STANDARD & POOR'S RATINGS SERVICES
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New Issue: Transsec (RF) Ltd.

ZAR751. 25 Million Asset-Backed Floating-Rate Notes (Including ZAR609 Million Rated Notes, ZAR56 Million Unrated Notes, And ZAR86. 25 Million Subordinated Notes)

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Standard & Poor's 17g-7 Disclosure Report

Related Criteria And Research

New Issue: Transsec (RF) Ltd.

ZAR751. 25 Million Asset-Backed Floating-Rate Notes (Including ZAR609 Million Rated Notes, ZAR56 Million Unrated Notes, And ZAR86. 25 Million Subordinated Notes)

Ratings Detail

Class	South Africa national scale rating*	Amount (mil. ZAR)	Available credit enhancement (%)§	Interest	Legal final maturity
A1	zaAAA (sf)	135.00	46.62	Three-month JIBAR plus 1.25%	June 14, 2024
A2	zaAAA (sf)	266.00	46.62	Three-month JIBAR plus 1.70%	June 14, 2024
B	zaAA (sf)	93.00	34.24	Three-month JIBAR plus 1.95%	June 14, 2024
C	zaA- (sf)	39.00	29.05	Three-month JIBAR plus 2.00%	June 14, 2024
D	zaBBB- (sf)	76.00	18.94	Three-month JIBAR plus 3.40%	June 14, 2024
E	NR	56.00	11.48	Three-month JIBAR plus 6.50%	June 14, 2024
Subordinated notes	NR	86.25	0.0	Floating rate	June 14, 2024

*Standard & Poor's ratings address timely payment of interest and ultimate principal for Class A notes and, ultimate payment of interest and principal for the rest of the classes of notes. §Includes subordination only. NR--Not rated. JIBAR--Johannesburg Interbank Average Rate.

Transaction Participants	
Domestic issuer	Transsec (RF) Ltd.
Collection special-purpose entity	Keywood (RF) Pty. Ltd.
Servicer and administrator	SA Taxi Development Finance Proprietary Ltd.
Subordinated loan provider	SA Taxi Finance Holdings (Pty) Ltd
Originator and seller	Potpale Investments (RF) Proprietary Ltd.
Special-purpose entity collection bank account provider	Standard Bank of South Africa Ltd.
Security trust	Transsec Security SPV (RF) Proprietary Ltd.
Security trustee	GMG Trust Company (SA) Proprietary Ltd.
Transaction bank account provider, potential liquidity facility, derivative provider, and calculation agent	The Standard Bank of South Africa Ltd.
Stand-by servicer	MBD Credit Solutions Proprietary Ltd.

Supporting Ratings	
Institution/role	**Ratings**
The Standard Bank of South Africa Ltd. as transaction bank account provider (foreign currency rating/outlook/short-term foreign currency rating)	Unsolicited; BBB/Negative/A-2

Transaction Key Features	
Selection date	May 29, 2014

Transaction Key Features (cont.)	
Collateral	Installment sale agreements (ISAs)
Description	ISAs originated by Potpale Investments (RF) Proprietary Ltd., a warehouse facility related to SA Taxi Development Finance Proprietary Ltd.
Country of origin	South Africa
Cumulative single-debtor concentration (%)	Top 1: 0.2, top 10: 1.2
Outstanding balance of the pool (mil. ZAR)*	690.2
Average original principal balance (ZAR)*	307,566.0
Average outstanding principal balance (ZAR)*	294,463.0
Weighted-average original term (months)*	67.7
Weighted-average seasoning (months)*	5.9
Weighted-average remaining term (months)*	61.9
Delinquencies (30 days or more)*	9.23%
Weighted-average borrower nominal interest rate (%)*	24.6
Revolving period	12 months since issuance
Loan redemption profile	Straight amortizing with fixed monthly installments
Premium new vehicles (%)*	80.8%
Premium pre-owned vehicles (%)*	18.3%
Entry-level new vehicles (%)*	0.3%
Entry-level pre-owned vehicles (%)*	0.7%

*As of May 29, 2014.

Transaction Summary

Standard & Poor's Ratings Services has assigned its South African national scale credit ratings to Transsec (RF) Ltd.'s class A1, A2, B interest deferrable, C interest deferrable, and D interest deferrable asset-backed floating-rate notes. At closing, Transsec (RF) Ltd. also issued unrated floating-rate class E interest deferrable notes and received a subordinated loan from SA Taxi Finance Holdings (Pty) Ltd.

The transaction securitizes a pool of fully amortizing installment sale agreements (ISAs) relating to the financing of South African mini-bus taxis. SA Taxi Development Finance Proprietary Ltd.'s (SA Taxi) originates and funds the receivables through Potpale Investments (RF) Proprietary Ltd. (Potpale), a bankruptcy-remote special-purpose entity (SPE). The SPE uses a facility provided by The Standard Bank of South Africa Ltd. for the sole purpose of originating and financing ISAs. The underlying obligors are predominantly South African individual taxi operators. This is SA Taxi's second rated securitization transaction, and the first one that we have rated.

At closing, the issuer used the proceeds from the notes and the subordinated loan to purchase the eligible ISAs from Potpale. The transaction has a 12-month revolving period, during which the issuer can purchase further assets using principal proceeds from the existing asset portfolio. At the end of the revolving period, or after an amortization event, principal is paid in accordance with the priority of payments. The transaction pays principal sequentially. However, subject to certain triggers and principal lock-out conditions defined under the transaction documents, the notes may be redeemed pro rata.

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This transaction's most relevant risk is the credit risk relating to the underlying loans' borrowers, in our view. As the transaction is revolving, our credit risk assessment also considered portfolio deterioration through adverse portfolio composition migration. Certain portfolio covenants described below and the short 12-month revolving period, partially offset this, in our view. We consider that the ringfenced bankruptcy remoteness of the SPE collection account, and the fact that it will hold the collected funds for only one business day, mitigates the transaction's exposure to commingling risk. The Standard Bank of South Africa is the collection account provider. Our analysis also took liquidity, tax, and counterparty risks into account. The transaction is not exposed to either deposit or employee set-off risk.

A combination of note subordination, overcollateralization from the subordinated loan used to purchase ISAs, and excess spread provides credit enhancement for the notes.

SA Taxi is the portfolio servicer and issuer administrator. Since closing, the transaction benefited from MBD Credit Solutions (Pty) Ltd.'s (MBD) involvement as a standby servicer. Standard Bank of South Africa is the transaction bank account provider, and potentially its liquidity facility and derivative counterparty.

Since we assigned preliminary ratings to this transaction, certain material structural changes have been made to this transaction. Notably, the class A notes have been split into class A1 and A2 notes, and the issuer has incorporated the cash reserve as a discretionary excess spread trapping mechanism.

Rating Rationale

Economic outlook. Our base-case default rate assumption for the portfolio reflects our expectation for moderate growth in economic output in South Africa. Our baseline economic scenario forecasts real GDP growth of between 2.7% and 3.8% until 2016, and a continued low consumer price index at about 5.5% (see "South Africa (Republic Of)," published on March 27, 2013). Additionally, given structural deficiencies in the public transportation sector, demand for mini-bus taxis is more resilient to economic slowdowns, in our view.

Operational risk. SA Taxi is the receivables administrator and servicer. We consider its abilities to fulfill its obligations as a servicer to be adequate. It has well-established underwriting and servicing procedures. Our ratings reflect our assessment of the company's origination policies and our evaluation of its ability to fulfill its role as portfolio servicer. The standby servicer, MBD, will replace SA Taxi if the issuer terminates its role as servicer.

Credit risk. We have analyzed credit risk based on the application of our consumer finance criteria to derive our assumptions on default, recovery and prepayment rates, and portfolio yield (see "European Consumer Finance Criteria," published on March 10, 2000). We received more than five years of historical performance data of the underlying portfolio. We do not consider the transaction to have any residual value risk, as the portfolio does not have any balloon loans (loans which have a large final installment at maturity). We have adjusted our credit assumptions to represent the subportfolios' worst-case composition. This is to account for portfolio migration toward these levels during the revolving period. We do not expect the transaction to accumulate losses during the revolving period. This is because one of the early amortization event triggers tests if there is sufficient available excess spread to cure defaults.

Cash flow analysis. Our cash flow model reflects our assessment of the transaction's payment structure and our credit and cash flow assumptions. Our analysis indicates that the available credit enhancement for the rated notes is sufficient to mitigate the credit and cash flow risks that we apply at our assigned ratings.

Rating stability. 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 2010 credit stability criteria (see "Methodology: Credit Stability Criteria," published on May 3, 2010).

Counterparty risk. The transaction is exposed to the credit risk of Standard Bank of South Africa (unsolicited ratings; BBB/Negative/A-2) as the transaction bank account provider. We consider that the transaction documents adequately mitigate this risk at a 'zaAAA (sf)' rating level, which is in line with our current counterparty criteria (see "Counterparty Risk Framework Methodology And Assumptions," published on June 25, 2013).

Legal risk. We consider the issuer to be a bankruptcy-remote entity in line with our asset isolation and SPE criteria, and local regulations (see "Asset Isolation And Special-Purpose Entity Criteria--Structured Finance," published on May 7, 2013). We have received legal comfort that the sale of the assets would survive Potpale Investments (RF) Proprietary's insolvency as the seller.

