GCR GLOBAL CREDIT RATING CO.
Local Expertise • Global Presence

Bayport Securitisation (Proprietary) Limited

South Africa Structured Finance New Issue Report

6 June 2011

Security class	Amount	Rating scale	Currency	Rating[1]	Rating outlook	Next review date
Class A Notes	R1.7bln	National	Rand	A(RSA)	Stable	December 2011

Key counterparties:

Issuer:
Bayport Securitisation (Pty) Ltd ('BaySec')
Originators:
Bayport Financial Services (Pty) Ltd ('BFS 2003') and Bayport Financial Services 2010 (Pty) Ltd ('BFS 2010')
Manager:
BFS 2010
Standby Administrator:
MBD Accounts Receivable Management (Pty) Ltd ("MBD")
Account Banks:
The Standard Bank of South Africa
Absa Bank
First National Bank
Sponsor and Dealer:
Deutsche Bank AG, Johannesburg branch
Paying/Calculation/Transfer/Settlement Agent
The Standard Bank of South Africa
Security Trust
The Bayport Securitisation Debenture Holders Trust, with PT & A Trustees (Pty) Ltd acting as trustee
Arranger:
Transaction Capital (Proprietary) Limited

Summary of Transaction (31-03-2011):

Asset class	Lower income personal loans
Total loans	R2.56bln
Active loans	R1.95bln
Non-active loans	R0.61bln
Total balance bank accounts	R201.3mln
Arrears Reserve	R0.0mln
Closing date	6 June 2011

Related research:
- Global Structured Finance Rating Criteria (July '10)
- BFS 2010 (Pty) Ltd corporate report (March '10)

GCR contacts:

Alfons Ideler/Rishentra Naidoo
+27 11 784-1771
ideler@globalratings.net
rnaidoo@globalratings.net

Website:www.globalratings.net

Transaction Summary

Global Credit Rating Co. ('GCR') has accorded *final* ratings and outlooks to the securities (the 'Senior Notes') mentioned above. This New Issue Report updates and replaces the Prefunding Report published on 10 May 2011.

BaySec is an existing securitisation of personal loans advanced by the Originator to lower income borrowers (the 'Borrowers') residing in South Africa (the 'Transaction'). The Transaction entails the public listing of the Senior Notes on the Johannesburg Stock Exchange ('JSE'), and forms part of a newly established R 4.4bln asset backed note programme (the 'Programme'). All existing debentures (senior, mezzanine, junior mezzanine and junior) have been replaced by notes issued at the closing date. As agreed between the parties, the notes have the same pricing and repayment conditions as the previous debentures.

Rating Panel Highlights

- The Transaction's performance depends on the ability of the Manager and the Standby Administrator to collect the payments on the personal loans. GCR is comfortable that both parties are capable to adequately manage this process. The Manager is one of the largest lower income personal loans financiers in South Africa, and MBD is one of the largest collection agent companies in South Africa. Both parties form part of the broader Transaction Capital group of companies, a privately owned South African diversified financial services group.
- BFS 2010 is currently rated 'BBB-' on the ZAR currency long term national scale. MBD forms a part of MBD Credit Solutions Holdings (Pty) Ltd ("MBDCS"), which has a servicer quality rating of 'SQ2+'.
- Debt service payments collected from the Borrowers will be paid into the Existing Collection Accounts established in name of BFS 2003. The rights in and to these accounts have been ceded to the Issuer mitigating potential commingling risk relating to the Originator, Manager or Standby Administrator.
- BaySec may purchase additional loans to the extent sufficient funds are available. New Loan Claims may only be originated in accordance with the Credit Granting Criteria. Financial covenants in combination with credit event triggers at the BaySec level provide for structural mitigants.
- The Senior Notes benefit from credit enhancement in the form of mezzanine notes, current account, junior mezzanine notes, junior notes and excess yield.
- The Issuer's portfolio has evidenced substantial growth, rising by around 70% for the period March 2010 to March 2011. Non-performing loan levels are expectantly high, at 23.6% of the total loan portfolio as at 31 March 2011. However, this is offset by the relatively high yield generated on the portfolio, with the gross portfolio yield averaging around 45% over the past 12 months. Collection levels have been satisfactory, averaging around 5.9% of the aggregate portfolio balance over the past 12 months.
- GCR analysed the Transaction by applying its Global Structured Finance Rating Criteria and a tailored stressed collections approach.

[1] *Please read the "Rating Considerations" section of this report for an explanation of what the ratings entail.*

Introduction

The Programme has been launched on 6 June 2011. GCR rated the previous senior debentures issued by Baysec since August 2009. The rating of these debentures was upgraded to 'A(RSA)' from 'A-(RSA)' in November 2010. The Transaction transforms the existing structure into a JSE listed asset backed note programme. The debentures have been replaced by notes. As agreed between the parties, the notes have the same pricing and repayment conditions as the previous debentures. The listing took place on 6 June 2011.

Words in capitals are defined in the transaction documents, unless indicated otherwise.

Transaction Structure

Please find a Transaction diagram in *Appendix A*.

The Programme

The programme allows the Issuer to issue a wide variety of securities with different maturities and risk profiles. Notes may be listed on the JSE or another exchange, and may be rated or not rated. The aggregate Programme limit is R4.4bln.

Securities will be issued in classes and each class may comprise one or more tranches. Each tranche will be accompanied by an applicable pricing supplement detailing the specific features applicable to the tranche (e.g. the interest and repayment profile).

Each tranche of notes will have a legal maturity date, as stipulated in the applicable pricing supplement. The programme itself does not have a legal maturity date.

It is anticipated that bullet securities that reach their legal maturity date, will be either repaid in full or refinanced. In the event that such securities are not repaid in full or refinanced, this will constitute a Credit Event (see below) and the Programme will early amortise, with all securities being repaid in descending order of rank.

In the event that new securities will be issued, GCR expects to be notified sufficiently in advance in order to re-assess the Transaction on its merits.

Financial Covenants

The Issuer must maintain the following financial covenants to be measured at each calendar month end:

- A Senior Debt Cash Flow Cover Ratio of 1.5x which is calculated by dividing the free cash flow during the corresponding calendar month by the senior debt payment amount for such calendar month. *Free Cash Flow* is calculated by deducting from the Issuer's total cash receipts its operating expenses and a monthly tax provision. The *Senior Debt Payment Amount* is the pro rata accrued portion of the quarterly debt service in respect of the class A noteholders and the warehouse facility provider. In respect of Class A notes with a bullet repayment profile and for the purpose of calculating the ratio, debt payments due are reduced by (i) cash (and equivalents) reserved by the Issuer for the purposes of discharging the senior debt; and (ii) committed refinance facilities available for the redemption of such notes on the contemplated payment date.
- The Senior Debt Interest Cover Ratio of 3.5x which is calculated by dividing the income earned by the Issuer during the corresponding calendar month by the interest accrued on the Senior Notes and the Warehouse Facility for such calendar month.
- A Senior Debt to Net Qualifying Asset Value Ratio equal or less than 72.5% which is calculated by dividing the principal amount outstanding on the Senior Notes and the Warehouse Facility by the aggregate value of the qualifying loans and the Issuer's cash (and equivalents). Qualifying loans are loans originated in accordance with the Credit Granting Criteria (see below) and sold to the Issuer.
- A Bad and Doubtful Debt Ratio not exceeding 17.5% of the portfolio value during any 12 month rolling period.
- An Equity Underpin Ratio requiring the equity invested in the Issuer by BFS 2010 of not less than 18% of the portfolio until 30 June 2011, 19% between 1 July 2011 and 30 September 2012, and 20% from 1 October 2012 onwards.
- A Collection Ratio of 76.5% and 72.25% (see under the "Credit Events" chapter) for any rolling 6 months period. The Collection Ratio is calculated by dividing the aggregate collections received during a calendar month in respect of the active Loan Claims by the total amount falling due in respect of such claims in such calendar month.
- The value of the cellular contracts purchased by the Issuer cannot be greater than 20% of the aggregate value of the Issuer's portfolio of Loan Claims.

In addition, the Issuer agreed with a number of negative undertakings including limitations on creating encumbrances, disposing of assets, making payments other than in accordance with the priority of payments; and adherence to ring-fencing stipulations.

Sale of Loan Claims to the Issuer

The Issuer uses the proceeds of the notes to fund a portfolio of qualifying Loan Claims originated by the Originator. The Issuer purchased and may purchase from time to time on a non-recourse basis, in terms of the Sale of Claims Agreement, all rights and obligations pursuant to the Loan Claims agreements together with all rights pursuant to ancillary contracts.

The purchase price payable by the Issuer to the Originator in respect of each Loan Claim is an amount equal to the face value of that Loan Claim, or such lesser percentage of the face value thereof as determined by agreement between the Originator and the Issuer from time to time. In order to discharge the purchase price, the Issuer may use the proceeds of collections on the Loan Claims, further issuance of notes or a drawing under the Warehouse Facility. To the extent that such proceeds would be insufficient the purchase price will be discharged by crediting the current account. The current account is with BFS 2010 and ranks subordinated to the Senior Notes.

The Sale of Claims Agreement includes certain warranties given by the Originator in relation to the Loan Claims sold to the Issuer. The warranties do not relate to the future creditworthiness of the borrowers. No searches, enquiries or independent investigation of the Originator have been or will be made by the Issuer or Security Trustee. Therefore, each party relies entirely on the warranties given by the Originator set out in the Sale of Claims Agreement.

