MERIS
Middle East Rating & Investors Service

May 2021

STRUCTURED FINANCE — New Issue Report

Sarwa Securitization Company S.A.E. – 35th Issue 2021-2028
(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 Originators **as of April 2021.** 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, 2021

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DEFINITIVE RATINGS

Class	Description	Amount (EGP mn)	% of Notes	Expected Maturity	Fixed Coupon (%)	Coupon & Principal Payment Frequency	Rating
A	Senior	90	10.2%	Apr-22	10.70%	Quarterly	AA+ (sf)
B	Subordinated	305	34.6%	Apr-24	10.00%	Monthly*	AA (sf)
C	Subordinated	290	32.9%	Mar-26	10.25%	Monthly*	A+ (sf)
D	Junior Subordinated	196	22.3%	Mar-28	10.75%	Monthly*	A- (sf)
Total		881					

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

OPINION

This is the 35th asset-backed bond issued by Sarwa Securitization Company S.A.E. (SSC) and the sixth 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 six companies, Palm Hills Development and five of its subsidiaries, namely Eastern New Cairo for Real Estate Development, Palm Hills Middle East Co. for Real Estate Investment, Saudi Company for Urban Developments, Rakeen Egypt for Real Estate Investment Company and Palm Real Estate Development. The bond issue size is EGP 881,000,000 and is backed by 355 installment-sale contracts (EGP 931,310,756 outstanding receivable balance on the closing date of the transaction[1]) related to 355 residential units located in 11 of the Originator's real estate development projects (Golf Extension, the Crown, North Coast Hacienda Bay 1, Woodville, New Cairo Katameya Extension, October Palm Park, Palm Valley, Capital Gardens, October Golf View, Katameya and North Coast Hacienda White 2). The contracts have been written over the period between September 2007 and January 2021 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 4.17% net of expenses; (ii) subordination of tranche B, C and D to the more senior tranches; (iii) availability of a default account (Cash Reserve or Letter of Guarantee) in the amount of EGP 103,958,000 representing 11.80% 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 1,188,022,321.

- 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. 2020). 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 fully funded from the first five months of cash inflows after closing to reach EGP 49,864,600 and will be adjusted on a monthly basis to stay at 5.66% of Tranche B, C and D 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 11 of Palm Hills Development Company's real estate development projects (Golf Extension, the Crown, North Coast Hacienda Bay 1, Woodville, New Cairo Katameya Extension, October Palm Park, Palm Valley, Capital Gardens, October Golf View, Katameya and North Coast Hacienda White 2). All the units are fully constructed and delivered to their owners.

- The portfolio is relatively well-diversified geographically. It spans 11 projects, set in various geographic locations across East and West Cairo and the North Coast, with the highest concentration being West Cairo accounting for 70% of the portfolio. The portfolio includes 84% of first home units, and 16% of holiday homes.

- 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 Banque Misr (the Custodian) as a back-up servicer to the transaction. As a Custodian, Banque Misr 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 Banque Misr in the performance of the pool will ensure a smooth and speedy transfer of the Servicer's role to Banque Misr in the event of Servicer's bankruptcy. Banque Misr'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. Banque Misr is rated B2 with a Stable Outlook by Moody's (Dec. 2020).

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 24% of the portfolio. **MERIS** has factored this feature in the quantitative analysis of the transaction.

- 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 and D 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 pool has a relatively high weighted average loan-to-value (LTV) ratio (67% of the original purchase price). The higher the LTV ratio, the higher the buyers' propensity to default.

