MERIS
Middle East Rating & Investors Service

December 2020

STRUCTURED FINANCE **New Issue Report**

Sarwa Sukuk Company S.A.E. – 1st Issue 2020-2027

Mudarabah Sukuk based on Auto Receivables to be originated by Contact Credit Company and its subsidiaries & sister companies

This report addresses the structure and characteristics of the transaction based on the information provided to ***MERIS*** *by Sarwa Sukuk Company* ***as of November 2020.*** *The ratings address the expected loss posed to investors by the final maturity. In* ***MERIS*** *opinion the structure allows for the payment of return 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.*

Contacts:

Radwa Weshahy
VP Senior Risk Rating Analyst
(202) 3749-5616
radwa.weshahy@merisratings.com

Miglena Spasova, CFA
VP Senior Risk Rating Officer
(202) 3749-5616
miglena.spasova@merisratings.com

Marwa Ezzat
VP Senior Risk Rating Officer
marwa.ezzat@merisratings.com

WEBSITE:
www.merisratings.com

DEFINITIVE RATINGS

Description	Amount (EGP bn)	Tenor (Month)	Expected Maturity	Rate of Return	Repayment Frequency	Rating
Single Tranche Sukuk	2.5	84	Nov-2027	Variable rate	Monthly	**A- (sf)**

OPINION

This is the first Sukuk issue by Sarwa Sukuk Company S.A.E. (SSC). It is the first Mudarabah Sukuk to be issued in Egypt. The Mudarabah Sukuk proceeds will be used to finance auto receivables portfolios, which will be originated by Contact Credit Company and its subsidiaries and sister companies (Originators). The 7-year Mudarabah Sukuk will be issued on one tranche in the total size of EGP 2.5 billion, and will be callable from the 25th month after the date of Sukuk issuance. The Sukuk will yield a variable rate of return for the Sukuk holders that is to be paid on a monthly basis starting from the closing date of the Sukuk subscription.

The Sukuk is the first structured finance instrument in the Egyptian market to feature a prefunded account and a revolving period. The transaction is based on a fully prefunded structure, whereby the Sukuk proceeds will be kept with the custodian and will be disbursed on tranches to finance auto receivables portfolios with predetermined characteristics, as per the Sukuk transaction documents. Furthermore, the Sukuk has a two-year revolving period, during which any monthly collections from the acquired portfolios, will be used to finance new portfolios of auto receivables, instead of being returned to the Sukuk holders. As of the date of closing of the Sukuk issuance, there is no identifiable pool of receivables to be acquired by the Sukuk company, since the receivables could not have been originated prior to the Sukuk closing date.

Contact Credit Company is one of the leading auto finance companies in Egypt being in the market since 2001, capturing the largest market share among the domestic auto finance companies. Contact Credit Company and its subsidiaries and sister companies (Originators) have issued more than 20 securitization transactions since 2005. Up to date, all of the outstanding transactions are performing well, with regular timely payment of the bondholders' dues.

MERIS has assigned the national scale rating of A- (sf) the 1st Sukuk transaction, issued by Sarwa Sukuk Company S.A.E. The rating is considered an investment grade on the National Rating Scale. "A-" rated issuers or issues are considered Above Average in Creditworthiness relative to other domestic issuers or issues. The (+/-) signs denote relative status within each rating category and the (sf) insertion stands for structured finance. The Sukuk rating is a relative ranking of risk and address the expected loss posed to investors by the Sukuk maturity date. In **MERIS**'s opinion, the transaction structure allows for timely payment of the Sukuk expected return and ultimate repayment of principal with respect to the Sukuk maturity.

Strengths of the Transaction

- This is the first Mudarabah Sukuk by Sarwa Sukuk Company backed by auto receivables portfolios to be originated by Contact Credit Company and its subsidiaries and sister companies (Originators). The aforementioned originators follow the same strict underwriting, collection/servicing and monitoring policies and procedures. It is of note that the outstanding securitization issues are performing well with reported cumulative credit default rates well below 1% and not less than 99% cumulative recovery rates as of the time of writing this report.

- The credit enhancement available to the Sukuk comes in the form of default reserve account in the size of 3.6% of the price of the each portfolio, (which is the present value of each portfolio at the time of acquisition) and it will be held in a separate cash reserve account with the agent (custodian) of the transaction. It will be used to cover any delinquencies and/or defaults of the clients over the tenor of each portfolio. In case the default reserve account balance falls below 3.6% of the outstanding portfolio present value, the project manager (Contact Credit Company) is obliged to replenish it to reach the required level.

