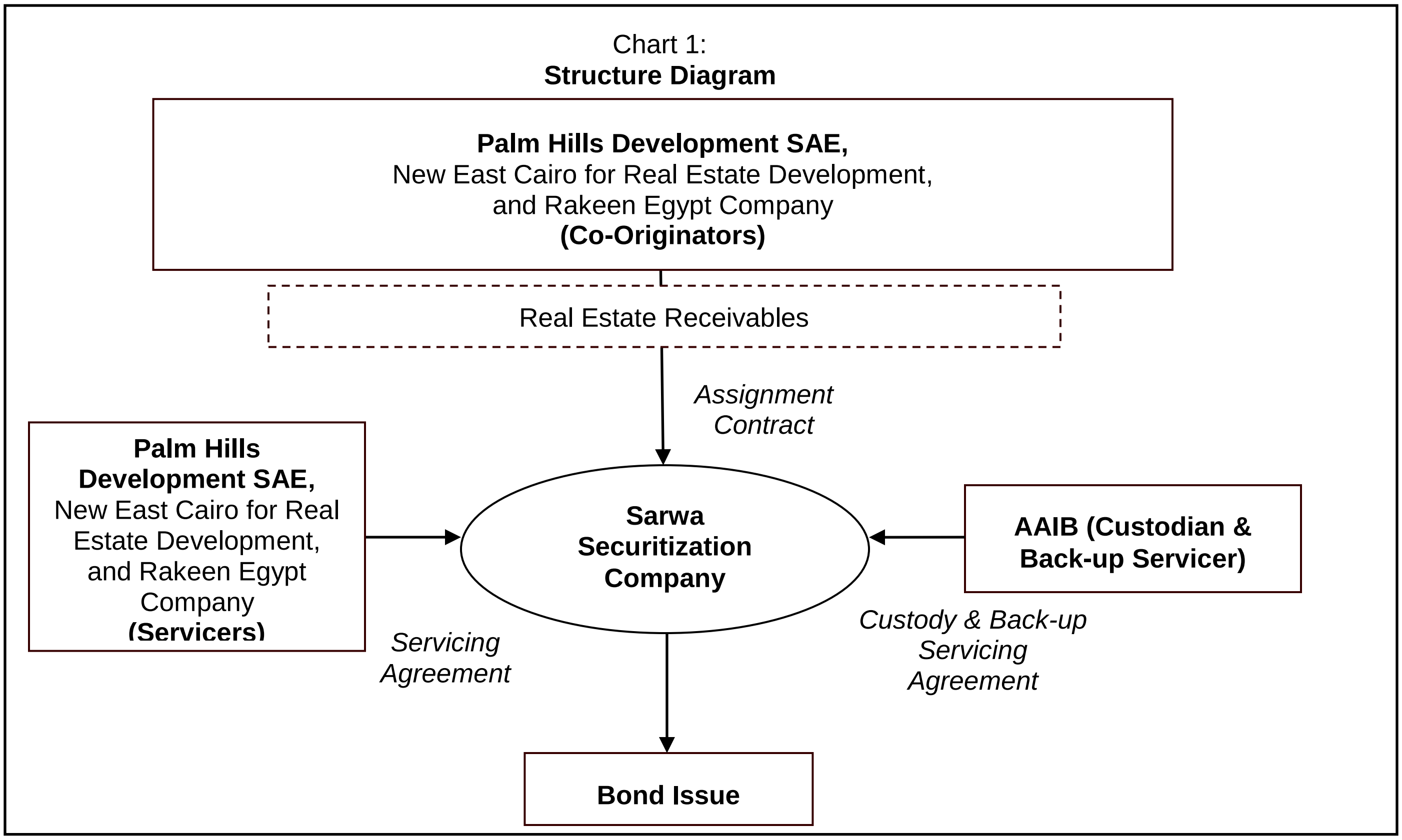
At closing of this transaction, the three originators will transfer to the Issuer the securitized assets, i.e. the outstanding monetary receivables related to the purchase price of properties. In order to finance the purchase of the securitized assets, the Issuer, Sarwa Securitization Company (SSC), 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. The notes will be paying a fixed coupon of 13.85%, 14.75%, and 15.25%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 May 2019, 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 5.66% of the outstanding notes' balance. The liquidity reserve is sized to cover at all times 4 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 2.9% net of expenses, (ii) a default reserve account (cash reserve or an irrevocable and unconditional bank guarantee) in the size of 12.3% of the notes' initial balance (EGP 32.1 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. 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 28/02/2018) 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 repossession 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.