Strengths, Concerns, And Mitigating Factors

Strengths

- SA Taxi's management has more than 20 years' origination and servicing experience collectively in the South African mini-bus taxi finance industry.
- The portfolio is highly granular. The top 10 borrowers account for 1.2% of the outstanding balance.
- The portfolio has standard floating-rate and fixed-rate fully amortizing auto loans. Since it does not have any balloon loans, there is no residual risk in the transaction.
- The transaction benefits from significant excess spread, given the difference between senior expenses, plus the interest payable on the notes and the interest on the assets. The issuer can use excess spread to cure defaults from receivables.
- There are two excess spread trapping mechanisms, one of which is based on the level of nonperforming loans and the principal deficiency ledger (arrears reserve). The other has a discretional trapping mechanism (cash reserve).
- Principal lock-out conditions make the notes pay sequentially if the class A notes have not doubled their credit enhancement at closing, there is principal deficiency, or the reserve fund is not fully funded.
- The standby servicer, MBD, will replace SA Taxi if the issuer terminates its role as servicer or administrator. MBD currently services some of SA Taxi's portfolio.

Concerns and mitigating factors

- Defaults under ISA contracts are sensitive to the South African economy, which we expect to demonstrate moderate growth during the rest of 2014 and into 2016. We believe SA Taxi's portfolio will be more resilient to deteriorating consumer performance because the mini-bus taxi sector seems to be less sensitive to economic shifts, given the poor development of public transportation alternatives.
- During the revolving period, the pool's credit quality may change, and the transaction's performance may deteriorate due to the new assets in the pool. However, the transaction has several structural mitigants, such as caps on some of the riskier products, and certain performance triggers, which would stop the revolving period if the transaction's performance were to deteriorate substantially.
- The issuer is exposed to potential gross losses from voluntarily terminated ISAs, as the South Africa National Credit Act permits. We have considered this when sizing our gross-loss base-case assumptions.
- The transaction is exposed to commingling risk through a collection account. All collections from the assets are paid directly into a ringfenced bankruptcy remote SPE account and transferred on each business day into the transaction account. In our opinion, this mitigates commingling risk.

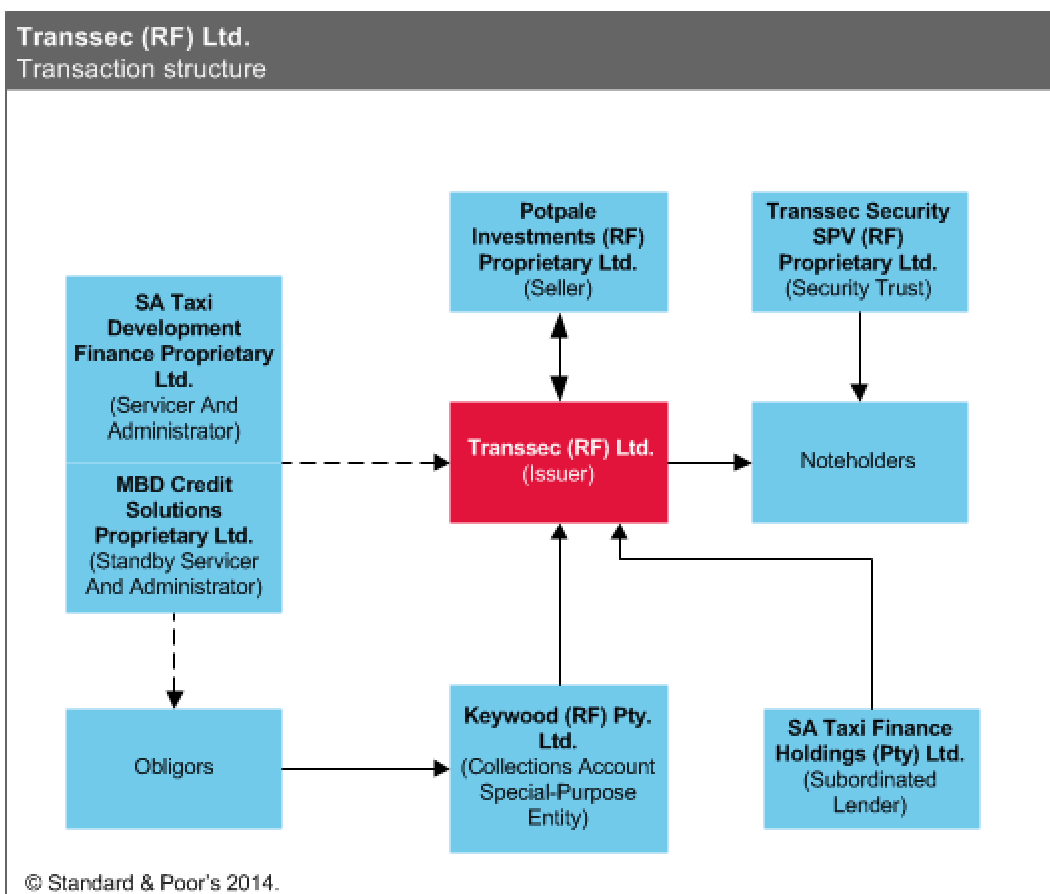
- This transaction benefits from a back-up servicer at closing. We believe this arrangement, combined with the fact that MBD already services a portion of the pool, mitigates cash flow disruption if the servicer's replacement were to become insolvent.

Transaction Structure

At closing, Transsec (RF), an SPE registered in South Africa, purchased eligible ISAs from Potpale. Borrowings from the note issuances, subordinated loan proceeds, or the collection of proceeds from previously acquired receivables, finances the purchases.

Under the South African legal system, the assets are pledged to the security SPE, Transsec Security SPV (RF) Proprietary Ltd., to safeguard the secured creditors' interests, including noteholders. The security trust grants a limited recourse guarantee to the secured creditors' favor. The issuer simultaneously provides an indemnity to the security trustee in respect of the claims made under the guarantee. The issuer has ceded and pledged its assets to the security trust as security for such indemnity.

Chart 1



Originator

SA Taxi has been operating in South Africa since 1998—exclusively financing the minibus taxi sector. In 2006, Transaction Capital Ltd., a non-deposit-taking financial services group active in asset-backed lending, credit services, and payment services, acquired SA Taxi's business.

SA Taxi is a licensed regulated consumer credit institution in South Africa. It provides insurance, financing, and other products to more than 20,000 mini-bus taxi operators.

SA Taxi's head office is in Johannesburg. It manages all of the entity's operations, including distribution channels, the origination and credit department, and late-stage collections, along with other customer service functions.

The originator scores a borrower's application with a mostly automated process, including data validation, system registration, and an assessment phase. The assessment phase includes operator, vehicle, and taxi route assessment analysis. The originator regularly realigns the scorecards so that it can properly assess the repayment risks.

SA Taxi manages most of its early and middle collection stages of the servicing process in order to assist the delinquent client to become current on its payments. It only uses legal action as a last resort. MBD, the standby servicer, services a small portion of the portfolio directly. This is to adequately benchmark SA Taxi's collections performance and for business continuity.

Several factors drive the collection phases, such as the obligor's risk profile, days since the last payment, balance outstanding, among others. The servicing department arranges and prioritizes these according to risk bands. External attorneys then handle the legal process.

As part of the integral business, Taximart, an entity of SA Taxi, specializes in managed storage, repair, refurbishment, and the sale of repossessed vehicles, in order to improve SA Taxi's recoveries on repossessed vehicles.

We conducted an onsite visit and review of the originator and servicer's origination and servicing procedures. We consider SA Taxi to have adequate experience in its core business of minibus taxi financing and servicing.

Cash Flow Mechanics

The class A to E notes pay interest quarterly. The first interest payment date (IPD) will be on Sept. 14, 2014. The notes pay a floating rate of interest, referenced to three-month JIBAR (Johannesburg Interbank Average Rate). The legal final maturity date is in 2024.

All collections received from the assets in a collection period, plus the cash and arrears reserves amount (if required), are allocated through a combined interest and principal waterfall (see "Waterfall" below). According to the transaction documents, no principal is repaid on the notes during the 12-month revolving period. Principal repayment thereafter is sequential and will pay pro rata if the lock-out conditions are no longer activated.

Eligibility criteria

During the revolving period, Transsec can invest principal collections from the assets to purchase additional assets from the seller. In our view, the transaction's eligibility criteria adequately maintain the pool's credit quality during the revolving period. On each purchase and determination date, the portfolio must comply with the following conditions:

- The asset currency is South African rand;
- The final repayment date is earlier than end May 2022;
- The borrower has paid at least one scheduled monthly payment;
- The borrower is not in arrears for more than three installments;
- The maximum portfolio percentage of entry level vehicles is 5%;
- The minimum portfolio percentage of new premium vehicles is 70%;
- The maximum portfolio percentage of pre-owned premium vehicles is 25%;
- The maximum portfolio aggregate original amount for the largest 10 obligors is 2%;
- The maximum portfolio aggregate original amount for each participating asset is 0.5%; and
- The maximum portfolio aggregate amount for fixed-rate assets is 2.5%.