- The portfolio comprises relatively less seasoned receivables compared to other portfolios of real estate receivables (weighted average seasoning of 21 months and weighted average remaining term to maturity of 65 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 881,000,000
Issuer:	Sarwa Securitization Company S.A.E.
Seller (s) /Originator (s):	Palm Hills Development SAE, Eastern New Cairo for Real Estate Development, Palm Hills Middle East Co. for Real Estate Investment, Saudi Company for Urban Developments, Rakeen Egypt for Real Estate Investment Company, and Palm Real Estate Development
Servicer:	Palm Hills Development SAE, Eastern New Cairo for Real Estate Development, Palm Hills Middle East Co. for Real Estate Investment, Saudi Company for Urban Developments, Rakeen Egypt for Real Estate Investment Company, and Palm Real Estate Development
Back-up Servicer:	Banque Misr
Custodian:	Banque Misr
Structuring Advisor, Lead Manager and Arranger:	Sarwa Capital
Arrangers and Underwriters:	Ahli United Bank and Egyptian Gulf Bank
Structure type:	Senior Subordinated Structure, Tranche A: Predetermined amortization; Tranche B, C & D: Pass-Through amortization
Credit Support:	• 4.17% over collateralization (net of expenses); • Subordination of tranche B, C & D to the more senior tranches; • Default cash reserve account for 11.80% of the note's initial size; • Credit insurance by Misr Insurance (rated 'B++' by AM Best, Dec. 2020) 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 01/04/21):	EGP 1,253,260,286
Number of Contracts:	355 fully amortizing contracts
Number of Clients:	345
Type of Properties*:	100% residential (84% - first homes, 16% - second homes)
Type of Clients*:	100% individuals
Avg Current Loan Balance:	EGP 3,530,311
Avg Current Client Balance:	EGP 3,632,639
WA Seasoning:	21 months
WA Remaining Maturity:	65 months
WA Original Tenor	86 months
WA Current LTV (Original Price):	67%

** 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	89.78%	4.17%	Default reserve account in the size of EGP 103,958,000 or 11.80% of the initial notes' balance;
B	55.16%		
C	22.25%		
D	None		

TRANSACTION SUMMARY

This is the 35th asset-backed bond issued by Sarwa Securitization Company S.A.E. (SSC) and the sixth securitization of real estate receivables originated by Palm Hills Development. The portfolio of real estate receivables has been originated by six companies – Palm Hills Development and five 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 84% 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 September 2007 and January 2021. 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 six 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 four 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 10.70%, 10.00%, 10.25%, and 10.75% in order of seniority. The coupons of all the tranches will be paid quarterly during the first 13 months and monthly thereafter. Class B, C and D notes will be callable starting from the month of May, 2022, following the repayment of Tranche A. Tranche A will follow a predetermined amortization structure, whereas the remaining tranches 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 4.17% net of expenses, (ii) a default reserve account (cash reserve or an irrevocable and unconditional bank guarantee) in the size of 10.80% of the notes' initial balance (EGP 103,958,000) 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, C and D notes to the more senior notes.

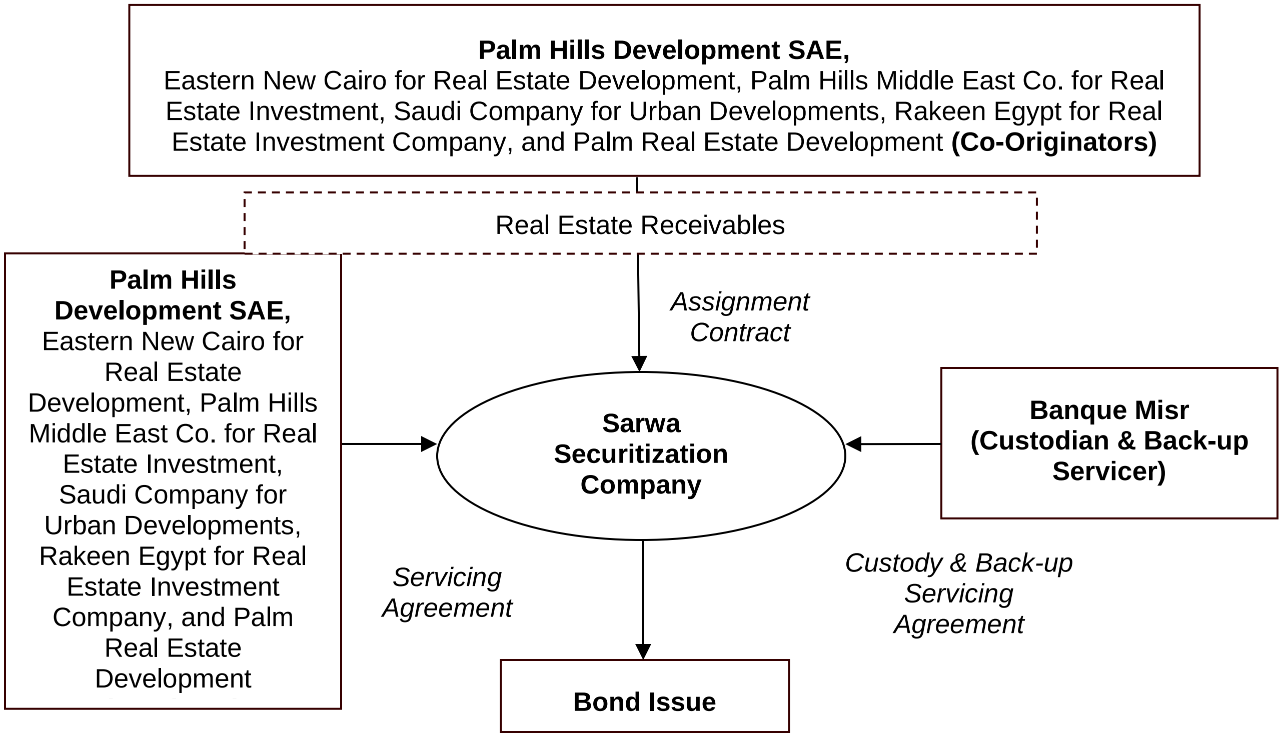
On the closing date, the six originators will entrust their pools of receivables to the Custodian. The combined portfolio is non-revolving (static) and amortizing. The receivables are backed by cheques, which will be endorsed in favour of the Issuer and transferred to the Custodian. The Custodian will 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 within 7 business days from the due date, and any collected amounts by the Servicer will be deposited immediately 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 06/05/2021) 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.