The Sale of Claims Agreement was concluded in 2008 between the Issuer and BFS 2003. BFS 2003 subsequently sold its business to BFS 2010 (being the current Originator) and assigned to BFS 2010 all its rights and obligations under the Transaction Documents, including the Sale of Claims Agreement. In the past all Loan Claims were automatically sold to the Issuer under the Sale of Claims Agreement. After 13 May 2011, Loan Claims will no longer be automatically sold to the Issuer upon origination, but instead the Originator, from time to time, randomly selects Loan Claims and offers and sells such Loan Claims to the Issuer. Each loan would be randomly allocated to either BFS 2010 or the Issuer as and when they are originated using a flagging system.

Warehouse and Swap Facilities

In terms of the security trust deed the Issuer may enter into Warehouse Facility agreements from time to time. The purpose of the Warehouse Facility is to temporarily fund the acquisition of qualifying Loan Claims with the aim to eventually refinance the facility with Senior Notes.

In terms of the security trust deed the Issuer may enter into swap agreements from time to time in order to hedge interest rate risk.

Credit Events

In the event that a Credit Event has occurred and is continuing, the Security Trustee will issue an early amortisation notice to the Issuer. The Issuer shall cease to acquire new Loan Claims and shall apply available funds sequentially (i.e. all notes being repaid in descending order of rank) in accordance with the Post-enforcement Priority of Payments (see below).

Credit Events include, *amongst others*:

- The Issuer fails to pay an amount due in respect of the Senior Notes and/or the Warehouse Facility within 5 business days after the respective due date.
- The Issuer breaches the senior debt cash flow cover ratio or the senior debt interest cover ratio during any 3 consecutive calendar months.
- The Issuer breaches any of the senior debt to net qualifying asset value ratio, the bad and doubtful debt ratio or the equity underpin ratio, and fails to remedy such breach within 10 business days.
- The Issuer makes a change to its bad and doubtful debt policy or Credit Granting Criteria without prior consent of the noteholders and Warehouse Facility Provider.
- The Collection Ratio falls to 76.5% or less for any rolling 6 month period, and the Issuer fails to terminate the mandate of the Manager after a request of the noteholders and Warehouse Facility Provider.
- The Collection Ratio falls to 72.25% or less for any rolling 6 month period.
- Transaction Capital's shareholding in the Originator ceases to be a majority stake without prior consent of the Senior Notes holders and Warehouse Facility Provider.
- The Issuer becomes insolvent, is being wound up, or is subject to any similar situation.

A 14 days remedy period applies if no specific remedy period has been determined.

GCR is comfortable that the Credit Events provide for adequate protection at the 'A(RSA)' level against the revolving nature of the Programme.

Guarantee Events

Following the occurrence of a Credit Event (and that is continuing), an ordinary majority of Senior Notes holders shall be entitled to request the Security Trustee to issue a Guarantee Notice. In such an event all notes become immediately due and payable.

Unless the Issuer discharges all amounts to the Secured Creditors (including the noteholders) within 5 business days after receiving a guarantee notice or if another Guarantee Event occurs, the Security Trustee is required to realise the Ceded Rights and pay each Secured Creditor the amount owing pursuant to the guarantee (see below), subject to the guarantee conditions and the Post-enforcement Priority of Payments).

Guarantee Events include:

- The Issuer fails to pay amounts owing to the Secured Creditors on or before the maturity date of a tranche of notes.
- The Issuer is being wound up, placed under judicial management, or subject to similar situations.
- A Guarantee Notice has been delivered.

Credit Granting Criteria

On origination of each Loan Claim, the Originator's credit approval policies and guidelines (the 'Credit Granting Criteria') in operation at the time were and will be applied. The Issuer may only purchase new Loan Claims that satisfy the Credit Granting Criteria as listed in *Appendix B*.

Cash Management and Reserves

Debt service payments collected from the Borrowers will be paid into Existing Collection Accounts. Currently there is a set of collection accounts that have been established in the name of BFS 2003 (the 'Existing Collections Accounts'), and there is a set of collection accounts established in the name of the Issuer (the 'Company Collections Accounts'). GCR has been advised that the Company Collections Accounts are currently not used for Loan Claims collection purposes.

BFS 2003 has ceded to the Issuer all its rights in and to the Existing Collections Accounts. GCR has been advised that the relevant banks have been notified in writing of such cession. Therefore the Issuer has the right to claim and receive payment from the relevant banks of amounts standing to the credit of all collections accounts.

The Manager prepares a daily schedule of credit life insurance premiums collections. These amounts are paid to a separate, non-ceded, bank account and are used to pay directly the insurance company (Hollard) once a month. The Issuer does not play a role here, although the Issuer will be the beneficiary of any insurance claim payments. The insurance policies are ceded to the Issuer and GCR has been advised that Hollard has been informed of this cession.

On a daily basis the credit balance of the Existing Collection Accounts will be transferred by the Manager into the Consolidated Bank Account, the latter established in the name of the Issuer. In respect of collection accounts held with The Standard Bank of South Africa, the daily sweep occurs automatically whilst a daily manual sweep is done in respect of other accounts. The credit balance of the Consolidated Bank Account is the available funds for application in accordance with the priority of payments.

The signing authorities on the collection accounts and the Consolidated Bank Account vest with the Manager. In order for a payment to be processed there is a requirement for 2 signatories. The services performed by the Manager are subject to internal and external audit annually. The 2 independent non-executive directors of the Issuer have signing power and electronic access to view (but not to effect payments) the collection accounts and the Consolidated Bank Account. They are entitled to restrict the executive director access to these accounts on reasonable grounds.

The Issuer is required to establish the following 4 cash reserves:

1. *The Payment Reserve*; to be established 10 days prior to each payment date in an amount equal to the aggregate amount due for payment to the Secured Creditors less any portion of the capital redemption reserve that relates to payments due on that payment date.
2. *The Arrears Reserve*; to established if and to the extent the value of the weighted average cumulative non-performing Loan Claims at a certain point of seasoning exceeds the agreed attachment point relating to that particular point of seasoning. A formula is utilised that includes 2 levels of cash trapping: At the 1st level 25% of the relevant calculated amount is trapped, at the 2nd level 100% is trapped.
3. *The Asset Performance Reserve*; to be established if during any rolling 6 months period the Collection Ratio falls to 80.75% or less, in an amount equal to 3 times the calculated difference between the value of the Active Loan Claims which would have been collected if 85% of all Active Loan Claims had been collected.
4. *The Capital Redemption Reserve*; to be established and maintained during the period 6 months prior to a bullet capital repayment on any notes. Each month 1/6th of the bullet capital repayment is built up. In the event that the Issuer has secured a committed refinance facility for the relevant bullet capital repayment note, the amount of such facility is deducted from the amount to be built up in the reserve.

The Issuer may invest excess cash in bank accounts (‘Near Cash Instruments’) with the Issuer Account Banks, Nedbank or any other South African financial institution with a minimum rating of F1(zaf) (Fitch Ratings) or equivalent. The Near Cash Instruments must have a maturity of less than 3 months. GCR expects the Near Cash Instruments to comply with its Permitted Investments Criteria. In the event that the Issuer does not purchase sufficient new Loan Claims, some negative carry may be built-up if the Transaction is not in an early amortisation yet. There is no contractual limit on building up cash in the Issuer. However, many notes repay periodically, thereby mitigating to a large extent negative carry.

<u>Priority of Payments</u>
The *Pre*-Enforcement Priority of Payments applies if no early amortisation or guarantee notice has been delivered or no enforcement situation has occurred, whilst the *Post*-Enforcement Priority of Payments applies if such events took place. Please see *Appendix C* for an overview of both Priority of Payments.

GCR expects the Issuer to appropriately provision on a monthly basis the necessary cash in order to accommodate timely payment of relevant accrued liabilities (e.g. accrued interest on the term notes) that are not paid monthly.

<u>Early Repayment Penalties on the Notes</u>
Subject to following the procedure mentioned in condition 7.3.2 of the terms and conditions of the notes, the Issuer may redeem all of the notes pertaining to each class of notes from excess amounts collected under the Loan Claims.

In the event the notes will be repaid early at the option of the Issuer as mentioned in the previous paragraph or if an early amortisation or guarantee notice has been delivered, early repayment penalties may be due by the Issuer. Early repayment penalties are not due in the event a clean-up call option is exercised if specified in the applicable pricing supplement.

Key Transaction Parties

<u>Issuer</u>
The Issuer is a special purpose vehicle incorporated in South Africa in 2008 as a private company with limited liability. Its activities are restricted to those of the securitisation programme. It issued several classes of debentures (in descending order of rank) in the past which are intended to be replaced by notes at closing of the Transaction.

All ordinary shares in the Issuer are held by the Bayport Securitisation Owner Trust, a trust established in South Africa. The trustees are members of Transaction Capital. All preference shares are currently held by BFS 2010. The Issuer has 3 non-executive directors of which 2 are independent non-executive directors. The other non-executive director is BFS 2010’s current CFO. The trustees can appoint the directors.

BFS 2010, in its capacity as Manager, is responsible for the day-to-day administration of the Issuer. In terms of the Management Agreement, the Manager, *inter alia*, checks the relevant calculations before available funds are applied according to the priority of payments.

<u>Security Trust</u>
A special purpose vehicle, the Bayport Securitisation Debenture Holders Trust established in South Africa, safeguards the interest of the Secured Creditors. PT & A Trustees (Proprietary) Limited is the trustee.

In order to secure the claims of the Secured Creditors, the trustee has executed a limited recourse guarantee for the benefit of the Secured Creditors. This guarantee is backed by an indemnity and a security cession and pledge mechanism. The Issuer agrees to indemnify the trustee in respect of payments to be made under the guarantee. The collateral backing this indemnification is the Issuer’s assets. In this respect, the Issuer pledges and cedes its assets to the trustee. Following a Guarantee Event, the trustee will enforce its security for the benefit of the Secured Creditors.

