

## All Ratings Raised In South African Auto ABS Transaction Transsec (RF) Following Review

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OVERVIEW

- We have performed our full surveillance review of Transsec (RF) following the recalibration of the South Africa national scale mapping table.
- Following our review, we have raised our ratings on all classes of notes.
- The transaction securitizes a pool of fully amortizing installment sale agreements relating to the financing of South African mini-bus taxis.

MOSCOW (S&P Global Ratings) Oct. 24, 2018--S&P Global Ratings today raised its credit ratings on Transsec (RF) Ltd. (Transsec)'s class A2, A4, B1, B2, C1, C2, D1, and D2 notes (see list below).

Today's upgrades follow our full review of the transaction's credit, cash flow, counterparty, and operational risks under our relevant criteria (see "Related Criteria"). We have used the information from May 2018 investor report and pool performance data as of August 2018.

Upon revising our national scale rating methodology and South Africa national scale mapping table in June 2018, we placed our ratings in this transaction that could potentially be affected under criteria observation (see "Some South Africa National Scale Ratings Under Criteria Observation On Revised National Scale Credit Rating Methodology," published on June 25, 2018). Following our review, our ratings in this transaction are no longer under criteria observation.

Given that the class B1, B2, C1, C2, D1, and D2 notes are interest deferrable, our ratings on these classes of notes address the ultimate payment of interest and principal. Our ratings on the class A2 and A4 notes address the timely payment of interest and ultimate payment of principal.

In our credit analysis, we considered our latest forecasts for weak growth in South Africa's economy (see "South Africa Foreign And Local Currency Ratings Affirmed At 'BB' And 'BB+'; Outlook Stable," published on May 25, 2018). Our base-case default rate assumption for the portfolio reflects our expectation for low growth in economic output in South Africa. Given structural deficiencies in the public transportation sector, demand for mini-bus taxis is more resilient to economic slowdowns, in our view.

We have analyzed credit risk based on the application of our global consumer finance criteria to derive our assumptions on default, recovery and prepayment rates, and portfolio yield (see "Global Methodology And Assumptions For Assessing The Credit Quality Of Securitized Consumer Receivables," published on Oct. 9, 2014). We have adjusted our credit assumptions to reflect the current performance trends, which we believe will persist. Arrears have increased in relative and absolute terms since our previous full review in October 2017, and now 90+ days past due arrears (including repossessions) stand at 36.2% compared with 24.3% (see "Ratings Raised On South African Transaction Transsec (RF)'s ABS Notes Following Review," published on Oct. 31, 2017). The transaction began amortizing in June 2015, and since then cumulative gross losses have increased to 32.6% of the collateral balance. However, the cumulative net loss rate has stayed below 1.0%, due to high recoveries. Based on the pool's current composition, we have revised the base-case gross default rate for the portfolio to 45.0% from 41.5% at our previous review. At the same time, we left the pool base-case recovery rate unchanged at 77.9%. We applied our current national to global scale mapping for South Africa when defining the stress multiples and recovery rate haircuts for various national scale rating levels (see "S&P Global Ratings' National And Regional Scale Mapping Specifications," published on June 25, 2018).

Since our previous review, the available credit enhancement for all rated classes of notes increased due to collateral amortization, resulting in the class B, C, and D notes no longer being subject to principal lock-out. At the same time, the class E notes and the subordinated loan are currently not amortizing, contributing to an ongoing increase in the credit enhancement for senior and mezzanine note classes. The arrears reserve is currently being topped up from the excess spread up to its required level (ZAR33.6 million as of August 2018), which is also adding to the available credit enhancement for all rated classes of notes.

We applied our "Global Framework For Cash Flow Analysis Of Structured Finance Securities" criteria, published on Oct. 9, 2014, to update our cash flow model for this transaction as of the May 2018 interest payment date.

The transaction is exposed to the credit risk of FirstRand Bank Ltd. (BB/Stable/B, zaAA+/zaA-1+) as the transaction bank account provider. In this role, FirstRand Bank replaced Standard Bank of South Africa in January 2017. Given that FirstRand Bank was not replaced following its downgrade in April 2017, our ratings in this transaction are capped at FirstRand Bank's issuer credit rating, in accordance with our current counterparty criteria (see "Counterparty Risk Framework Methodology And Assumptions," published on June 25, 2013). Under our current counterparty criteria, we consider commingling risk in relation to the servicer to be structurally mitigated.

