MERIS
Middle East Rating & Investors Service

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Press Release: Egyptian Securitization Company S.A.E. – Fourth Issue 2014-2020

MERIS (MIDDLE EAST RATING & INVESTORS SERVICE) AFFIRMS THE NATIONAL SCALE RATINGS (NSR) TO THE FOURTH MULTIPLE-TRANCHE ASSET-BACKED SECURITIZATION BOND ISSUED BY THE EGYPTIAN SECURITIZATION COMPANY AND ORIGINATED BY CORPLEASE S.A.E.

MERIS (Middle East Rating & Investors Service) has affirmed the following ratings on the national scale to the multiple-tranche notes issued by the Egyptian Securitization Company S.A.E.:

Tranche C: "A" (sf) to the EGP 123.4 million Junior Subordinated Fixed-Rate Notes, due in January 2020, with a coupon of 11.73% p.a. payable monthly.

The notes were redeemed sequentially in order of seniority and followed a pass-through amortization. Class A and B notes were redeemed in Jan. 2016 and Nov. 2017 respectively.

An "**A**"-rated issuer or issue is considered of **Above Average** 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 ratings are a relative ranking of risk and address the expected loss posed to investors by the notes maturity. In **MERIS**'s opinion, the transaction structure allows for timely payment of interest and ultimate repayment of principal with respect to the notes maturity.

Egyptian Securitization Company S.A.E. – a special purpose entity – was incorporated in Egypt in 2007 in accordance with the Capital Market Law 95/1992. The bond issue is backed by fixed rate auto, equipment or real estate leasing receivables from large and medium-sized corporate entities domiciled in Egypt. The leasing receivables were originated by CorpLease between May 2009 and August 2014. The collateral portfolio comprised a static pool of 190 fully amortizing financial leasing contracts at the time of issuance.

The credit enhancement currently available to the transaction, as measured by the NPV of the portfolio receivables plus the accumulated cash surplus account (residual cash balance and liquidity reserve) over the NPV of the transactions cash outflows (senior fees and expenses as well as bond amortization), stands at 6.0% as of December 31, 2017 compared to 1.6% at closing of the transaction. When adjusted for the L/G amount (EGP 76 million) available to the transaction, the overall credit support measures 67.5% as of December 31, 2017, compared to 15.6% at closing. Thus measured, the credit enhancement is quite conservative, as it does not take into account any potential collections of the EGP 16.9 million of overdue rents. In view of the amortization of the bond and the performance of the receivables, there has been a buildup of credit enhancement that is currently above the requirements for the ratings of the notes. To maintain the existing ratings of the transaction the external credit enhancement in the form of a bank letter of guarantee can be adjusted downwards by 60% to EGP 30.4 million effective immediately. Following the adjustment, the overall credit support will measure 30.6% of the outstanding principal balance of the bond.

The ratings assigned to the notes are based on: (1) a credit assessment of the initial portfolio of underlying leasing receivables, which reflects the Originator's strict underwriting, collection and monitoring guidelines and procedures; (2) the level of protection provided to investors by the internal credit support (overcollateralization net of expenses) in the size of 6.0% of the outstanding notes size and the external credit support (bank letter of guarantee) in the size of 61.6%; (3) the experience of the Servicer and the efficiency of its operating systems, in addition to the availability of a back-up servicing agreement with CIB (rated B3 by Moody's Investor Service, 2017).

The ratings assigned by **MERIS** also takes into consideration the following limitations of the transaction: (1) relatively short operating history of the Originator and hence, lack of sufficient data available regarding historical arrears, default and recovery; (2) the generally greater uncertainty associated with unrated Originators, and the use of securitization proceeds to fund the Originator's growing phase; mitigated, however, by the Originator's experienced management team and strict adherence to its underwriting policies and procedures, which assure a reasonable quality receivables pool, in addition to the Originator's well-known shareholders; (3) high linkage between the ratings of Class C notes to the ratings of CIB, in its capacity as an external credit support provider, i.e. issuer of the bank letter of guarantee in the amount of EGP 76 million; (4) remarkably high individual obligor concentrations exhibited by the pool; (5) notably high share of relatively longer tenor contracts, which carry relatively higher credit risk due to the slower build-up of owner's equity, partially mitigated by the relatively high seasoning of the portfolio and reasonable loan to value ratio; (6) the existence of legal uncertainties, given that the key legal concepts underpinning securitization transaction enforcement remain largely untested in judicial proceedings or in practice in Egypt, mitigated by the legal opinions provided by the transaction's legal advisor on issues such as true sale, separateness of accounts, commingling and consolidation risk.

MERIS will monitor the transaction on an on-going basis and will issue regular performance reports.