The Bayport Securitisation Owner Trust pledged its ordinary shares in the Issuer to the trustee as security.

Warehouse and Swap Facility Providers
Although transaction documentation includes the possibility for the Issuer to enter into warehouse and/or swap facilities, none will be in place at closing.

In the event the Issuer intends to conclude a warehouse facility or swap facility, GCR expects to be notified sufficiently in advance in order to re-assess the transaction on its merits.

Account Banks
The collection accounts are currently held with The Standard Bank of South Africa, First National Bank and Absa Bank. The current credit ratings of these banks are 'AA+/A1+', 'AA/A1+' and 'AA+/A1+' on the long term and short term ZAR currency national scale, respectively. The Consolidated Bank Account is currently held with The Standard Bank of South Africa.

The Manager will need to replace an Account Bank within 30 days once its credit rating drops below F1(zaf) (Fitch Ratings), which is deemed to be commensurate with GCR's counterparty risk criteria.

Manager
BFS 2010, in its capacity as Manager, continues to administer and manage the securitised Loan Claims portfolio in all aspects. This includes, amongst others:

- credit vetting procedures;
- collection procedures;
- arrears management;
- maintaining data records.

The Manager will also perform administrative services to the Issuer, such as maintaining its books of account, preparing reporting packs, arranging an annual audit and submitting tax returns. In addition, it will run the priority of payments calculations which are expected to be checked by Transaction Capital and the Calculation Agent.

The Issuer may terminate the appointment of the Manager in the event that:

- BFS 2010 is liquidated or placed under judicial management; or
- The Collection Ratio during any rolling 6 months period equals 76.5% or less; or
- BFS 2010 breaches a material obligation under the transaction documents and does not remedy the situation with 2 weeks.

The participation of BFS 2010 in the subordinated notes ensures an alignment of interests with the Senior Notes holders by providing an incentive to continue to adequately service the Loan Claims portfolio.

Standby Administrator
MBD will act as Standby Administrator. In this role, MBD will take over the administrative and collection function for the benefit of the Issuer in the event that the appointment of the Manager is terminated. MBD forms a part of MBDCS, which has a servicer quality rating of 'SQ2+', rated by GCR.

In terms of the Standby Administration Agreement, BFS 2010 undertakes to provide MBD with all relevant information on a timely basis. This includes monthly reporting packs and notification of relevant events.

MBDCS is one of the leading credit management solution companies in South Africa. The company boasts a strong track record in the collections environment, with over 12 years of collection experience, particularly relating to charged-off accounts.

MBD's standby administration function encapsulates three phases:
• *Standby phase*: MBD monitors the monthly performance of the transaction for soft trigger breaches, whilst ensuring that basic information technology and operational interfaces exist. Should soft triggers be breached, MBD will step up its activity and prepare for involvement.
• *Alert phase*: MBD prepares for more active involvement to ensure that they are ready to intervene within 24 hours if required.
• *Intervention phase*: All covenants are breached and MBD steps in on notice received from the trustee, funder or current administrator.

MBD has created a data file that will ensure the smooth transition of all relevant debtor information from BFS 2010's systems to MBD's collection systems in the event of MBD stepping in to serve its role as the Standby Administrator.

Bayport Financial Services 2010 (Pty) Limited
Company Background
BFS 2010 is a non-bank financial institution, specialising in the provision of unsecured consumer finance to the South African mass market. BFS 2010 was initially incorporated as BFS 2003 in 2003 by former executives of African Bank Investments Limited. In February 2010, Transaction Capital (Pty) Limited ("TransCap") acquired a 100% shareholding in BFS 2003. TransCap is a large holding company, comprising of 14 subsidiaries operating across 5 countries. In July 2010, BFS 2003 sold its assets and liabilities to a newly established company, being BFS 2010. TransCap is the major shareholder of BFS 2010 (82.65% stake), with the remaining stake being held by the founding shareholders and management. BFS 2010 is a registered credit provider under the National Credit Act ("NCA"), while BFS 2003 is registered as an authorised financial services provider with the FSB and registered under the NCA. BFS 2010 is in the process of registering as an authorised financial services provider with the FSB.

Origination
The origination process takes place via the use of the following channels:

- Mobile agents not formerly employed by BFS 2010. The company utilises around 1,700 mobile agents located throughout the country to market its loan products. Although not formally employed by BFS 2010, these agents are controlled and managed via the offices and regional branches of BFS 2010. The company possesses 55 administration processing centres located around the country to serve as contact points for the agents. Furthermore, BFS 2010 has established 33 kiosks located within selected South African Post Office

("SAPO") outlets around the country to serve as origination channels. Staff operating the kiosks are employed by BFS 2010 on a full time basis. For the 3 months ending 31 March 2011, direct marketing constituted 89.7% of total product origination;
- In the case of BFS 2010 cellular offerings; 2 outbound call centres. All cellular applications are handled telephonically with documents and handset deliveries conducted by courier services. For the 3 months ending 31 March 2011, cellular call centres comprised 8.5% of total product origination;
- Origination via select employers, who allow payroll-based collections on BFS 2010's loans. Within this channel, SAPO is the largest employer, with loans advanced to its employees forming the largest component of BFS' 2010 payroll loan portfolio book. Growth in payroll originated products has stagnated in recent years, comprising only 1.8% of total product origination for the 3 months ending March 2011.

Management

The current directorate comprises of 3 executive directors and 7 non-executive directors. Furthermore, the duties of the chief executive and non-executive chairman have been separated so that no single individual and/or minority group has unfettered control over the decision making process. The Executive Committee ("Exco") is tasked with managing the day-to-day operations of the business. The committee comprises of 5 senior management members, with meetings held on a monthly basis. In terms of senior management, GCR notes that the majority of management possesses satisfactory industry experience.

Governance

Please refer to the BFS 2010 micro-finance institutional ("MFI") analysis report published by GCR.

Operating environment

Please refer to the BFS 2010 MFI analysis report published by GCR.

Systems and disaster recovery

BFS 2010's business is operated through systems that are continually reviewed and updated to support business requirements. This facilitates the comprehensive management of origination, customer management, legal, credit and retention processes. Adequate disaster recovery systems and back-up arrangements have also been put in place to provide a continuous flow of information should a disaster event occur. The current arrangements include daily backups of all data (held both on and off-site) and standby servers (at a secure off-site location). In the event of a disaster, the plan provides for all information to be retrieved and put into operation within approximately 2 hours.

GCR has been advised that the company's head office will be relocating to a new building in July 2011. The relocation is not expected to interrupt operations, as all critical business systems are housed at an off-site location. The Standby Administrator has been notified of the relocation.

Financial Performance/ Funding

Please refer to the BFS 2010 MFI analysis report published by GCR.

Type of Assets, Credit Vetting and Collections

Loan Claims Agreements

Product agreements offered by BFS 2010 take the form of unsecured personal loan credit agreements (payroll loans and retail debit order loans), while subscription agreements are utilised for cellular products. A brief description of each product category follows:
- *Payroll*: BFS 2010 approaches employers, whereby unsecured personal loans are granted to a respective employer's employees (with the agreement of, and in co-operation with the employer concerned), following which the employer deducts the employee's monthly loan repayments directly from the payroll. The collections process takes place through the employer, with BFS 2010's standard credit criteria and processes applied to applicants sourced by the employer. The interest rate on the loan is fixed at origination. Due to the reduced risk of non-payment, loans advanced under payroll credit agreements generally incur a lower interest rate than retail debit orders. As at 31 March 2011, payroll loans comprised 4.9% of the total loan portfolio. The average remaining term of a loan in this category was 39.5 months at an average loan value of R18,869.
- *Retail Debit Order*: Unsecured personal loans are originated through agents and branches. Debt service payments are collected by monthly debit order. The interest rate on the loan is fixed at origination and is linked to the maximum prescribed rate applicable under the National Credit Act ("NCA"). Retail debit order loans are the company's key product segment, comprising 87.7% of the total loan portfolio as at 31 March 2011. The average remaining term of a loan was 26.3 months, at an average loan value of R13,499.
- *Cellular*: The customer signs a subscription agreement with BFS 2010, whereby the customer receives a mobile phone and monthly airtime. The subscription fee is collected via monthly debit order, with contracts running for a period of 24 months. GCR has been advised that the mobile network provider for almost all cellular contracts is Vodacom Limited ("Vodacom"). A small portion relates to Cell C. Whilst the cellular subscription agreements do not legally constitute "loans", they are regarded as such for accounting purposes. The subscription agreements are not regulated by the NCA, but fall under the ambit of the new Consumer Protection Act. However, this is only applicable to agreements signed from 1 April 2011 onwards. In terms of the provision of airtime, for each contract, BFS 2010 utilises the services of an intermediary to purchase the required airtime in advance from the mobile network provider (once the SIM card has been activated by the mobile network provider) for the duration of the contract life (i.e. for the full 24 month period). BFS 2010 pays the entire consideration to the intermediary upfront, who then procures that the service provider loads the airtime upfront on a monthly basis for each contract. However, the intermediary pays the air time consideration to the network provider on a monthly basis. Non-payment risk by the intermediary to the network provider is mitigated by bank guarantees provided by FirstRand Bank Limited (rated 'AA' on the ZAR currency long term national scale by GCR). In this regard, should the intermediary default on its payment,

the network provider would claim payment from FirstRand Bank. As at 31 March 2011, cellular subscription agreements comprised 7.4% of the total portfolio. The average remaining term was 14.7 months, with an average contract value of R3,382.

All non-cellular products contain credit life insurance provided by Hollard Life Assurance Company Limited ("Hollard") and covers the following events:

- death;
- permanent and temporary disability;
- dread disease; and
- retrenchment (claim is limited to instalments for up to six months).