- With every new disbursement (new portfolio to be financed by the Sukuk Company), the legal and auditor advisors to the transaction will issue due diligence reports on this portfolio and the auditor will verify that the new portfolio meets the credit criteria specified from day one in the transaction's legal agreements, including but not limited to; 1) Current weighted average LTV not more than 70%; 2) Used vehicles outstanding balance is not more than 30% of each portfolio; 3) Each portfolio seasoning is not less than one month / one paid instalment, which is fully collected on its due date; 4) No delinquencies more than 30-days from the instalment due date for all contracts, and others criteria as per the legal agreements.

- Sarwa Investment Management Company will assume the role of the calculation agent in the Sukuk issue, where it will follow up on; the portfolios' collection performance, calculation of the portfolios' present values at the time of transfer/assignment, the calculation of the 3.6% default reserve balance at the time of portfolio assignment as well as monthly till full payment of each portfolio, the calculation of the project manager fees, the transaction expenses account, the calculation of the Sukuk holders return and principal repayment over the Sukuk tenor and others as per the legal agreements.

- The Servicer/Project Manager, Contact Credit Company, has built up a significant experience over the past 20 years. Its efficiency of operations is supported by an automated file management system. **MERIS** has conducted an operational review of the Servicer and believes that the management, procedures and systems in place permit Contact Credit Company to adequately perform its duties as a Servicer.

- Banque Misr (LT Deposit Rating "B2" by Moody's Investor Service, October 2020) has been contracted as a back-up servicer of the Sukuk transaction. Despite the cold nature of the back-up service agreement, **MERIS** believes that Banque Misr is adequately positioned to smoothly assume and carry out the servicing of the transaction should the need arise. Banque Misr's ability to serve as a back-up servicer of the transaction is supported by its solid experience in servicing a large number of corporate and retail clients in Egypt.

Weaknesses of the Transaction

- In general, **MERIS** perceives greater uncertainty associated with unrated originators. However, this is mitigated by the originators' experienced management teams and strict adherence to its underwriting policies and procedures, which assure a high quality receivables pool.

- The Sukuk structure is fully prefunded, whereby the auto receivables to be acquired by the transaction will be generated after the Sukuk issuance date. Prefunded structures entail greater risks of uncertainty related to portfolio performance compared to transactions with already existing and fully identifiable portfolios. This risk is mitigated, to some extent, by having the legal and auditor advisors produce due diligence reports on each portfolio before it is assigned to the Sukuk company, in addition to the auditor verification that the portfolio meets the pre-determined set of characteristics, as per the transaction documents.

- The Sukuk issue has an initial two-year revolving period, where any collections from the acquired portfolios will be used to finance new portfolios instead of being returned to the Sukuk holders. **MERIS** considers revolving/dynamic pools to be riskier than static/fixed portfolios of receivables.

- Even though the obligation on the servicer/project manager to ensure that the default reserve will equal, at any point of time during the Sukuk tenor, 3.6% of the present value of the outstanding portfolios, is considered a supporting factor to the Sukuk transaction, it creates a limited recourse on the originator (who is acting as the servicer/project manager). Hence, in case of bankruptcy of the servicer/project manager, this feature will no longer be available to the Sukuk structure. Additionally, the backup servicer agreement does not assign this obligation to the appointed backup servicer. Nevertheless, **MERIS** believes that it is highly unlikely that the servicer/project manager will face bankruptcy over the Sukuk tenor, driven by the strong capitalization of the company.

- As per the transaction documents of the Sukuk issue, assigned portfolios can have up to 30% of the auto receivables related to the sale of used vehicles. In general, used cars are associated with a greater probability of default due to the perceived higher credit risk of the buyers. Nevertheless, the originators have a conservative policy towards used vehicles, as it is mainly focusing on premium brands, which will indicate high creditworthiness of the buyers.

- The auto receivables portfolios to be transferred to the Sukuk Company may have a very low seasoning, with a minimum of only one monthly installment. Younger pools exhibit relatively higher frequencies of default as compared to more seasoned portfolios.

- Legal uncertainties exist, given that this is the first Mudarabah Sukuk transaction in Egypt and it 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, and concluded that the legal risks were consistent with the assigned rating.

STRUCTURE SUMMARY

Amount Rated:	EGP 2,500,000,000
Issuer:	Sarwa Sukuk Company S.A.E.
Seller (s) /Originator (s):	Contact Credit Company S.A.E. and its subsidiaries and sister companies
Servicer/Project Manager:	Contact Credit Company S.A.E.
Custodian:	Banque Misr (LT Deposit Rating "B2" by Moody's Investor Service)
Back-up Servicer/Project Manager:	Banque Misr (LT Deposit Rating "B2" by Moody's Investor Service)
Underwriters and Promoters:	Sarwa Capital, Misr Capital, Banque Misr, CIB, and Ahli United Bank
Structure type:	Single Tranche – 100% Prefunded Account, with a 2-year Revolving Period; Pass Through Amortization Structure
Credit Support:	Default Reserve Account at the size of 3.6% of each portfolio present value at all times till the full amortization of each portfolio.