The revolving period is 12 months from closing, but will end earlier if the transaction breaches any of the following amortization triggers:

- The arrears reserve required amount is not satisfied within two consecutive determinations dates;
- The transaction has a record of a principal deficiency, so excess spread is not sufficient to cure defaults on any determination date;
- A servicer notification event has occurred; and
- An event of default has occurred.

Waterfall

On each quarterly payment date, the issuer administrator allocates the available amount (collections, recoveries, and, if required, the amounts on the capital and arrears reserves) according to the following priority of payments:

- Servicing fees and senior expenses (tax, security SPE, and owner trust expenses, insurance cost refund to SA Taxi, servicer-standby servicer and administrator;
- Interest on the class A1 and A2 notes;
- Interest on the class B notes, if not deferred;
- Interest on the class C notes, if not deferred;
- Interest on the class D notes, if not deferred;
- Interest on the class E notes, if not deferred;
- Subordinated servicing fee;
- Cash reserve;
- During the revolving period, purchase additional assets;
- Principal on the class A1 notes;
- Principal on the class A2 notes;
- Principal on the class B notes, and interest if deferred;
- Principal on the class C notes, and interest if deferred;
- Principal on the class D notes, and interest if deferred;
- Arrears reserve;
- Principal on the class E notes, and interest if deferred;

- Interest and principal on the subordinated loan;
- Payment to preference shareholders;
- Subordinated fee not paid as per the above, and
- Cash reserve in excess of the cash reserve required amount.

Upon an event of default, the revolving period will end and the notes will be due and payable under a sequential priority of payments and the class A1 and A2 notes will amortize pari passu and pro rata.

Principal deficiency

The administrator calculates the principal deficiency for the transaction on each determination date to ensure that the available excess spread is available to mitigate defaults. The principal deficiency ledger (PDL) is the record of the shortfall between the potential redemption amount on the notes and the actual cash available to repay investors (after paying interest on the notes).

On each determination date, the potential redemption amount is equivalent to principal collections, plus principal losses from the previous collection period (write-offs), plus the principal deficiency from the previous determination date, plus the excess amount in the capital reserve and, on the redemption date, any release excess from the arrears reserve.

If there is a principal deficiency on a determination date, the revolving period will end and the transaction will amortize early.

Interest deferral

If the PDL exceeds the cumulative amount of the notes junior to the respective notes and 50% of the notes in question, then the issuer will defer interest on the notes.

Principal redemption and principal lock-outs

During the amortization period, classes of notes can only receive principal payments on each payment date subject to no principal lock-out being in place. The principal amount for redemption is equivalent to the redemption amount as defined above and is allocated according to the priority of payments.

Where there are no principal lock-outs, the notes then amortize by an amount equal to the pro rata share of the potential redemption amount split between the respective notes.

Where a lock-out applies to a class of notes, the notes will not be entitled to receive any principal repayment, and the remaining senior notes will continue to redeem pro rata.

A principal lock-out applies to the class B to D interest defferable notes in the following circumstance: There is a senior class of notes outstanding and the credit enhancement ratio for the class A1 and A2 notes is less than double the ratio as of the most recent issue date; there is a principal deficiency; or the cash and arrears reserve aren't sufficiently funded. The class E notes' principal lock-out applies when there are class D notes outstanding.

Optional redemption

The issuer can exercise optional redemption as soon as the aggregate principal balance of the notes is equal to or lower than 20% of the initial principal balance, or on any payment date after the coupon step-up date. The issuer can

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only exercise this option if it has sufficient available cash flows to fully redeem the notes plus accrued interest and senior fees.

Credit enhancement

A combination of excess spread, subordination, and overcollateralization provides credit enhancement for the notes.

Excess spread

Excess spread results from the difference between the interest income received from the assets and the interest paid to the noteholders of the rated notes, plus senior fees and expenses. We therefore consider that the transaction has significant excess spread.

Cash reserve

The cash reserve is a discretionary mechanism to trap excess spread during the transaction's life. The primary purpose of this reserve is to fund potential liquidity shortfalls. The reserve required amount is defined under the transaction documents as 'N.A.' (not applicable), so the issuer may discretionarily allocate excess spread to fund the cash reserve. Funds from the cash reserve are available for the payment of expenses and interest. On the notes' final redemption date, or following the delivery of an enforcement event, amounts in the cash reserve may be used to pay principal on the notes until the balance is reduced to zero.

Arrears reserve

The arrears reserve is another mechanism to trap excess spread during the transaction's life.

If the aggregate principal balance of nonperforming loans exceeds 5% of the aggregate of the aggregate outstanding principal balance of the asset pool and the collections standing to the credit of the transaction account, the issuer will be required to retain, after payments on the class D notes, an amount equivalent to the lesser of (i) 25% of the principal balance of the nonperforming assets relating to premium vehicles, plus 30% of the principal balance of nonperforming assets relating to entry level vehicles, or (ii) the aggregate principal amount outstanding of all the notes (the arrears reserve required amount). If required, this amount will be available to make payments to creditors.

According to the transaction documents, a nonperforming loan is defined as a loan for which the applicable obligor is at least three months of installments in arrears and for which fewer than three cumulative qualifying payments (a payment which is more than 50% of the applicable installment due) has been made within the three months of the determination date.

Commingling risk

According to legal opinion we received, there is no commingling risk relating to the servicer. This is because all payments are deposited directly into the relevant collections account, which is not in the servicer's name.

The collections entity is an independent, insolvency remote, ringfenced SPE. This mitigates commingling risk relating to the collection SPE, and the risk of insolvency is therefore remote. In addition, the servicer must ensure that it transfers all obligor payments to the transaction account on each business day.

Set-off risk

There is no set-off risk in this transaction. The seller is not a deposit-taking institution. Additionally, eligibility criteria require that any member of SA Taxi does not employ any obligors.

Servicing

MBD, the back-up servicer, is a leading independent provider of credit management solutions in South Africa. Like SA Taxi, MBD Credit Solutions belongs to Transaction Capital.

MBD's core service is collecting account receivables for the entire credit cycle, using both call-center-based and legal collections processes. MBD has about 70 mandates from retail clients on collections of due amounts. MBD can take over servicing from SA Taxi due to its experience, advanced IT technologies, and ability to quickly set up a call center. MBD services part of SA Taxi's portfolio, and is familiar with its collection systems and technology. If necessary, it could replace SA Taxi in all servicing and administrative duties within four business days.

Collateral Description

The securitized pool comprises ISA receivables that Potpale granted to SA Taxi customers. The assets, which are transferred to the issuer, comprise minibus taxi vehicles.

Premium vehicles account for 99.1% of the initial pool balance. New premium vehicles account for 80.8% of the pool balance, and entry-level vehicles represent less than 0.9%.

All contracts are fully amortizing; none of the contracts provide balloon payments. Approximately 99.3% of the pool loans pay a floating rate of interest, referenced to the South Africa prime rate.

The underlying obligors are South African individual taxi operators. According to the transaction's eligibility criteria, the maximum top 10 obligor concentration is limited to 2% of the total asset balance.

The purchase price for which the issuer buys the assets from the seller is equal to the total principal amount and any accrued interest outstanding under the transaction documents.

The transaction documents permit the issuer to take additional funding at closing that exceeds the eligible pool balance at that time. The issuer would only do so if there are existing assets that are not then eligible for inclusion due to the seasoning requirement to have at least one installment. The issuer would then retain this amount in the capital reserve, which would be available for a period specified in the respective pricing supplement on the issue date. If the issuer does not fully use the prefunded amount by the end of the prefunding period, it must use the amount to redeem the notes. The prefunding amount is ZAR61 million, and the prefunding period is between closing and September 2014.

Table 1

Pool Breakdown*	
Weighted-average remaining term (months)	62
Amortization type (%)	
Regular monthly payment	100
Make of vehicle (%)	
Toyota	88.8
Mercedes	7.5
Other	3.4

Table 1

Pool Breakdown* (cont.)

*Portfolio stratifications may change through replenishment.

