MERIS
Middle East Rating & Investors Service

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Press Release: Al Tawfeek Securitization Company (ATS) – 3rd Issue 2022-2027

MERIS (MIDDLE EAST RATING & INVESTORS SERVICE) AFFIRMS THE NATIONAL SCALE RATINGS (NSR) TO THE THIRD MULTIPLE-TRANCHE ASSET-BACKED SECURITIZATION BOND ISSUED BY AL TAWFEEK SECURITIZATION COMPANY AND ORIGINATED BY AL TAWFEEK LEASING COMPANY (THIRD PORTFOLIO)

MERIS (Middle East Rating & Investors Service) has reviewed and affirmed the following ratings on the national scale to the multiple-tranche notes issued by Al Tawfeek Securitization (ATS) Company S.A.E (Third Issue) and backed by a single pool of receivables, originated Al Tawfeek Leasing Company (AT Lease) S.A.E..

The annual rating review is based on the monthly performance reports issued by the Custodian as of **31 May 2023, the transaction review date**, in addition to the updated cash flow model and securitized portfolio data as of the same date.

As of the transaction review date, the affirmed ratings are as follows:

Tranche A: "AA+" (sf) to the EGP 43.99 million Senior Floating-Rate Notes, due in 13 months, representing 3.44% of the aggregate issue size, with a floating coupon equal to the CBE Corridor Lending rate + 0.15% p.a. payable monthly, currently 19.40%;

Tranche B: **"AA" (sf)** to the EGP 655.59 million Subordinated Floating-Rate Notes, due in 37 months, representing 51.32% of the aggregate issue size, with a floating coupon equal to the CBE Corridor Lending rate + 0.25% p.a. payable monthly, currently 19.50%;

Tranche C: "A" (sf) to the EGP 578.00 million Subordinated Floating-Rate Notes, due in 60 months, representing 45.24% of the aggregate issue size, with a floating coupon equal to the CBE Corridor Lending rate + 0.45% p.a. payable monthly, currently 19.70%.

The notes will be redeemed sequentially in order of seniority. All three classes will follow a pass-through amortization. The notes are callable starting from the coupon number 14.

All of the above ratings are considered investment grade on the National Rating Scale. A "**AA**" grade represents **Very Strong** Creditworthiness relative to other domestic issues. An "**A**" rated issue is considered of **Above Average** Creditworthiness relative to other domestic 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.

Al Tawfeek Securitization Company (ATS) S.A.E. – a special purpose entity – was incorporated in Egypt in 2010 in accordance with the Capital Market Authority (CMA) Law 95/1992. The bond issue is backed by floating rate real estate, equipment and auto leasing receivables from medium and small-size corporate entities domiciled in Egypt. The leasing receivables have been originated by AT Lease between 2019 and 2022. The collateral portfolio comprises a static pool of 52 fully amortizing financial leasing contracts, at the closing date.

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 over-collateralization (net of expenses) in the amount of 1.97% of the aggregate notes size at the closing of the transaction, in addition to the structural subordination of tranches B and C to the more senior tranches, as well as an external credit support (default reserve) in the total size of 22.11% of the current bond

balance represented by an LG in the size EGP 282,444,340; (3) a liquidity reserve account in the size of 3.0% of the current bond size; (4) the reasonable weighted average current loan-to-value (LTV) ratio (51.95% of the original purchase price), which accelerates the build-up of owner's equity into the assets and hence minimizes the lessees' propensity to default, while at the same time increasing the recovery potential in case of default; (5) the relatively well seasoned portfolio with a weighted average seasoning of 12 months of the securitized pool; (6) the availability of a back-up servicing agreement with Banque Misr (rated B3 by Moody's Investor Service, February 2023).

The ratings assigned by **MERIS** also takes into consideration the following limitations of the transaction: (1) lack of sufficient data available regarding historical arrears, default and recovery over the economic cycles in the Egyptian market, which is common across the domestic leasing companies; (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) remarkably high single obligor concentrations exhibited by the pool; (4) 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 seasoning of the portfolio and reasonable loan to value ratio; (5) 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 monitors the transaction on an on-going basis and issues regular performance reports.

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