Treasury & Banking Relationship

Presentation Content – Day I

What Will we Discuss?

- ✓ Leasing Overview & Funding Sources.
- ✓ Introducing Company Profile to banks.
- ✓ How banks analyze the leasing portfolio?
- ✓ How banks assess company’s financial performance & Asset quality.
- ✓ Relationship Management, selection criteria of banks.
- ✓ How to establish, maintain solid win-win rapport with Banks.
- ✓ Key starting negotiation areas

Presentation Content – Day II

What Will we Discuss?

- ✓ Understanding detailed Leasing Term Sheet (CPs, Covenants, Undertakings, Events of Default.....etc.).
- ✓ Cycle from Term sheet till Facility Disbursement.
- ✓ Relation after Disbursement (Utilization & Repayment)
- ✓ Cash Management
- ✓ Address Key Risks and Mitigants in Leasing Companies

Leasing Overview

- Leasing Key Terms
- Type of Lease
- Recourse *vs* Non-Recourse
- How is Leasing Portfolio reflected on Financials?
- Funding Sources

I. Leasing Key Terms

- **Leasing Key parties:**
  - Lessor المؤجر: Leasing Company, and
  - Lessee المستأجر : The client who has the right to use the leased asset حق حيازة و استخدام الأصل المؤجر.
- **Leased Asset:** Underlying Asset is the key Guarantee in leasing transaction.
- **Leasing Regulatory body:** Financial Regulatory Affairs "FRA"
- **Registry سجل العقود :** Leasing contract must be registered in special registry at FRA
- **Rental Value & Period:** Agreed amount in the Leasing contract against using the leased asset.
- **Purchase Option:** Clause that ***must*** be stated in leasing contract, offering "Lessee" the ***right, not*** obligation, to buy the "Leased Asset" at pre-agreed price, during or at the end of the lease term.

II. Type of Lease

How banks deal with each type?

Direct Lease

- Simple lease where Asset is either owned or acquired by the Lessor.
- Transaction Parties: “3”, Lessor, Lessee & Supplier of the Asset.
- Banks payment goes to the ***“Supplier”*** against “Proforma Invoice” or “Asset Purchase contract”, indicating asset value.

Sale & Lease Back

- Lessee sells his own asset to the Lessor (financier) with a pre agreement of leasing back the asset to the Lessee.
- Transaction parties: “2”, Lessor & Lessee.
- Sale contract & valuation report are required.
- Banks payment goes to ***“Lessee”***

In case of **Refinancing** leasing contracts **earlier paid from Lessor’s equity**, banks payment go to “***Lessor”.***

III. Recourse vs Non -Recourse

Recourse

- Lessor takes the obligation to pay to funding entity (bank).
- Leasing portfolio is **<u>On</u>** Lessor's Balance Sheet.

Non-Recourse

- **Risk Free.** It is **<u>Off</u>** Lessor's Balance Sheet.
- Lessor acts as a **Security Agent** against fees, **no obligation**.
- Lessor is responsible for Collection of rent from clients & transferring it to banks. **(Collection Agent)**
- Relation is between Borrower (Lessee), Bank (Lender) & Leasing Co. as (Security Agent)

Triparty Agreement

IV. Reflection of Lease Portfolio on Financials

- Leased assets were previously added to **"Lessor's"** Financials under old Accounting principle # 20.
- Then, with the change in applying Egyptian Accounting principle # 49 in 2019, Leased assets were shown on **"Lessee"** financials.
- Variances resulting from this change in accounting methodology, was added / deducted to P&L.

	Old Method (Accounting Princ. # 20)	New Method (Accounting Princ. # 49)
Balance Sheet	Leased Asset (Fixed Assets)	Leasing Portfolio (ST & LT Receivables)
Income Statement	Depreciation	No Depreciation

V. Funding Sources

- Equity (Capital Increase or Retained Earnings)
- Debt (Bank Bilateral Loans, Key funding source)
- Issuance of Securitization Bonds

Note: Syndications and club deals are formed among leasing companies &/or banks to finance large sized transactions.