Chart 2

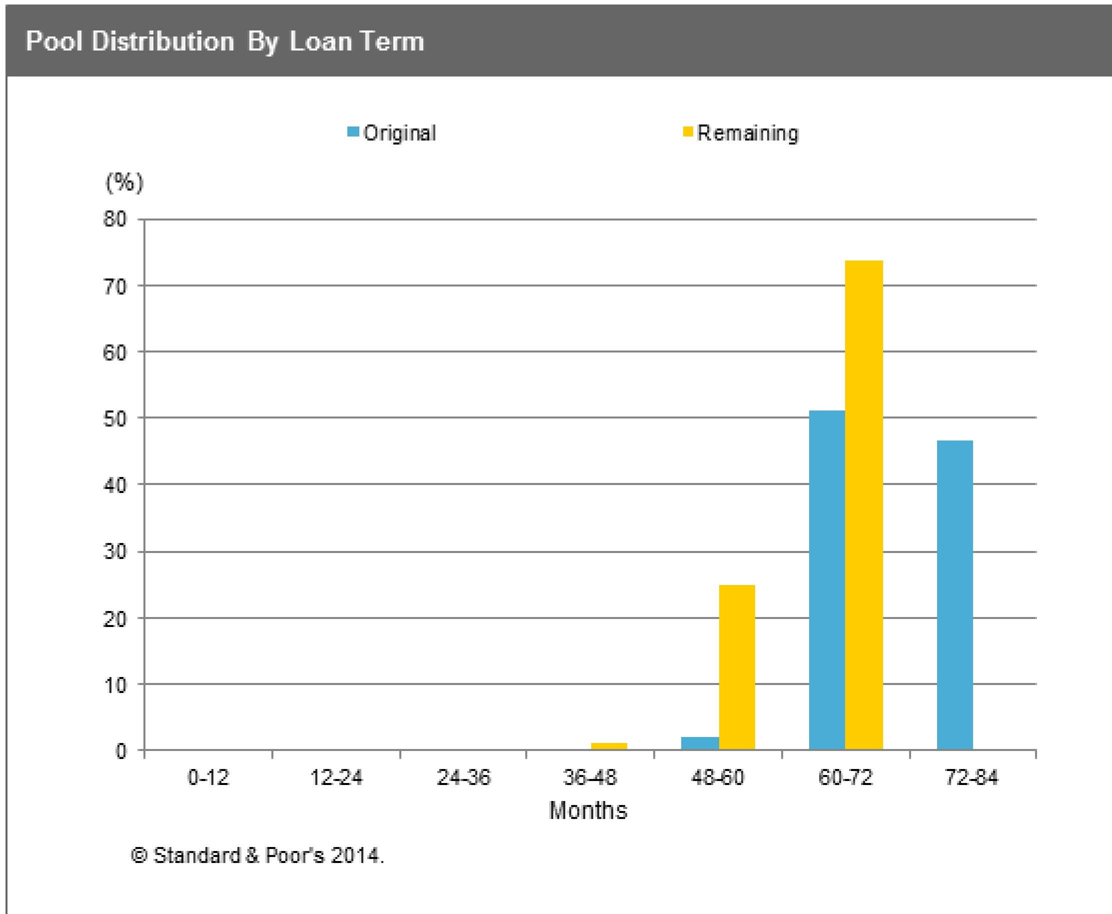


Chart 3

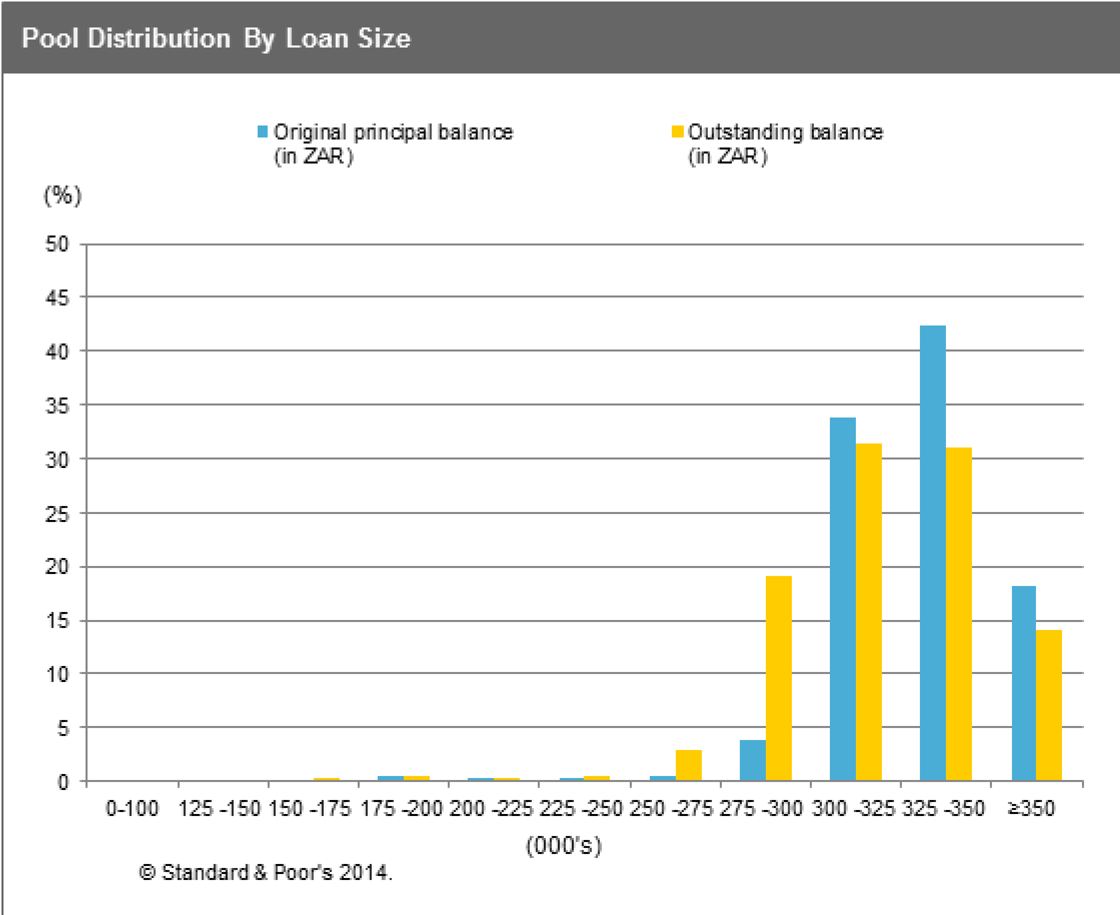


Chart 4

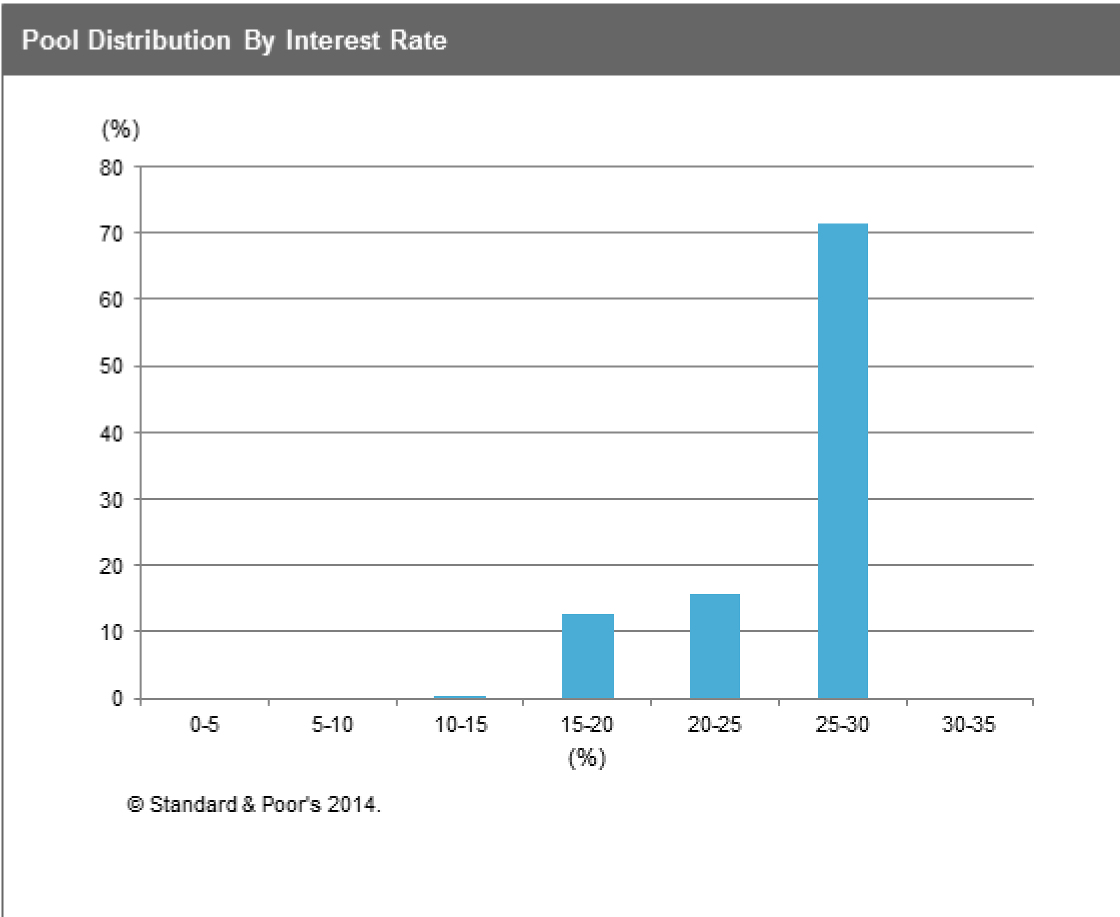
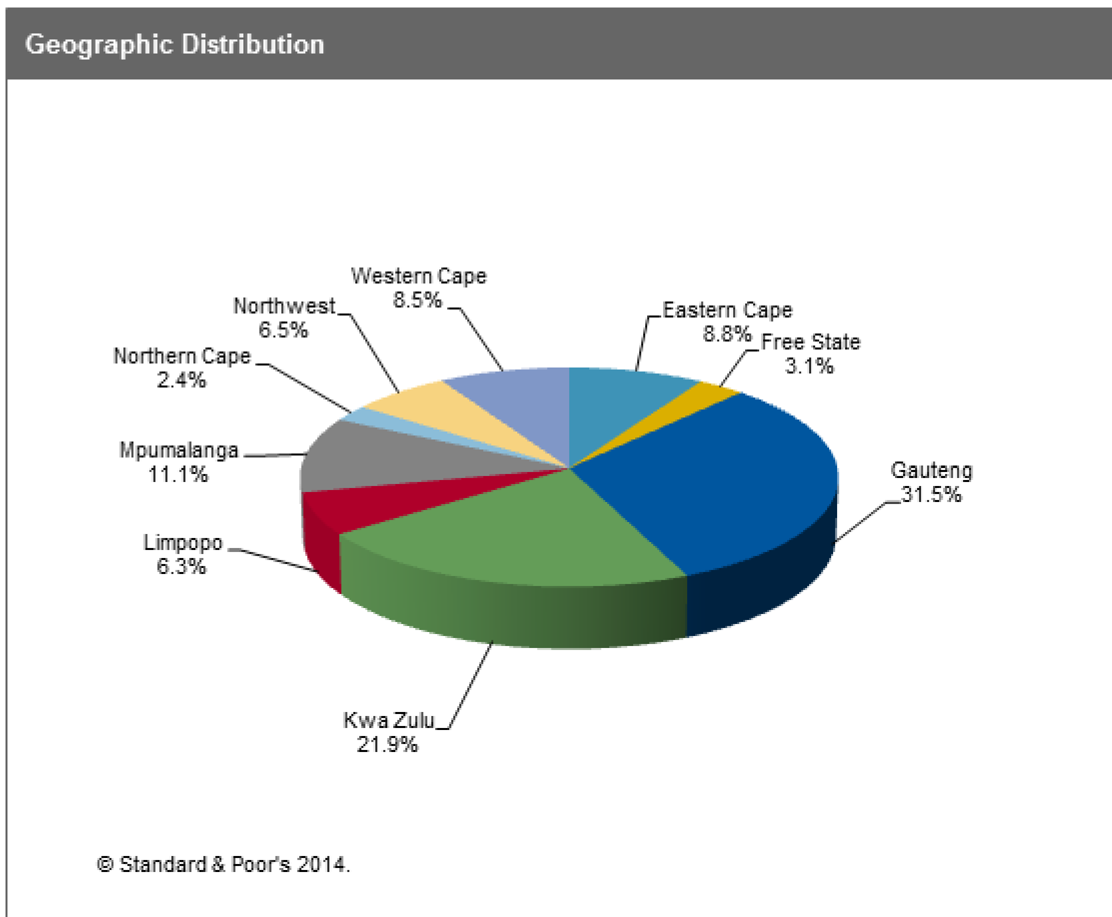


