

Credit rating announcement

GCR assigns new ratings to, and affirms existing ratings for, South African Securitisation Programme (RF) Limited - Series 1.

Rating Action

23 August 2019 – GCR Ratings ("GCR") has assigned long-term credit ratings to the following Notes issued by the South African Securitisation Programme (RF) Limited – Series 1 ("SASP 1" or the "Issuer") on 19 August 2019. The Notes were issued to refinance the maturing Class A23, Class B4 and Class C4 Notes.

| Security Class | Stock Code | Amount | Rating class | Rating scale | Rating | Outlook / Watch |
|----------------|------------|--------------|-----------------|--------------|--------------------------|-----------------|
| Class A27 | ERSA27 | R230,000,000 | Issue Long Term | National | AAA _(ZA) (sf) | Stable Outlook |
| Class B7 | ERS3B7 | R99,000,000 | Issue Long Term | National | AAA _(ZA) (sf) | Stable Outlook |
| Class C7 | ERS3C7 | R35,000,000 | Issue Long Term | National | AAA _(ZA) (sf) | Stable Outlook |

At the same time, GCR affirmed the ratings of the existing Notes listed below with a Stable Outlook.

| Security Class | Stock Code | Amount | Rating class | Rating scale | Rating | Outlook / Watch |
|----------------|------------|-------------|-----------------|--------------|--------------------------|-----------------|
| Class A21 | ERSA21 | 155,000,000 | Issue Long Term | National | AAA _(ZA) (sf) | Stable Outlook |
| Class A24 | ERSA24 | 108,000,000 | Issue Long Term | National | AAA _(ZA) (sf) | Stable Outlook |
| Class A25 | ERSA25 | 281,000,000 | Issue Long Term | National | AAA _(ZA) (sf) | Stable Outlook |
| Class A26 | ERSA26 | 178,000,000 | Issue Long Term | National | AAA _(ZA) (sf) | Stable Outlook |
| Class B6 | ERS3B6 | R16,000,000 | Issue Long Term | National | AAA _(ZA) (sf) | Stable Outlook |
| Class C6 | ERS3C6 | R6,000,000 | Issue Long Term | National | AAA _(ZA) (sf) | Stable Outlook |

At the same time, GCR withdrew the ratings of the Class A23, Class B4 and Class C4 Notes, following their full capital redemption.

| Security Class | Stock Code | Amount | Rating class | Rating scale | Rating | Outlook / Watch |
|----------------|------------|--------------|-----------------|--------------|-------------------------|-----------------|
| Class A23 | ERSA23 | R230,000,000 | Issue Long Term | National | WD _(ZA) (sf) | Stable Outlook |
| Class B4 | ERS3B4 | R99,000,000 | Issue Long Term | National | WD _(ZA) (sf) | Stable Outlook |
| Class C4 | ERS3C4 | R35,000,000 | Issue Long Term | National | WD _(ZA) (sf) | Stable Outlook |

The ratings reflect the unchanged capital structure post the refinance, relatively constant credit enhancement levels, the asset performance which is in line with GCR's expectations and GCR's credit and cash flow analysis using the most recent collateral data. The transaction is currently in its Revolving Period. As per GCR's Global Master Structured Finance Rating Criteria, the transaction was modelled using its Pre-Enforcement Priority of Payments applicable in an Amortisation Period.

The national scale ratings assigned to the Class A Notes relate to timely payment of interest and ultimate payment of principal by the Final Redemption Date of each Class of Notes respectively, while the ratings assigned to the Class B and Class C Notes relate to ultimate payment of interest and principal by the Final Redemption Date. The ratings exclude an assessment of the ability of the Issuer to pay either any early repayment or default interest rate penalties.

SASP 1 is a revolving series and the first of three series of the R5bn Multi-seller segregated asset-backed note programme of rental and equipment lease financed assets originated by Sasfin Bank Ltd. SASP 1 and SASP 3 are primarily made up of office equipment leases, while SASP 2 is primarily made up of capital asset leases.