The credit life insurance is taken out between Hollard and each loan customer of BFS 2010. The beneficiary of the insurance policy is BFS 2010. However, the rights under the insurance policy are ceded to the Issuer. Considering that BFS 2003 is a FSB authorised financial services provider, BFS 2010 uses BFS 2003 as the vehicle to collect the monthly insurance premiums received from customers on behalf of Hollard. In return for the collections, BFS 2010 receives a commission fee. However, in instances where a debtor defaults on their instalment, the Issuer will pay, in accordance with the Priority of Payments, the insurance premium to Hollard on behalf of the specific debtor, in order to ensure that the insurance cover remains. BFS 2010 thereafter claims the insurance premium paid back from the debtor.

Credit approval process

A credit policy document governs the terms and conditions under which a credit application will be processed, assessed, approved or declined. The Credit Committee is responsible for reviewing this document, which was last updated in May 2009. The Credit Committee is also responsible for reviewing the interest rate on loans advanced, which is done per product and in accordance with the NCA.

The application process, concerning all personal loan products, starts off with a basic pre-screening process which aims to filter out non-qualifying customers. All applications are fed into "Bayfin", the company's web based credit assessment system. Bayfin automatically calculates the applicant's i) loan offer using a regularly reviewed in-house developed scorecard; and ii) affordability based on monthly income and expenses captured. Should an acceptable outcome be reached, a credit offer will be generated. If the proposed loan amount (and associated terms) is accepted by the applicant, a detailed application form (including all supporting documentation) must be completed and forwarded to the BFS 2010's central processing team (residing at the company's head office). Once received, the application will pass through a rigorous processing and authentication phase (i.e. capturing of data, verification of critical inputs and a final fraud check) prior to disbursement (requires the authorisation of the Financial Manager).

The approach towards cellular subscription agreements, although for the most part mirroring the aforementioned protocols, does, however, display a distinct difference in that the physical interaction portion is made redundant given that the entire application process is completely systems driven and conducted entirely by telephone. The only physical interaction is when the phone is delivered and the relevant documents are signed by the customer and delivered back to the head office.

Overall approval rates averaged around 15.9% for the 3 months to March 2011, compared to 16.1% for the 12 months ended September 2010.

Borrower demographic

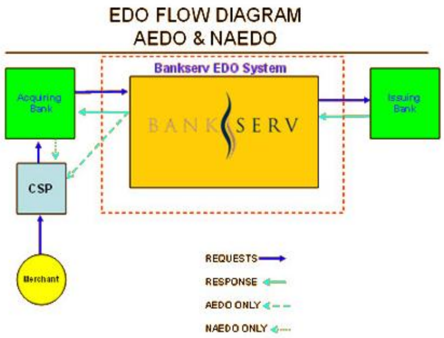
BFS 2010's product offering is predominantly directed towards low income employees, which account for the largest percentage of the population. Whilst the risk of missing payments within this sector of the population is relatively high, this risk is considered in the pricing of products.

Collection Process

The collection process is differentiated based on the respective platform being utilised, either i) debit order; or ii) payroll deductions.

Debit order collections

BFS 2010 uses Hyphen (an FNB system used to process and manage the debit orders generated daily by BFS 2010's debtor management system, Exactus) as its intermediary service provider for all debit order submissions to the payment system (done via the central banking system, BankServ). Collections are done based on an early debit order system that is split between authenticated and non-authenticated payment orders (commonly referred to as "AEDO" and "NAEDO"). The only difference between these two methods is that AEDO transactions cannot be disputed (i.e. the client physically authorises the deduction mandate, via a point of sale device, whereas NAEDO transactions rely on a signed or voice recorded deduction mandate) and will automatically be presented for payment each month (while NAEDO instructions needs to be re-submitted each month). In order to ensure that the payment system does not favour one method over the other, AEDO and NAEDO transactions are randomised by the paying/issuing bank and processed directly after the transmission of bulk salary payments.



The company employs a process of strike date management to enhance collections success rates. The process aims to ensure that payment submissions to the respective banks are timed to coincide with the pay dates of the respective individuals within the batch. There is an active and ongoing process of ensuring clients banking details and pay dates are up to date. Exactus automates the payment file submission based on the strike dates set per client. Response files are downloaded daily from the service provider and automatically incorporated into Exactus. Unsuccessful debits are automatically flagged and the debtor transferred into the early stage collections environment. Where a borrower has missed 3 consecutive installments, the account is moved to the late stage collections phase.

Payroll collections

BFS 2010 has concluded payroll deduction agreements with companies and employers, whereby loan installments are deducted from the employee's salary, by the employer, and paid to BFS 2010 on a monthly basis. As such, all payroll collections involve the following:

- The borrower irrevocably instructs his/her employer to deduct any loan instalments due from their salary;
- The employer acknowledges that payroll deductions may only be discontinued should (a) the loan be repaid in full or (b) the borrower ceases to be in their employment (in which case BFS 2010 should immediately be notified of such a development);
- BFS 2010's debtor management system will then generate a payroll deduction file, as per the payroll cut off dates, which is e-mailed to the employer;
- In response, the employer will forward a payment receipt file to BFS 2010, as per the payment due date, that will automatically be incorporated into the debtor management system; and
- Debtors that are in arrears are followed up with the respective employer and loans are flagged in accordance with their current employment status. Loans that are uncollectable via payroll deduction (due to termination of employment), are moved onto the debit order mechanism (given the authorisation signed at application) and will, similarly, be moved into late stage collections after 90 days in arrears.

Arrears Management

The primary objective here is to successfully rehabilitate accounts in arrears. An account is deemed to be in arrears if any payment, or portions thereof, have not been made in a timely manner. The arrears management process can also be differentiated into 2 broad categories, based on the respective loans' arrears status.

Early stage collections

Early stage collection accounts are those that are one (partial) instalment, or more, in arrears. A missed instalment is deemed to be in arrears by matching what the customer has paid to the required instalment amount.

Debtors that fall into arrears are initially alerted via SMS of their unpaid instalment. Thereafter, BFS 2010's in-house collections agents will liaise telephonically with clients and advise them of the arrears status of their account. The borrower is requested to settle the arrears through debit order or to make a cash deposit (must be confirmed before considering the loan as cured). The borrower is also advised that further default will result in the account being handed over for legal proceedings. The collections strategy escalates the type of action required on an account given the arrears position. If during this process, information comes to light indicating that the loan has moved into either debt review or administration, the loans will be flagged to ensure appropriate account management takes place going forward. Alternatively, if the matter falls within the ambit of the credit life insurance policy in place on the loan account, a claim will be made from Hollard.

Late stage collections

If the account continues to escalate in terms of the level of default (being 3 consecutive missed installments), the account will be transferred to the in-house late stage collections department. During this stage of the collections process, the focus will be on rehabilitating the account (through an emolument attachment order issued to the respective debtor's employer) and initiate the recovery of any outstanding balances. As the legal collections process is reliant on the efficiency of the justice system, delays are often experienced in this stage of collection.

Bad and doubtful debt provisioning policy

The company's impairment allowance policy is aligned to the principles of IFRS "IAS 39 Financial Instruments: Recognition and Measurement". At each monthly reporting date, the debtors portfolio is subject to an impairment review to determine whether any objective evidence of impairment exists such that the recoverable amount of the individual loans identified as impaired, are less than their carrying value. If the latter is the case, this results in an impairment loss to reduce the carrying amount of the loan to its recoverable amount. The related provision created on balance sheet is regarded as a negative amount and as such is considered as a valuation adjustment to the underlying loan and recognised net of the capital balance on the balance sheet. Where an impairment loss subsequently reverses, the carrying amount of the loan is increased up to a maximum of the carrying amount prior to any impairment loss being recognised.

BFS 2010 has developed a matrix methodology to determine the impairment allowance. This methodology takes into account various factors such as the type of collection mechanism (debit order/ payroll), recent 3 month performance of the account, time since origination, number of months in arrears, performing or non-performing loan risk status, and active or legal account status.

An outstanding loan balance is written off for accounting purposes if a debtor remains in the late stage collections area for a period of longer than five months. Furthermore, where management becomes aware of circumstances that indicate that the legal collection attempts will be unsuccessful, the matter will be immediately written off (eg. death of the debtor). This is done so as to not incur any further unnecessary collection related expenses.

