MERIS
Middle East Rating & Investors Service

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Press Release: Capital Securitization Company - First Issue 2019-2024

MERIS (MIDDLE EAST RATING & INVESTORS SERVICE) ASSIGNS NATIONAL SCALE RATINGS (NSR) TO THE FIRST MULTIPLE-TRANCHE ASSET-BACKED SECURITIZATION BOND ISSUED BY CAPITAL SECURITIZATION COMPANY AND ORIGINATED BY GB LEASE S.A.E.

MERIS (Middle East Rating & Investors Service) has assigned the following ratings on the national scale to the multiple-tranche notes issued by Capital Securitization Company S.A.E. (1st Issue) and backed by a portfolio originated by GB Lease (2nd Issue):

Tranche A: "AA+" (sf) to the EGP 203 million Senior Floating-Rate Notes, due in 13 months, representing 26.5% of the aggregate issue size, with a floating coupon equal to the 182-days T-Bills rate (net of tax) + 0.40% p.a. payable monthly, currently 14.18%;

Tranche B: **"AA" (sf)** to the EGP 353 million Subordinated Floating-Rate Notes, due in 36 months, representing 46.0% of the aggregate issue size, with a floating coupon equal to the 182-days T-Bills rate (net of tax) + 0.90% p.a. payable monthly, currently 14.68%,

Tranche C: "A" (sf) to the EGP 211 million Junior Subordinated Floating-Rate Notes, due in 60 months, representing 27.5% of the aggregate issue size, with a floating coupon equal to the 182-days T-Bills rate (net of tax) + 1.45% p.a. payable monthly, currently 15.23%

The notes will be redeemed sequentially in order of seniority. All three classes will follow a pass-through amortization.

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 issuer or issue is considered of **Above Average** 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 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.

Capital 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 floating rate real estate, auto, and equipment leasing receivables from large, medium and small-sized corporate entities domiciled in Egypt. The leasing receivables have been originated by GB Lease between 2015 and 2018. The collateral portfolio comprises a static pool of 65 fully amortizing financial leasing contracts in the total size of EGP 1,054,625,103.

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 reasonable 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 4.3% of the aggregate notes size at the closing of the transaction, in addition to an irrevocable and unconditional bank letter of guarantee in the amount of 14.7% (EGP 112.7 million), as well as the structural subordination of tranches B and C to the more senior tranches; (3) the liquidity support in the form of a cash reserve account in the size of 3% of the outstanding aggregate notes balance, which is to be funded over the first six months after closing and adjusted on a monthly basis thereafter; (4) the relatively high seasoning of 21 months of the securitized pool; (5) the experience of the Servicer and the efficiency of its operations, in addition to the availability of a back-up servicing agreement with Commercial International Bank (rated B2 with a Stable Outlook on a Global Scale by Moody's).

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 cycle in the local market; (2) the generally greater uncertainty associated with unrated Originators, and the use of securitization proceeds to fund the Originator's operations; mitigated, however, by the Originator's experienced management team and adherence to its underwriting policies and procedures, which assure a reasonable quality receivables pool; (3) high linkage between the ratings of Class C notes to the ratings of the external credit support provider, i.e. issuer of the bank letter of guarantee in the amount of EGP 112.7 million; (4) a mismatch period between any interest rate adjustments on the contracts and that of the notes; (5) remarkably high individual obligor concentrations exhibited by the pool; (6) 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; (7) the company's collections are not conducted through a fully automated IT system. However, the management has already signed a contract with a new IT provider and is in the process to upgrade the existing IT system; (8) 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.