

## Ratings Assigned To South African ABS Transaction Transsec 2 (RF)'s Tap Issuance

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### OVERVIEW

- We have assigned our credit ratings to Transsec 2 (RF)'s class A4, A5, A6, B2 interest deferrable, and C2 interest deferrable asset-backed notes.
- At the same time, we have affirmed our credit ratings on the class A1, A2, A3, B1-Dfrd, and C1-Dfrd notes.
- The transaction securitizes a pool of fully amortizing installment sale agreements relating to the financing of South African minibus taxis.

MILAN (S&P Global Ratings) Aug. 8, 2016--S&P Global Ratings today assigned its South African national scale credit ratings to Transsec 2 (RF) Ltd.'s class A4, A5, A6, B2 interest deferrable, and C2 interest deferrable asset-backed notes. At the same time, we have affirmed our ratings on the existing class A1, A2, A3, B1-Dfrd, and C1-Dfrd notes. At closing, Transsec 2 (RF) also increased the amount of the existing subordinated loans and issued unrated class D2 interest deferrable notes (see list below).

The transaction securitizes a pool of fully amortizing installment sale agreements (ISAs) relating to the financing of South African minibus taxis. SA Taxi Development Finance Proprietary Ltd.'s (SA Taxi) originated 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

securitization transaction that we have rated.

#### RATING RATIONALE

##### Economic Outlook

Our base-case default rate assumption for the portfolio has not been revised in spite of the reduction in our baseline forecasts for GDP in South Africa compared with the first closing date in November 2015. Our baseline economic scenario forecasts real GDP growth of 0.6% in 2016 and 1.5% in 2017, and a continued low consumer price index at about 6.5% in 2016 (see "South Africa Ratings Affirmed; Outlook Remains Negative On Weak Growth," published on June 3, 2016). Additionally, given structural deficiencies in the public transportation sector, commuter demand for minibus taxis is more resilient to economic slowdowns, in our view.

##### Credit Risk

We have analyzed credit risk based on 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 received seven 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 losses. We applied our current national to global scale mapping for South Africa when defining the stress multiples and recovery rate haircuts (discounts) for various national scale rating levels (see "S&P Global Ratings' National And Regional Scale Mapping Tables," published on June 1, 2016).

##### Operational Risk

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. Therefore, the maximum potential rating for all classes of notes in this transaction is 'BBB', which corresponds to a 'zaAAA' national scale rating. Therefore, operational risk does not constrain the maximum potential ratings for all classes of notes.

##### Cash Flow Analysis

Our cash flow model reflects our assessment of the transaction's payment structure and our credit and cash flow assumptions (see "Global Framework For Cash Flow Analysis Of Structured Finance Securities," published on Oct. 9,

2014). 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.

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 C interest deferrable notes address the ultimate payment of interest and principal.

Payment of interest on the class B notes might be deferred after principal payment on the class A notes. Consequently, the class B notes rely on the availability of excess spread to pay timely interest. Unpaid interest on the class B notes is deferrable but does not accrue. Accordingly, our rating on the class B notes only addresses ultimate repayment of interest and principal.

Payment of interest on the class C notes might be deferred after principal payment on the class A notes and interest and principal on the class B notes. Consequently, the class C notes rely on the availability of excess spread to pay timely interest. Unpaid interest on the class C notes is deferrable but does not accrue. Accordingly, our rating on the class C notes only addresses ultimate repayment of interest and principal.

#### Ratings Above The Sovereign

We have applied our updated criteria for rating single-jurisdiction securitizations above the sovereign foreign currency rating (RAS criteria; see "Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance," published on May 29, 2015). We tested the transaction's ability to withstand a sovereign default stress in a global 'BBB' scenario (corresponding to the national 'zaAAA' scenario). This is one notch above our sovereign foreign currency rating on the Republic of South Africa. Our analysis shows that the class A notes can withstand this stress.