** 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 28/02/2018) and the Custody Agreement (between SSC and AAIB, signed on 28/02/2018), the periodic installments related to each of the 232 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 cash reserve account, the senior servicing fees and the coupons related to the three classes of notes, and the remaining cash will be applied towards 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 273,189,020, representing the net present value of the total outstanding receivables within the bond maturity date (modeled at 0% default and 0% prepayment) discounted at the bond weighted average coupon rate. The assets will be purchased at a discount of 4.5% by the Issuer, creating an over collateralization of EGP 12 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 5 million. Thus, the transaction is left with only 2.9% 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 76.2%, whereas tranche B is supported by the subordination of tranche C, which represents 21.5% of the total notes size.

c. **Liquidity Reserve Account:** The Originator will also establish a cash reserve account in the initial size of 14.77 million that is to be funded from the first three months cash flows to the transaction and maintained at this level until the final amortization of Tranche A. 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 4 months of senior fees and coupon payments at any given month. Following the amortization of Tranche A, the liquidity reserve will be adjusted monthly to remain at 5.5% of Tranche B and C outstanding balance.

2) **External Credit Support**

a. **Default Reserve Account:** The Originator will provide 12.3% of the notes' initial aggregate size (EGP 32.1 million) of reserve cover by means of an irrevocable and unconditional letter of guarantee or a cash reserve account. 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 in case the default reserve is in the form of a letter of guarantee, 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. 2017). 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. To be built up over the first 3 months by setting aside EGP 4,924,200 monthly until it reaches EGP 14.77 million. Following the amortization of Tranche A, the liquidity reserve will be adjusted monthly to remain at 5.5% of Tranche B and C outstanding balance. 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 61 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, including an assignment contract from the original buyer to the new buyer;
- 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 EGP 30 million throughout the notes tenor.

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 (72%) and second home (28%) residential properties to individual customers. The installment-sale contracts have been originated by Palm Hills Development and two of its subsidiaries over the period between August 2007 and November 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: New Cairo Katameya Ext., Golf Ext., Katameya, North Coast Hacienda white 2, October Golf View, and October Palm Park. The portfolio is relatively well-diversified geographically with projects located along New Cairo, 6th of October, the North Coast, with 6th of October accounting for the biggest share with 37% of the total portfolio.

The maximum original maturity of the contracts in the securitization pool is 14 years at origination, however the weighted average original maturity is 76 months, given that majority of contracts have tenors of 7 to 8 years. The weighted average seasoning of the portfolio is 38 months, and the remaining term to maturity is 38 months.

It is worth mentioning that 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:	232	
Number of Contracts/Properties:	221	
Original Balance:	EGP 769,309,962	
Current Balance:	EGP 346,358,656	
Avg current balance per client:	EGP 1,492,925	
Avg current contract balance:	EGP 1,567,234	
WA Current LTV	44%	
WA Seasoning (months):	38	
WA Remaining Term (months):	38	
Top obligor:	EGP 15,264,340	4.4%
Top 10 obligors:	EGP 94,382,731	27.3%
Top 20 obligors:	EGP 143,776,418	41.6%

Low Loan to Value Profile

As per the company's policy, the contracts become valid upon successfully collecting the initial downpayment of minimum 15-25%, along with a full set of duly signed personal cheques covering all future installments. The average amortization of the pool at the closing date equals 55% of the original value. The portfolio's weighted average current LTV equals 44%. Low LTV contracts carry relatively lower credit risk due to the already significant owner's equity accumulated in the property value.

Relatively Seasoned Pool

The collateral portfolio is relatively seasoned with 45% of the contracts having seasoning of more than 3 years. With a weighted average seasoning of 38 months, the majority of the portfolio consists of clients that have been tried and tested over a reasonably long period of time. It is also worth mentioning that 50% of the contracts mature within 3 years from the bonds issuance date, and thus the weighted average term of maturity of the portfolio is only 38 months, which is relatively short and carries relatively lower credit risk in comparison to portfolios with longer maturity profiles.