TRANSACTION SUMMARY

This is the first Mudarabah Sukuk transaction issued by Sarwa Sukuk Company, based on auto receivables portfolios to be originated by Contact Credit Company S.A.E. and its subsidiaries and sister companies (originators). The auto receivables will be secured by new and used vehicles, which will be fully insured and subject to a resale restriction by the Traffic Directorate.

The 7-years Mudarabah Sukuk will be issued as a single tranche in the total size of EGP 2.5 billion, and will callable from the 25th month from the date of Sukuk issuance. After the two-year initial revolving period, the issue will follow a pass-through amortization structure. The Sukuk will yield a variable rate of return for the Sukuk holders that is to be paid on a monthly basis starting from the following month from the closing date of the Sukuk subscription. The issue is considered a Pre-Funded Sukuk, where the Sukuk proceeds will be retained with the transaction's custodian and to be used to finance auto receivables portfolios originated by the originators. Furthermore, the transaction has an initial two-year revolving period, where any collections from the acquired portfolios, will be added to the remaining Sukuk proceeds with the custodian and used to finance new portfolios. Although the aforementioned features give more flexibility to the originators especially in the first two years of the transaction, **MERIS** notes that such features are creating an element of uncertainty with regards to the portfolio credit quality.

At the closing of the transaction, the Sukuk proceeds (EGP 2.5 billion) will be kept in the Issuance Account with the Custodian/Agent of the transaction and will be used to acquire auto receivables portfolios by the Sukuk Company with a value equal to the present value of the portfolio size after deducting the recurring expenses and setting aside the default reserve balance (3.6% of the present value of the portfolio). It is worthy to mention that the following day after the Sukuk subscription closing, the Issuer (Sarwa Sukuk Company), will deposit an amount equal to the present value of all expected fixed issuance expenses in the Issuance Expenses Account, as per the terms and conditions stated in the legal agreements and info memo of the Sukuk issue.

In order to ensure that the portfolios credit quality will be the same as the agreed upon criteria set in the legal documentation, the legal and auditor advisors will issue due diligence reports on each portfolio to be assigned to the Sukuk company before funds disbursement. In addition, the auditor will verify that the new portfolio meets the credit criteria specified from day one in the info memo. The main selection criteria for each portfolio includes, but not limited to:

- Maximum portfolio tenor is 60 months and it will not exceed the Sukuk's tenor;
- Used vehicles will not exceed 30% of each portfolio;
- The portfolio seasoning is not less than one month that was fully paid on its due date;
- The maximum financing for the client at the time of contracting does not exceed EGP 5 million;
- The weighted average current LTV of each portfolio does not exceed 70%;
- No delinquencies more than 30-days from the instalment due date.

Before the disbursement of each tranche (the present value of the assigned portfolio less the recurring expenses and the default reserve balance), the agent (custodian) will receive the following documents, among others, as per the legal documentation of the Sukuk transaction:

- Original auto finance contracts between the clients and the originators;
- Any guarantees related to the assigned portfolio, including guarantees, insurances and others;
- The legal and auditor advisors due diligence reports on the assigned portfolio. In addition, the auditor will verify that the new portfolio meets the predetermined credit criteria specified in the transaction's legal documents.

Furthermore, the issuer company will send the following documents to **MERIS** with every new tranche to be disbursed:

- The legal and auditor advisors due diligence reports on the assigned portfolio, in addition to the auditor's verification that the new portfolio meets the predetermined credit characteristics; and
- Portfolio detailed characteristics.

MERIS will have five business days to review the above mentioned data and to make sure that the data is in line with the initially agreed upon criteria.

During the initial two-year revolving period the agent/custodian will acquire newly-originated portfolios of auto receivables from the originators, whereas the price that will be disbursed to the beneficiary company (originator) will equal the present value of the assigned portfolios net of the amounts that will be withheld according to the transaction documents, which are: 1) the credit enhancement in the size of 3.6% of the present value of the portfolio balance at the time of transfer, which will be held in a separate account "Default Reserve Account" and it will be used to cover any delinquencies or defaults; and 2) the present value of the insurance premiums.

