

Credit rating announcement

South African Securitisation Programme (RF) Limited – Series 3: New ratings assigned and existing ratings affirmed by GCR.

Rating Action

21 August 2019 – GCR Ratings (“GCR”) has assigned public long-term credit ratings to the following Classes of Notes issued by the South African Securitisation Programme (RF) Limited – Series 3 (“SASP 3” or the “Issuer”) on 15 August 2019. The Notes were issued to refinance the maturing Class A1, Class B1 and Class C1 Notes.

Security Class	Stock Code	Amount	Rating class	Rating scale	Rating	Outlook / Watch
Class A5	SLRA5	R259,000,000	Issue Long Term	National	AAA _(ZA) (sf)	Stable Outlook
Class B5	SLRB5	R30,000,000	Issue Long Term	National	AAA _(ZA) (sf)	Stable Outlook
Class C5	SLRC5	R35,000,000	Issue Long Term	National	AA+ _(ZA) (sf)	Stable Outlook

At the same time, GCR has affirmed the ratings of the existing Notes listed below with a Stable outlook and withdrawn ratings on the Class A1, Class B1 and Class C1 Notes.

Security Class	Stock Code	Amount	Rating class	Rating scale	Rating	Outlook / Watch
Class A2	SLRA2	R276,000,000	Issue Long Term	National	AAA _(ZA) (sf)	Stable Outlook
Class A3	SLRA3	R357,000,000	Issue Long Term	National	AAA _(ZA) (sf)	Stable Outlook
Class A4	SLRA4	R125,000,000	Issue Long Term	National	AAA _(ZA) (sf)	Stable Outlook
Class B2	SLRB2	R45,000,000	Issue Long Term	National	AAA _(ZA) (sf)	Stable Outlook
Class B3	SLRB3	R31,000,000	Issue Long Term	National	AAA _(ZA) (sf)	Stable Outlook
Class B4	SLRB4	R37,000,000	Issue Long Term	National	AAA _(ZA) (sf)	Stable Outlook
Class C2	SLRC2	R20,000,000	Issue Long Term	National	AA+ _(ZA) (sf)	Stable Outlook
Class C3	SLRC3	R25,000,000	Issue Long Term	National	AA+ _(ZA) (sf)	Stable Outlook
Class C4	SLRC4	R25,000,000	Issue Long Term	National	AA+ _(ZA) (sf)	Stable Outlook

The assigned ratings and affirmations reflect the unchanged capital structure post the refinance, relatively constant credit enhancement levels, the asset portfolio performing in line with expectations and GCR's credit and cash flow analysis using the most recent collateral data. The transaction is currently in its revolving period, however as per GCR's Global Master Structured Finance Rating Criteria, the transaction was modelled in an amortising scenario using the Pre-Enforcement Priority of Payments applicable in the amortisation period.

The national scale ratings accorded 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 accorded 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 3 is a revolving series and the third 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 and Fintech Underwriting. SASP 3 and SASP 1 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 issuance of R259m in Class A5 Notes (refinancing maturing R259m Class A1 Notes), R30m in Class B5 Notes (refinancing maturing R30m Class B1 Notes) and R35m in Class C5 Notes (refinancing maturing R35m Class C1 Notes). No additional subordinated loans were issued. Post the refinance, the modelled Assets to Notes ratio is 1.12x (June 2019 review: 1.12x).

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 3 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 done as previously 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 September 2008 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 performance of the asset portfolio 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 and Class B Notes to mitigate the assumed credit and cash flow risks in a 'AAA_{(ZA)(sf)}' rating scenario. The credit enhancement available to the Class C Notes is sufficient to mitigate credit and cash flow risks in a 'AA+_{(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 and Class B Notes is sufficient to mitigate the additional stresses in a 'AAA_{(ZA)(sf)}' rating scenario. The Class C Notes are not as stable with the most severe stresses resulting in a rating of 'A-_{(ZA)(sf)}'.

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 structure 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 3 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/872>

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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 3 New Issuance Report, August 2019

SASP Series 3 Surveillance Report, June 2019

SASP Series 3 New Issuance Report, September 2016

Ratings History

South African Securitisation Programme (RF) Limited – Series 3

Security class	Stock code	National Long-Term Rating	Outlook	Initial Rating
Class A2	SLRA2	AAA(ZA)(sf)	Stable	Sep. 2016
Class A3	SLRA3	AAA(ZA)(sf)	Stable	Dec. 2017
Class A4	SLRA4	AAA(ZA)(sf)	Stable	Dec. 2017
Class A5	SLRA5	AAA(ZA)(sf)	Stable	Aug. 2019
Class B2	SLRB2	A(ZA)(sf)	Stable	Sep. 2016
Class B3	SLRB3	A(ZA)(sf)	Stable	Dec. 2017
Class B4	SLRB4	A(ZA)(sf)	Stable	Dec. 2017
Class B5	SLRB5	AAA(ZA)(sf)	Stable	Aug. 2019
Class C2	SLRC2	BBB(ZA)(sf)	Stable	Sep. 2016
Class C3	SLRC3	BBB(ZA)(sf)	Stable	Dec. 2017
Class C4	SLRC4	BBB(ZA)(sf)	Stable	Dec. 2017
Class C5	SLRC5	AA+(ZA)(sf)	Stable	Aug. 2019
Security class	Stock code	National Long-Term Rating	Outlook	Last Rating
Class A2	SLRA2	AAA(ZA)(sf)	Stable	Jun. 2019
Class A3	SLRA3	AAA(ZA)(sf)	Stable	Jun. 2019
Class A4	SLRA4	AAA(ZA)(sf)	Stable	Jun. 2019
Class A5	SLRA5	AAA(ZA)(sf)	Stable	Aug. 2019
Class B2	SLRB2	AAA(ZA)(sf)	Stable	Jun. 2019
Class B3	SLRB3	AAA(ZA)(sf)	Stable	Jun. 2019
Class B4	SLRB4	AAA(ZA)(sf)	Stable	Jun. 2019
Class B5	SLRB5	AAA(ZA)(sf)	Stable	Aug. 2019
Class C2	SLRC2	AA+(ZA)(sf)	Stable	Jun. 2019
Class C3	SLRC3	AA+(ZA)(sf)	Stable	Jun. 2019
Class C4	SLRC4	AA+(ZA)(sf)	Stable	Jun. 2019
Class C5	SLRC5	AA+(ZA)(sf)	Stable	Aug. 2019

Glossary of Terms/Acronyms

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.
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 3 Class A5 Applicable Pricing Supplement;
- SASP 3 Class B5 Applicable Pricing Supplement;
- SASP 3 Class C5 Applicable Pricing Supplement;
- Permitted Investments Undertaking Letter;
- SASP 3 Bring down Legal Opinion; and
- SASP 3 Surveillance Reports up to June 2019.

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