MERIS
Middle East Rating & Investors Service

Cairo, December 2020

Press Release: Al Rehab Securitization Company - 1st Program 1st Issue 2020-2026

MERIS (MIDDLE EAST RATING & INVESTORS SERVICE) ASSIGNS NATIONAL SCALE RATINGS (NSR) TO 1ST MULTIPLE-TRANCHE ASSET-BACKED SECURITIZATION BOND ISSUED BY AL REHAB SECURITIZATION COMPANY AS PART OF ITS 1ST PROGRAM AND BACKED BY A PORTFOLIO OF REAL ESTATE RECEIVABLES ORIGINATED BY THE ARAB COMPANY FOR PROJECTS AND URBAN DEVELOPMENT (A SUBSIDIARY OF TMG HOLDING)

MERIS (Middle East Rating & Investors Service) has assigned the following ratings on the national scale to the multiple-tranche asset backed securitization bond issued by Al Rehab Securitization Company S.A.E. (1ST Program 1st Issue) and backed by a single pool of real estate receivables in the amount of EGP 1,140,966,981 originated by the Arab Company for Projects and Urban Development (a subsidiary of Talaat Mostafa Group Holding):

Tranche A: "**AA+ (sf)**" to the EGP 221.85 million Senior Fixed-Rate Notes due in January 2022, representing 25.5% of the aggregate issue size, with a coupon of 9.65% p.a. payable quarterly starting from the 4th month;

Tranche B: "**AA (sf)**" to the EGP 377.58 million Subordinated Fixed-Rate Notes due in December 2023, representing 43.4% of the aggregate issue size, with a coupon of 10.10% p.a. payable monthly. Tranche B is callable from the 14th month;

Tranche C: "**A- (sf)**" to the EGP 270.57 million Junior Subordinated Fixed-Rate Notes due in December 2026, representing 31.1% of the aggregate issue size, with a coupon of 10.40% p.a. payable monthly. Tranche C is callable from the 14th month.

The notes will be redeemed sequentially in order of seniority and will follow a pass-through monthly amortization schedule with the exception of Tranche A, which will follow a predetermined amortization schedule.

All of the above ratings are considered investment grade on the National Rating Scale. An "**AA**" grade represents **Very Strong** Creditworthiness 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.

Al Rehab Securitization Company S.A.E. – a special purpose entity – was incorporated in Egypt in 2008 in accordance with the Capital Market Law 95/1992. The current notes are backed by a static pool of real estate receivables arising from installment sale contracts related to 942 residential properties and 50 commercial units located in two of the Originator's projects (Al Rehab City and Madinaty).

The ratings of the notes are based on: (1) the level of protection provided to investors by the credit enhancements in the form of (i) over-collateralization in the amount of 4.4% net of expenses; (ii) subordination of tranche B and C to the more senior tranches; (iii) availability of a default reserve account (Letter of Guarantee) in the amount of EGP 81.78 million representing 9.4% of the original notes' balance; (2) the liquidity support in the form of a cash reserve account in the size of 4% of the notes' initial balance which is to be funded from the first two months of cash inflows to reach the target level of

EGP 34.8 million, and to be adjusted on a monthly basis thereafter to measure 4% of the outstanding notes' balance; (3) the reasonable weighted average loan-to-value (LTV) ratio (51% of the original purchase price) of the portfolio, which accelerates the build-up of owner's equity into the properties and hence minimizes the buyers' propensity to default, while at the same time increasing the recovery potential in case of default; (4) the additional level of protection stemming from the fact that all of the receivables are backed by post-dated cheques, which is considered an incentive for timely payment of the installments as a bounced cheque constitutes a criminal offence under the Egyptian law; (5) the relatively high seasoning (37 months) of the receivables, (6) the availability of a contractually appointed back-up servicer.

The assigned ratings also take into consideration the following weaknesses of the transaction: (1) the lack of relevant and consistent historical data tracking the performance of the receivables; (2) no security interest in the underlying properties for the benefit of the note holders, and hence no direct recourse over the properties; (3) unlike class A notes, the ratings of class B and more so class C 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; (4) 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.