Rating Rationale

Refinance

The capital structure has remained unchanged post the August 2019 issuance of R230m in Class A27 Notes (refinancing maturing R230m Class A23 Notes), R99m in Class B7 Notes (refinancing maturing R99m Class B4 Notes) and R35m in Class C7 Notes (refinancing maturing R35m Class C4 Notes). No additional subordinated loans were issued.

GCR considered the tenor and the pricing of the existing and new issued Notes. The pricing of the new issued Notes is positive to the cash flow model when compared to the pricing of the maturing Notes.

Counterparty Risk

GCR's view of the counterparty risk remains the same as at the June 2019 review of SASP 1 under the criteria updated in September 2018.

Of note, amendments to the transaction documents relating to Permitted Investments which needed both investor and JSE approval, have not yet been concluded as was anticipated by the Issuer. This is as the Issuer is awaiting a conclusion to the ongoing debates on the JSE requirements. The Issuer has however provided GCR a letter which illustrates how Permitted Investments are managed. GCR deems the current procedure to be in line with its criteria.

Credit Risk

GCR's credit analysis assumptions (cumulative default and recovery base case, prepayments) remain unchanged since its previous review of the transaction in June 2019. For the June 2019 review, GCR analysed vintage curves from June 2002 to March 2019.

Cash Flow Analysis

GCR's cash flow analysis reflects the application of the different stress levels in a Pre-Enforcement and amortising scenario at each rating level as per GCR's Global Consumer Asset-Backed Securities Rating Criteria, GCR's assessment of the transaction's capital structure including the August 2019 refinance, the asset performance and GCR's cash flow assumptions.

GCR's analysis and cash flow model output indicates that there is sufficient credit enhancement for the Class A, Class B and Class C Notes to withstand the assumed credit and cash flow risks under a 'AAA_{(ZA)(sf)}' rating scenario.

Ratings Stability

GCR ran six stressed rating scenarios, in which the defaults and recoveries were stressed further in the cash flow model. GCR's analysis shows that the credit enhancement available to the Class A, Class B and Class C Notes is sufficient to mitigate the additional stresses in a 'AAA_{(ZA)(sf)}' rating scenario.

Operational Review

GCR performed an operational review with Sasfin in July 2019. Sasfin indicated the appointment of new personnel in key roles including a Chief Risk Officer, Head of Internal Audit and a General Manager for Credit in the last 18 months.

For the administration of the SASP transactions, a Treasury Middle Office Manager role was created and the appointment made. GCR considers the changes to be positive to the transaction especially with regards to the reporting concerns raised at the June 2019 review. The Treasury Middle Office Manager and the Treasury now perform the third check of the reports. The new IT system (Leasewave) provides a more centralized platform to house and manage data. Given the recency of the system, GCR will allow more time to observe its impact.

Surveillance and Monitoring

GCR continuously monitors the performance of SASP 1 and publishes the Monitoring Dashboards on its website. For the most recent Dashboard covering the period from June 2018 to June 2019 please click on the link below:

<https://gcrresearch.com/reports/companies/870>

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Related Criteria and Research