Chart 5



Credit And Cash Flow Analysis

Our analysis includes an assessment of the transaction's credit risk in various stress scenarios. We based our credit analysis for each class of the notes on our rating methodology for analyzing consumer finance transactions (see "European Consumer Finance Criteria," published on March 10, 2000).

As part of our analysis, we took into account certain characteristics of the taxi industry. In particular, the loans business is cyclical, and it is common that one or two installment payments are missed. However, given that the financed vehicle is the borrower's income-producing asset, installment payments or partial payments usually resume within three months. This results in severe delinquencies (90+ days) and high recovery rates through either rehabilitations or repossessions. As a result, write-offs have remained historically low (around 5.4% of the outstanding pool balance in 2013).

Default rate

We define defaulted loans as loans that are nonperforming as described above. The transaction documents are in line with our definition.

We received monthly static monetary gross-loss and recovery data from January 2009 until December 2013. The gross-loss data show outstanding amounts of defaulted contracts as a percentage of the total originated amount in that cohort, which aggregate voluntary terminations. Recovery data show the sum of all amounts, including vehicle remarketing proceeds, after taking account of the gross loss. We received all data for four subportfolios.

The subportfolios are premium new, premium pre-owned, entry-level new, and entry-level pre-owned. For each of these, we have sized separate gross-loss and recovery-rate base-case assumptions and aggregated them into weighted-average base-case assumptions. We did this using a hypothetical worst-case portfolio composition, rather than the shares of the individual subportfolios in the closing pool. This allowed us to consider the potential deterioration of the portfolio's credit quality as a result of adverse replenishment during the revolving stage.

As described above, all assets are related to the minibus taxi transportation industry. We have accounted for this industry concentration by increasing the multiple for each rating class.

