

Cairo, February 2021

Press Release: **Al Tawfeek Securitization Company (ATS) – 2<sup>nd</sup> Issue 2021-2025**

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

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**MERIS** (Middle East Rating & Investors Service) has assigned the following ratings on the national scale to the multiple-tranche notes issued by the Al Tawfeek Securitization (ATS) S.A.E (Second Issue). and backed by a single pool of receivables, originated by Al Tawfeek Leasing Company (AT Lease) S.A.E. (Second Portfolio), in the total value of EGP 1,315,711,264, as follows:

**Tranche A: “AA+” (sf)** to the EGP 267.0 million Senior Floating-Rate Notes, due in 13 months, representing 24.6% of the aggregate issue size, with a floating coupon equal to the CBE Corridor Lending rate + 0.15% p.a. payable monthly, currently 9.4%;

**Tranche B: “AA” (sf)** to the EGP 705.4 million Subordinated Floating-Rate Notes, due in 37 months, representing 64.9% of the aggregate issue size, with a floating coupon equal to the CBE Corridor Lending rate + 0.35% p.a. payable monthly, currently 9.6%;

**Tranche C: “A” (sf)** to the EGP 114.6 million Subordinated Floating-Rate Notes, due in 48 months, representing 10.5% of the aggregate issue size, with a floating coupon equal to the CBE Corridor Lending rate + 0.65% p.a. payable monthly, currently 9.9%.

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 2016 and 2020. The collateral portfolio comprises a static pool of 53 fully amortizing financial leasing contracts.

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 0.31% 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 18.19% of the initial bond balance represented by an LG in the size EGP 197,725,300; (3) a liquidity reserve account in the size of 3.0% of the initial bond size, which is to be funded over the first two months from the closing date; (4) the reasonable weighted average current loan-to-value (LTV) ratio (57.2% 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 16 months of the securitized pool; (6) the availability of a back-up servicing agreement with Banque Misr (rated B2 by Moody's Investor Service, October 2020).

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 relatively high 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** will monitor the transaction on an on-going basis and will issue regular performance reports.

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