MERIS
Middle East Rating & Investors Service

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Press Release: EFG Hermes Securitization Company –Fifth Program First Issue 2023-2026

MERIS (MIDDLE EAST RATING & INVESTORS SERVICE) ASSIGNS NATIONAL SCALE RATINGS (NSR) TO THE 1st ASSET-BACKED SECURITIZATION UNDER THE FIFTH PROGRAM ISSUED BY EFG HERMES SECURITIZATION COMPANY AND BACKED BY A PORTFOLIO OF RECEIVABLES ORIGINATED BY U CONSUMER FINANCE COMPANY S.A.E.

MERIS (Middle East Rating & Investors Service) has assigned the following ratings on the national scale to the 1st multiple-tranche asset backed securitization bond issued by EFG Hermes Securitization Company under its Fifth Program and backed by a single pool of consumer finance receivables originated by U Consumer Finance Company (previously known as ValU Consumer Finance Company):

Tranche A: "**P1 (sf)**" to the EGP 946,295,000 Asset Backed Short-Term Notes due in 12 months (June 2024), representing 66.5% of the aggregate issue size, with a coupon of 19.65% p.a. payable monthly starting from the 3rd month, and callable from the 6th month (4th coupon);

Tranche B: "**A (sf)**" to the EGP 476,705,000 Subordinated Fixed-Rate Notes due in 36 months, June 2026, representing 33.5% of the aggregate issue size, with a coupon of 20.10% p.a. payable monthly starting from the 3rd month, and callable from the 6th month (4th coupon).

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

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. An "**A**" rated issuers or issues are considered **Above Average** in Creditworthiness relative to other domestic issuers or issues. 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.

EFG Hermes Securitization Company S.A.E. – a special purpose entity – was incorporated in Egypt in 2018. The notes are backed by a portfolio of consumer finance receivables stemming from purchases of goods and services on installments by U consumer finance clients. The collateral portfolio originated by U Consumer Finance comprises a static pool of 156,776 consumer finance contracts. At issuance, the total outstanding receivables will amount to EGP 1,743,419,443.

The ratings of the notes are based on: (1) a credit assessment of the initial portfolio of underlying consumer finance receivables, which reflects the Originator's underwriting and servicing standards 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 3.62% net of expenses; (ii) subordination of tranche B to the more senior tranche A; (iii) availability of a default reserve account (Letter of Guarantee) in the amount of EGP 113,840,000, representing 8.0% of the original notes' balance; (3) the availability of a liquidity reserve account in the size of 3.0% of the outstanding notes balance; (4) the granularity of the pool (concentrations per client do not exceed 0.17% of the total principal outstanding); (5) the relatively high seasoning of the clients (weighted average seasoning of 19 months with U Consumer Finance company); (6) the experience of the Servicer and efficiency of its operating systems, as well as the support from its parent company EFG Hermes; (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 time series 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) no clear segregation of the payments due to the securitization pool from the company's normal business cycle, resulting in a higher risk of commingling the securitization cash flows with the Originator's own funds from operations; (4) the promissory notes are issued for the initially approved credit limit and do not cover any subsequent limit increases; (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 will monitor the transaction on an on-going basis and will issue regular performance reports.

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