Securitised Portfolio per 31 March 2011

(source: BFS 2010)

Number of accounts	
Total	229,028

Disbursements	
Average loan amount (R)	11,599
Average acquisition term (months)	28.4

Product portfolio composition	**R'mln**	**%**
Cellular	188.6	7.4
Payroll	125.5	4.9
Retail	2,245.4	87.7
Total	**2,559.5**	**100.0**

Product portfolio composition by remaining term (by months)	Cellular	Payroll	Retail	Overall
0-6	16.6%	3.6%	9.9%	**10.0%**
6-12	9.6%	5.4%	6.4%	**6.6%**
12-24	68.1%	11.4%	24.3%	**26.9%**
24-36	5.7%	20.2%	32.7%	**30.2%**
36-48	0.0%	20.5%	22.7%	**20.9%**
48-60	0.0%	36.7%	3.8%	**5.1%**
60+	0.0%	2.2%	0.2%	**0.3%**
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Average seasoning (by months)	
Average seasoning	11.3
Average term at origination	28.4

Seasoning distribution (by months)	Cellular	Payroll	Retail	Overall
0-6	40.8%	29.9%	39.9%	**39.4%**
6-12	31.1%	19.8%	25.9%	**26.0%**
12-24	18.7%	26.0%	21.7%	**21.7%**
24-36	8.0%	19.9%	9.5%	**9.9%**
36-48	1.3%	4.1%	2.5%	**2.5%**
48-60	0.1%	0.3%	0.5%	**0.5%**
60+	0.0%	0.0%	0.0%	**0.0%**
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Yield analysis	
Gross yield	41.6%
Less: Bad debt expense	15.8%
Net yield	**25.8%**

Yield distribution	Cellular	Payroll	Retail	Overall
<35	1.6%	36.4%	1.4%	**3.1%**
35-40	0.3%	47.3%	19.7%	**19.6%**
40-45	0.3%	12.0%	26.2%	**23.6%**
45-50	0.0%	3.5%	13.0%	**11.6%**
50-55	0.0%	0.5%	12.6%	**11.0%**
55-60	0.1%	0.2%	12.5%	**11.0%**
60-65	0.0%	0.1%	6.3%	**5.6%**
65-70	15.4%	0.0%	3.4%	**4.1%**
70-75	10.8%	0.0%	1.6%	**2.2%**
>75	71.5%	0.0%	3.3%	**8.2%**
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Geographical distribution (province)	Cellular	Payroll	Retail	Overall
Eastern Cape	11.0%	9.5%	10.8%	**10.7%**
Free State	6.4%	6.6%	8.3%	**8.1%**
Gauteng	31.5%	46.7%	26.3%	**27.8%**
Kwazulu-Natal	15.8%	13.2%	20.8%	**20.1%**
Limpopo	6.3%	2.7%	6.4%	**6.2%**
Mpumalanga	8.3%	2.7%	4.9%	**5.0%**
Northern Cape	3.1%	2.3%	3.3%	**3.2%**
Northwest	7.3%	4.8%	4.8%	**5.0%**
Western Cape	10.3%	11.5%	14.3%	**13.9%**
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Scoreband product distribution	Cellular	Payroll	Retail	Overall
High risk	26.6%	15.2%	3.6%	**7.1%**
Medium risk	54.9%	47.8%	39.9%	**45.5%**
Low risk	18.5%	37.0%	56.5%	**47.4%**
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Ageing distribution	R'mln	%
Current	1,631.0	63.8
01-30 days	164.1	6.4
31-60 days	92.7	3.6
61-90 days	67.3	2.6
91-120 days	63.8	2.5
>120 day	540.6	21.1
Total	**2,559.5**	**100.0**

Portfolio - Loan performance distribution	R'mln	%
Performing loans	1,955.1	76.4
Non-performing loans	604.4	23.6
Total	**2,559.5**	**100.0**

Rating Methodology: Stressed Collections Approach

The rating of the Senior Notes is derived by applying a stressed collections approach with the portfolio per 31 March 2011 as a starting point (the April 2011 transaction reporting pack indicated that portfolio performance/ composition did not materially change). Focus on historically observed collections is deemed to be more appropriate for this type of assets than following a traditional Consumer ABS approach. Data confirms that, despite the relatively high level of recorded *technical* non-performing loans, *actual* nominal collections achieved are also relatively high and of a relatively stable nature. The Loan Claims are priced to adequately absorb the relatively high non-performing level. An alternative approach could have been to compare static vintage actual collection curves per product type against original expected contractual collections for such vintages. However, such information was not easily available. Also, the Transaction does not include portfolio composition criteria and it would have been difficult to pick the correct combination of vintage curves to predict future performance.

Stressed collections commensurate with a 'A(RSA)' rating scenario are calculated by applying a haircut to historical monthly collection rates achieved against the balances of the relevant ageing buckets comprising the portfolio. In addition the cash flow model takes amongst others roll rates and write-offs into account.

Currently the rating of the Senior Notes is constrained at 'A(RSA)'. The reason is that the Transaction misses certain structural elements that are expected to be in place for higher rating levels (e.g. there is no liquidity facility and there is only 1 portfolio composition criterion).

The rating of the Senior Notes is currently not constrained by the credit quality of the telecom provider. Vodacom is currently rated higher than the Senior Notes, 'A+' on the ZAR currency national scale. In the event that the Originator would do more than incidental business with a telecom provider that is rated lower than the Senior Notes, the Transaction will need to be re-assessed on its merits.

Cash Flow Model

A cash flow model was built that mirrors as much as practically possible the Transaction.

Portfolio Composition

The cash flow model uses the portfolio divided over ageing buckets as per 31 March 2011 as the starting point for the analysis. The assumed portfolio yield, roll rates and collection rates for the ageing buckets in combination with the assumed write-offs determine the evolution of the aggregate portfolio balance over time. The cash flow model analyses a scenario where the Transaction has entered an early amortisation phase (which is deemed to be a stressed scenario), it does not take a revolving period into account. For that reason only the Senior Notes have been modelled because in an early amortisation scenario the Senior Notes will be repaid before any other notes.

Assumed Portfolio Yield

Portfolio yield is made up off an implicit interest component and a service fee component. The assumed portfolio yield is applied against the aggregate portfolio balance less the aggregate principal balance of the >150 days ageing bucket. The cash flow model assumes as interest yield component the average arising from the scheduled contractual interest payments to be received on the portfolio as per 31 March 2011, which is 31.9% per annum. The Issuer is entitled to receive a fixed monthly service fee of R50 (excluding VAT) per loan account. As a percentage of the aggregate portfolio balance the service fee yield component increases over time:

Remaining portfolio balance	Service fee*
>90% - 100%	4.1%
>80% - 90%	4.3%
>70% - 80%	4.6%
>60% - 70%	4.9%
>50% - 60%	5.3%
>40% - 50%	5.8%
>30% - 40%	6.2%
>20% - 30%	7.0%
>10% - 20%	8.5%
> 0% - 10%	13.1%

* Yield per annum and expressed as a percentage of the specific aggregate portfolio balance outstanding.

The cash flow model used roll-rates determined by calculating the historical average and correcting them for around 0.5x the standard deviation.

Assumed Monthly Collection Rates for the Ageing Buckets

The assumed monthly collection rates commensurate with a 'A(RSA)' rating scenario were calculated by deducting 2.65x the standard deviation from the average.

Ageing Bucket	Average	STDEV	'A(RSA)'assumed collection rates
0 – 30 days	8.2%	0.5%	6.8%
31 – 60 days	3.6%	0.6%	1.9%
61 – 90 days	2.5%	0.5%	1.2%
91 – 120 days	1.8%	0.4%	0.7%
121 – 150 days	1.7%	0.4%	0.7%
>150 days	1.6%	0.3%	0.7%

* Expressed as percentage of the aggregate portfolio balance outstanding.

Assumed Monthly Write-off Rate

The cash flow model incorporates write-offs by deducting the assumed monthly write-offs from the aggregate principal balance of the >150 days ageing bucket. This reduces the aggregate nominal collections from this bucket over time. The assumed monthly write-off rate commensurate with a 'A(RSA)' rating scenario were calculated by adding 2.65x the standard deviation to the average.

Average write-off rate*	1.00%
STDEV	0.48%
'A(RSA)' assumed write-off rate*	2.27%

* Expressed as percentage of the aggregate portfolio balance outstanding.

Since the portfolio has grown substantially, looking purely at the monthly write-off percentages could dilute the picture (average: 0.68%; stdev: 0.33%). The average and standard deviation have been calculated by taking monthly write-offs as a percentage of the aggregate portfolio balance 8 months earlier (8 month lag). It is likely to assume that monthly write-offs that take place relate to originations in a period at least 3 months earlier whilst the Manager typically writes-off Loan Claims 5 months later (3+5 = 8 months).

More on Collections

In the cash flow model the estimated credit life insurance premiums collections have been ignored. The reasons are that these amounts are collected on behalf of Hollard and the Transaction cannot rely on the Standby Administrator to collect this type of collections (because it misses the appropriate FSB accreditation). In addition, any unpaid credit life insurance premiums are only potentially paid by the Issuer ranking subordinated to the senior debt payments (i.e. in an early amortisation scenario, this would only be paid after the senior debt repayment- refer to item 10 of the *Pre*-enforcement Priority of Payments section in *Appendix C*). As a consequence no credit was given to potential credit life insurance claim payments to be received by the Issuer. The scheduled credit life insurance premiums portion of collections for the month April 2011 is estimated at around R16mln. In addition, the estimated collections in the first month of the cash flow model are reduced by around R3.6mln which is the equivalent of the highest monthly accrued airtime payment obligation for the last 12 months.

The cash flow model gives some credit to bad debts recovered in the form of additional collections since this data was not included in the collection rates data provided. GCR has been advised that credit life claim payments received were not incorporated in the bad debts recovery data provided. The assumed monthly recovery rate commensurate with a 'A(RSA)' rating scenario were calculated by deducting 2.65x the standard deviation from the average. The average and standard deviation have been calculated by taking monthly write-off as a percentage of the aggregate portfolio balance 12 months earlier (12 month lag) which is 3 months later than the assumed write-off in month 8.

Average recovery rate*	0.080%
STDEV	0.020%
'A(RSA)' assumed recovery rate*	0.028%

* Expressed as percentage of the aggregate portfolio balance outstanding.

The Sale of Claims Agreement allows the Originator to borrow a maximum amount of R1mln from the Issuer to fund the origination of new Loan Claims. Since the rating on the Senior Notes is higher than the Originator's corporate rating, the cash flow model cannot rely on the Originator to repay such amount. To be conservative, the assumed aggregate collections in month 1 of the cash flow model have been reduced by R1mln.

