Rating Action: **Moody's downgrades 13 ratings in Transsec 4 (RF) Limited and Transsec 5 (RF) Limited**

13 Feb 2024

Madrid, February 13, 2024 -- Moody's Investors Service ("Moody's") has today downgraded the global scale ratings (GSRs) and national scale ratings (NSRs) of 13 Notes in Transsec 4 (RF) Limited ("Transsec 4") and Transsec 5 (RF) Limited ("Transsec 5"). The rating action reflects worse than expected collateral performance and continued deterioration of the financial strength of SA Taxi Development Finance (Pty) Ltd ("SA Taxi") (NR) combined with the restructuring of SA Taxi business model.

Issuer: Transsec 4 (RF) Limited

....ZAR221M Class A3 Notes, Downgraded to Ba2 (sf) / Aa2.za (sf); previously on Jun 8, 2023 Downgraded to Ba1 (sf) / Affirmed Aaa.za (sf)

....ZAR92M Class A4 Notes, Downgraded to Ba2 (sf) / Aa2.za (sf); previously on Jun 8, 2023 Downgraded to Ba1 (sf) / Affirmed Aaa.za (sf)

....ZAR160M Class B Notes, Downgraded to B3 (sf) / Ba3.za (sf); previously on Jun 8, 2023 Affirmed B2 (sf) / Baa3.za (sf)

....ZAR81M Class A7 Notes, Downgraded to Ba2 (sf) / Aa2.za (sf); previously on Jun 8, 2023 Downgraded to Ba1 (sf) / Affirmed Aaa.za (sf)

....ZAR62M Class A8 Notes, Downgraded to Ba2 (sf) / Aa2.za (sf); previously on Jun 8, 2023 Downgraded to Ba1 (sf) / Affirmed Aaa.za (sf)

....ZAR102M Class B2 Notes, Downgraded to B3 (sf) / Ba3.za (sf); previously on Jun 8, 2023 Affirmed B2 (sf) / Baa3.za (sf)

Issuer: Transsec 5 (RF) Limited

....ZAR329M Class A1 Notes, Downgraded to Ba2 (sf) / Aa2.za (sf); previously on Jun 8, 2023 Downgraded to Ba1 (sf) / Affirmed Aaa.za (sf)

....ZAR191M Class A2 Notes, Downgraded to Ba3 (sf) / A1.za (sf); previously on Jun 8, 2023 Downgraded to Ba1 (sf) / Affirmed Aaa.za (sf)

....ZAR80M Class A3 Notes, Downgraded to Ba3 (sf) / A1.za (sf); previously on Jun 8, 2023 Downgraded to Ba1 (sf) / Affirmed Aaa.za (sf)

....ZAR150M Class B Notes, Downgraded to Caa1 (sf) / B1.za (sf); previously on Jun 8, 2023 Downgraded to B2 (sf) / Baa3.za (sf)

....ZAR172M Class A1-2 Notes, Downgraded to Ba2 (sf) / Aa2.za (sf); previously on Jun 8, 2023 Downgraded to Ba1 (sf) / Affirmed Aaa.za (sf)

....ZAR174M Class A2-2 Notes, Downgraded to Ba3 (sf) / A1.za (sf); previously on Jun 8, 2023 Downgraded to Ba1 (sf) / Affirmed Aaa.za (sf)

....ZAR87M Class B2 Notes, Downgraded to Caa1 (sf) / B1.za (sf); previously on Jun 8, 2023 Downgraded to B2 (sf) / Baa3.za (sf)

RATINGS RATIONALE

The rating action is prompted by increased key collateral assumptions, namely the portfolio Expected Loss (EL) and the Portfolio Credit Enhancement (PCE), together with a decrease in the recovery rate, due to worse than expected collateral performance. The rating action is also prompted by continued deterioration of the financial strength of SA Tax combined with the restructuring of its business model.

Revision of Key Collateral Assumptions:

As part of the rating action, Moody's reassessed its default probability and recovery rate assumptions for the portfolio reflecting the collateral performance to date.

The performance of the transactions has continued to deteriorate since last rating action in June 2023. Total delinquencies have increased in the past year, with 90 days plus arrears currently standing at 35.0% and 35.6% of current pool balance, respectively, for Transsec 4 and Transsec 5. Cumulative losses currently stand at 8.5% and 2.7% of original pool balance for Transsec 4 and Transsec 5, up from 6.9% and 1.9%, respectively, as of the latest rating action.

