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

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 Authority "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

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/ E-Invoice/ Asset Purchase contract, indicating asset value.

How banks deal with each type?

Sale & Lease Back

- Lessee sells his own asset to the Lessor (financier) with a pre agreement of leasing back the asset to the Lessee.
- Parties:"2", Lessor(Buyer)& Lessee (seller).
- Sale contract & valuation reports are required.
- Banks payment goes to ***"Lessee"***

Refinance of contracts earlier paid by **Lessor's equity**, banks payment go to ***Lessor*** *vs.* proof of payment.

III. Recourse vs Non -Recourse

Recourse

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

Non-Recourse

- **Risk Free.** It is **Off** Lessor's Balance Sheet.
- Lessor acts as a **Security Agent** against fees. **No financial obligation**, yet, there is Operational 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 standard # 20.
- Then, with the change in applying Egyptian Accounting standard # 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 St. # 20)	**New Method (Accounting St. # 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 or Preferred Stocks)

- Debt (Bank Bilateral Loans, Key funding source)

- Issuance of Securitization Bonds & Corporate Bonds

- Subordinated loans

<u>Note:</u>

Syndications & club deals are formed among leasing companies &/or banks to fund large 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

- When it was established?
- Type of legal entity?
- Issued & Paid in capital.
- Market Share
- FRA ranking by Contracts Number & Value.

Ownership Structure

- Who are the owners?
- % of ownership
- Brief on shareholders
- What kind of shareholders support?

Management & BOD

- 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

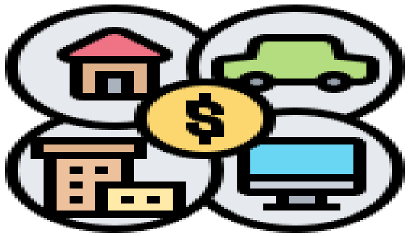
As per FRA new regulation # 137 for yr 2025, in case of any breach in the above Concentration ratios, leasing companies will be obliged to increase the CAR by certain % (as stated later)

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

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

- **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 ***1x*** 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

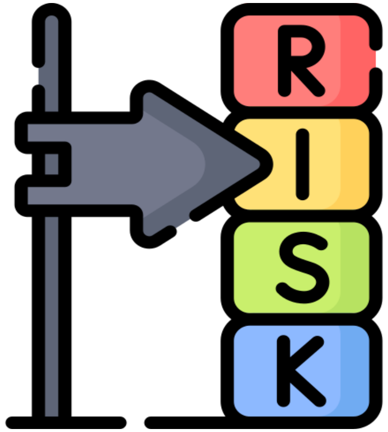
Provisions formed during the period "Income Statement"

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?

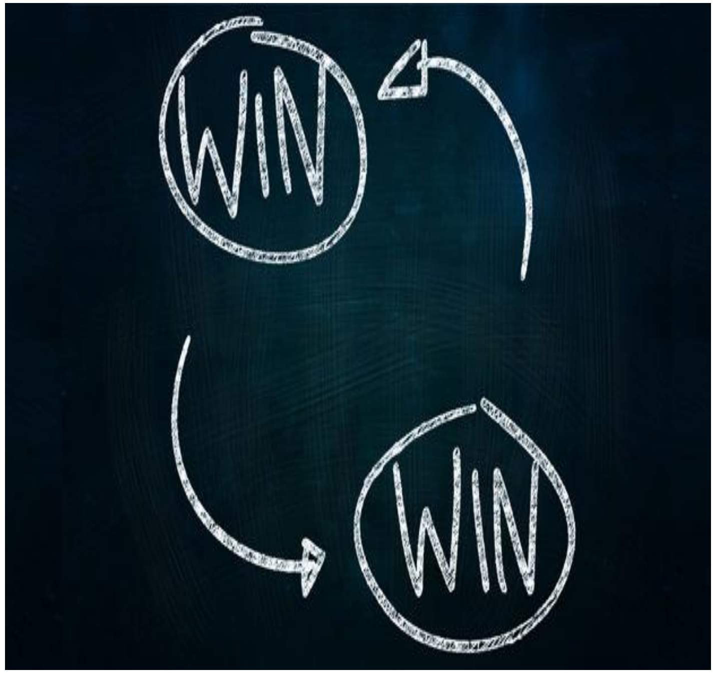
- ***Pricing***
- ***Facility Size***
- ***Group Limits***
- ***Products***
- ***RM Response***
- ***Operations***
- ***Flexibility & Service***
- ***Potential to Grow***
- ***Disbursement Process***

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 & NBFI’s generally are by nature 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.***