In South Africa the so-called '*in duplum*' rule applies to loan agreements. This rule basically means that a debtor cannot build up an aggregate amount of accrued interest and fees arising from a loan agreement that exceeds 100% of the principal balance outstanding of the loan. Given the relatively high interest rates and relatively low principal balances of each loan, borrowers may rely on this rule from time to time. GCR has been advised that the Manager's systems automatically apply the rule, i.e. no more interest and fees accrue once the 100% level has been reached. Except for not applying the portfolio yield percentage to the >150 days ageing bucket, GCR did not make any adjustments to reflect the potential effects of the in-duplum rule to the assumed collections.

Since the cash flow model utilises historically observed collection rates, there is no need for modelling delinquencies or prepayments separately. The collections rates already implicitly incorporate this (e.g. actual delinquencies means lower observed collections rates).

Interest rate scenarios

All loans originated by the Originator are fixed interest rate loans. However, at closing, a substantial portion of notes are priced against a floating interest rate benchmark (3M Jibar). In addition any remaining balance in the Issuer's Consolidated Bank Account is assumed to generate a yield linked to 3M Jibar minus 0.6% per annum. The cash flow model tests 4 interest rate scenarios:

1. Stable: Interest rates remain at the current 3M Jibar rate (around 5.6%).
2. Rising: Interest rates move up from the current 3M Jibar rate to a maximum of 17% in an 'A' rating scenario, and remain at that level.
3. Falling: Interest rates move down from the current 3M Jibar rate to 0%, and remain at that level.
4. See-saw: In an 'A(RSA)' rating scenario interest rates first move up from the current 3M Jibar with 11.4%, and then move down with a maximum of 12.7%, and then move up, then move down again, etc.

The movement of 3M Jibar was analysed for 35 month (the expected weighted average life of the Senior Notes assuming scheduled amortisation) rolling periods for the period between September 1986 and January 2011:

Maximum movement upwards	11.4%
Maximum movement downwards	12.7%
Average	-0.5%
STDEV	5.1%

Rating scenario	**Upwards***	**Downwards****	**STDEV Multiplier**
A	11.4%	12.7%	2.65
BBB	10.4%	11.5%	2.13
BB	10.4%	10.1%	1.87
B	10.4%	8.1%	1.47

* Figures were calculated using the following formula: min(max, average + stdev multiplier x stdev).

** Figures were calculated using the following formula: max(min, average - stdev multiplier x stdev).

GCR has been advised that at closing no interest rate swaps will be in place.

Senior Costs

It is estimated that total annual senior costs (auditors, directors, value-added tax not claimable, collection fees but excluding the management fee) to be paid each month by the Issuer will be approximately 0.12% of the aggregate portfolio principal balance outstanding. GCR has modelled a floor of R2.6mln per annum which is assumed to be paid in 12 monthly equal instalments.

In addition, a monthly management fee of around 0.62% applied against the aggregate portfolio principal balance outstanding was modelled. The Standby Administrator fees have been modelled as follows:

- A fixed fee of R30k per month.
- A variable monthly fee of 0.06% applied against the aggregate capital balance of the Senior Notes and Warehouse Facility.
- An administration fee of R1mln per annum.
- A variable collection fee of between 5.7% and 25.4% (including Value Added Tax) was applied against collections from the relevant ageing buckets.

The cash flow model will pick up the higher outcome of the calculation of the management fee and the Standby Administrator fees as a proxy for servicing costs.

In the cash flow model a 6% annual inflation assumption has been taken into account for relevant items.

The cash flow model also incorporates an estimation of potential corporate income tax to be paid. However, in a 'A(RSA)' rating scenario it is unlikely that such tax would be due and payable giving the quantity of (stressed) write-offs (which are deemed to be tax deductible).

Starting Balance Bank Accounts

The cash flow model assumes the following cash balance to be available at start:

Cash and banking	+ R201,260,314
Receivables	+ R 880,997
Accounts payable	- R 2,876,000
Provision for tax	- R 35,761,187
Total starting balance	**+ R163,504,124**

All numbers above are obtained from the March 2011 reporting pack.

Deferred Tax Liability

In the cash flow model the deferred tax liability has not been modelled. The reasons are that (i) from a practical point of view the deferred tax liability most likely only materialises in the event the Issuer has to sell Loan Claims before they reach their maturity dates, which situation is deemed to be remote; and (ii) in the stressed rating scenarios losses would most likely offset any deferred tax liability. Moreover, as per 31 March 2011, the Issuer has a deferred tax asset, not a liability.

Warehouse and Swap Facility

Since no Warehouse Facility is in place at closing, this has not been modelled. No swaps have been modelled since no information is available about potential future swap profiles.

Capital Structure at Closing

Item	Amounts (ZAR)
Class A Notes (Senior Notes) - A(RSA)	1,703,579,125
Warehouse Facility	0
Subtotal	1,703,579,125
Arrears Reserve	0
Class B Notes	116,694,750
Subordinated Current Account	156,188,462
Class C Notes	120,000,000
Class D Notes	199,000,000
Total	**2,295,462,337**

The Senior Notes pass on timely payment of interest and ultimate payment of principal in all tested scenarios. The rating of the Senior Notes is most sensitive to a change in collection rates and roll rates applied. A rising interest rate scenario was the most stressful scenario because no swaps are in place at closing to mitigate interest rate risk relating to the notes. For a rating sensitivity analysis please see *Appendix D*.

Legal Opinion

GCR received a signed executed copy of the legal opinion prepared by South African transaction legal counsel (Prinsloo, Tindle & Andropoulos Inc.), and which was verified by Edward Nathan, Sonnenbergs.

The transaction legal opinion is based on analysis of a specimen (pro-forma) loan agreement and a specimen (pro forma) cellular contract that are in use with BFS 2010. GCR understands, amongst others, from the legal opinion that:

- The sale of business in 2010 by BFS 2003 to BFS 2010 was approved by shareholders and funders, and was for substantial consideration. The sale would not be impacted by application of sections 29, 30, 31 or 34 of the Insolvency Act.
- The Issuer and the Security Trust have the features of a bankruptcy remote vehicle.
- The Transaction complies with applicable regulations.
- The Sale of Claims Agreement between BFS 2010 and the Issuer results in a true sale of Loan Claims.
- All transaction documents are legal, valid, binding and enforceable.
- The priority of payments, non-petition language and the security structure are legal, valid, binding and enforceable.
- The provision of airtime to cellular contract customers would not be affected by an insolvency of the Originator.
- The consequence of the cession of the Existing Collections Accounts is that the rights in and to these bank accounts vest with the Issuer, and not with BFS 2003.

As a matter of South African law, in the event of an insolvency of a transaction party, the liquidator of such party has an election right whether or not to abide by a transaction agreement. This election right is only applicable to agreements that can be qualified as ‘executory’ agreements. Such election right will be in respect of the entire transaction agreement and not only a part of such transaction agreement as the liquidator may not elect to abide only by the favourable terms of an agreement. As an example, a liquidator may not elect to only not abide by the subordination undertaking aspect in a transaction agreement.

In the Transaction, important executory agreements are likely to be the Management Agreement and any swap (ISDA master) agreements where potentially material performance could be expected from the Manager and/or swap counterparties.

In the event of insolvency of the Manager, its appointment will be terminated and the Standby Administrator will thereafter perform relevant administrative and collection services going forward.

According to section 35B of the Insolvency Act a statutory netting of amounts applies to ‘master’ agreements (e.g. the ISDA master agreement typically applicable to swaps). In the event of an insolvency of a swap counterparty, any net amount payable by the Issuer after enforcement of section 35B, would be payable in accordance with the priority of payments. In addition the swap agreements would include downgrade language ensuring that the swap counterparty is in principle replaced sufficiently in advance of insolvency.

The specimen loan agreement is silent as to the right to apply set-off. This means in theory that a borrower that would have a claim against BFS 2010, could try to set-off that claim against a loan instalment due and payable. In practice it is highly unlikely that a borrower would have a claim against BFS 2010 because once BFS 2010 has advanced the loan, it does not have any further obligations against the borrower. The specimen cellular contract expressly waives the right of set-off.

Since the Existing Collections Accounts are ceded, commingling risk is mitigated. Pursuant to the cession the bank would only be entitled to discharge its obligations in respect of any amount standing to the credit of the Existing Collection Accounts by paying that amount to the Issuer. One month of commingling risk does arise in respect of that part of daily collections allocated to credit life insurance premiums and to the accrued obligation to pay for airtime in advance. See the cash flow model section ‘*More on Collections*’ above for the cash flow model treatment.

Tax Opinion

GCR received a signed executed copy of the transaction tax opinion prepared by South African transaction tax counsel (PKF) and which was verified by Edward Nathan, Sonnenbergs.

The Issuer may book, from time to time, a deferred tax liability or asset arising from temporary differences in the booking of the accounting base and tax base in respect of the cellular subscription agreements and the provision of irrecoverable and doubtful debts. From a tax perspective the acquisition cost of the cellular subscription agreements is depreciated on a *straight line* basis, whilst for accounting purpose it is depreciated on an *annuity style* basis. Eventually at maturity of the agreement the deferred tax liability will be zero. From an accounting perspective the tax base for the Loan Claims is reduced by the bad debt *provision*, whilst for tax purposes the tax base is reduced by *actual* bad debts incurred. As per 31 March 2011, the Issuer had a deferred tax asset (not a liability) of around R14.2mln.

GCR understands from the tax opinion that there should be no taxes materially impacting the Transaction. Corporate income tax will be due if the Issuer makes a taxable profit. Under a 'A'(RSA) rating scenario it is unlikely that corporate income tax will be due because of the relatively high assumed write-offs (which are tax deductible).

The noteholders bear the risk relating to potential future withholding tax on interest payments as per condition 9.2 of the terms and conditions of the notes.

Rating Considerations

Meaning of the Ratings

The ratings accorded to the Senior Notes are *final* ZAR currency long term national scale ratings. All signed transaction documentation has been received.