Global Master Structured Finance Rating Criteria, September 2018

Global Consumer Asset-Backed Securitisation Rating Criteria, September 2018

SASP Series 1 New Issuance Report, August 2019

SASP Series 1 New Issuance Report, June 2019

SASP Series 1 New Issuance Report, December 2015

Ratings History

South African Securitisation Programme (RF) Limited – Series 1

| Security class | Stock code | Rating | Outlook | Initial Rating |
|----------------|------------|-------------|---------|----------------|
| Class A21 | ERSA21 | AAA(ZA)(sf) | Stable | Sep. 2015 |
| Class A23 | ERSA23 | AAA(ZA)(sf) | Stable | Sep. 2015 |
| Class A24 | ERSA24 | AAA(ZA)(sf) | Stable | Aug. 2017 |
| Class A25 | ERSA25 | AAA(ZA)(sf) | Stable | Aug. 2017 |
| Class A26 | ERSA26 | AAA(ZA)(sf) | Stable | Jun. 2019 |
| Class A27 | ERSA27 | AAA(ZA)(sf) | Stable | Aug. 2019 |
| Class B4 | ERS3B4 | A(ZA)(sf) | Stable | Sep. 2015 |
| Class B6 | ERS3B6 | AAA(ZA)(sf) | Stable | Jun. 2019 |
| Class B7 | ERS3B7 | AAA(ZA)(sf) | Stable | Aug. 2019 |
| Class C4 | ERS3C4 | BBB(ZA)(sf) | Stable | Sep. 2015 |
| Class C6 | ERS3C6 | AAA(ZA)(sf) | Stable | Jun. 2019 |
| Class C7 | ERS3C7 | AAA(ZA)(sf) | Stable | Aug. 2019 |
| Security class | Stock code | Rating | Outlook | Last Rating |
| Class A21 | ERSA21 | AAA(ZA)(sf) | Stable | Jun. 2019 |
| Class A23 | ERSA23 | AAA(ZA)(sf) | Stable | Jun. 2019 |
| Class A24 | ERSA24 | AAA(ZA)(sf) | Stable | Jun. 2019 |
| Class A25 | ERSA25 | AAA(ZA)(sf) | Stable | Jun. 2019 |
| Class A26 | ERSA26 | AAA(ZA)(sf) | Stable | Jun. 2019 |
| Class A27 | ERSA27 | AAA(ZA)(sf) | Stable | Aug. 2019 |
| Class B4 | ERS3B4 | AAA(ZA)(sf) | Stable | Jun. 2019 |
| Class B6 | ERS3B6 | AAA(ZA)(sf) | Stable | Jun. 2019 |
| Class B7 | ERS3B7 | AAA(ZA)(sf) | Stable | Aug. 2019 |
| Class C4 | ERS3C4 | AAA(ZA)(sf) | Stable | Jun. 2019 |
| Class C6 | ERS3C6 | AAA(ZA)(sf) | Stable | Jun. 2019 |
| Class C7 | ERS3C7 | AAA(ZA)(sf) | Stable | Aug. 2019 |

