

Cairo, June 2020

**Press Release: Capital for Securitization Company - Fourth Issue 2020-2023**

**MERIS (MIDDLE EAST RATING & INVESTORS SERVICE) ASSIGNS NATIONAL SCALE RATINGS (NSR) TO THE 4<sup>th</sup> MULTIPLE-TRANCHE ASSET-BACKED SECURITIZATION BOND ISSUED BY CAPITAL FOR SECURITIZATION COMPANY AND ORIGINATED BY RAYA GROUP COMPANIES**

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MERIS (Middle East Rating & Investors Service) has assigned the following ratings on the national scale to the 4<sup>th</sup> multiple-tranche asset backed securitization bond issued by Capital for Securitization Company S.A.E. and backed by 123,877 consumer and microfinance contracts in the total value of EGP 615,239,849 co-originated by Raya Electronics, Aman Financial Services and Aman Microfinance:

Tranche A: “**P1 (sf)**” to the EGP 189.4 million Senior Fixed-Rate Notes due in 6 months from issuance, representing 33.7% of the aggregate issue size, with a coupon of 10.53% p.a. payable monthly;

Tranche B: “**P1 (sf)**” to the EGP 140.5 million Subordinated Fixed-Rate Notes due in 9 months from issuance, representing 25.0% of the aggregate issue size, with a coupon of 10.68% p.a. payable monthly;

Tranche C: “**P1 (sf)**” to the EGP 160.2 million Subordinated Fixed-Rate Notes due in 12 months from issuance, representing 28.5% of the aggregate issue size, with a coupon of 10.73% p.a. payable monthly.

Tranche D: “**A- (sf)**” to the EGP 72.0 million Junior Subordinated Fixed-Rate Notes due in 36 months from issuance, representing 12.8% of the aggregate issue size, with a coupon of 11.73% p.a. payable monthly. Tranche D is callable from the 14<sup>th</sup> month.

The notes will be redeemed sequentially in order of seniority and will follow a pass-through monthly amortization schedule.

All of the above ratings are considered investment grade on the National Rating Scale. A “**Prime 1**” (**P1**) rated Issuers or issues have **the Strongest** ability to repay their short-term debt obligations relative to other domestic issuers. “**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 ratings are a relative ranking of risk and address the expected loss posed to investors by the bond maturity. In **MERIS**'s opinion, the transaction structure allows for timely payment of interest and ultimate repayment of principal with respect to the bond maturity.

Capital for Securitization Company S.A.E. – a special purpose entity – was incorporated in Egypt in 2019 in accordance with the Capital Market Law 95/1992. The current notes are backed by fixed rate receivables arising from 123,877 consumer and microfinance contracts (EGP 615,239,849 outstanding receivable balance as of the pool cut-off date) initially co-originated by Aman Microfinance (36% of the principal outstanding balance), Aman Financial Services (36%), Raya Electronics - Individuals (15%) and Raya Electronics - Corporate (13%), .

The ratings of the notes are based on: (1) a credit assessment of the initial portfolio of underlying receivables, which reflects the Originators' adequate underwriting, collection and monitoring guidelines and procedures; (2) the level of protection provided to investors by the credit enhancements in the form of (i) over-collateralization in the amount of 2% net of expenses; (ii) availability of a default reserve account (a Cash Reserve or a Letter of Guarantee (L/G)) in the amount of EGP 44,686,950, representing 7.95% of the original notes' balance; and (iii) structural subordination of tranches D to the more senior tranches; (3) the liquidity support in the form of a cash reserve account in the size of 4% of the outstanding aggregate notes' balance, which is to be funded up front from the first month of collections and adjusted on a monthly

basis thereafter in accordance with the notes' amortization; (4) the granularity of the pool (concentrations per client less than 0.15% of the total principal outstanding) as well as the pool's relative diversification in terms of product and geographic distribution; (5) the relatively high seasoning of the receivables (9 months), which usually results in lower frequencies of default compared to younger pools; (6) the availability of promissory notes or trust receipts backing the receivables; these securities are an incentive to ensure timely payment of installments as they can be used to file a criminal case against defaulted borrowers; and (7) the availability of a contractually appointed back-up servicer.

The assigned ratings also take into consideration the following weaknesses of the transaction: (1) limited data available regarding historical arrears, default and recovery through the full economic cycle; (2) the generally greater uncertainty associated with unrated Originators, and the use of the securitization proceeds to fund the Originators' growing phase in addition to the limited operational history of two of the Originators (newly established companies); (3) no clear segregation of the payments due to the securitization pool from Raya Electronics Corporate clients' normal business cycle, resulting in a higher risk of commingling the securitization cash flows with the Originator's own funds from operations; (4) the trust receipts are in the name of the Originators and as per the legal opinion furnished to **MERIS**, they cannot be transferred to the SPV and / or the bondholders; (5) the ratings of class 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; (6) the transaction is issued in the midst of the COVID-19 virus outbreak, which is expected to have negative implications on the Egyptian macroeconomic conditions in general, and on various sectors of the Egyptian economy in specific; (7) the existence of legal uncertainties, given that the key legal concepts underpinning securitization 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.

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