The *final* ratings accorded to the Senior Notes relate to timely payment of interest and ultimate payment of principal. The ratings exclude an assessment of the ability of the Issuer to pay any early repayment penalties. The other classes of notes are not rated.

Suffix codes have been introduced for structured finance securities to reflect that the rating is a national scale rating. The suffix code identifies to which country the rating relates; 'RSA' means Republic of South Africa. Rating outlooks have been introduced for South African structured finance securities to provide forward looking information to the market. An outlook indicates the likely direction of a rating change over a one-year period.

The ratings will be monitored. GCR will perform regular surveillance on the Transaction. Surveillance reports will be made available to subscribers to GCR's information services.

Rating Criteria Application

GCR analysed the Transaction by applying its Global Structured Finance Rating Criteria and a tailored stressed collections approach. The criteria are freely available on *www.globalratings.net*.

Application of the Global Consumer ABS Rating Criteria is deemed not to be appropriate for this particular asset class because the relatively high recorded *technical* non-performing loan levels could be misleading given the magnitude of the actual achieved collection rates.

Data Received from BFS 2010 and Transaction Capital

- Scheduled repayment profile of the Senior Notes.
- Scheduled amortisation profile of the Loan Claims portfolio as per 31 March 2011.
- Historical collections rates on the balances of the ageing buckets for the period between September 2009 and February 2011.
- An overview of receipt of daily collections for the period between January 2010 and December 2010.
- An overview of the monthly bad debts written-off for the period between May 2008 and February 2011.
- An overview of the monthly bad debts recovered for the period between May 2008 and February 2011.
- An overview of the monthly roll rates experienced in the ageing buckets for the period between April 2009 and January 2011.
- An overview of monthly 3M Jibar rates for the period between September 1986 and 31 January 2011.
- An overview of the Issuer's Loan Claims portfolio per 31 March 2011.
- An overview of monthly senior costs incurred by the Issuer for the period between May 2008 and December 2010.
- Audited financial statements relating to the Issuer per 30 September 2010.
- Issuer monthly reporting packs for the period between August 2009 and April 2011.
- Audited financial statements relating to BFS 2010 for the year ending September 2010.

Other

Audit Opinion

GCR did not receive audit confirmation that the Issuer's portfolio data per 31 March 2011 is accurate. However, because GCR did receive the latest audited (by Deloitte&Touche) financial statements relating to the Issuer and the Originator per 30 September 2010, and received monthly Issuer reporting packs since August 2009 until March 2011, this is deemed to be appropriate.

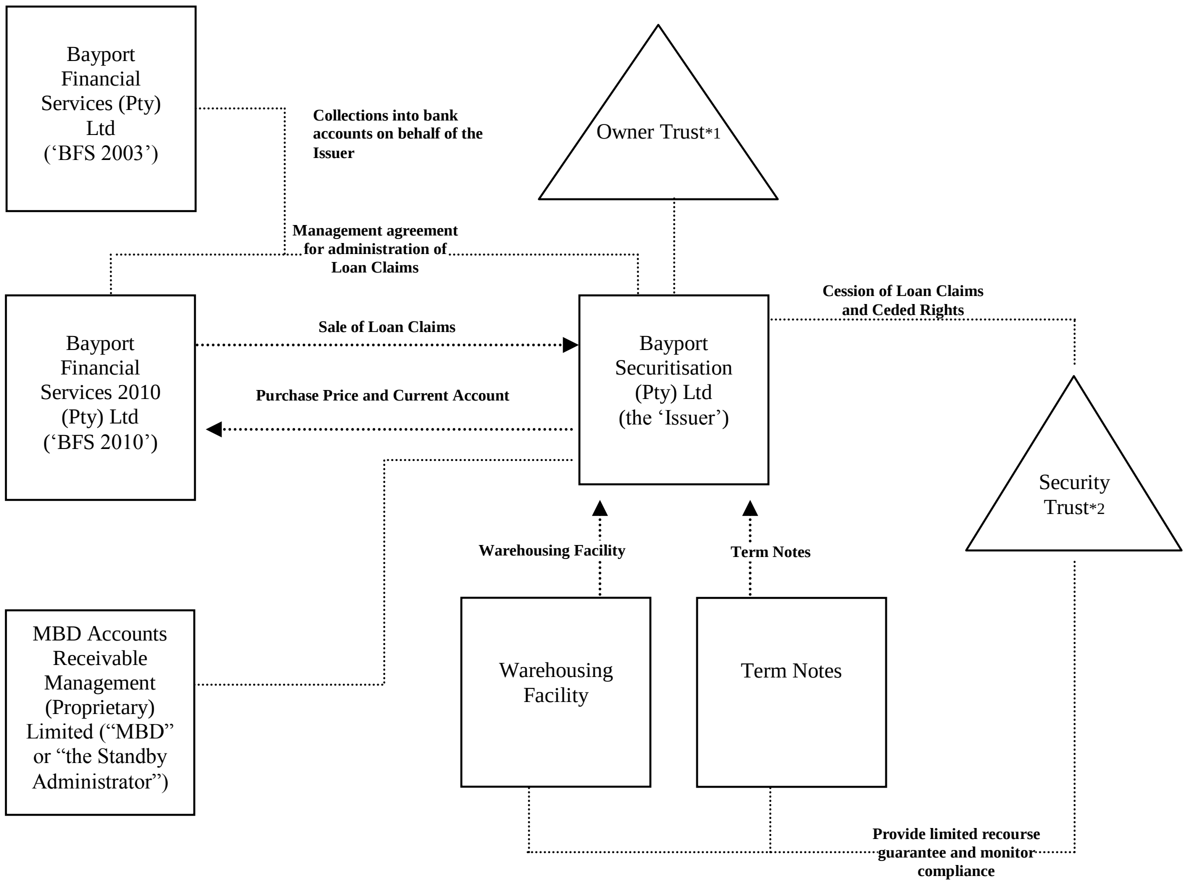
Transaction Documents

GCR has received satisfactory copies of all executed signed transaction documents.

Disclaimer

Note that GCR is not a legal, tax or financial adviser, and only provides a credit opinion of the rated securities. For example, a rating does not cover a potential change in laws nor can it be regarded as an audit. Moreover, GCR is not a party to the transaction documents. Users of our credit ratings should familiarise themselves with the Transaction (including the legal opinion), and should form their own views in this respect. They should not rely on GCR for legal, tax or financial advice, and are encouraged to contact the relevant advisers.

Appendix A: Transaction Diagram



***1** **The Owner Trust is the Bayport Securitisation Owner Trust**

***2** **The Security Trust is Bayport Securitisation Debenture Holders Trust**

Appendix B: Overview of BFS 2010's Basic Credit Granting Criteria

Area	Detail
Applicant	➢ Applicant must be a South African citizen unless operating a TSDN account. ➢ Applicant must be 18 years of age or older. ➢ All applicants may not exceed the retirement age at the time of application. ➢ ***Exception:*** A retirement age of up to 60 years of age may be considered under the following conditions: i. The employer can provide confirmation in writing that the applicant will be employed after reaching 60 years of age. ii. The term of the credit product must expire 6 (six) months before the applicant's retirement age or date.
Documentation	➢ The applicant must provide the following supporting documentation on application: 1. Payslip 2. ID Document 3. Bank Statements **<u>Payslip</u>** • A recent payslip containing the basic applicant details as well as income and deductions. • All payslips submitted must not be older than 31 days from the date of application for non-persal applicants, and not older than 62 days for persal applicants. • Minimum information required on payslip i. Payslip date ii. Payment period iii. Earnings iv. Net Salary v. Applicant's personal information for confirmation thereof vi. Company name vii. Minimum statutory deductions (Tax and UIF) **<u>ID Document</u>** • An original South African ID document. • Drivers' licenses or passports will not be accepted. • A certified temporary ID will be accepted if the document validity date has not expired and it has a valid Home Affairs stamp. **<u>Bank Statements</u>** • 3 months bank statements needs to be supplied. ➢ BFS 2010 does not require the above supporting documentation when a credit transaction is concluded with an existing applicant or when a transaction is concluded via the call centre. To mitigate against this risk, the following is required: • Data – The IT system is to display all relevant external bureau information to enable BFS 2010 to confirm and assess the risk profile of applicants. • All calls are to be voice recorded for legal purposes or BFS 2010's credit agreements are to be signed by the applicants to verify and confirm the credit details.
Application	➢ The applicant is required to clearly complete all requested fields on a BFS 2010's credit application form. ➢ The applicant must sign all areas indicated on the contract. ➢ The applicant must take cognisance of all the terms, conditions and declarations before signing the indicated areas on the contract. ➢ Any alteration/s needs to be signed by the applicant. ➢ The pre-agreement must be signed by the applicant on acceptance of the offer. ➢ The applicant must receive a copy of the pre-agreement. ➢ The applicant must receive a copy of the signed Pre-Agreement (not required for a telephonic offer confirmation).