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 4.4% of the current portfolio balance, the top 10 – for 27.3%, and the top 20 - for 41.6%. 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	**March-18**	**Mar-19**	**Mar-20**	**March-21**	**Mar-22**
Top 10 Clients	27%	33%	42%	65%	91%
Top 20 Clients	41%	47%	59%	83%	100%
Top 30 Clients	50%	56%	67%	91%	100%
Top 50 Clients	63%	69%	79%	99%	100%
Top 80 Clients	76%	82%	91%	100%	100%
Top 100 Clients	82%	88%	96%	100%	100%
Total Number of Contracts	**232**	**180**	**141**	**62**	**18**
Total Number of Clients	**221**	**174**	**140**	**62**	**18**

Reasonable Geographic Concentration
The portfolio is relatively well diversified geographically compared to previously securitized real estate portfolios in the market. The properties are spread across 6 different projects, set in 3 distinct locations across Egypt. The 6th of October area accounts for the biggest share with 37% of the total portfolio, followed by New Cairo – 35%, and the remaining 28% belonging to the North Coast area.

It is worth noting that the land of Palm Hills Kattameya project, which accounts for 19% of the outstanding receivables, is subject to an ongoing litigation. The legal case was filed by a third party against Pall Hills Development, requesting the annulment of the land contract. The court of first degree issued a judgment on April 26, 2011 with the annulment of the land contract, which PHD has appealed and the appeal is now pending before the High Administrative Court. Nonetheless, **MERIS** received a legal opinion from the Legal Advisor to the transaction, stating that the case represents no legal risk in view of the issuance of Law No. 32 for the year 2014. The latter allows contracts with any governmental institution to be challenged for annulment only by the parties to the agreement, thus rendering ineffective any challenge for annulment coming from a third party.

ORIGINATORS, SERVICERS AND OPERATIONS REVIEW

Palm Hills Developments SAE
Established in 1997, Palm Hills Developments (PHD) is one of the leading listed and publicly traded real estate developers in the Egyptian stock exchange with a market capitalization of close to EGP 10 billion. The company builds integrated communities and has one of the largest and most diversified land bank portfolios, spreading over 40 million square meters, including 5 million sqm in Saudi Arabia. The company's product offerings include primary homes in both West Cairo and East Cairo, as well as secondary homes by the Mediterranean Sea, North Coast. As of Sept. 2017, PHD delivered 7,236 units within its developments, including 3,285 units in 12 completed projects. PHD currently has 11 projects under development, and 5 new projects. It has a sales backlog of EGP 11.5 billion.

PHD and two of its subsidiaries - New East Cairo for Real Estate Development, and Rakeen Egypt Company, are the originators of the 232 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 28/02/2018, the Servicers will be responsible for collecting any of the bounced cheques for the installments under each one of the 232 securitized contracts, and transfer such collections immediately (within maximum 3 business days) to the account of the SPV held with the Custodian (AAIB) for the benefit of the bondholders.

MERIS met with the management team of PHD and performed an operational review of the company 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
PHD has a dedicated sales team including a total of around 90 representatives, spread across 11 teams, divided among the company's 6 branches. Each team has a manager and between 6 to 8 sales executives selling across all the group projects. The large in-house sales force ensures that approximately 70-75% of sales are originated directly through the company's own property consultants. The remaining 25-30% 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 voluntary cancellations of contracts are reflected in the sales force key performance indicators. The company's branches are all inside Egypt, except for a branch in Dubai, which is targeting primarily Egyptians living abroad.

The company's target clientele is mostly high net-worth to upper middle income individuals. Property consultants are encouraged extensively to rely on their personal networks, which presupposes some prior knowledge of the client's financial capacity. However, in accordance with the current market practice, off-plan sales do not require any background checks or income verification of potential buyers. Clients usually do not receive the desired property before 2-3 years from the contract date, and units are not delivered unless the client has already paid 55% of the unit's price.

To protect the quality of its portfolio and avoid speculative buying, the company has put in place a number of risk management policies. Large deals are discouraged in order to avoid significant credit concentrations. The general rule is that clients can buy up to 3 different units on installments. Furthermore, there are typically no special discounts offered to large investors. Any deviations from these rules must be approved by the company's senior management. In addition, severely delinquent clients are blacklisted on the system, and property consultants are not able to sell new units to such customers.

Collection and Recovery Process

The collection process is centralized and handled by the Collection Team which reports directly to the Sales Director. It consists of 6 members. 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 company's banks, which are responsible for collecting the cheques on the due dates and depositing the collecting amounts in the accounts of the company. Bounced cheques are returned to the Collection department for follow up with the clients.

