

Ratings Raised On South African Transaction Transsec 2 (RF)'s ABS Notes Following Review

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OVERVIEW

- We have performed our full surveillance review of Transsec 2 (RF) following the recalibration of the South Africa national scale mapping table.
- Following our review, we have raised our ratings on the class A, B, and C 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) Nov. 8, 2017--S&P Global Ratings today raised its credit ratings on Transsec 2 (RF) Ltd. (Transsec 2)'s class A1, A2, A3, A4, A5, A6, B1-Dfrd, B2-Dfrd, C1-Dfrd, and C2-Dfrd 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 the investor report and pool performance data as of August 2017.

Upon revising our South Africa national scale mapping table in July 2017, we placed the ratings that could potentially be affected under criteria observation (see "South Africa National Scale Ratings Placed Under Criteria Observation On Revised National Scale Mapping Table," published on July 27,

2017). Following our review, our ratings in this transaction are no longer under criteria observation.

Given that the class B1-Dfrd, B2-Dfrd, C1-Dfrd, and C2-Dfrd notes are interest deferrable, our ratings on these classes of notes address the ultimate payment of interest and principal. Our ratings on the class A1 to A6 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 Ratings Affirmed; Outlook Remains Negative," published on June 2, 2017). 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). Since our April 2016 review, in the context of the tap issuance, the revolving period has terminated and the transaction entered its amortization stage (see "Ratings Assigned To South African ABS Transaction Transsec 2 (RF)'s Tap Issuance," published on Aug. 8, 2016). We have adjusted our credit assumptions to reflect the portfolio's static nature and the current performance trends, which we believe will persist. Arrears have increased in relative and absolute terms since our previous full review in August 2016, and now 90+ days past due arrears stand at 18.6% compared with 5.9%. The transaction began amortizing in December 2016, and since then cumulative gross losses have increased to 16% of the collateral balance. However, the cumulative net loss rate has stayed low, at 0.4%, due to high recoveries. Based on the pool's current composition, we have revised the base-case gross default rate for the portfolio to 42.6% from 42.3% at our previous review. Over the same period, the pool base-case recovery rate decreased to 77.9% from 80.7%. 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 Tables," published on Aug. 14, 2017).

Since our previous review, the available credit enhancement for all rated classes of notes increased as a result of the sequential principal payout. By August 2017, the overall size of the class A notes reduced by nearly 30% from its balance as of the tap issuance in August 2016, to ZAR360 million from ZAR 499 million. At the same time, the arrears reserve is currently being topped up from the excess spread up to its required level (ZAR29 million as of August 2017), which is also contributing to an increase in the credit enhancement for all rated classes of notes.

As of the August 2017 interest payment date, 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.

The transaction is exposed to the credit risk of FirstRand Bank Ltd. (BB+/Negative/B, zaAA/zaA-1+) as the transaction bank account provider. In this role, FirstRand Bank replaced Standard Bank of South Africa Ltd. (SBSA) 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 "FirstRand Bank Ltd.," published on April 27, 2017, and "Counterparty Risk Framework Methodology And Assumptions," published on June 25, 2013). Under our current counterparty criteria, we consider commingling risk to be structurally mitigated.

The transaction is exposed to SBSA as the interest rate swap provider. We give benefit to the swap in our analysis, and rely on SBSA currently posting collateral following the collateral posting trigger being hit.

The counterparty risk limits the maximum potential rating on the notes at the level commensurate with the sovereign foreign currency rating of South Africa. Therefore, sovereign risk is currently not an effective constraint on our ratings in accordance with our structured finance ratings above the sovereign 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 A1, A2, A3, A4, A5, A6, B1-Dfrd, B2-Dfrd, C1-Dfrd, and C2-Dfrd notes is commensurate with higher ratings than those currently assigned. We have therefore raised our ratings on these classes of notes.

Transsec 2 securitizes a pool of fully amortizing installment sale agreements relating to the financing of South African mini-bus taxis.

RELATED CRITERIA

- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, Aug. 14, 2017
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- 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
- General Criteria: National And Regional Scale Credit Ratings, Sept. 22, 2014
- Criteria - Structured Finance - General: Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Criteria - Structured Finance - General: Global Derivative Agreement Criteria, June 24, 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 Africa National Scale Ratings Placed Under Criteria Observation On Revised National Scale Mapping Table, July 27, 2017
- 2017 EMEA ABS Scenario And Sensitivity Analysis, July 6, 2017
- Ratings Lowered On Auto ABS Transaction Transsec 2 (RF)'s Class A Notes Following Bank Downgrade, June 6, 2017
- South Africa Ratings Affirmed; Outlook Remains Negative, June 2, 2017
- FirstRand Bank Ltd., April 27, 2017
- Ratings On Seven South African Financial Institutions Lowered Following Similar Action On Sovereign, April 5, 2017
- South Africa Long-Term Foreign Currency Rating Cut To 'BB+' On Political And Institutional Uncertainty; Outlook Negative, April 3, 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

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Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016

- Ratings Assigned To South African ABS Transaction Transsec 2 (RF)'s Tap Issuance, Aug. 8, 2016

RATINGS LIST

Transsec 2 (RF) Ltd.

ZAR960 Million Asset-Backed Notes (Including ZAR770 Million Rated Notes And ZAR75 Million Unrated Notes)

Class	Rating	
	To	From
Ratings Raised		
A1	zaAA (sf)	zaA (sf)
A2	zaAA (sf)	zaA (sf)
A3	zaAA (sf)	zaA (sf)
A4	zaAA (sf)	zaA (sf)
A5	zaAA (sf)	zaA (sf)
A6	zaAA (sf)	zaA (sf)
B1-Dfrd	zaAA- (sf)	zaA (sf)
B2-Dfrd	zaAA- (sf)	zaA (sf)
C1-Dfrd	zaA (sf)	zaBBB (sf)
C2-Dfrd	zaA (sf)	zaBBB (sf)

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