The project manager/servicer will follow up on the collections and deposit the collected funds within a maximum of three working days in the Collection Account, which is managed by the agent, who in turn will transfer on a daily basis the collected funds to the Issuance Account, that consecutively will be used to fund new portfolios during the initial two-year revolving period of the Sukuk.

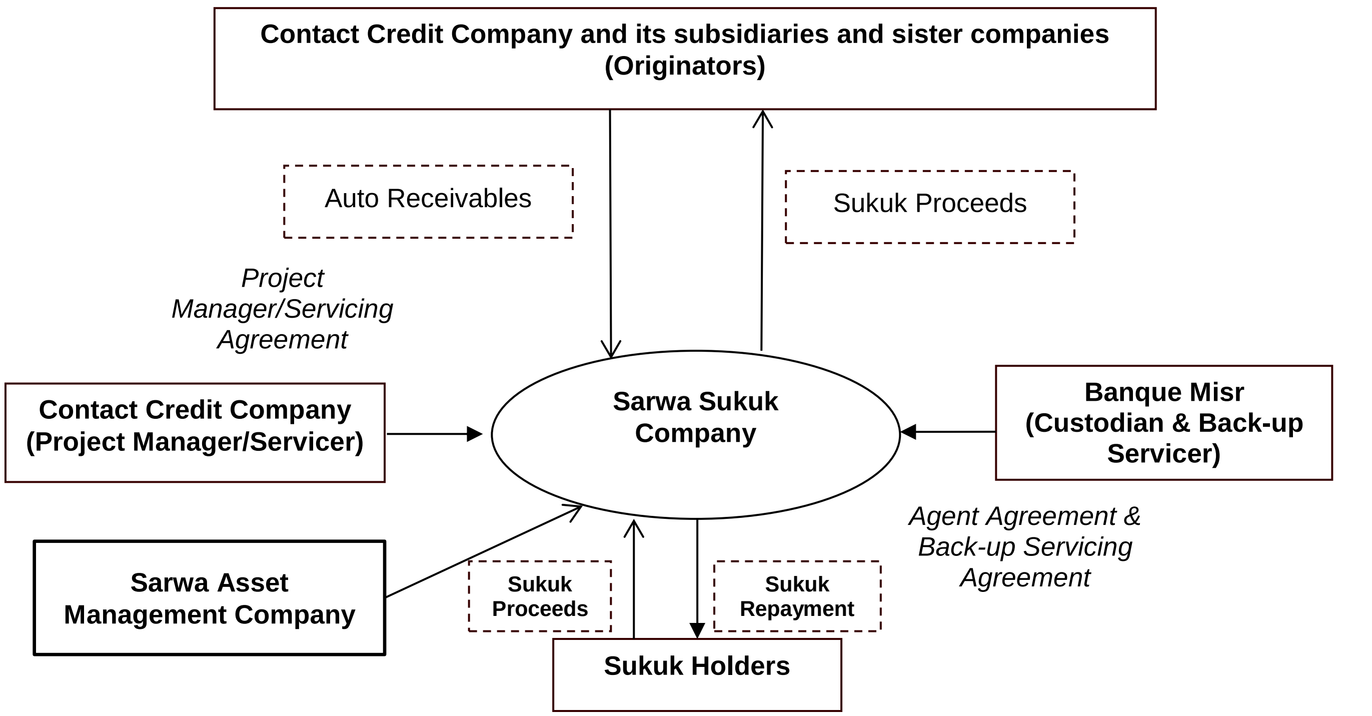
The project manager/servicer will be entitled to a monthly collection fee equal to the excess amounts in the default reserve account that are over and above the 3.6% of the present value of the outstanding portfolio, resulting from the amortization of the portfolios in view of the successful collection of the clients installments. In case the default reserve account balance falls below the 3.6%, the project manager is obliged to replenish it to reach the required level. In all cases the default reserve account must be maintained at a minimum of 3.6% of the present value of the outstanding portfolio balances until the Sukuk maturity, and this is a commitment on the project manager. It is worthy to note that the commitment to cover any deficit in the default reserve account creates a limited recourse on the originator (who is acting as the servicer/project manager). Hence, in case of bankruptcy of the servicer/project manager, this feature will no longer be available in the Sukuk structure. Additionally, the backup servicer agreement does not include any provisions for the appointed backup servicer to assume this obligation.

The Sukuk holders will receive a variable monthly return based on the expected return of the assigned portfolios, as well as any investment returns from the excess cash invested in Sharia compliant instruments, after deducting the recurring costs of the transaction, which are Sarwa Sukuk fees and the custodian fees.

