

Bayport Securitisation (RF) Class A (BAYA 79) South African ABS Notes Assigned Ratings; Outstanding Ratings Affirmed

April 30, 2020

Ratings List

| Class (new notes) | Rating | Amount (mil. ZAR) | Interest (%) | Legal final maturity |
|------------------------|------------|-------------------|------------------------------|----------------------|
| Class A (BAYA79) | zaAA+ (sf) | 150.00 | Three-month JIBAR plus 4.75% | March 31, 2023 |
| Class (existing notes) | Rating | | | |
| Class A (BAYA57) | zaAA+ (sf) | 50.00 | Three-month JIBAR plus 5.50% | March 31, 2022 |
| Class A (BAYA58) | zaAA+ (sf) | 51.62 | Three-month JIBAR plus 5.10% | June 30, 2020 |
| Class A (BAYA60) | zaAA+ (sf) | 85.00 | 12.4% | June 30, 2020 |
| Class A (BAYA61) | zaAA+ (sf) | 38.50 | Three-month JIBAR plus 5.10% | June 30, 2020 |
| Class A (BAYA62) | zaAA+ (sf) | 24.90 | Three-month JIBAR plus 4.40% | Sept. 30, 2020 |
| Class A (BAYA63) | zaAA+ (sf) | 58.00 | Three-month JIBAR plus 4.25% | Sept. 30, 2020 |
| Class A (BAYA64) | zaAA+ (sf) | 40.00 | Three-month JIBAR plus 4.50% | Sept. 30, 2022 |
| Class A (BAYA65) | zaAA+ (sf) | 10.74 | Three-month JIBAR plus 4.00% | Sept. 30, 2020 |
| Class A (BAYA66) | zaAA+ (sf) | 81.01 | Three-month JIBAR plus 4.40% | March 31, 2021 |
| Class A (BAYA67) | zaAA+ (sf) | 100.00 | 11.17% | March 31, 2023 |
| Class A (BAYA68U) | zaAA+ (sf) | 160.00 | Three-month JIBAR plus 3.75% | June 30, 2021 |
| Class A (BAYA69) | zaAA+ (sf) | 125.00 | Three-month JIBAR plus 3.75% | June 30, 2021 |
| Class A (BAYA70) | zaAA+ (sf) | 33.00 | Three-month JIBAR plus 4.30% | June 30, 2021 |
| Class A (BAYA71) | zaAA+ (sf) | 172.00 | Three-month JIBAR plus 4.25% | June 30, 2021 |
| Class A (BAYA72) | zaAA+ (sf) | 275.00 | 12.18% | March 31, 2026 |
| Class A (BAYA73) | zaAA+ (sf) | 289.37 | Three-month JIBAR plus 3.94% | March 31, 2022 |
| Class A (BAYA74) | zaAA+ (sf) | 110.24 | Three-month JIBAR plus 3.80% | June 30, 2024 |
| Class A (BAYA75) | zaAA+ (sf) | 109.04 | Three-month JIBAR plus 3.65% | June 30, 2022 |
| Class A (BAYA76) | zaAA+ (sf) | 23.50 | Three-month JIBAR plus 3.65% | June 30, 2022 |
| Class A (BAYA77) | zaAA+ (sf) | 170.88 | Three-month JIBAR plus 3.75% | Sept. 30, 2022 |
| Class A (BAYA78) | zaAA+ (sf) | 50.00 | Three-month JIBAR plus 4.75% | March 31, 2023 |

Note: Our ratings address timely payment of interest and payment of principal no later than the legal final maturity date. The class A balance reflects the most recent interest payment date.

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Overview

- We have assigned our long-term 'zaAA+ (sf)' rating to Bayport Securitisation (RF)'s class A BAYA79 notes.
- At the same time, we have affirmed our 'zaAA+ (sf)' ratings on all of the outstanding class A notes issued previously.
- On April 29, 2020, we revised the mapping of the South Africa national scale ratings. Our ratings on this transaction are unaffected by this revision.
- Bayport Securitisation (RF) securitizes a portfolio of South African consumer loan receivables that Bayport Financial Services 2010 (Pty) originated.

LONDON (S&P Global Ratings) April 30, 2020--S&P Global Ratings today assigned its long-term 'zaAA+ (sf)' credit rating to Bayport Securitisation (RF) Ltd.'s class A BAYA79 notes. At the same time, we have affirmed our 'zaAA+ (sf)' ratings on the outstanding class A notes (see list).