In Transsec 4, the stock of repossessed loans has increased to 31.3% of the outstanding portfolio balance, compared to 23.3% as of the latest rating action. Similarly, in Transsec 5, the stock of repossessed loans has increased to 16.9% of the outstanding portfolio balance, compared to 6.2% as of the latest rating action.

As a consequence of weaker performance, the excess spread, the first layer of protection against losses, has also experienced a drop since last year. Current levels of gross excess spread are at 3.6% and 4.8% of outstanding portfolio balance for Transsec 4 and Transsec 5, respectively.

Moody's has increased the expected loss assumption in both deals to 17.3% and 22.9% of original balance, respectively, for Transsec 4 and Transsec 5, from 14.0% and 16.9% as a result of both recently observed and the anticipated deterioration in collateral performance. Moody's increased the mean default assumption as a percentage of current pool balance to 45% from 35% in both deals, translating into a mean default assumption of 43.7% and 41.3% of the original pool balance in Transsec 4 and Transsec 5, respectively.

Moody's has increased the PCE assumption in both deals to 55% from 35% to reflect the expectation of higher losses in stressed scenarios together with potential discontinuation of operations by SA Taxi in these stressed scenarios.

In Transsec 4, the recoveries collected are significantly lower than one year ago. Recoveries corresponding to the latest payment date were below 5 million rand, compared to above 25 million rand in 2022. Moody's has decreased the assumption for the fixed recovery rate to 35% from 45% in both transactions.

Restructuring of SA Taxi business model:

Today's rating action took into consideration the Notes' exposure to relevant counterparties, such as SA Taxi acting as servicer. As a response to the adverse business environment, Transaction Capital Limited (the parent company of SA Taxi) has accelerated the process started in early 2023 to restructure its taxi division, SA Taxi. SA Taxi, the servicer in Transsec 4 and Transsec 5, underwent a significant business model change and strategy update, which, together wit continued deterioration of SA Taxi financial strength, increase the likelihood of servicer replacement. Should the appointment of the servicer be terminated for any reason, including if a servicer default occurs, Nutun Business Services South Africa Pty Ltd ("Nutun") acting as back-up servicer is contractually committed to continuing servicing of the collateral portfolios. Both, SA Taxi and Nutun, are subsidiaries of the same parent company, Transaction Capital Limited. Moody's notes that servicing replacement generally affects collections negatively, especially during the transition period. Borrowers' willingness to pay would also be negatively affected under scenarios where SA Taxi is no longer operating. Moreover, the recoveries expected for repossessed vehicles without SA Taxi refurbishments would be lower.

The principal methodology used in these ratings was "Moody's Global Approach to Rating Auto Loan- and Lease-Backed ABS" published in November 2023 and available at https://ratings.moodys.com/rmc-documents/411778. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

Factors that would lead to an upgrade or downgrade of the ratings:

Factors or circumstances that could lead to an upgrade of the ratings include: (1) performance of the underlying collateral that is better than Moody's expected, (2) an increase in available credit enhancement, (3) improvements in the credit quality of the transaction counterparties, and (4) a decrease in sovereign risk.

Factors or circumstances that could lead to a downgrade of the ratings include: (1) an increase in sovereign risk, (2) performance of the underlying collateral that is worse than Moody's expected, (3) deterioration in the Notes' available credit enhancement, and (4) deterioration in the credit quality of the transaction counterparties.

Moody's National Scale Credit Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale credit ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".za" for South Africa. For further information on Moody's approach to national scale credit ratings, please refer to Moody's Credit rating Methodology published in August 2022 entitled "Mapping National Scale Ratings from Global Scale Ratings Methodology". While NSRs have no inherent absolute meaning in terms of default risk or expected loss, a historical probability of default consistent with a given NSR can be inferred from the GSR to which it maps back at that particular point in time. For information on the historical default rates associated with different global scale rating categories over different investment horizons, pleas see https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1280297.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

The analysis relies on an assessment of collateral characteristics to determine the collateral loss distribution, that is, th function that correlates to an assumption about the likelihood of occurrence to each level of possible losses in the collateral. As a second step, Moody's evaluates each possible collateral loss scenario using a model that replicates the relevant structural features to derive payments and therefore the ultimate potential losses for each rated instrument. The loss a rated instrument incurs in each collateral loss scenario, weighted by assumptions about the likelihood of events in that scenario occurring, results in the expected loss of the rated instrument.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the issuer/deal page for the respective issuer on https://ratings.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

The Global Scale Credit Rating(s) discussed in this Credit Rating Announcement was(were) issued by one of Moody' affiliates outside the UK and is(are) endorsed for use in the UK in accordance with the UK CRA Regulation.

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