MERIS
Middle East Rating & Investors Service

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Press Release: Financial Group for Securitization Company S.A.E. – 2nd Issue 2019-2023

MERIS (MIDDLE EAST RATING & INVESTORS SERVICE) AFFIRMS THE NATIONAL SCALE RATINGS (NSR) TO THE 2nd MULTIPLE-TRANCHE ASSET-BACKED SECURITIZATION BOND ISSUED BY FINANCIAL GROUP FOR SECURITIZATION COMPANY AND BACKED BY A PORTFOLIO OF REAL ESTATE RECEIVABLES ORIGINATED BY MADINAT NASR FOR HOUSING AND DEVELOPMENT COMPANY

MERIS (Middle East Rating & Investors Service) has reviewed and affirmed the following ratings on the national scale to the 2nd multiple-tranche asset backed securitization bond issued by Financial Group for Securitization Company S.A.E. and backed by a single pool of real estate receivables in the amount of EGP 173,575,167 originated by Madinat Nasr for Housing and Development S.A.E.:

Tranche A: Redeemed in December 2020.

Tranche B: "**AA (sf)**" to the EGP 146.40 million Subordinated Fixed-Rate Notes due in November 2022, representing 87.3% of the outstanding issue size, with a coupon of 12.54% p.a. payable monthly. Tranche B is callable from the 14th month.

Tranche C: "**A (sf)**" to the EGP 21.35 million Junior Subordinated Fixed-Rate Notes due in October 2023, representing 12.7% of the outstanding issue size, with a coupon of 12.74% p.a. payable monthly. Tranche C is callable from the 14th month.

The notes will be redeemed sequentially in order of seniority. Tranches B and C follows a pass-through monthly 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.

Financial Group for Securitization Company S.A.E. – a special purpose entity – was incorporated in Egypt in June 2008. The isued notes are backed by a static pool of real estate receivables arising from installment sale contracts related to 1,496 residential units located in three of the Originator's projects (Tag Sultan, Primera, and Waha & Old City) at date of issuance.

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 2.9% net of expenses; (ii) subordination of tranche C to the more senior tranche B; (iii) availability of a default reserve account (LG) in the amount of EGP 35,075.000 representing 20.9% of the outstanding notes' balance; (2) the additional credit supported provided through credit insurance for 90% coverage on the individual sale by installment contracts provided by the government-owned Misr Insurance Company (AM Best Financial Strength Rating: B++ (Good) and Long Term Issuer Credit Rating: bbb with Stable Outlook, Dec. 2020); (3) the liquidity support in the form of a cash reserve account in the size of 5% of the notes' outstanding balance and is adjusted with the bond amortization to be maintained at 5% of the outstanding notes' balance; (4) the relatively low weighted average loan-to-value (LTV) ratio (20% 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; (5) 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; (6) the portfolio is granular (individual obligor concentrations below 0.8%) and comprises first home residential units with no holiday homes, which are considered a riskier asset type; 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) the lack of relevant and consistent historical data tracking the performance of the receivables; (2) the generally greater uncertainty associated with unrated Originators and the use of securitization proceeds to fund the Originator's growing phase; (3) no security interest in the underlying properties for the benefit of the note holders, and hence no direct recourse over the properties; (4) 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; (5) the credit insurance is a newly-introduced product in the Egyptian market, which has not been tested extensively in practice; (6) 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.