Chart 6

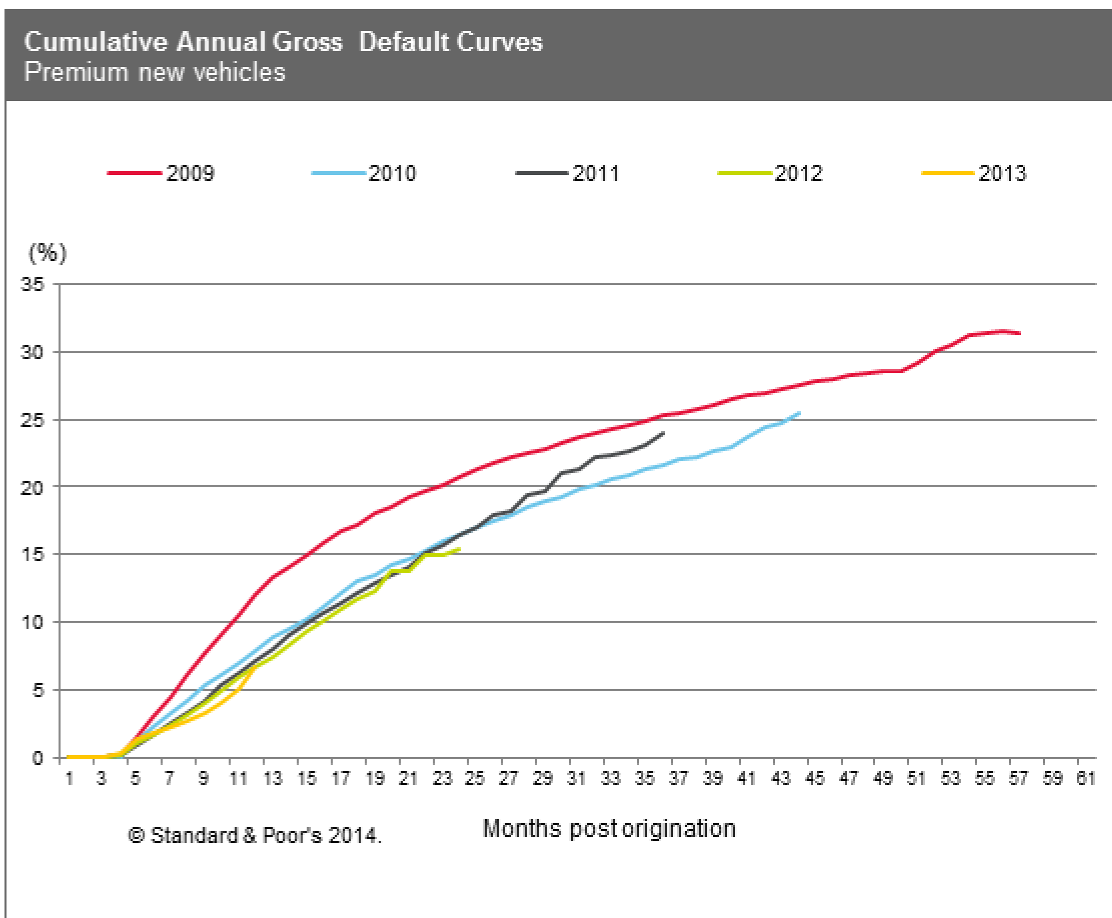


Chart 7

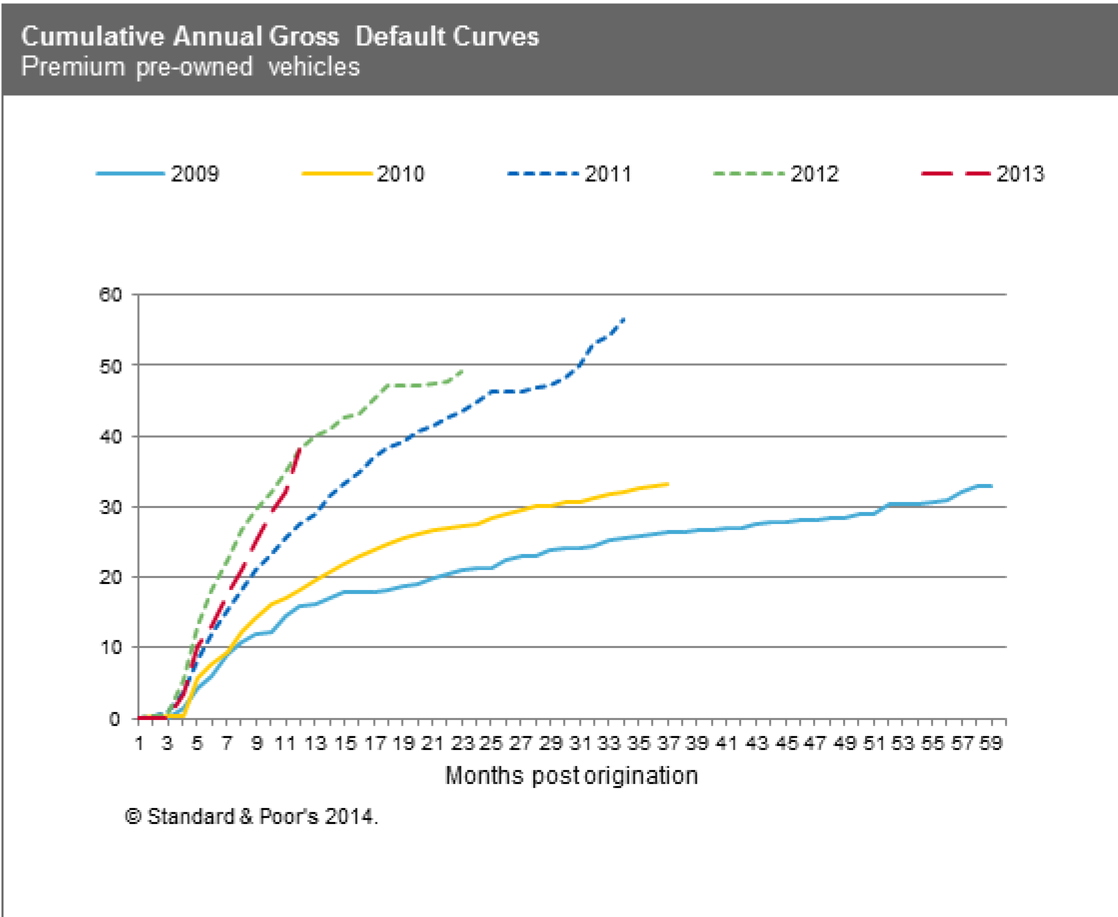


Chart 8

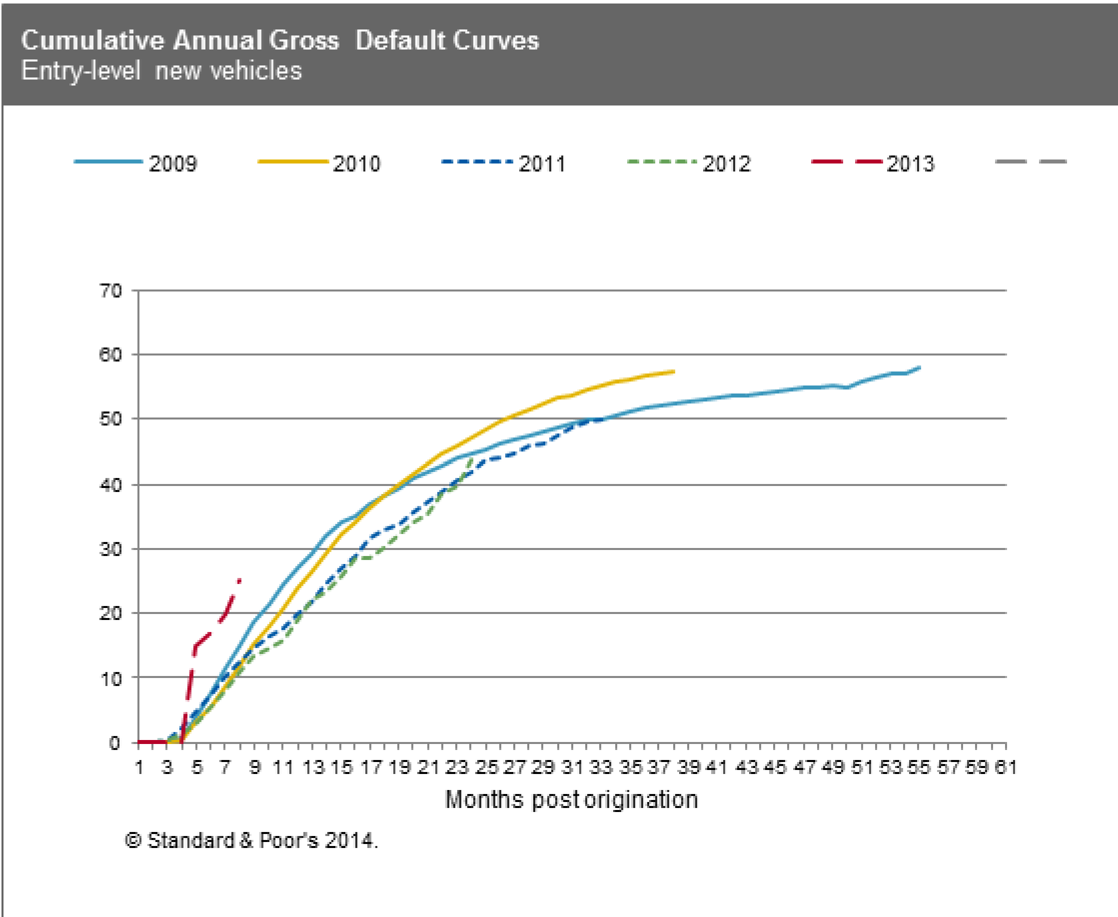
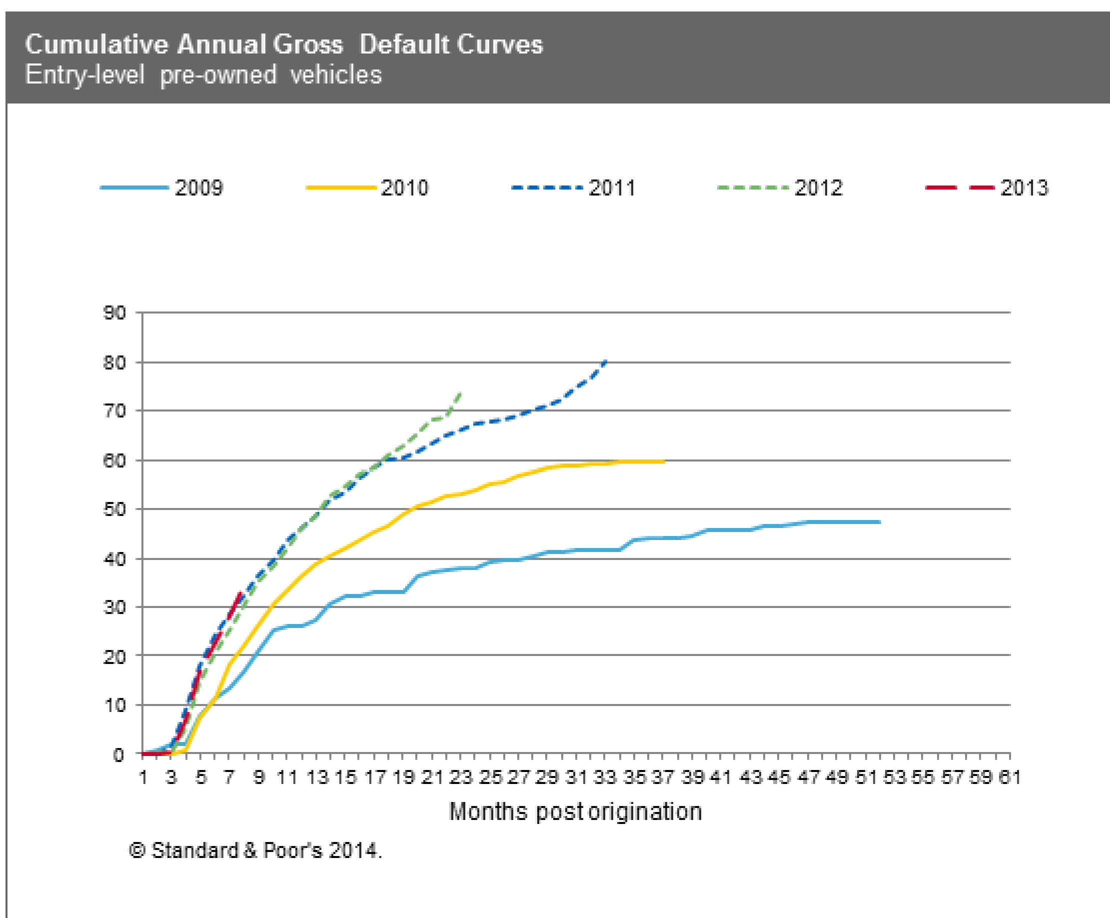


Chart 9



We set our gross-loss base-case assumptions for the individual subportfolios to reflect our 2014 to 2016 outlook for South Africa's economy. To incorporate the risk of portfolio deterioration through incorporating adverse new assets during the revolving period, we constructed a worst-case pool based on the portfolio concentration limits (see "Eligibility criteria" above) and calculated the total pool's weighted-average base-case assumption based on this, instead of the closing pool's composition. We set our stress multiples to reflect our view of the originator's experience and quality. We have further increased our multiples to account for the loans' concentration in the transportation sector and for our country risk weightings for asset-backed securities (ABS).