Delays in payments are monitored through daily reports from the system. Delinquent clients are reminded through a text message of the missed installment. In case of no payment within a week, the collection officers send an official notification letter requesting the client to settle the missed installment within a period of maximum 3 weeks. Any still delinquent cases after 1 month from the due date are referred to the legal department. Clients are then served a legal notification giving them a period of 15 days to settle. As a next step, the legal department can either cancel the contract, file a criminal case against the client based on the bounced cheques, and/or in certain cases file 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 and repossess the unit takes between 6 to 12 months.

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. It is worth noting that no units are delivered to clients unless all past due installments have been settled and that the client has paid at least 55% of the unit purchase price. Thus, before delivering a unit, the Handover Department needs to receive clearance from both the Finance and Legal Departments. Post-delivery delinquent clients face certain restrictions, which are used as pressure points on such clients. These include, but are not limited to:

- Inability to register the unit in his/her name or transfer the ownership until full payment of all dues;
- Inability to register utility bills in his/her name;
- Inability to put the new address in the buyer's national ID.

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 serves a legal notice to delinquent clients within 15 days from the date of default;

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 (Misr Insuarance) and send the relevant documents;
    c. 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 in case of non-payment of the insurance company, the servicer will have 90 days to sell the unit after the repossession date, and in case of failure will issue a power of attorney to assign the sale of the unit to the SPV (Sarwa Securitization). 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 on the Originators involvement for issuing powers of attorney. The recovery mechanism faces additional obstacles, since all units are delivered and therefore deemed legally occupied. As such a court judgment is needed for terminating the sales contract and enforcing the repossession of the unit before attempting any sale in the secondary market

Prior to repossessing and selling the unit, however, the structure's primary track of recovery in case of default is 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 will then receive 90% of the remaining periodic installments as they become due.

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

AAIB (Long-Term Foreign Currency Rating 'B' with a Positive Outlook by Capital Intelligence, March 2018)

Arab African International Bank was established by Special Law as a Joint Venture between the Central Bank of Egypt (CBE) and Kuwait Investment Authority (KIA), and was incorporated in 1964 as Egypt's first Arab multinational Bank. With each party holding a 49.37% stake, the Central Bank of Egypt and the Kuwait Investment Authority are the core of AAIB's shareholder base. In March 2016, the CBE stated that 40% of AAIB's shares would be offered through an initial public offering (IPO) – half to be sold by the Egyptian government and the other half by the Bank's Kuwaiti investors. While maintaining its core competence as a corporate bank, over the years AAIB has expanded its retail business, notably retail customer deposits (and to a lesser extent retail loans). AAIB operates a mid-sized network of 88 branches and 284 ATMs, as well as e-banking services.

AAIB is one of the leading financial services providers in Egypt. Among its key strengths are its strong corporate banking franchise, sound management, strong credit culture and well-trained workforce. The bank's sound capital adequacy, high liquidity, strong profitability, strategic shareholders and solid track record are considered positive factors to act as a Custodian to the proposed transactions. AAIB is also formally appointed as a back-up Servicer to the transaction. As a custodian, AAIB already has daily access to Contact's collection system and databases. In addition, the fact that the bank has historically been in charge of collecting the Originators' customer cheques, is likely to ensure a smooth transition in case AAIB needs to assume the role of a Servicer.

MERIS ANALYSIS

Historical Data and Modeling

MERIS has been provided with 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 BBB range on the national scale. In order to capture the concentration risk of the pool, the rating has been further stressed to the B range for the top 20 obligors in the portfolio. Thus, the rating of the obligors translates into a mean default probability of 23% over the 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 6 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 2.9% (net of expenses), tranche subordination, in addition to an external credit support in the form of a default reserve account or a letter of guarantee in the size of 12.3% 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				
Years	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
3	3,857,063	1%	14	6%
4	2,662,536	1%	9	4%
5	71,076,988	21%	33	14%
6	28,254,134	8%	27	12%
7	149,497,054	43%	87	38%
8	70,606,603	20%	36	16%
9	7,465,646	2%	14	6%
10	10,499,454	3%	8	3%
11-14	2,439,178	1%	4	2%
Total	**346,358,656**	**100%**	**232**	**100%**