Today's rating actions reflect our credit and cash flow analysis using the most recent available collateral performance data (as of December 2019). We have considered the most recent transaction structure in our analysis, taking into account the new issuance and existing notes' amortization as of the most recent investor report (February 2020).

Bayport Securitisation (RF) securitizes a portfolio of South African consumer loan receivables that Bayport Financial Services 2010 (Pty) Ltd. (Bayport) originated in the ordinary course of its business. The transaction does not have a fixed revolving period; it revolves until the issuer fully repays the outstanding debt, or until an acceleration event occurs. During the revolving period the issuer can issue new notes or repay outstanding notes.

Rating Rationale

Economic outlook

In our credit analysis, we have considered our latest forecasts for South Africa's economy (see "Related Research").

Macroeconomic Outlook

| | 2019 | 2020f | 2021f | 2022f | 2023f |
|---------------------------------------|------|-------|-------|-------|-------|
| Real GDP (y/y growth; %) | 0.2 | (4.5) | 3.5 | 1.5 | 1.4 |
| Unemployment rate (annual average; %) | 28.7 | 30.0 | 29.9 | 29.6 | 29.6 |
| CPI (%) | 4.1 | 3.9 | 4.4 | 4.5 | 4.5 |

f--Forecast.

S&P Global Ratings acknowledges a high degree of uncertainty about the rate of spread and peak of the coronavirus outbreak. Some government authorities estimate the pandemic will peak about midyear, and we are using this assumption in assessing the economic and credit implications. We believe the measures adopted to contain COVID-19 have pushed the global economy into recession (see our macroeconomic and credit updates here: www.spglobal.com/ratings). As the

situation evolves, we will update our assumptions and estimates accordingly.

Credit risk

We have analyzed credit risk by applying our securitized consumer receivables criteria to derive our default and recovery assumptions for various rating levels. We considered the most recent performance data available from January 2008 to December 2019. Our analysis showed that extrapolated default rates improved in consumer loan cohorts originated between 2016 and 2019. The trend in lower default rates can be explained by Bayport's more stringent origination policy standards introduced in mid-2015 and further adjustments to their scorecards in April 2016. Since June 2016, cumulative gross losses have remained below 30% compared with our 40% gross loss base case. In our view, the headroom between our base-case assumption and the observed actual gross losses accounts for potential performance deterioration related to the COVID-19 outbreak and expected increase in unemployment rate. Therefore, in our analysis we have not applied any additional stresses related to the COVID-19 outbreak.

Our credit analysis assumptions remain unchanged since our previous review of the transaction (see "Bayport Securitisation (RF) Class A (BAYA 78) South African ABS Notes Assigned Ratings; Outstanding Ratings Affirmed," published on March 31, 2020). At the same time, we lowered our credit multiples and recovery rate haircuts to reflect the recalibration in our South Africa mapping table for national scale ratings.

Base Case And Stressed Default And Recovery Assumptions

| | Default rate | Recovery rate |
|---------------------------------|--------------|---------------|
| Base case (%) | 40.00 | 5.00 |
| Stressed assumptions (%) | | |
| zaAAA | 44.80 | 4.35 |
| zaAA+ | 44.20 | 4.38 |

Operational risk

We consider the risk related to the servicer to be mitigated at the rating level assigned to the notes in line with our operational risk criteria. In our view, severity risk (the effect of servicer disruption) is moderate, and portability risk (the inability to replace the servicer) is high. Considering the securitized product, the key transaction party in this transaction, and the availability of the warm back-up servicer--Transaction Capital Recoveries Proprietary Ltd. (formerly known as MBD Credit Solutions [PTY] Ltd.)--since closing, the operational risk constrains the maximum potential ratings achievable for the notes at a global scale 'A+' level (corresponding to the national level of 'zaAAA').

Cash flow analysis

Our cash flow model reflects our assessment of the transaction's payment structure and our credit and cash flow assumptions, including the issuance of the additional class A notes on March 31, 2020. We applied our cash flow analysis framework to the cash flow stresses at each rating level. The class A BAYA79 notes are floating-rate amortizing notes with a legal final maturity date in March 2023. Our cash flow analysis considered the transaction's structural features, including the credit enhancement that the available cash and performing balance provide.

In line with our cash flow analysis framework criteria, our default assumption incorporates elements of both credit and liquidity stresses. The high level of default stress that we apply in this transaction already results in high liquidity stress on account of cash flow available during the recession period to make interest payments.

We believe that the higher base case set for this transaction compared with the underlying assets' observed performance, captures the COVID-19 stresses, and so no further stresses are applied.