Introducing Company Profile to Banks

(Portfolio Analysis Process)

- Company Profile required from Treasurer
- Is the Portfolio well diversified or concentrated?
- What is the avg. ticket per lessee?
- What are the types of leased assets?
- Do Banks have comfort on your Credit Policy?
- How is the Account Conduct with Banks?
- Compliance with FRA Covenants

I. Company Profile

Profile & Legal Structure	Ownership Structure	Management & BOD
• When it was established? • Type of legal entity? • Issued & Paid in capital. • Market Share • FRA ranking by Contracts Number & Value.	• Who are the owners? • % of ownership • Brief on shareholders • What kind of shareholders support?	• Top management • Bio of key titles • Brief on Board of Directors

Why & How Change of Control clause can be requested by banks?

II. Portfolio Analysis

Industry Concentration

- **FRA Hurdle “40%”**
- Portfolio is well diversified or concentrated in certain sectors?
- Diversified portfolio is healthier specially among less risky industries

Single Obligor Limit

- **FRA Hurdle 30%**
- Top 10 clients in portfolio?
  (OS top 10 clients/OS total portfolio)
- Indication of Risk diversity

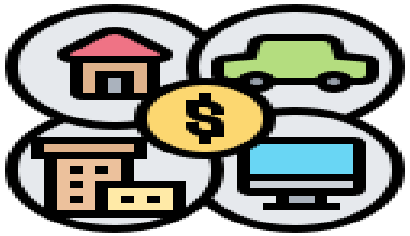
As per FRA new regulation # 137 for yr 2025, in case of any breach in the above Concentration ratios, leasing companies will be obliged to increase the CAR by certain % (as stated later)

II. Portfolio Analysis – Cont'd

Ticket Size Range

- Average Ticket Size in Portfolio
- No. of Contracts (It varies based on targeted segment)
- Risk is diluted with diversified ticket range, specially among lower brackets.

Asset Type



- What is the underlying Asset?
- Land, Building, Vehicles, Equipment, Machinery
- Each type could have an edge in resale or value appreciation.

Example Ticket Size

Ticket Range	No. of Contracts	% by No. of Contracts	Outstanding "In EGP M"	% by Value
<EGP 10m	270	65.4%	378	11.8%
EGP 10m – EGP 30m	57	13.8%	678	21%
EGP 30m – EGP 50m	36	8.7%	619	19.2%
EGP 50m – EGP 100m	25	6%	410	12.8%
EGP 100m – 200m	19	4.6%	680	21.2%
> EGP 200m	6	1.5%	455	14%
Total	**413**	**100%**	**3,220**	**100%**

Example Asset Type

Asset Type	No. of Contracts	% by No. of Contracts	Outstanding "In EGP M"	% by Value

III. Credit Policy & Account Conduct

Banks Comfort on Lessor Credit Policy

- Company's Criteria to assess clients
- Methods of conducting Investigation
- Lending Conditions & Guarantees
- Restricted Industries
- Watch-list & Rescheduling criteria.
- Process & Action for Delays.
- Provisioning & Write-off Policy
- Early Warning Indicators
- Evaluation of assets process

Account Conduct

- Lessor's CBE Aggregate Banking Position
- Account Conduct with banks
- Direct vs contingent limits.
- Current Limits and Utilization %
- Bank's Wallet share
- Performance of financed contracts.

IV. FRA Key Principles

Compliance with key FRA principles (New decree # 137/2025) vs. (Decree # 191/2018)

- **Capital Adequacy Ratio "CAR"** : Currently 12%.
- **Leverage:** Not to exceed 9x. (Total Loans less Subordinated debt/ Total Equity Base)
- **Industry Concentration Cap:** 40% for each industry: (Square root of each segment/Total portfolio)
- **Single Obligor:** For each client & related parties, not to exceed 30% from total company's capital base

For last 2 hurdles, any breach requires adding extra % to CAR, as follows:

Industry Cap %	Extra Required CAR %
> 40% - 60%	12%
> 60% - 80%	16%
> 80%	20%

Single Obligor %	Extra Required CAR %
> 30% -40%	10%
> 40% - 50%	20%

Financial Performance

Key Indicators

- How do banks assess Lessor Financial Performance?
- Key Ratios that banks consider.
- Provisions and NPLs.
- What is the Quality of the Portfolio?

I. Key Financial Ratios

Key Profitability Ratios

- Revenues (Interest Income): For FI's, Revenue is the Interest earned from the leasing portfolio.
- Cost (Interest Expense): Interest paid to banks for funding the portfolio (COF) & (Cost of borrowing)
- Int. Income/Int. Expense: Key ratio to assess profitability spreads (Client Pricing vs. Borrowing cost)
- Interest Coverage (EBITDA/Interest Expense): Ability or cushion to cover Interest across the years.