Glossary of Terms/Acronyms

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|-------------------------|---|
| Administration | A debtor unable to pay a judgement of debt or who cannot meet its financial obligations and does not have sufficient realisable assets that can be attached in satisfaction of judgement or obligations. The debtor can apply for an administration order interims of the Magistrates' Court Act 32 of 1944 (South Africa). |
| Affirmation | See GCR Rating Scales, Symbols and Definitions. |
| Amortisation Period | A period that may follow the Revolving Period of a transaction, during which the outstanding balance of the related securities may be partially repaid. |
| Amortisation | From a liability perspective, the paying off of debt in a series of instalments over a period of time. From an asset perspective, the spreading of capital expenses for intangible assets over a specific period of time (usually over the asset's useful life). |
| Asset Backed Securities | Securitisation: debt securities issued that are backed or covered by a pool of assets or receivables (Auto loans and leases, consumer loans, commercial assets, credit cards, mortgage loans). |
| Asset | A resource with economic value that a company owns or controls with the expectation that it will provide future benefit. |
| Assets | A resource with economic value that a company owns or controls with the expectation that it will provide future benefit. |
| Capital | The sum of money that is invested to generate proceeds. |
| Cash Flow | The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities. |
| Cash | Funds that can be readily spent or used to meet current obligations. |
| Collateral | Asset provided to a creditor as security for a loan or performance. |
| Credit Enhancement | Limited protection to a transaction against losses arising from the assets. The credit enhancement can be either internal or external. Internal credit enhancement may include: Subordination; over-collateralisation; excess spread; security package; arrears reserve; reserve fund and hedging. External credit enhancement may include: Guarantees; Letters of Credit and hedging. |
| Credit Risk | The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and interest when due. |
| Default | A default occurs when: 1.) The Borrower is unable to repay its debt obligations in full; 2.) A credit-loss event such as charge-off, specific provision or distressed restructuring involving the forgiveness or postponement of obligations; 3.) The borrower is past due more than X days on any debt obligations as defined in the transaction documents; 4.) The obligor has filed for bankruptcy or similar protection from creditors. |
| Enforcement | To make sure people do what is required by a law or rule et cetera. |
| Interest Rate | The charge or the return on an asset or debt expressed as a percentage of the price or size of the asset or debt. It is usually expressed on an annual basis. |
| Interest | Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan. |
| Issuer | The party indebted or the person making repayments for its borrowings. |
| Lease | Conveyance of land, buildings, equipment or other assets from one person (lessor) to another (lessee) for a specific period of time for monetary or other consideration, usually in the form of rent. |
| Loan | A sum of money borrowed by a debtor that is expected to be paid back with interest to the creditor. A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan. Registration is a prerequisite for the existence of any mortgage loan. A mortgage can be registered over either a corporeal or incorporeal property, even if it does not belong to the mortgagee. Also called a Mortgage bond. |
| National Scale Rating | National scale ratings measure creditworthiness relative to issuers and issues within one country. |
| Performing | An obligation that performs according to its contractual obligations. |
| Portfolio | A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value. |
| Prepayment | Any unscheduled or early repayment of the principal of a mortgage/loan. |
| Pricing | A process of determining the price of a debt security. |
| Principal | The total amount borrowed or lent, e.g. the face value of a bond, excluding interest. |
| Rating Outlook | See GCR Rating Scales, Symbols and Definitions. |
| Recovery | The action or process of regaining possession or control of something lost. To recoup losses. |
| Redemption | The repurchase of a bond at maturity by the issuer. |
| Refinance | The issue of new debt to replace maturing debt. New debt may be provided by existing or new lenders, with a new set of terms in place. |
| Rent | Payment from a lessee to the lessor for the temporary use of an asset. |
| Repayment | Payment made to honour obligations in regards to a credit agreement in the following credited order: 3.) Satisfy the due or unpaid interest charges; 4.) Satisfy the due or unpaid fees or charges; and 5.) To reduce the amount of the principal debt. |
| Risk | The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives. |
| Securities | Various instruments used in the capital market to raise funds. |
| Securitisation | A process of repackaging portfolios of cash-flow producing financial instruments into securities for sale to third parties. |
| Security | One of various instruments used in the capital market to raise funds. |
| Stock Code | A unique code allocated to a publicly listed security. |
| Structured Finance | A method of raising funds in the capital markets. A Structured Finance transaction is established to accomplish certain funding objectives whilst reducing risk. |
| Subordinated Loan | A loan typically given by the Issuer to the securitisation vehicle that is more junior than a junior tranche. |
| Surveillance | Process of monitoring a transaction according to triggers, covenants and key performance indicators. |
| Tenor | The time from the value date until the expiry date of an instrument, typically a loan or option. |
| Timely Payment | The principal debt, interest, fees and expenses being repaid promptly in accordance with the contractual obligation. |
| Transaction | A transaction that enables an Issuer to issue debt securities in the capital markets. A debt issuance programme that allows an Issuer the continued and flexible issuance of several types of securities in accordance with the programme terms and conditions. |
| Ultimate Payment | A measure of the principal debt, interest, fees and expenses being repaid over a period of time determined by recoveries. |
| Underwriting | The process of selecting risks and classifying them according to their degrees of insurability so that the appropriate rates may be assigned. The process also includes rejection of those risks that do not qualify. |

Salient Points of Accorded Ratings

GCR affirms that a.) no part of the ratings was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the ratings is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

The credit ratings have been disclosed to the Arranger. The ratings above were solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the ratings.

The Arranger participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from the Arranger and other reliable third parties to accord the credit ratings included:

- Pool Cut for the Portfolio at July 2019;
- SASP 1 Class A27 Applicable Pricing Supplement;
- SASP 1 Class B7 Applicable Pricing Supplement;
- SASP 1 Class C7 Applicable Pricing Supplement;
- Permitted Investments Undertaking Letter;
- SASP 1 Bring down Legal Opinion; and
- SASP 1 Surveillance Reports up to June 2019.

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