The counterparty risk related to the transaction account bank limits the maximum potential rating on the notes at the level commensurate with the sovereign foreign currency rating on South Africa. Therefore, sovereign risk is currently not an effective constraint on our ratings in accordance with our structured finance ratings above the sovereign (RAS) criteria ("Ratings Above the Sovereign - Structured Finance: Methodology And Assumptions," published on Aug. 8, 2016).

We have applied our operational risk criteria to assess the operational risk in this transaction (see "Global Framework For Assessing Operational Risk In Structured Finance Transactions," published on Oct. 9, 2014). In our view, severity risk (the effect of servicer disruption) is moderate, and portability risk (the inability to replace the servicer) and disruption risk (the likelihood of a material disruption in servicer's functions) are high. Considering the availability of a warm back-up servicer at closing, the maximum potential rating on the notes based on operational risk is capped at 'A+', which corresponds to a 'zaAAA' national scale rating. Therefore, operational risk does not constrain the maximum potential ratings achievable for all classes of notes.

Under our scenario analysis, we have run two stress scenarios and an assessment of the transaction's performance. In our view, the results of our scenario analysis are commensurate with our credit stability criteria (see "Methodology: Credit Stability Criteria," published on May 3, 2010).

Our credit and cash flow analysis indicates that the available credit enhancement for the class A2, A4, B1, B2, C1, C2, D1, and D2 notes is commensurate with higher ratings than those currently assigned, however, our ratings on these classes of notes are also subject to a counterparty cap related to the transaction bank account provider. Additionally,, we considered the class D1 and D2 notes' junior positioning in the capital structure, which makes them most vulnerable to any adverse developments in the collateral performance. We have therefore raised our ratings on these classes of notes.

Transsec securitizes a pool of fully amortizing installment sale agreements relating to the financing of South African mini-bus taxis.

#### RELATED CRITERIA

*All Ratings Raised In South African Auto ABS Transaction Transsec (RF) Following Review*

- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria - Structured Finance - General: Ratings Above The Sovereign - Structured Finance: Methodology And Assumptions, Aug. 8, 2016
- Criteria - Structured Finance - General: Methodology: Criteria For Global Structured Finance Transactions Subject To A Change In Payment Priorities Or Sale Of Collateral Upon A Nonmonetary EOD, March 2, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria - Structured Finance - General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- Criteria - Structured Finance - General: Global Framework For Cash Flow Analysis Of Structured Finance Securities, Oct. 9, 2014
- Criteria - Structured Finance - ABS: Global Methodology And Assumptions For Assessing The Credit Quality Of Securitized Consumer Receivables, Oct. 9, 2014
- Criteria - Structured Finance - General: Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Criteria - Structured Finance - General: Criteria Methodology Applied To Fees, Expenses, And Indemnifications, July 12, 2012
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- General Criteria: Methodology: Credit Stability Criteria, May 3, 2010
- Criteria - Structured Finance - General: Standard & Poor's Revises Criteria Methodology For Servicer Risk Assessment, May 28, 2009

RELATED RESEARCH

- South African National Scale Bank Ratings Raised After Criteria Review; Removed From Under Criteria Observation, July 2, 2018
- Some South Africa National Scale Ratings Under Criteria Observation On Revised National Scale Credit Rating Methodology, June 25, 2018
- S&P Global Ratings' National And Regional Scale Mapping Specifications, June 25, 2018
- FirstRand Bank Ltd., June 21, 2018
- South Africa Foreign And Local Currency Ratings Affirmed At 'BB' And 'BB+'; Outlook Stable, May 25, 2018
- Ratings Lowered On Auto ABS Transaction Transsec (RF)'s Class A To C Notes Following Bank Downgrade, Dec. 19, 2017
- Ratings Raised On South African Transaction Transsec (RF)'s ABS Notes Following Review, Oct. 31, 2017
- 2017 EMEA ABS Scenario And Sensitivity Analysis, July 6, 2017
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- European Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016

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RATINGS RAISED

Transsec (RF) Ltd.

Class	Rating	
	To	From
A2	zaAA+ (sf)	zaAA- (sf)
A4	zaAA+ (sf)	zaAA- (sf)
B1	zaAA+ (sf)	zaAA- (sf)
B2	zaAA+ (sf)	zaAA- (sf)
C1	zaAA+ (sf)	zaAA- (sf)
C2	zaAA+ (sf)	zaAA- (sf)
D1	zaAA (sf)	zaA+ (sf)
D2	zaAA (sf)	zaA+ (sf)

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