Portfolio & Bank Debts

- % Growth in Leasing Portfolio: Impacted by new leasing contracts & securitization.
- Banks Debts/Gross Portfolio: Usually high %, as FI's portfolios are majorly funded by banks
- Leverage: FRA hurdle is 9x. That's the key reason, leasing companies go for Securitization.

Banks ask for Business Plan to see projected outlook & compare actual figures to planned ones

I. Key Financial Ratios – Cont’d

Debt Service Coverage Ratio “DSCR”

- Ratio is usually low (below 1x), as CPLTD is actually settled from Lessee generated cash flow & not cash flow of the Lessor.. Thus, it just provides signal on % company can cover in delays.

Debt Repayment stems primarily from Lessee Cash flow

Treasury team should understand Lessee key ratios before discussion with banks

Banks assess Lessee Ratios?

- Lessee DSCR is assessed to ensure debt coverage. Must Exceed ***<u>1x</u>*** across transaction tenor.
- Projections of the Lessee is important to look at and ensure logic assumptions.
- Still, assessment varies according to each transaction and targeted clientele segment.

II. Impairment & NPLs

- As per FRA, Leasing Companies must account for “1%” Provisions on Performing (Regular) Loans.
- Below is the Provision criteria set by FRA. % are based on the Uncovered balances ارصدة غير مغطاه
- % of Uncovered balances vary according to asset Type, as follows and are based on market value.

Bucket	Delay Period	Provision %
1st Bucket	90 < days < 180	**10%**
2nd Bucket	180 < days < 275	**25%**
3rd Bucket	275 < days < 365	**50%**
4th Bucket	365 <days	**100%**

Asset Type	Uncovered Balances
Real Estate	80%
Vehicles	70%
Machinery	50%

- In case of rescheduling or restructuring of debts, different provisioning % are applied based on staging:

Bucket	Delay Period
Rescheduling Date	10%
> 90-180	40%
> 180 -275	80%
>275	100%

III. Portfolio Risk Quality & Write-off

Total Gross Portfolio (ST & LT)	XXX
Less: Impairment Stock	(xxx)
Net Portfolio	XXX
Impairment of the Period (ECL)	XXX
Cost of Risk "COR" (Impairment of Period/ Gross portfolio)	xx%

Contra Asset Balance Sheet
عملاء خسائر ائتمانية متوقعة

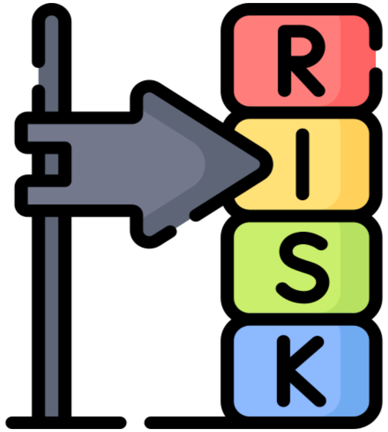
Provisions formed during the period "Income Statement"

ECL & COR indicates Provisioning Level & Quality

Treasury team should understand how banks assess its Risk Quality?

Key Write-off Conditions

- Amount that is planned to be written off must be 100% provided for.
- All attempts to collect money were taken & Legal Actions were taken.
- Company's Board is to approve the write-off amount.
- Any collected amounts after w/off to be accounted as income in the P&L



Relationship Management

- Banks Selection and Ranking Criteria?
- How to establish & maintain solid rapport with Banks?
- Win-win Relationship?
- How to gain trust and act as their focal point?
- Key starting Negotiation areas

I. Selection Criteria – To Go Bank

- Treasurer should diversify ***"Number & Type"*** of banks to avoid concentration & create competition.
- Pricing is very important. Yet, **it is not the sole trigger of selection**.

How to Select Banks to deal with?