STRUCTURAL AND LEGAL ASPECTS

The Mudarabah Sukuk is structured to isolate the auto receivables from the insolvency risks of the originator(s)/seller(s). This is done by the originator(s)/seller(s) transferring the auto installment-sale contracts by means of true sale to a bankruptcy-remote special purpose entity (Sukuk company) on tranches. Under the structure – please refer to the following diagram – the originator(s) of the receivables, will sell and assign all their rights and benefits in the receivables to Sarwa Sukuk 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 originators to the Issuer (based on an Assignment Contract dated 22/11/2020) constitutes a true sale. The pool of receivables will be secured by the cars, which will be fully insured and subject to a resale restriction by the Traffic Directorate.

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 (Project Management) Agreement (between Sarwa Sukuk Company and Contact Credit Company, signed on 22/11/2020) and the Custody (Agent) Agreement (between Sarwa Sukuk Company and Banque Misr, signed on 22/11/2020), the collections of the monthly installments related to the individual auto installment-sale contracts in the pool will bypass for the most part the account of the Servicer/project manager and will be credited directly to the account of the Issuer, with a maximum of three working days from collection. During the first 24^{th} months of the transaction, the Sukuk proceeds as well as the collected funds will be utilized to finance portfolios on tranches from the originator and any excess amounts will be invested in low risk Sharia Complaint instruments, as per the Asset Management Agreement (between Sarwa Sukuk Company, Contact Credit Company and Banque Misr signed on 22/11/2020). **MERIS** believes that the by-pass collection mechanism, whereby direct debit and cheque collections are credited directly to the account of the Issuer, mitigate the risk of commingling the funds collected by the Servicer/Project Manager on behalf of the Sukuk Company 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 assigned assets are the property of the Sukuk bondholders and cannot be subject to claims by the Servicer's creditors if trapped in the Servicer's bankruptcy estate.

In accordance with Custodian (Agent) Agreement, the Custodian will maintain six separate accounts: (1) an issuance account that includes the Sukuk proceeds and the collected funds from the financed portfolios; (2) a collection account to capture the installments collected from the clients before being transferred to the issuance account to be reused in purchasing new portfolios over the initial two-year revolving period; (3) an account for return payments; (4) a default reserve account; (5) transaction expenses account; and (6) insurance policies expenses account.

The legal advisor of the transaction provided a legal opinion regarding the clarification of the clauses in the Capital Market Law 95/1992 regarding the need of the Issuer, Servicer, and Custodian to maintain separate accounts for different Sukuk transactions. The CMA law 95/1992 explicitly addresses the issue of separateness and nonconsolidation of different Sukuk transactions by the same Issuer. The opinion provided is consistent with the rating assigned to the notes, notwithstanding the fact that similar structures have not been tested in Egyptian courts yet.

The Issuer: Sarwa Sukuk Company

Sarwa Sukuk Company was established as a joint stock company on January 2019 and operating under Law 95/1992 (Commercial register No. 82198 Cairo). The company's current shareholding structure is as follows:

Shareholders	# of Shares	EGP	% Ownership
Sarwa Capital Holding for Financial Investments S.A.E.	99,980	9,998,000	99.98%
Hazem Moussa	10	1,000	0.01%
Ayman El Saway	10	1,000	0.01%
Total	100,000	10,000,000	**100%**

Although the Originator/Project Manager (Contact Credit Company) has no stake in the Sukuk Company, it is worth noting that Sarwa Capital Holding for Financial Investments S.A.E., the main shareholder in Sarwa Sukuk Company, is also a major shareholder (99.1%) of Contact Credit Company.

Credit Enhancements

Default Reserve Account

The credit enhancement available to the Sukuk comes in the form of a default reserve account in the size of 3.6% of each portfolio present value at the time of portfolio acquisition and it will be held in a separate account with the agent (custodian) of the transaction. It will be used to cover any delinquencies and/or defaults of the clients over the tenor of each portfolio.

The default reserve account will be kept at 3.6% of the outstanding portfolios present value at all times till the full amortization of each portfolio. In case the default reserve account balance falls below the 3.6% threshold, the project manager is obliged to replenish it to reach the required level. At any point of time, the default reserve account must not fall below 3.6% of the present value of outstanding portfolios balance until the full Sukuk redemption, and this is a commitment on the project manager. It is worthy to mention that the project manager will be entitled to a monthly collection fee equal to the any amounts in the default reserve account in excess of the 3.6% threshold.