Distribution by Seasoning				
Months	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
1-12	1,812,724	1%	2	1%
13-24	82,816,094	24%	22	9%
25-36	104,754,458	30%	40	17%
37-48	80,848,300	23%	68	29%
49-60	50,928,110	15%	59	25%
61-128	25,198,970	7%	41	18%
Total	**346,358,656**	**100%**	**232**	**100%**

Distribution by Remaining Term To Maturity				
Months	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
<12	5,823,155	2%	27	12%
13-24	57,375,192	17%	71	31%
25-36	110,689,674	32%	81	35%
37-48	82,349,091	24%	36	16%
49-60	61,312,036	18%	14	6%
61-72	13,545,168	4%	2	1%
73-80	15,264,340	4%	1	0%
Total	**346,358,656**	**100%**	**232**	**100%**

APPENDIX I: POOL DATA - CONTINUED

Distribution by Original Purchase Price per Unit				
EGP (million)	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
10-24	112,328,391	32%	15	6%
8-10	31,467,032	9%	7	3%
6-8	48,994,494	14%	19	8%
4-6	62,584,806	18%	41	18%
3-4	40,782,249	12%	44	19%
2-3	33,608,515	10%	52	22%
<2	16,593,169	5%	54	23%
Total	**346,358,656**	**100%**	**232**	**100%**

Distribution by Current Outstanding Balance per Client				
EGP (million)	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
10-15	43,870,640	13%	3	1%
7-10	23,690,433	7%	3	1%
5-7	49,730,685	14%	9	4%
3-5	40,142,135	12%	10	4%
2-3	51,543,543	15%	21	9%
1-2	77,121,158	22%	59	25%
<1	61,471,201	18%	128	55%
Total	**346,358,656**	**100%**	**232**	**100%**

Distribution by Original Loan Value (Purchase Price less Downpayment)				
EGP (million)	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
8-15	43,870,640	13%	3	1%
6-8	23,690,433	7%	3	1%
4-6	49,730,685	14%	9	4%
3-4	40,142,135	12%	10	5%
2-3	51,543,543	15%	21	9%
1-2	75,910,019	22%	58	26%
<1	60,854,685	18%	118	53%
Total	**346,358,656**	**100%**	**232**	**100%**

Distribution by Current LTV (Original Purchase Price)				
LTV	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
<=30%	60,569,973	17%	108	47%
31%-40%	85,358,438	25%	71	31%
41%-50%	85,835,739	25%	36	16%
51%-60%	50,575,387	15%	10	4%
61%-70%	56,747,119	16%	6	3%
71%-85%	7,272,000	2%	1	0%
Total	**346,358,656**	**100%**	**232**	**100%**

APPENDIX I: POOL DATA - CONTINUED

Distribution by Installment Frequency				
EGP	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
1 Months	4,924,600	1%	1	0%
3 Months	200,156,354	58%	155	67%
6 Months	88,901,634	26%	39	17%
12 Months	36,381,244	11%	26	11%
Other	15,994,824	5%	11	5%
Total	**346,358,656**	**100%**	**232**	**100%**

Distribution by Installment Value				
Installment (EGP)	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
1,000,000-2,750,000	52,675,231	15%	6	3%
400,000-1,000,000	71,692,332	21%	17	7%
300,000-400,000	40,661,525	12%	20	9%
200,000-300,000	60,588,732	17%	36	16%
100,000-200,000	73,876,023	21%	58	25%
<100,000	46,864,813	14%	95	41%
Total	**346,358,656**	**100%**	**232**	**100%**

Distribution by Unit Type				
Unit Type	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
First Home	250,514,915	72%	185	80%
Second Home	95,843,741	28%	47	20%
Total	**346,358,656**	**100%**	**232**	**100%**

Distribution by Originator				
Originator	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
Palm Hills Development	195,228,316	56%	131	56%
Rakeen Egypt Co. For Real Estate Investment	95,843,741	28%	47	20%
New East Cairo for Real Estate Development	55,286,599	16%	54	23%
Total	**346,358,656**	**100%**	**232**	**100%**

Distribution by Project				
Project	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
North Coast Hacienda white 2	95,843,741	28%	47	20%
Golf Ext.	86,956,241	25%	68	29%
Katameya	66,218,684	19%	22	9%
New Cairo Katameya Ext.	55,286,599	16%	54	23%
October Golf View	30,095,552	9%	14	6%
October Palm Park	11,957,839	3%	27	12%
Total	**346,358,656**	**100%**	**232**	**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		