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 five co-originators, signed on 06/05/2021) and the Custody Agreement (between SSC and Banque Misr, signed on 06/05/2021), the periodic installments related to each of the 355 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 seven business days from the due date, and any amounts collected by the Servicer will be deposited immediately 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 four 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 931,310,756, 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 5.4% by the Issuer, creating an over collateralization of EGP 50.3 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 15.6 million. Thus, the transaction is left with only 4.17% 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 most senior tranche benefits from the subordination of the more junior tranches, by a total of 89.78%, tranche B is supported by the subordination of tranches C and D, which represent collectively 55.16% of the total notes size, and tranche C is supported by 22.25%, representing the weight of tranche D.

c. **Liquidity Reserve Account:** The Originator will also establish a cash reserve account in the initial size of EGP 49,864,600 that is to be fully funded over the first five months of cash flows to the transaction and maintained at this level until the full 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 5.66% of the outstanding aggregate notes' balance.

2) **External Credit Support**

a. **Default Reserve Account:** The Originator will provide 11.80% of the notes' initial aggregate size (EGP 103,958,000) of reserve cover by means of an irrevocable and unconditional letter of guarantee or a cash reserve account. The reserve fund 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 and D 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. 2020). 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 in the amount of EGP 49,864,600, to be fully funded over the first five months of cash flows. Following the amortization of Tranche A, the liquidity reserve will be adjusted monthly to remain at 5.66% of the outstanding aggregate notes' 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, C and D 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, C and D 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 A notes (no later than 12 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. Similarly, Class D note holders will start receiving principal repayments after the full amortization of Class C and no later than 60 months after the transaction close. Class D note holders are to be fully repaid within 84 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 down payment, 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 80 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 (84%) and second home (16%) residential properties to individual customers. The installment-sale contracts have been originated by Palm Hills Development and five of its subsidiaries over the period between September 2007 and January 2021. 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: Golf Extension, the Crown, North Coast Hacienda Bay 1, Woodville, New Cairo Katameya Extension, October Palm Park, Palm Valley, Capital Gardens, October Golf View, Katameya and North Coast Hacienda White 2. The portfolio is relatively well-diversified geographically with projects located along East and West Cairo, as well as the North Coast, with West Cairo accounting for the biggest share with 70% 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 86 months, given that majority of contracts (68%) have tenors of 7 and 8 years. It is worth noting that the 14% of contracts in the portfolio, whose duration extends beyond 8 years all the way to the maximum maturity of 14 years, have been mostly extended due to construction delays either caused by the developer or as a result of unit modifications or additional construction requested by the unit holders. The weighted average seasoning of the portfolio is 21 months, and the remaining term to maturity is 65 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:	345	
Number of Contracts/Properties:	355	
Original Balance (Total Unit Price EGP):	2,296,216,627	
Current Balance (EGP):	1,253,260,286	
Avg current balance per client (EGP):	3,632,639	
Avg current loan balance (EGP):	3,530,311	
WA Current LTV	67%	
WA Seasoning (months):	21	
WA Remaining Term (months):	65	
Top obligor (EGP):	19,920,000	1.6%
Top 10 obligors (EGP):	169,447,989	13.5%
Top 20 obligors (EGP)::	297,072,908	23.7%

Low Loan to Value Profile

As per the company's policy, the contracts become valid upon successfully collecting the initial down payment 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 45% of the original value. The portfolio's weighted average current LTV equals 67%. Higher LTV contracts carry relatively higher credit risk due to the lower owner's equity accumulated in the property value.