Though the obligation on the servicer/project manager to ensure that the default reserve will equal, at any point of time during the Sukuk tenor, the size of 3.6% of the present value of the outstanding portfolios, is considered a supporting factor to the Sukuk transaction, it creates a limited recourse on the originator (who is acting as the servicer/project manager) to cover any deficit in the default reserve account. Hence, in case of the servicer/project manager bankruptcy, this refill feature will no longer be available to the transaction. Additionally, the backup servicer agreement does not make any provisions for the appointed backup servicer to assume this obligation.

It is worthy to mention that Sarwa Investment Management Company will assume the role of the calculation agent in the Sukuk issue, where it will follow up on the portfolio collection performance, the calculation of the portfolios' present values at the time of transfer, the calculation of the 3.6% default reserve account at the time of portfolio assignment and monthly thereafter till the full amortization of each portfolio, the calculation of the project manager fees linked to the default reserve account, the transaction expenses account, the calculation of the Sukuk holders return and principal repayment over the Sukuk life and others, as per the legal agreements. **MERIS** notes that having this role in place will provide an extra layer of control on the transaction's credit enhancement, the default reserve account.

Priority of Payments

The Sukuk transaction's waterfall (the usage of the collections from the assigned portfolios) will be applied in the following order of priority:

1. Default Reserve Account: The default reserve account in the size of 3.6% of each portfolio present value at the time of portfolio acquisition, and to be deducted from the funds that will be disbursed to the originator(s) at the time of transfer. It will be held in a separate account with the agent (custodian) of the transaction;
2. Senior transaction fees and expenses;
3. Return/profits to the Sukuk holders, payable on a monthly basis till full repayment of the Sukuk; and
4. Principal amortization of the Sukuk starting from the 25th month from the date of Sukuk closing date, where by the Sukuk amortization will follow a pass through amortization schedule.

COLLATERAL

The Sukuk issue is considered a Pre-Funded transaction, accordingly the Sukuk proceeds, in the amount of EGP 2.5 billion, will be kept in the Issuance Account with the Custodian/Agent of the transaction and will be used to acquire auto receivables portfolios over the initial two-year period. The funding price will equal the net present value of the portfolio size after deducting the net present value of the recurring expenses and setting aside the default reserve balance (3.6% of the present value of the portfolio). Thus, at the date of Sukuk issuance, there is no existing portfolio of auto receivables to be assigned to the Sukuk company and any portfolios to be acquired must be originated after the Sukuk issuance date. As per the transaction legal documents, the portfolios to be assigned to the Sukuk company should meet a number of preset selection criteria detailed in the legal agreements. The main eligibility criteria for each portfolio are as follows:

- Maximum portfolio tenor is 60 months and it cannot exceed the Sukuk's tenor;
- Used vehicles cannot exceed 30% of each portfolio;
- The portfolio seasoning cannot be less than one month that was fully paid on its due date;
- The maximum financing (single obligor limit) for each client at the time of contracting cannot exceed EGP 5 million;
- The weighted average current LTV of each portfolio cannot exceed 70%;
- No delinquencies more than 30-days from the instalment due date.

In order to ensure that the portfolios credit quality will be the same as the agreed upon criteria outlined in the legal documentation, the legal and auditor advisors will issue due diligence reports on each portfolio to be assigned to the Sukuk company before funds disbursement by the transaction's agent (custodian). In addition, the auditor will verify that the new portfolio meets the predetermined eligibility criteria. The agent must receive the aforementioned documents before each tranche disbursement.

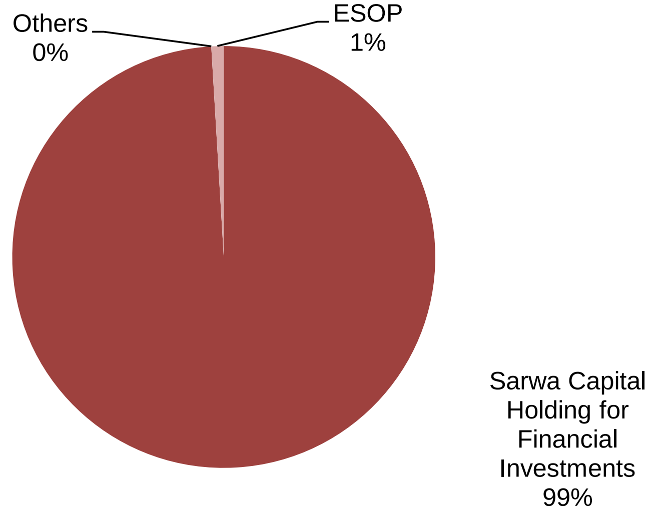
It is worthy to mention the current transaction pool will include a portion of used cars sales installment contracts, under the originator(s) used car program. As per the originator(s) policy, the minimum down payment is 20% or 30% depending on the car make. The used cars eligible for refinancing also have to meet certain criteria in terms of mileage (max. 65,000-85,000 km) and maximum car age at the date of application (3-5 years) and by the end of the contract date (7-9 years). The maximum available tenor is still 60 months, provided that the car does not exceed the maximum age by the end of the contract date. Furthermore, the company has a single obligor limit of maximum 3 contracts and value of EGP 3,000,000.