Under our global consumer ABS criteria, the class A notes due in June 2021--BAYA 68, BAYA 69, BAYA70, and BAYA 71--exhibit principal shortfalls on the expected maturity date under one 'zaAAA' stress scenario (low CPR assumptions of 0.50%). However, given that our cash flow runs give benefit to only 70.7% of the currently performing assets (an assumption derived based on one of the early amortization events), and considering the historical CPR (4.5% 12-month average), these notes will withstand 'zaAAA' stresses until expected maturity, in our view.

Counterparty risk

We have analyzed the transaction's exposure to counterparty risk in accordance with our current counterparty criteria.

The transaction is exposed to the credit risk of Standard Bank of South Africa Ltd. acting as the transaction bank account provider. We consider that the transaction documents adequately mitigate this risk at the 'zaAAA' rating level in line with our counterparty criteria.

The transaction is also exposed to the servicer in relation to commingling risk. The servicer is an unrated entity. We model commingling risk as a liquidity stress, given the strong structural features aimed at limiting commingling risk exposure.

Legal risk

We consider the issuer to be bankruptcy remote, in line with our legal criteria. At closing, we have received legal information that provides assurance that the sale of the assets would survive the seller's insolvency.

Rating stability

Under our scenario analysis, we ran two stress scenarios and assessed the transaction's performance. The results of our scenario analysis are commensurate with our credit stability criteria. In addition, our ratings on the class A notes address frequent changes in the capital structure, thereby maintaining rating stability.

Sovereign risk

Under our structured finance sovereign risk criteria, we treat the type of collateral being securitized (South African unsecured consumer loans) as having moderate sensitivity to South African sovereign risk.

In addition, to account for the severe economic stress we expect to accompany a sovereign default, when rating above sovereign, in line with our sovereign risk criteria, we also assessed whether the notes can withstand a sovereign default stress.

We used our standard 'A' run (on a global scale rating) to replicate the impact of the sovereign

default scenario. The transaction does not pass our sovereign default stress. Therefore, the ratings on the notes are constrained to the sovereign rating level.

Our ultimate rating assigned in the transaction is derived from the application of our criteria. It is the lower of (i) the rating as capped by our sovereign risk criteria, (ii) the rating as capped by our counterparty criteria, or (iii) the rating that the class of notes can attain under our global consumer ABS criteria.

When we apply our stresses under our global consumer ABS criteria, the class A notes are able to withstand up to a 'zaAAA (sf)' rating scenario. However, in this transaction, our ratings on the class A notes are constrained at 'zaAA+ (sf)' by the application of our sovereign risk criteria. As such, we have assigned our long-term 'zaAA+ (sf)' rating to the new class A notes, and we have affirmed our 'zaAA+ (sf)' ratings on the existing class A notes.

Related Criteria

- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- 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: 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
- Criteria - Structured Finance - General: Global Framework For Cash Flow Analysis Of Structured Finance Securities, Oct. 9, 2014
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, 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: Criteria Methodology Applied To Fees, Expenses, And Indemnifications, July 12, 2012
- General Criteria: Methodology: Credit Stability Criteria, May 3, 2010
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- South Africa Ratings Lowered To 'BB-' From 'BB' As COVID-19 Further Impairs Fiscal And Growth Prospects; Outlook Stable, April 29, 2020
- South Africa National Scale Mapping Revised Following Sovereign Downgrade, April 29, 2020
- Credit Conditions Emerging Markets: Longer Lockdowns, Heightened Risks, April 23, 2020

Bayport Securitisation (RF) Class A (BAYA 79) South African ABS Notes Assigned Ratings; Outstanding Ratings Affirmed

- Bayport Securitisation (RF) Class A (BAYA 78) South African ABS Notes Assigned Ratings; Outstanding Ratings Affirmed, March 31, 2020
- Emerging Markets Confront Rising Risks, Report Says, March 27, 2020
- COVID-19 Macroeconomic Update: The Global Recession Is Here And Now, March 17, 2020
- COVID-19 Credit Update: The Sudden Economic Stop Will Bring Intense Credit Pressure, March 17, 2020
- South Africa Outlook Revised To Negative On Worsening Fiscal And Debt Trajectory; Ratings Affirmed, Nov. 22, 2019
- Bayport Securitisation (RF) Class A (BAYA 77) South African ABS Notes Assigned Ratings; Outstanding Ratings Affirmed, Sept. 30, 2019
- S&P Global Ratings' National And Regional Scale Mapping Specifications, June 25, 2018
- 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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