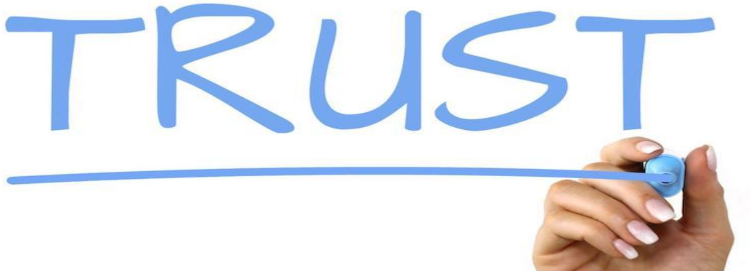


Tips to reach a “Win-Win Relation

- ✓ 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?

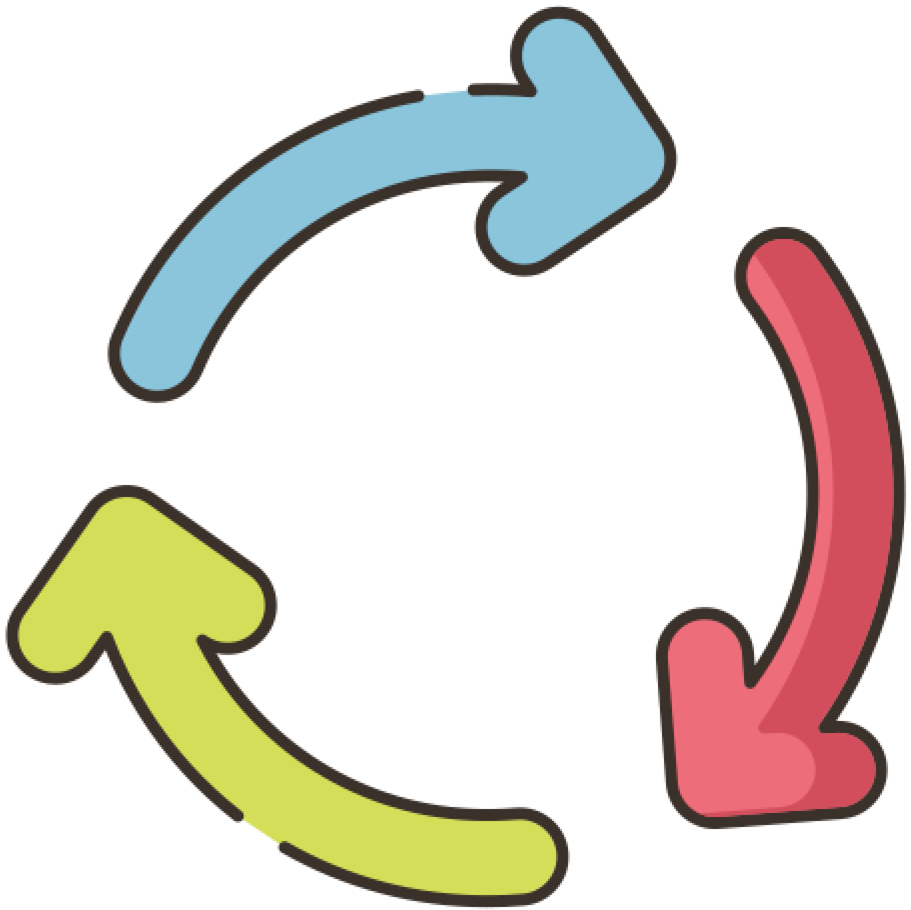
Presentation Content – Day II

What Will we Discuss?

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

Disbursement Cycle & Relation Post Approval

- Steps from Term Sheet Preparation till Disbursement.
- What type of approvals banks need to secure?
- Treasury role post the disbursement.
- Utilization of facilities and repayment



I. Approval Cycle from TS to Disbursement

Term Sheet Negotiation → Bank Approval Process → Contract Signage → CPs Fulfillment → Drawdown & Disbursement

Term Sheet Negotiation:

- (Treasury team is the focal point with Bank's RM.
- Term Sheet is the **"Cornerstone",** listing all facility terms & conditions.
- Proper questions are raised at this stage…***The clearer the terms, the faster the process.***
- Ensure purpose is tailored to fit your real needs. Ensure the ability to fulfill the added conditions.

Banks Approval:

- Upon agreement on TS, Bank's RM fulfill the internal approvals, including Risk, Committee, & ALCO.
- In case of changes in conditions during this process, RM should inform Treasury to discuss.
- Bank's legal team then prepare the contract, based on the approved terms.