ORIGINATORS, SERVICER AND OPERATIONS REVIEW

Contact Credit Company

Incorporated in 2001, CAC, initially under the name of Contact Car Trading, is a private joint stock company. Contact Credit Company has built itself into a leading retail financing company in Egypt. The company offers auto finance products to private customers, and currently accounts for roughly 30% from the auto finance companies, excluding banks. In addition to car financing, the company provides car insurance services, which are considered complementary to its core business activities. It is worthy to mention that in April 2020, Contact Credit Company has received the first consumer financing license in line with the new Consumer Credit Act by the Financial Regulatory Authority (FRA).

Contact Credit Company's Current Shareholders' Structure



Contact Credit Company authorized capital is EGP 1 billion, while the issued and paid-in capital is EGP 443,528,060, distributed over 44,352,806 shares at par value of EGP 10/share, and a total equity of EGP 882,336,346, as of September 2020. Sarwa Capital, which is a listed company on the Egyptian Stock Exchange, is owned by the Egyptian American Enterprise Fund (43.64%), Orascom Investment Holding (30%), Milton Financial (11.67%), and Bahubaish Family (7.58%). The remaining 7.11% represent free float. Milton Financial belongs to the original private investors who established Contact Auto Credit in 2001. The shareholders are working closely with the management to diversify and expand the company's activities into other complementary retail financial services - consumer finance, small and medium sized leasing and factoring, as well as mortgages - and position the company as a fully-fledged retail finance provider as opposed to a specialized auto finance company.

Origination and Underwriting Process

Currently the Contact Credit Company activities are centralized in the head office in Cairo, complemented by other branches (total of 19 branches) inside Cairo (Zamalek, Giza, Maadi, New Cairo, Downtown, Nasr City), as well as other remote branches located in Alexandria, Mansoura, Tanta, Ismalia, Hurghada, Sharm El Sheikh, Damietta, Sharqia and Asyut. Other areas outside of Cairo are covered through floating sales teams visiting the major auto dealerships. The sales team includes 202 sales people, covering the aforementioned different geographic areas and the call center. Approximately 70-75% of the business origination comes through the auto dealerships. Contact Credit Company is expanding its network by building strong alliances with well-established auto dealerships and having a dedicated sales representative in the dealer's premises.

Underwriting decisions are centralized and are based both on quantitative and qualitative analysis of the applicant's credit history. Contact Credit Company has an internally developed score card in place that is automatically generated by the system based on the information filled in the borrower's initial application. It takes into account factors such as stability in employment, education, sector of activity, previous credit history, real estate ownership, debt to income ratio, etc. The information is subject to verification by the company's credit officers through a field investigation, including a personal meeting with the prospect client, as well as third party cross-checks. The credit officers issue a recommendation based on their assessment of the applicant's ability and willingness to honor its financial obligations under the contract. Credit approvals are granted following independent voting on each application by the credit committee, which consists of the Credit Risk Head and the Head of the Investigation Department. In case of disagreement between the two, the final credit decision goes to the Managing Director. Recently, the Company started to undergo an additional credit investigation through the consumer credit bureau "i-score." Approximately 15% of prospect clients get rejected at the initial screening by the sales people, before the application enters the credit cycle. Another 20% of all initially filtered applications are further rejected during the credit process, indicating the company's tight scrutiny and strict approval procedures. The standard approval process takes between 3 and 5 working days depending on the responsiveness of the applicant with regard to any additional information requirements.

Contact's main underwriting criteria include the following:

- The obligor's age ranges from 21 to 65;
- Any car makes are eligible for refinance except Chinese made cars (with the exception of some brands that are highly demanded in the market, but in all cases the minimum down-payment is 30% and some cases require 50% minimum down payment);
- The minimum down payment is 20% for both new and used cars. A recently introduced staff scheme allows for only 15% down payment and 0% for managers.

The company has a number of credit-related directives stipulating various credit limits to avoid any significant concentrations within the portfolio in terms of assets (car make), borrower employment type, industry classification, etc. There is a single obligor limit of EGP 3,000,000. In addition, a single obligor is allowed a maximum of three outstanding contracts at any point of time, provided that the first contract has been performing for at least 2 years. The buyers' income has to cover the monthly installment 3 to 5 times depending on his type and sector of employment and takes into account the buyer's other obligations.