#### 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 The Standard Bank of South Africa (BBB-/Negative/A-3) 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). The Standard Bank of South Africa is the derivate counterparty in this transaction to cover the floating- to fixed-interest rate risk for the existing class A3 and the new class A6 notes as the notes pay fixed rates, while the collateral bears floating-rate loans. The swap agreement mitigates the counterparty risk in accordance with our counterparty criteria at a 'zaAAA (sf)' rating level. Under our current counterparty

criteria, we consider commingling risk to be fully structurally covered.

#### Legal Risk

We consider the issuer to be a bankruptcy remote entity in line with our asset isolation and special-purpose entity criteria, and local regulations (see "Asset Isolation And Special-Purpose Entity Criteria--Structured Finance," published on May 7, 2013). We received legal comfort that the sale of the assets would survive Potpale Investments (RF) Proprietary Ltd.'s insolvency as the seller. We also received a legal opinion at the tap issuance regarding the new transaction documents.

#### RELATED CRITERIA AND RESEARCH

##### Related Criteria

- Criteria - Structured Finance - General: Standard & Poor's Revises Criteria Methodology For Servicer Risk Assessment - May 28, 2009
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises - December 19, 2014
- Criteria - Structured Finance - General: Global Derivative Agreement Criteria - June 24, 2013
- 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 02, 2015
- 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: Understanding Standard & Poor's Rating Definitions - June 03, 2009
- General Criteria: Methodology: Credit Stability Criteria - May 03, 2010
- Legal Criteria: Asset Isolation And Special-Purpose Entity Criteria--Structured Finance - May 07, 2013
- Criteria - Structured Finance - General: Counterparty Risk Framework Methodology And Assumptions - June 25, 2013
- Criteria - Structured Finance - General: Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance - May 29, 2015
- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables - June 01, 2016
- Criteria - Structured Finance - General: Global Framework For Assessing Operational Risk In Structured Finance Transactions - October 09, 2014
- Criteria - Structured Finance - General: Global Framework For Cash Flow Analysis Of Structured Finance Securities - October 09, 2014
- Criteria - Structured Finance - ABS: Global Methodology And Assumptions For Assessing The Credit Quality Of Securitized Consumer Receivables - October 09, 2014

##### Related Research

*Ratings Assigned To South African ABS Transaction Transsec 2 (RF)'s Tap Issuance*

- New Issue: Transsec 2 (RF) Ltd., Aug. 8, 2016
- Presale: Transsec 2 (RF) Ltd., July 11, 2016
- Preliminary Ratings Assigned To South African ABS Transaction Transsec 2 (RF)'s Tap Issuance, July 11, 2016
- South Africa Ratings Affirmed; Outlook Remains Negative On Weak Growth, June 3, 2016
- New Issue: Transsec 2 (RF) Ltd., Nov. 24, 2015
- 2015 EMEA ABS Scenario And Sensitivity Analysis, Aug. 6, 2015
- European Structured Finance Scenario And Sensitivity Analysis 2014: The Effects Of The Top Five Macroeconomic Factors, July 8, 2014
- Global Structured Finance Scenario And Sensitivity Analysis: Understanding The Effects Of Macroeconomic Factors On Credit Quality, July 2, 2014

RATINGS LIST

Transsec 2 (RF) Ltd.

ZAR962.5 Million Asset-Backed Notes (Including ZAR770 Million Rated Notes, ZAR77 Million Unrated Notes, And ZAR115.5 Million Subordinated Loan)

Ratings Assigned

| Class   | Rating     | Amount<br>(mil. ZAR) |
|---------|------------|----------------------|
| A4      | zaAAA (sf) | 125.0                |
| A5      | zaAAA (sf) | 40.0                 |
| A6      | zaAAA (sf) | 100.0                |
| B2-Dfrd | zaA (sf)   | 105.0                |
| C2-Dfrd | zaBBB (sf) | 79.0                 |
| D2-Dfrd | NR         | 2.0                  |

Ratings Affirmed

| Class   | Rating     |
|---------|------------|
| A1      | zaAAA (sf) |
| A2      | zaAAA (sf) |
| A3      | zaAAA (sf) |
| B1-Dfrd | zaA (sf)   |
| C1-Dfrd | zaBBB (sf) |

Dfrd--Interest deferrable.

NR--Not rated.

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