For our cash flow analysis, we assumed a 27-month default curve starting from closing. We applied defaults by considering different default patterns, such as even, front, and back-loaded.

Recoveries

Chart 10 - Cumulative Annual Principal Recoveries

Chart 11

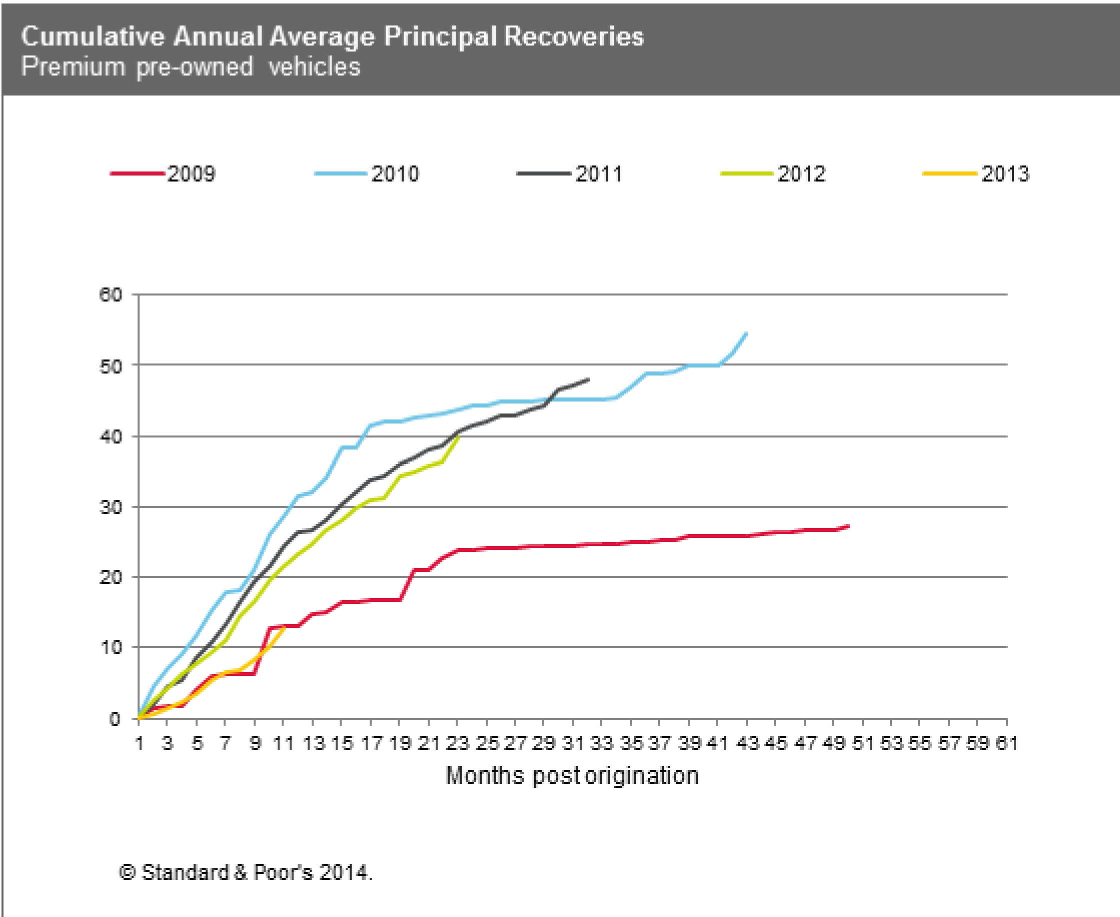


Chart 12

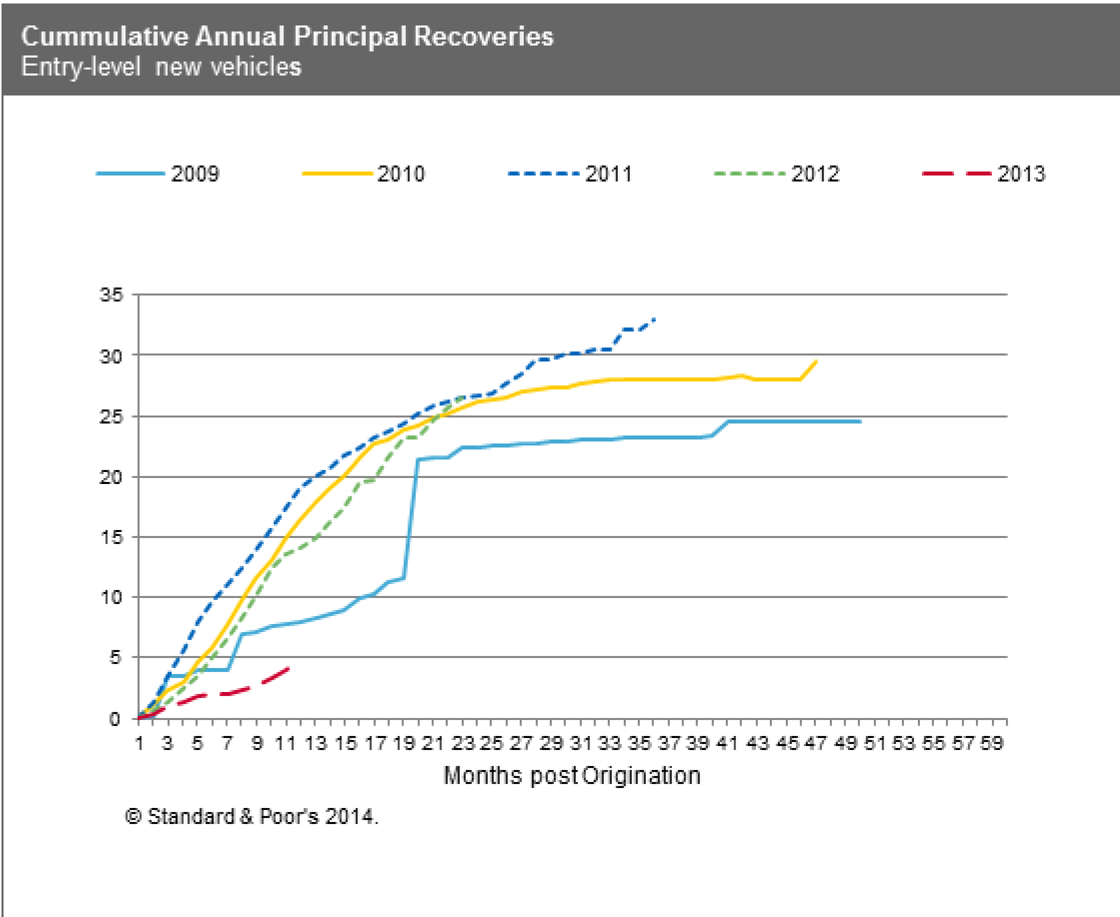
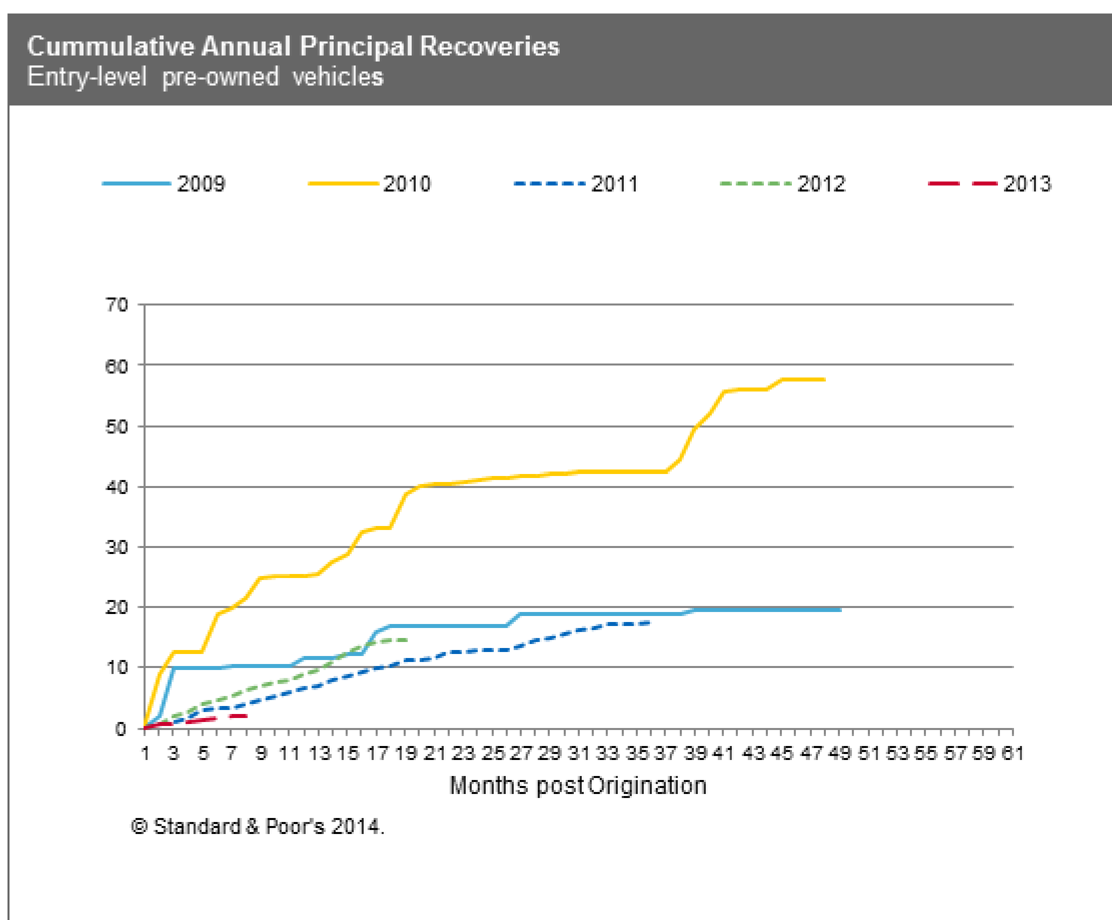


Chart 13



An intensive servicing process manages recoveries in order to avoid having the vehicle repossessed. Overall, it takes approximately 24 months for defaulted loans to either be repossessed or fully rehabilitated. Approximately between 40% and 50% of the defaulted ISAs will result in repossession.