Relatively Young Pool

The collateral portfolio is relatively young with 72% of the contracts (in terms of outstanding value) having seasoning of less than 2 years. With a weighted average seasoning of 21 months, the majority of the portfolio consists of clients that have not yet been tried and tested over a reasonably long period of time. The weighted average term of maturity of the portfolio is only 65 months, which is on the longer side for real estate receivables portfolios and carries relatively higher credit risk in comparison to portfolios with shorter 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 1.6% of the current portfolio balance, the top 10 – for 13.5%, and the top 20 - for 23.7%. 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-21	Apr-22	Apr-23	Apr-24	Apr-25	Apr-26	Apr-27
Top 10 Clients	14%	14%	17%	19%	23%	26%	31%
Top 20 Clients	24%	26%	29%	32%	37%	44%	51%
Top 30 Clients	32%	35%	39%	43%	49%	58%	68%
Top 50 Clients	45%	48%	55%	60%	67%	79%	93%
Top 80 Clients	60%	65%	73%	79%	87%	95%	100%
Top 100 Clients	69%	75%	83%	89%	95%	100%	
Total Number of Contracts	355	331	254	149	128	103	63
Total Number of Clients	345	322	246	147	126	103	63
Total Portfolio	1,253,260,286	966,277,888	703,036,190	503,321,458	343,154,187	216,098,681	124,921,904

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 11 different projects, set in 3 distinct locations across Egypt. West Cairo accounts for the biggest share with 70% of the total portfolio, followed by the North Coast– 16%, and the remaining 14% belonging to New Cairo.

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 on the Egyptian stock exchange with a market capitalization of close to EGP 5 billion as of May 2021. The company builds integrated communities and has one of the largest and most diversified land bank portfolios, spreading over 42.3 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, and recently in Alexandria, as well as secondary homes along the Mediterranean North Coast and Ain Sokhna (Red Sea). As of the end of 2020, PHD has delivered 11,326 units within its developments. PHD currently has 9 projects under development. It has sales backlog of more than EGP 16 billion.

PHD and five of its subsidiaries - Eastern New Cairo for Real Estate Development, Palm Hills Middle East Co. for Real Estate Investment, Saudi Company for Urban Developments, Palm Real Estate Development, and Rakeen Egypt for Real Estate Investment Company, are the originators of the 355 installment-sale contracts. The six companies will act as Servicers on behalf of the SPV. According to the Servicing Agreement between the Servicers and Egyptian Securitization Company (SPV), the Servicers will be responsible for collecting any of the bounced cheques for the installments under each one of the 355 securitized contracts, and transfer such collections immediately to the account of the SPV held with the Custodian (Banque Misr) 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 lean and dedicated sales team including a total of around 80 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 in-house sales force ensures that approximately 60% of sales are originated directly through the company's own property consultants. The remaining 40% 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, but also Gulf citizens.

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 network, 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 at least 25% of the unit's price and the maintenance fees. In most cases, however, the clients have already paid between 40% to 65% of the total price by the time the unit is handed over. In recent months, PHD introduced a new product of "ready to move in" units, where clients need to only pay 15% of the unit purchase price before receiving the units.

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 has been moved from the Sales and Customer Care team to the Finance Team. It consists of a team head and 9 collection agents. 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 carries 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 (around 10% of the securitized contracts). 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 25% of the unit purchase price. Thus, before delivering a unit, the Handover Department needs to receive clearance from both the Finance and the 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

Banque Misr (B2 local currency deposit rating by Moody's – 2020)

Banque Misr SAE (BM) is an Egyptian commercial bank that provides a range of corporate, retail, investment banking and Islamic banking services. BM is the second-largest bank in the country in terms of assets. As of 30 June 2019, it held a market share of 17.5% in terms of assets, and reported total unconsolidated assets of EGP 967.3 billion.

