MERIS
Middle East Rating & Investors Service

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Press Release: EFG Hermes for Securitization – Second Issue - Third Program 2022-2028

MERIS (MIDDLE EAST RATING & INVESTORS SERVICE) AFFIRMS THE NATIONAL SCALE RATINGS (NSR) TO THE SECOND MULTIPLE-TRANCHE ASSET-BACKED SECURITIZATION BOND ISSUED BY EFG HERMES FOR SECURITIZATION COMPANY UNDER ITS THIRD PROGRAM AND BACKED BY A PORTFOLIO OF REAL ESTATE RECEIVABLES ORIGINATED BY PIONEERS PROPERTIES FOR URBAN DEVELOPMENT'S AFFILIATES

MERIS (Middle East Rating & Investors Service) has reviewed and affirmed the national scale ratings to the outstanding tranches under the 2nd multiple-tranche asset backed securitization bond in the current size of EGP 77,737,000 as of 31 July 2026, issued by the EFG Hermes for Securitization Company S.A.E. under its 3rd Program and backed by a single pool of real estate receivables originated by ten of Pioneers Properties for Urban Development's affiliates.

The annual rating review is based on the monthly performance reports issued by the Custodian as of **31 July 2026, the transaction review date**, in addition to the updated cash flow model and securitized portfolio data as of the same date.

As of the transaction review date, the affirmed ratings are as follows:

Tranche A1: **Redeemed as of 31 August, 2023**,

Tranche A2: **Redeemed as of 31 August, 2023**,

Tranche B: **Redeemed as of 31 December, 2024,**

Tranche C: "**A (sf)**" to the EGP 77.7 million Junior Subordinated Fixed-Rate Notes due within 72 months from the date of issuance, with a coupon of 13.35% p.a. payable monthly. Tranche C is callable from the 14th month.

The notes were redeemed sequentially in order of seniority. Tranches A1 and A2 follow a pre-determined quarterly amortization schedule, while tranches B and C follows a pass-through monthly amortization schedule.

The above rating is considered investment grade on the National Rating Scale. "**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.

EFG Hermes for Securitization Company S.A.E. – a special purpose entity – was incorporated in Egypt in June 2008. The current notes are backed by a static pool of real estate receivables arising from installment sale contracts related to 232 residential units located in Stone Residence project in New Cairo area.

In view of the amortization of the bond and the credit enhancements currently available to the transaction, MERIS affirms the initially assigned ratings to the notes. Furthermore, the external credit support in the form of an unconditional and irrevocable letter of guarantee can be adjusted downwards from the current amount of EGP 20,000,000 to EGP 5,000,000 effective immediately.

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 52.36% net of expenses; (ii) availability of a default reserve account (LG) in the amount of EGP 20,000,000 representing 25.7% of the outstanding notes' balance; (2) the liquidity support in the form of a cash reserve account, currently in the size of 4.3% of the notes' outstanding balance; (3) the relatively low current weighted average loan-to-value (LTV) ratio (21.0% 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 portfolio comprises first home residential units with no holiday homes, which are considered a riskier asset type; and (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) the generally greater uncertainty associated with unrated Originators and the use of securitization proceeds to fund the Originators' 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 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 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 is monitoring the transaction on an on-going basis and issues regular performance reports.

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