We have set our base-case assumptions with a 24-month recovery period, and we consider both repossessions and rehabilitations. Under our assumptions, no recoveries are realized in the first seven months, 38% are recovered in month eight (first bullet recovery), 40% in month 16 (second bullet recovery), and the remaining 22% in month 24 (third bullet recovery). We applied recovery haircuts (discounts) to all cases (see table 2).

Table 2

Credit multiple and haircut assumptions

	Gross-loss rate	Recovery rate
Base-case for the worst-case pool (%)	47.38	75.60
zaAAA stress assumption (%)	91.25	45.40
zaAA stress assumption (%)	72.88	52.96
zaA' stress assumption (%)	69.20	56.75
zaBBB stress assumption (%)	60.84	60.53

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Delinquency rate

Due to high gross default rate assumptions, we have not modeled an additional delinquency assumption in our cash flow model.

Prepayment rate

The historical prepayment rate range is stable at 5.7%, with a maximum observation of 8% during the last five years. We tested the cash flow model under a low constant prepayment rate (CPR) of 0.5% and a high CPR of 20%.

Yield

For the maximum permitted fixed-rate portion of the pool, we capped the portfolio yield by 21% under both low and high CPR scenarios. This is because it corresponds to our assumption of the potential yield that the portfolio could reach during the revolving period. For the rest of the floating-rate portion of the pool, we assume a margin equivalent to the minimum permitted according to the portfolio covenants (14%).

Senior fees

We have considered floating-rate fees and fixed-rate annual fees according to the transaction documents.

Interest rate scenarios

The only varying parameters in our model are the interest rate scenarios that account for floating-rate liabilities. We stressed the transaction using three JIBAR interest rate scenarios:

- A fixed-rate scenario, with a constant 5% rate;
- An up scenario, with JIBAR increasing to 15% from 5%; and
- A down scenario, with JIBAR decreasing to zero from 5%.

As indicated before, 99.4% of the portfolio yield is referenced to the prime rate. Historically, the prime rate has been over JIBAR. The prime rate moves in response to the movement in the repo rate, which is correlated to JIBAR, even in stressed periods like 2007 and 2008. We have addressed this historical difference in our cash flow analysis for the lower rating scenarios.

Cash Flow Analysis

We put our credit analysis results and additional transaction specific stresses through a cash flow model reflecting the capital structure.

Our ratings on the class A notes address the timely payment of interest and the ultimate payment of principal. Our ratings on the class B to D interest deferrable notes address the ultimate payment of interest and principal.

The notes pass at their respective rating levels under all scenarios in our cash flow analysis.

Scenario Analysis

This scenario analysis section incorporates:

- A description of our methodology and scenario stresses; and

- Results of the effects of the stresses on ratings;

Methodology

We have developed a scenario analysis and sensitivity testing model framework for rating asset-backed securities (ABS) transactions. This demonstrates the likely effect of scenario stresses on the ratings in a transaction over a one-year outlook horizon. For this asset class, we consider scenario stresses over a one-year horizon to be appropriate given the relatively short weighted-average life of the assets backing the notes. For these types of securities there are many factors that could cause the downgrade and default of a rated note, including asset performance and structural features. However, for the purposes of this analysis we focused on the three fundamental drivers of collateral performance, namely:

- Gross-loss rate;
- Recovery rate; and
- Prepayment rate.

Given current economic conditions, the stress scenarios proposed reflect negative events for each of these variables. Increases in gross default rates could arise from a number of factors, including rises in unemployment and company insolvencies, together with a reduction in the availability of credit. In addition, these effects would most likely cause collateral recovery rates to fall as the structural imbalance between supply and demand leads to reductions in asset prices. In this environment, we also expect prepayment rates to fall as fewer refinancing options leave obligors unable to prepay finance agreements and demand for replacement vehicles falls.

In our analysis we have included two stress scenarios to demonstrate the rating transition of a bond (see below).

Table 3

Scenario Stresses

Rating variable	Scenario 1 (relative stress to base case)	Scenario 2 (relative stress to base case)
Gross-loss rate (%)	10	20
Recovery rate (%)	(10)	(20)
Constant prepayment rate (%)	(10)	(20)

Our base-case assumptions for each transaction are intended to be best estimates of future performance for the asset portfolio. Our approach in determining these base-case assumptions would take account of historically observed performance and an expectation of potential changes in these variables over the life of the transaction. The sensitivity of rated classes of notes in each transaction will differ depending on these factors, in addition to structural features of the transaction—including its reliance on excess spread, payment waterfalls, and levels of credit enhancement at closing.

For each proposed scenario stress, we separate the applied methodology into three distinct stages. In the first stage, we stress our expected base-case assumptions over a one-year period to replicate deviations away from our expected performance over the stress horizon. We assume that the stresses that we apply occurred at closing, with gross losses applied based on our expectation of a cumulative default curve for the portfolio.

The second stage applies our usual rating methodology, including revising our base-case assumptions at the one-year

horizon, to reflect the assumed deviations as a result of the stressed environment.

In the final stage of our analysis, we re-rate the transaction at the one-year horizon, after revising our base-case assumptions and applying our standard credit and cash flow stresses at each rating level. The output of the analysis shows the likely rating transition of the rated notes, given the applied stresses and the value and timing of any forecasted principal and interest shortfalls under the most stressful scenario.

Scenario stress and sensitivity analysis

When applying scenario stresses in the manner described above, the results of this modeling are intended to be a simulation of what could happen to the ratings on the notes for the given transaction. For the purposes of our analysis for this transaction, we applied the two scenarios described above in our cash flow modeling.

Table 4

Scenario Stresses

Rating variable	Base case	Scenario 1	Scenario 2
Weighted-average gross loss rate (%)	47.70	52.10	56.80
Recovery rate (%)	75.66	68.00	60.50
Constant prepayment rate (%)	10.00	9.00	8.00

Table 5

Scenario Stress Analysis

Scenario stress	Class	Initial rating	Scenario stress rating
Scenario 1	A1	zaAAA	zaAA+
	A2	zaAAA	zaAA
	B	zaAA	zaAA
	C	zaA-	zaBBB
	D	zaBBB-	zaBB-
Scenario 2	A1	zaAAA	zaAA
	A2	zaAAA	zaAA-
	B	zaAA	zaA
	C	zaA-	zaBB+
	D	zaBBB-	zaB

A number of this transaction's features—including the initial subordination levels, the PDL and arrears reserve mechanism, and particularly excess spread, enhance the stability of the rating under each scenario.

Key Performance Indicators

We will regularly assess the following as part of our ongoing surveillance of this transaction:

- The underlying portfolio's performance, including defaults and delinquencies;
- The supporting ratings; and
- The servicer's operations and its ability to maintain minimum servicing standards.

Standard & Poor's 17g-7 Disclosure Report

SEC Rule 17g-7 requires an NRSRO, for any report accompanying a credit rating relating to an asset-backed security as defined in the Rule, to include a description of the representations, warranties, and enforcement mechanisms available to investors and a description of how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities.

The Standard & Poor's 17g-7 Disclosure Report included in this credit rating report is available at http://standardandpoorsdisclosure-17g7.com/2458.pdf.

Related Criteria And Research

Related criteria

- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Asset Isolation And Special-Purpose Entity Criteria--Structured Finance, May 7, 2013
- Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- Methodology: Credit Stability Criteria, May 3, 2010
- Weighing Country Risk In Our Criteria For Asset-Backed Securities, April 11, 2006
- European Consumer Finance Criteria, March 10, 2000

Related research

- South Africa (Republic Of), March 27, 2013
- Standard & Poor's Revises Mapping Guidance For South Africa National Credit Rating Scale Following Sovereign Downgrade, Oct. 15, 2012
- European Structured Finance Scenario And Sensitivity Analysis: The Effects Of The Top Five Macroeconomic Factors, March 14, 2012
- Global Structured Finance Scenario And Sensitivity Analysis: The Effects Of The Top Five Macroeconomic Factors, Nov. 4, 2011

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