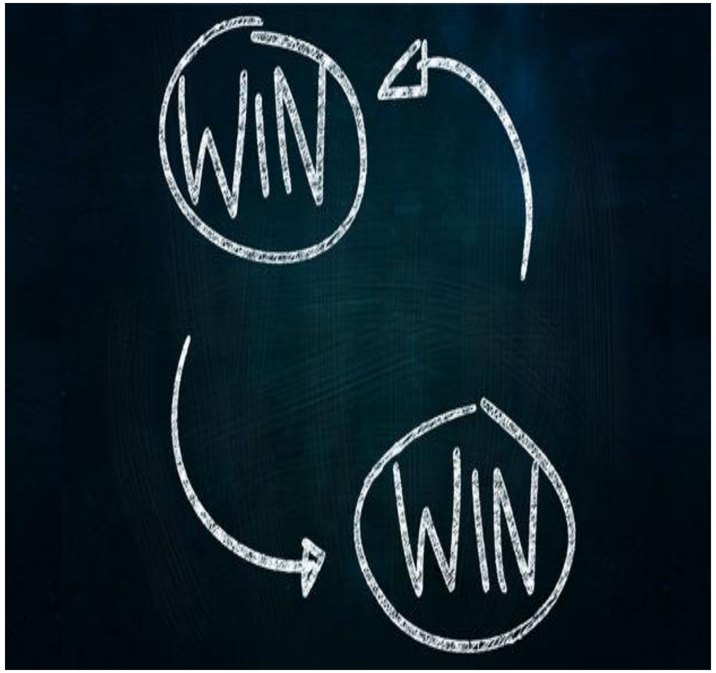
- ***Pricing***
- ***Facility Size***
- ***Group Limits***
- ***Products***
- ***RM Response***
- ***Operations***
- ***Flexibility & Service***
- ***Potential to Grow***
- ***Disbursement Process***

Ranking the Dealing Banks:

- Following the Selection process, Treasurer should form a ranking to each bank.
- Ranking is to be reviewed frequently & changed up or down with relationship development.

II. Win-Win Relationship

- Leasing companies by nature are price sensitive, as Interest is their core expense.
- Majority of the facilities are in form of MTLs with low ancillary business. (Asset Driven)
- This makes bankers' job tough in obtaining their approvals.
- Both parties must benefit from the relation. ***It's a partnership.***

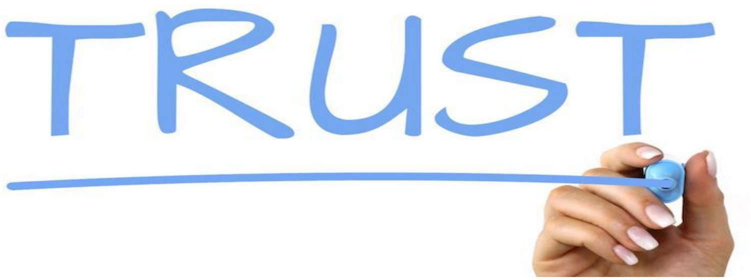


Tips to reach a "Win-Win Relation

- ✓ Don't focus on one product.
- ✓ Open channels for ancillary business (Cheques for collection, LCs, Liabilities, Retail)
- ✓ 2 ways of referrals, capitalize on Tri Party edge.
- ✓ Efficient utilization.
- ✓ Club deals and Syndications

III. How to gain Trust.....Act as Focal Point

- Don't promise what you can not do.
- Transparency is a Golden key, specially in case of delays/breach.
- Consult, brainstorm, be open.
- Don't pressure banks in time unless it's really urgent!
- If you are negotiating with other banks on same deal, let them know.
- Understand points addressed by banks in each transaction



Special conditions or restrictions added in Term Sheet arise from:

1. ***Banks analysis to all provided data (Profile, Portfolio, Financial figures..etc)***
2. ***Treasury Response to Banks questions***

IV. Starting Negotiations - Facility Type & Purpose

Facility Type:

- ❑ Medium Term Loan to finance or Refinance leasing contracts.
- ❑ Letter of Credit “LC’s”: LCs facility aims to cover the purchase/ importation of CAPEX.
- ❑ Overdraft, if needed: Usually small limit to cover general expenses such as taxes, salaries …etc.

Facility Size? Main vs. Sub Limits?

What shall Treasury team consider?

Is USD Finance allowed? Conditions?

Is Refinance allowed? Cap?

Drawing Power %

Is there any ceiling per Lessee?

Restricted Sectors? Cap on Asset Type?

V. Starting Negotiation - Facility Tenor & Pricing

Facility Tenor

- Financing tenor should match the leasing terms, to avoid ***tenor mismatch***.
- Usually, tenors in leasing are for "3yrs", "5yrs" and "7yrs".

Facility Pricing: Multi pricing is usually granted for each tenor.

What shall Treasury team consider?

Floating? Fixed?

Pricing Trenches over tenors?

Interest Period Frequency?

Commissions?

Prepayment Fees?

Delay Interest?

Any Questions?


THANK
YOU!