I. Approval Cycle from TS to Disbursement – Cont'd

Term Sheet Negotiation → Bank Approval Process → Contract Signage → CPs Fulfillment → Drawdown & Disbursement

Facility Contract.

- Contract draft is then shared with the leasing company for their legal team to review.
- Once agreed, contract is signed by authorized signatories, where each party keeps a signed copy.

CPs Fulfillment & Drawdown

- Treasury works on satisfying facility CPs. (If not fulfilled, facility activation will not take place).
- Once CPs are satisfied, the Limit is available for utilization.
- Treasury team start presenting transactions to the bank for study and drawdown.
- With each transaction, treasury is to fulfill CPs related to transaction drawdown.

II. Relation after Disbursement (Utilization & Repayment)

- Manage the utilization among the facilities offered by different banks.
- Balance between banks offered cost, level of service & conditions.
- Manage Interest and Installment Payments on time.
- Ensure compliance with all Loan Covenants.
- Ensure banks' Undertakings and required reporting is properly met.
- Determine cost effective payment methods (Ex: Transfer/ ACH).
- Ensure regular rapport and follow-up meetings with banks.
- At contract renewal, capitalize on the built track record for better terms.

Term Sheet

(TS)

Borrower / Obligor	**XYZ Company (Lessor)**
Total Facility Size	EGP 600m. Maximum utilization allowed under main & sub limit not to exceed EGP 600m.
Main Facility Type	EGP - Leasing Medium term loan.
Main Facility Size	EGP 600 Million.
Sub Facility Type	USD - Leasing Medium term loan.
Sub Facility Size	USD 5 Million.
Facility Purpose	Finance new leasing contracts or refinance existing contracts financed from company's own resources, with recourse on XYZ. (Refinance: Capped to maximum EGP 100m of Total Facility Size)
Drawing Power	Drawing Power: Maximum 90% from total asset value after excluding advance payment.
Overall Tenor	Overall tenor is up to 7 years (including grace period mentioned in the leasing contract) and as per the below scheme according to the asset type of each lease contract: a. Maximum of 3 years for IT related equipment. b. Maximum of 5 years for vehicles (commercial and passenger cars). c. Maximum of 7 years for machinery, equipment and real estate.

Pricing	• EGP-Leasing Medium term loan: ○ CBE lending Corridor + 1% p.a for 3yrs contracts. ○ CBE lending Corridor + 1.5% p.a for 5yrs contracts. ○ CBE lending Corridor + 1.75% p.a for 7yrs contracts. • USD-Leasing Medium term loan: ○ USD Libor 3months + 3.5% p.a for 3yrs contracts. ○ USD Libor 3months + 3.75% p.a for 5yrs contracts. ○ USD Libor 3months + 4% p.a for 7yrs contracts.
Repayment of Instalments	Repayment frequency is to be determined based on the Lease Contracts repayment frequency. (i.e. annual and balloon repayments are not accepted)
Interest Period	To be paid on monthly, quarterly or semi-annual basis with the date of payment of instalments.
Delay Interest	1 % above the applicable Interest Rate to be applied on the due unpaid portion.
Prepayment Fees	0.25% on the voluntarily pre-paid amount.
Source of Repayment	• Primary Source: Proceeds of the financed lease contracts • Secondary Source: Borrower’s own resources.

Initial CPs	• Promissory Note covering total amount of the facility. • Signing facility documentation.
CPs for each drawdown	The bank will study each submitted transaction, and in case of the bank's acceptance, the bank shall issue the transaction loan contract against assignment of proceeds. • Submission of Drawdown notice and finance request. • Copy of the draft lease contract, which shall confirm that the receivables are explicitly assigned to the bank. • Lease receivables/cheques on the lessees to be deposited with the bank for collection. • For Direct Lease : True copy of the E-Invoice, and/or the assets purchase contract illustrating the asset value. • For Sale & Lease Back: True copy of 2 valuation reports and sale contract. • For Refinance of contracts previously financed by XYZ from their equity: o Refinanced contracts not to be older than 6 months, o Submission of evidence of payment (such as Outward Transfer/ Cheque) from Borrower's own resources, o Providing copy of all authenticated lease contracts not assigned to any bank. • Drawdowns from sub facility (USD) is subject to; 1) Purpose of related leasing contract should be in FCY, 2) Lessee has enough FCY resources, in line with CBE regulations in that regard.