Collection and Recovery Process

Installments are due on two collection dates – the 15th and the 30th day of the month. The majority of Contact's customers pay by direct debit order, and the remaining pay by cheques or credit cards. According to the Servicer/Project Manager agreement, monthly collections are credited directly to the accounts of the Issuer (Sarwa Sukuk Company), circumventing the accounts of the Servicer. Any occasional cash payments made by the clients at the premises of the Servicer will be deposited immediately with the accounts of the Issuer.

Approximately 90% of the receivables are collected within 60 days from the due date. Delays up to 60 days from the due date are handled by the company's credit officers. Upon failure of the customer to pay two installments in a row, the company has the right to repossess the car, and in case of no settlement to sell it. Repossessed cars are sold directly, relying on Contact's well-established relationships with the auto dealers. In case the customer is not satisfied with the offer price, he has the right to find another buyer. Since the beginning of its operations, the company's default rate has been negligible. It is of note that the outstanding securitization issues issued by Contact Credit Company are performing well with reported cumulative credit default rates well below 1% and not less than 99% cumulative recovery rates as of the time of writing this report. Recoveries in case of credit default have been sufficient to cover at least 97.8% of the loan outstanding value, and the time frame for repossessing and selling the cars in the secondary market has been within the range of two to eight weeks.

Given the experience of Contact Credit Company as a Servicer, its strict follow-up and monitoring guidelines, as well as the IT and management information systems currently in place, **MERIS** believes that Contact is capable of adequately servicing the receivables in this pool.

AGENT (CUSTODIAN) AND BACK-UP PROJECT MANAGER (SERVICER)

Banque Misr (local currency deposit rating by Moody's at B2 with a Stable outlook)
Banque Misr S.A.E. (BM) is an Egyptian commercial bank that provides a range of corporate, retail, investment banking and Islamic banking services. BM, which was established in April 1920, is the second-largest bank in Egypt and is wholly owned by the government. As of 30 June 2019, BM was the second-largest bank in the country in terms of assets. As of the same date, it held a market share of around 18% in terms of assets, and reported total unconsolidated assets of EGP 967.3 billion.

Currently, BM operates through a network of more than 640 domestic branches serving more than 10 million customers in Egypt. As of October 2020, BM had branches the UAE and France. BM has subsidiaries in Lebanon and Germany, as well as representative offices in Russia and China.

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.

The bank's reputation as being the second largest bank in Egypt and its track record are considered positive factors to act as an Agent (Custodian) to the proposed transactions. BM is also formally appointed as a back-up Servicer to the Sukuk transaction. As a custodian, BM will have daily access to the originator(s)' collection system and databases. Banque Misr is rated by Moody's and has a local currency deposit rating of B2, with a stable outlook, as of October 2020.

MERIS ANALYSIS

Historical Data and Modeling

Based on the historic default data, the default distribution of granular portfolios is expected to follow closely the log-normal distribution. Therefore, the probabilities for default scenarios for entirely granular pools are derived from the log-normal default distribution. The exact shape of this distribution is determined by the cumulative mean default rate and its standard deviation.

Given the homogeneous (completely granular) nature of the pool, **MERIS** used the log normal method to model the cash flows of the transaction. 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.

As per Contact's management, cumulative credit default rates up to date on the outstanding portfolios have been below 1%. Historic recoveries have been always sufficient to cover at least 99% of the defaulted amount (principal outstanding at default). However, historical data alone can hardly be a reliable indicator of the pool's performance in the future. Therefore, **MERIS** used a log normal distribution to model the transaction, defined by cumulative mean default rates experienced in similar emerging markets (5.5% for new cars and 8% for used cars), coupled with a volatility (coefficient of variation = standard deviation/mean) above 50% to reflect the higher uncertainty associated with the lack of sufficient and reliable historical data.

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 lag: 50% after 6 months, 25% after 9 months, 25% after 12 months;
- Prepayment rate: **MERIS** has received monthly prepayment data on the Contact's portfolios, and has noted that historical average prepayment rates have varied between 10% and 20%. **MERIS** has tested the transaction using various prepayment rates between 0% and 20%;
- Credit Support: Default Reserve Account in the size of 3.6% of each portfolio present value at the time of portfolio transfer/assignment from the originator(s) to the Sukuk. It will be used to cover any delinquencies and/or defaults of the clients over the tenor of each portfolio.

MERIS performed sensitivity analysis around the main inputs listed above, to test the impact of structural and asset features on the rating of the Sukuk. **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 rating.

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: National Rating Scale