Currently, BM operates through a network of more than 652 domestic branches serving more than 12 million customers in Egypt. As of 30 June 2019, BM had one branch in France and five branches in the UAE. BM has subsidiaries in Lebanon and Germany, as well as representative offices in China, Russia, Italy, and South Korea.

BM is also the 100% owner of Banque du Caire, which is expected to be partly privatized during 2021. BM does not consolidate its stake in Banque du Caire, but is rather included in the bank's financials as an investment and carried at amortized cost.

BM was established in April 1920. It is wholly-owned by the Government of Egypt. The bank's reputation as being the second largest bank in Egypt and its track record are considered positive factors to act as a Custodian to the proposed transaction. Banque Misr is also formally appointed as a back-up Servicer to the transaction. Banque Misr is rated by Moody's and has a local currency deposit rating of B2, with a stable outlook – December 2020.

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 higher risk of holiday homes in the pool, the rating of these buyers has been further stressed to the B range. Thus, the rating of the obligors translates into a mean default probability of 24% 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: 10% after 6 months, 90% after 18 months;
- Prepayment rate: **MERIS** has tested the transaction using various prepayment rates between 0% and 20%;
- Credit Support: Over collateralization of 4.17% (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 11.80% 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	12,182,468	1%	5	1%
4	29,020,600	2%	7	2%
5	85,413,999	7%	17	5%
6	101,325,067	8%	33	9%
7	317,402,374	25%	136	38%
8	353,145,879	28%	107	30%
9	190,253,274	15%	25	7%
10	118,757,910	9%	14	4%
11-14	45,758,715	4%	11	3%
Total	**1,253,260,286**	**100%**	**355**	**100%**

Distribution by Seasoning				
Months	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
2-12	521,934,592	42%	75	21%
13-24	382,020,045	30%	57	16%
25-36	109,258,687	9%	19	5%
37-48	71,722,740	6%	25	7%
49-60	145,158,381	12%	155	44%
61-163	23,165,841	2%	24	7%
Total	**1,253,260,286**	**100%**	**355**	**100%**

Distribution by Remaining Term To Maturity				
Years	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
1	20,883,220	2%	25	7%
2	107,680,009	9%	90	25%
3	140,697,226	11%	94	26%
4	99,907,238	8%	19	5%
5	134,350,859	11%	24	7%
6	258,258,010	21%	40	11%
7	62,686,417	5%	11	3%
8	280,063,023	22%	29	8%
9-10	148,734,284	12%	23	6%
Total	**1,253,260,286**	**100%**	**355**	**100%**

Distribution by Original Purchase Price per Unit				
EGP (million)	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
10-26	653,095,613	52%	75	21%
8-10	164,940,377	13%	35	10%
6-8	236,586,436	19%	66	19%
4-6	103,992,339	8%	44	12%
3-4	42,394,396	3%	25	7%
2-3	14,960,764	1%	21	6%
<2	37,290,361	3%	89	25%
Total	**1,253,260,286**	**100%**	**355**	**100%**

APPENDIX I: POOL DATA - CONTINUED

Distribution by Current Outstanding Balance per Client				
EGP (million)	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
10 -20	337,995,873	27%	25	7%
7-10	250,277,560	20%	32	9%
5-7	280,206,664	22%	48	14%
3-5	172,566,491	14%	45	13%
2-3	101,226,941	8%	41	12%
1-2	48,781,979	4%	34	10%
<1	62,204,778	5%	130	37%
Total	**1,253,260,286**	**100%**	**355**	**100%**

Distribution by Original Loan Value (Purchase Price less Down payment)				
EGP (million)	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
10-20	442,025,230	35%	42	12%
8-10	222,129,584	18%	34	10%
6-8	263,793,965	21%	61	17%
4-6	204,302,390	16%	67	19%
3-4	33,870,271	3%	21	6%
2-3	36,798,153	3%	23	6%
1-2	48,644,069	4%	100	28%
<1	1,696,624	0%	7	2%
Total	**1,253,260,286**	**100%**	**355**	**100%**

Distribution by Current LTV (Original Purchase Price)				
LTV	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
<=30%	133,621,413	11%	127	36%
31%-40%	96,522,948	8%	76	21%
41%-50%	20,325,976	2%	7	2%
51%-60%	84,632,283	7%	22	6%
61%-70%	108,559,854	9%	18	5%
71%-96%	809,597,812	65%	105	30%
Total	**1,253,260,286**	**100%**	**355**	**100%**