Disbursement	• Direct Lease: To be disbursed in the form of transfer to suppliers, or checks in f/o suppliers. • Sale & Lease back: disbursement from the MTL's account is allowed to the lessee. • Refinance: payment to the Lessor (XYZ company)
General Conditions	• No finance against contracts within Agriculture, Tourism and Textiles Sector. • MTL is not revolving for the same transaction where no re-utilization for any settled portion for the same transaction is allowed. • Limit to be available to accommodate a minimum of 2 contracts.
Financial Covenants	• Gearing (Total Bank Debts/ Net worth) not to exceed the hurdle set by the FRA for Leasing companies being currently 9x, noting that covenant would change up or down in case of any change in the FRA hurdle, by which covenant is to remain always equal to FRA hurdle. • All other financial covenants set by FRA is to be applied.
Change of Control	Borrower undertakes to provide the bank with written notification within maximum 10 days upon any change in shareholding structure or management executives. In case the bank was not satisfied with the change & was not rectified with an acceptable change within 90 days from bank's notification to the Borrower, the bank has the right to freeze the unutilized portion of the facility and to set the utilized portion under on settlement reducing basis.

Key Under-takings	• Facility to be ranked on pari-passu with all other similar facilities granted from other banks. • Undertaking that the presented contracts were not initially financed by other banks. • Undertaking not to create or agree to create or permit any mortgage, charge, pledge, lien or any form of assignment of rights under financed contracts. • Undertaking that XYZ has conducted full credit study on the lessees to be financed by the bank, and ensured that the lessees have satisfactory repayment ability, clean CBE position, & clean protest & bankruptcy report. • Undertaking to provide copies of the leasing contracts assigned to the bank- authenticated by FRA - on case by case basis- within 3 months from draw down date of the transaction. • All Insurance policies under the financed lease contracts to be issued in the favour of the borrower and to be provided within 3 months from drawdown of the transaction. • Undertaking that XYZ will channel any insurance proceeds / compensations received under the financed contracts to settle the related outstanding exposure. • XYZ undertakes to renew the insurance policy on its renew dates and will maintain it in its favour and not to channel /assign the proceeds to any other entity.

Key Under-takings	• XYZ undertakes that in case of liquidation, the company will have to settle any outstanding amount related to these underlying assets • Undertaking to provide copies of audited financial statement as soon as they are available and not later than 120 days from the end of each of its financial years. • In case of undergoing securitization for financed and assigned contract(s): ○ It is allowed to release the assignment of financed lease contracts that will be included in the pool of contracts to be securitized, against an undertaking from XYZ that upon securitization closure, it will channel the securitization proceeds to settle related MTL. ○ During the transitional period till issuance of securitization, borrower is committed to settle all due principle & interest from lease contracts proceeds &/or from its own resources. ○ Borrower undertakes that in case the securitization process was not completed for any reason, the company will reassign back the released securitized contracts.

Dividends Restriction	• Borrower shall not distribute dividends, unless the following conditions are in place: o All Principle and interest amounts due on the same financial year are fully settled. o Non-occurrence or continuation of any Event of Default as set out in the facility contract. o Dividends distribution will not lead to a breach in the Financial Covenants.
Key Events of Default ***(Including but not limited to)***	• The Borrower fails to make any payments of principle and/or interest when due, & was not rectified within Five (5) business days • Any certificate or financial statements referred to in or delivered under the Facility Documentation, prove to have been misleading or incorrect in any material aspect. • Insolvency, Bankruptcy, liquidation, or discontinuance of the Borrower • Breach in any Undertaking. • In case default percentage for delays exceeding 90 days reflected in the submitted quarterly performance reports exceeded 5% and wasn't rectified within 2 consecutive quarters.

Cash Management

Treasury Key Checklist

Treasury Checklist

Cash Flow & Liquidity Management

- ✓ Predict future cash inflows & outflows.
- ✓ Ensure enough cash for OPEX &ST obligations.
- ✓ Invest excess cash balancing returns & liquidity.
- ✓ Forecast ST & LT Cash Needs.
- ✓ Identify Surplus Funds.
- ✓ Develop Cash Management Strategies.

Risk Management

- ✓ Analyze & manage Interest rate risk.
- ✓ Foreign exchange and hedging risk.

Debt & Funding Management

- ✓ Oversee process of borrowing.
- ✓ Managing debt to finance operations.
- ✓ Negotiate pricing, fees & key terms.

Relationship Management

- ✓ Manage relationships with banks and FIs.
- ✓ Relations with rating agencies & bond investors.
- ✓ Keep strong relation with internal stakeholders.

Treasury Operation & Technology

- ✓ Implement TMS to enhance efficiency .
- ✓ Adhere to policy and regulations.
- ✓ Report and manage treasury KPIs.

Key Risks in Leasing Companies

Main Risks in Leasing

Default Risk

Concentration Risk

Interest Rate Risk

Asset Type Possession Risk

Any Questions?


THANK
YOU!