MERIS
Middle East Rating & Investors Service

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Press Release: Capital Securitization Company – 2nd Program 1st Issue 2022-2024

MERIS (MIDDLE EAST RATING & INVESTORS SERVICE) AFFIRMS THE NATIONAL SCALE RATINGS (NSR) TO THE 1st MULTIPLE-TRANCHE SECURITIZATION BOND UNDER THE 2nd PROGRAM ISSUED BY CAPITAL SECURITIZATION COMPANY AND BACKED BY A PORTFOLIO OF RECEIVABLES ORIGINATED BY TASAHEELTASAHEEL MICROFINANCE COMPANY S.A.E.

MERIS (Middle East Rating & Investors Service) has reviewed and affirmed the national scale ratings to the 1st multiple-tranche securitization bond in the size of EGP 393,414,000 issued as of 30 June 2023 under the 2nd securitization program by Capital Securitization Company S.A.E. and backed by a portfolio of receivables originated by **Tasaheel Microfinance Company (Tasaheel)**.

The annual rating review is based on the monthly performance reports issued by the Custodian as of 30 June 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: Redeemed in December 2022;

Tranche B: Redeemed in March 2023;

Tranche C: Redeemed in May 2023;

Tranche D: "A" (sf) to the EGP 393.4 million Junio Subordinated Fixed-Rate Notes due in 31 months from issuance, with a coupon of 13.75% p.a. payable monthly. Tranche D is callable from the 14th month.

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

All of the above ratings are considered 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 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 bond issue is backed by fixed rate microfinance (78%) and SME loans (22%). The receivables have been originated by Tasaheel Microfinance between October 2021 and May 2022. The collateral portfolio comprises a static pool of 21,131 loans with a total principal outstanding value of EGP 324,143,938.

In view of the amortization of the bond and the reasonable 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 from the current level of EGP 359,100,000 to EGP 60,000,000 effective immediately.

The ratings of the notes are based on: (1) a credit assessment of the initial portfolio of underlying microfinance loans, which reflects the Originator's strict underwriting, collection and monitoring guidelines and procedures; (2) the level of protection

provided to investors by the credit enhancements in the form of over-collateralization in the amount of 5.2% net of expenses, as well as the default reserve account in the size of 91.3% (EGP 359,100,000) of the outstanding bond size; (3) the granularity of the pool (concentrations per client less than 0.68% of the total principal outstanding); (4) the availability of a liquidity reserve currently in the size of 2.6% of the outstanding aggregate notes balance; (5) the receivables are backed by promissory notes covering the value of the microfinance loans; (6) the significant experience of the Servicer and efficiency of its operating systems, 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 securitization proceeds to fund the Originator's growing phase; (3) the promissory notes are undated, mitigated by the delegation by the borrowers to Tasaheel to fill in the missing data; this mechanism, however has not been tested in legal proceedings; (4) the ratings of the junior notes are highly dependent on the creditworthiness of the external credit support provider (Letter of Guarantee issuing bank). A material deterioration of the creditworthiness of the credit support provider will inevitably result in a downgrade of these notes; (5) 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 is monitoring the transaction on an on-going basis and issuing regular performance reports.

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