Distribution by Installment Frequency				
EGP	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
Monthly	8,259,928	1%	2	1%
Quarterly	794,736,582	63%	252	71%
Semi Annually	95,429,032	8%	31	9%
Annually	184,796,886	15%	37	10%
Other	170,037,858	14%	33	9%
Total	**1,253,260,286**	**100%**	**355**	**100%**

APPENDIX I: POOL DATA - CONTINUED

Distribution by Installment Value				
Installment (EGP '000)	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
1,000-4,000	270,837,923	22%	29	8%
400-1,000	342,144,343	27%	55	15%
300-400	166,246,217	13%	32	9%
200-300	244,615,906	20%	65	18%
100-200	168,492,752	13%	76	21%
<100	60,923,145	5%	98	28%
Total	**1,253,260,286**	**100%**	**355**	**100%**

Distribution by Unit Type				
Unit Type	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
First Home	1,048,486,088	84%	307	86%
Vacation Home	204,774,198	16%	48	14%
Total	**1,253,260,286**	**100%**	**355**	**100%**

Distribution by Originator				
Originator	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
Palm Hills Development	758,293,721	61%	127	36%
Palm Hills Middle East Co. For Real Estate Investment	203,667,850	16%	47	13%
Eastern New Cairo for Real Estate Development	104,988,984	8%	39	11%
Rakeen Egypt Co. For Real Estate Investment	80,438,238	6%	22	6%
Saudi Co. For Urban Developments	53,391,720	4%	14	4%
Palm Real Estate Development	52,479,773	4%	106	30%
Total	**1,253,260,286**	**100%**	**355**	**100%**

Distribution by Project				
Project	**Current Balance**	**% Total**	**# of Contracts**	**# of Contracts %**
Golf Ext.	322,952,826	26%	46	13%
The Crown	242,101,218	19%	35	10%
North Coast Hacienda Bay 1	203,667,850	16%	47	13%
WoodVille	125,097,902	10%	27	8%
New Cairo Katameya Ext.	104,988,984	8%	39	11%
October Palm Park	79,331,890	6%	21	6%
Palm Valley	53,391,720	4%	14	4%
Capital Gardens	52,479,773	4%	106	30%
October Golf View	48,873,442	4%	15	4%
Katameya	19,268,333	2%	4	1%
North Coast Hacienda White 2	1,106,348	0.1%	1	0.3%
Total	**1,253,260,286**	**100%**	**355**	**100%**

APPENDIX II: PALM HILLS SECURITISATION DEALS COMPARISON

Transaction	Palm Hills 6th (2021-2028)	Palm Hills 5th (2020-2025)	Palm Hills 4th (2019-2024)	Palm Hills 3rd (2019-2024)	Palm Hills 2nd (2018-2023)	Palm Hills 1st (2016-2021)
Bond Size (EGP mn)	881	1,247	601	588	261	404
Assigned Ratings:						
Class A:	AA+	AA+	AA+	AA+	AA+	AA+
Class B:	AA	AA	AA	AA	AA	AA
Class C:	A+	A	A	A	A	A
Class D:	A-					
Maturity						
Class A:	Apr-22	Nov-21	Oct-20	Feb-20	Apr-19	Jan-18
Class B:	Apr-24	Oct-23	Oct-22	Feb-22	Apr-21	Jan-20
Class C:	Mar-26	Nov-25	Nov-24	Dec-23	Mar-23	Dec-21
Class D:	Mar-28					
O/C at issuance (net of expenses)	**4.17%**	**3.33%**	**3.72%**	**3.78%**	**2.91%**	**1.45%**
External Credit Support:	**11.80%**	**11.42%**	**9.50%**	**11.38%**	**12.30%**	**11.36%**
No. of Contracts	355	1,314	547	670	232	465
Seasoning (months)	21	39	33	34	38	34
WA LTV (at origination):	67%	42%	46%	44%	44%	46%
First Home %	84%	68%	75%	29%	72%	68%
Holiday Home%	16%	32%	25%	71%	28%	32%
Avg. amount per contract:	3,530,311	1,160,066	1,343,174	1,194,603	1,567,234	1,206,019
Avg. amount per debtor:	3,632,639	1,245,365	1,419,296	1,133,981	1,492,925	1,159,335

APPENDIX IV: National Rating Scale