Employment	➢ Applicant must be permanently employed for a minimum period of three months when operating a TSDN account, or six months in all other instances. ➢ All employers will have to be approved by BFS 2010 before any of the company's employees will be eligible for a credit product. ➢ An offer to an applicant may be restricted dependant on the risk associated with the applicant's employer.
Credit vetting	➢ All applications will be vetted for prior defaults, judgements and payment history through a reputable Credit Bureau. ➢ All applications will be checked against the NLR/CPA database in order to determine the applicant's additional exposure and payment performance. ➢ All credit products issued as well as the performance history and current status of the BFS 2010 credit product book will be updated on the NLR database on a regular basis as determined by the NCR. ➢ Applicant must be scored against a BFS 2010 application or behavioral scorecard.
Affordability	➢ Approval will be subject to the determination of the applicant's affordability as prescribed by the National Credit Act. ➢ The applicant must be able to meet his necessary living expenses and be able to make the required payments over the term of the agreement. ➢ The applicant's credit commitments will be checked against an approved credit bureau.
Exclusions	➢ The applicant must not be under administration, intend to go under administration or have applied to go under administration. ➢ The applicant may not be under, or have applied for, debt review. ➢ The applicant must not be sequestrated or have applied to be sequestrated. ➢ All applicants under the influence of alcohol or other mind altering substances. ➢ Any applicant that applies under duress or does not have the mental capacity to comprehend the contract terms and conditions. ➢ Applicants whose primary income is derived from medical grants or insurance benefits will not be eligible for credit products. ➢ Self employed persons. ➢ Unemployed persons. ➢ Contract workers, seasonal workers, or any part-time employees unless operating a TSDN account.

Appendix C: Summarised Priorities of Payments

Pre-enforcement Priority of Payments

1. Tax and statutory expenses.
2. Expenses relating to the Security Trustee, the Manager and the Standby Administrator.
3. Interest due and payable on the Senior Notes and Warehouse Facility.
4. All other amounts due and payable on the Senior Notes and the Warehouse Facilities, and in respect of the swap agreements if the swap counterparty is not the defaulting party under the swap documentation on a pari passu and pro rata basis.
5. Interest due and payable on the Class B Notes.
6. All other amounts due and payable under the Class B Notes.
7. Establishment or replenishment of any required cash reserve.
8. Amounts due and payable to the swap counterparty where the swap counterparty is the defaulting party.
9. Discharge of the Originator's current account balance.
10. Discharge of the purchase price to purchase new Loan Claims and any unpaid credit life insurance premiums.
11. Interest due and payable on the Class C Notes.
12. All other amounts due and payable under the Class C Notes.
13. Interest due and payable on the Class D Notes.
14. All other amounts due and payable under the Class D Notes.
15. Other amounts due and payable (including preferred dividends).

In the event that a **Potential Credit Event** is applicable, the Issuer may not effect payment in respect of items 5 to 15 (inclusive). In addition the Issuer may not declare any dividend in such a situation. A Potential Credit Event is an event which following the giving of notice by the relevant party to the Issuer and the lapse of the remedy period stipulated therein, would become a Credit Event.

Post-enforcement Priority of Payments

1. Tax and statutory expenses.
2. Expenses relating to the Security Trustee, the Manager and the Standby Administrator.
3. Interest due and payable on the Senior Notes and Warehouse Facility.
4. All other amounts due and payable on the Senior Notes and the Warehouse Facilities, and in respect of the swap agreements if the swap counterparty is not the defaulting party under the swap documentation on a pari passu and pro rata basis.
5. Interest due and payable on the Class B Notes.
6. All other amounts due and payable under the Class B Notes.
7. Discharge of the BFS current account balance and any unpaid credit life insurance premiums.
8. Amounts due and payable to the swap counterparty where the swap counterparty is the defaulting party.
9. Interest due and payable on the Class C Notes.
10. All other amounts due and payable under the Class C Notes.
11. Interest due and payable on the Class D Notes.
12. All other amounts due and payable under the Class D Notes.
13. Other amounts due and payable.

Appendix D: Capital Structure and Rating Sensitivity Analysis

Capital Structure

Security class	Stock code	LT Ratings	Amount (ZAR)	Outlook	Coupon	Maturity date	Payment frequency
Class A	BAYA01	A(RSA)	374,090,950	Stable	12.55%	31 Mar 2016	Quarterly
Class A	BAYA02	A(RSA)	75,000,000	Stable	3M Jibar + 4.75%	30 Jun 2013	Quarterly
Class A	BAYA03	A(RSA)	300,000,000	Stable	3M Jibar + 4.90%	30 Jun 2012	Quarterly
Class A	BAYA04	A(RSA)	18,467,200	Stable	11.48%	30 Sep 2015	Quarterly
Class A	BAYA05	A(RSA)	30,495,498	Stable	11.45%	30 Sep 2015	Quarterly
Class A	BAYA06	A(RSA)	550,000,000	Stable	3M Jibar + 4.75%	30 Sep 2016	Quarterly
Class A	BAYA07	A(RSA)	31,311,722	Stable	11.36%	31 Dec 2015	Quarterly
Class A	BAYA08	A(RSA)	50,000,000	Stable	11.78%	31 Dec 2017	Quarterly
Class A	BAYA09	A(RSA)	68,169,675	Stable	3M Jibar + 5%	31 Dec 2015	Quarterly
Class A	BAYA10	A(RSA)	36,283,680	Stable	3M Jibar + 5%	31 Dec 2015	Quarterly
Class A	BAYA11	A(RSA)	57,756,720	Stable	3M Jibar + 5%	31 Mar 2016	Quarterly
Class A	BAYA12	A(RSA)	20,000,000	Stable	11.005%	31 Mar 2016	Quarterly
Class A	BAYA13	A(RSA)	80,000,000	Stable	12.07%	31 Mar 2016	Quarterly
Class A	BAYA14	A(RSA)	12,003,680	Stable	11.48%	30 Sep 2015	Quarterly
Subtotal			**1,703,579,125**				
Class B	Various	Not rated	116,694,750		Various	Various	Quarterly
Class C	Various	Not rated	120,000,000		Various	Various	Annually
Class D	Various	Not rated	199,000,000		Various	Various	Quarterly
Total notes			**2,139,273,875**				
Arrears Reserve			0				
Subordinated Current Account			156,188,462				

Rating Sensitivity to the Collection Rates Assumptions

Security class	Current ratings	15% increase	15% decrease	20% increase	20% decrease	25% increase	25% decrease
A	A(RSA)	A(RSA)*	A(RSA)	A(RSA)*	A-(RSA)	A(RSA)*	BBB+(RSA)

Rating Sensitivity to the Write-off Assumptions

Security class	Current ratings	15% increase	15% decrease	20% increase	20% decrease	25% increase	25% decrease
A	A(RSA)	A(RSA)	A(RSA)*	A(RSA)	A(RSA)*	A-(RSA)	A(RSA)*

Rating Sensitivity to the Recovery Assumptions

Security class	Current ratings	15% increase	15% decrease	20% increase	20% decrease	25% increase	25% decrease
A	A(RSA)	A(RSA)*	A(RSA)	A(RSA)*	A(RSA)	A(RSA)*	A(RSA)

* Currently the ratings are constraint at A(RSA) (see chapter '*Rating Methodology*'). Pure mathematically, higher ratings may be possible.

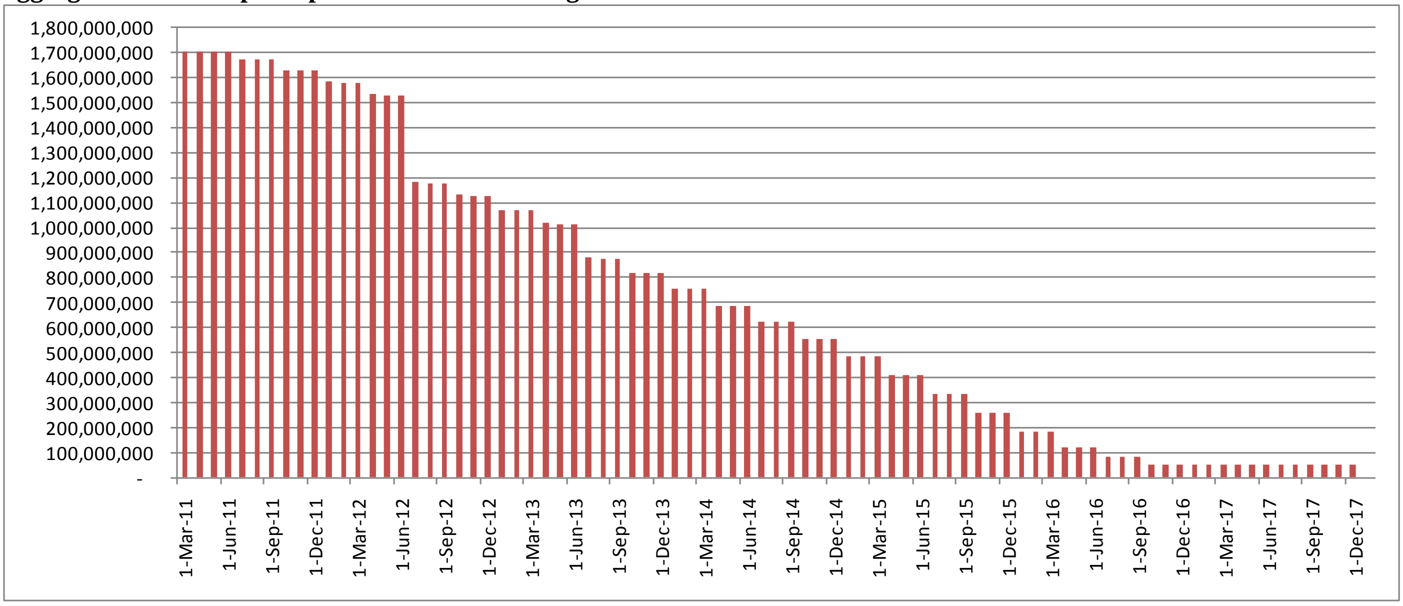
Rating Sensitivity to a Combination of Factors (Collection Rates, Write-offs and Recoveries)

Security class	Current ratings	11% increase/ 11% decrease*	15% increase/ 15% decrease*	18% increase/ 18% decrease*
A	A(RSA)	A-(RSA)	BBB+(RSA)	BBB(RSA)

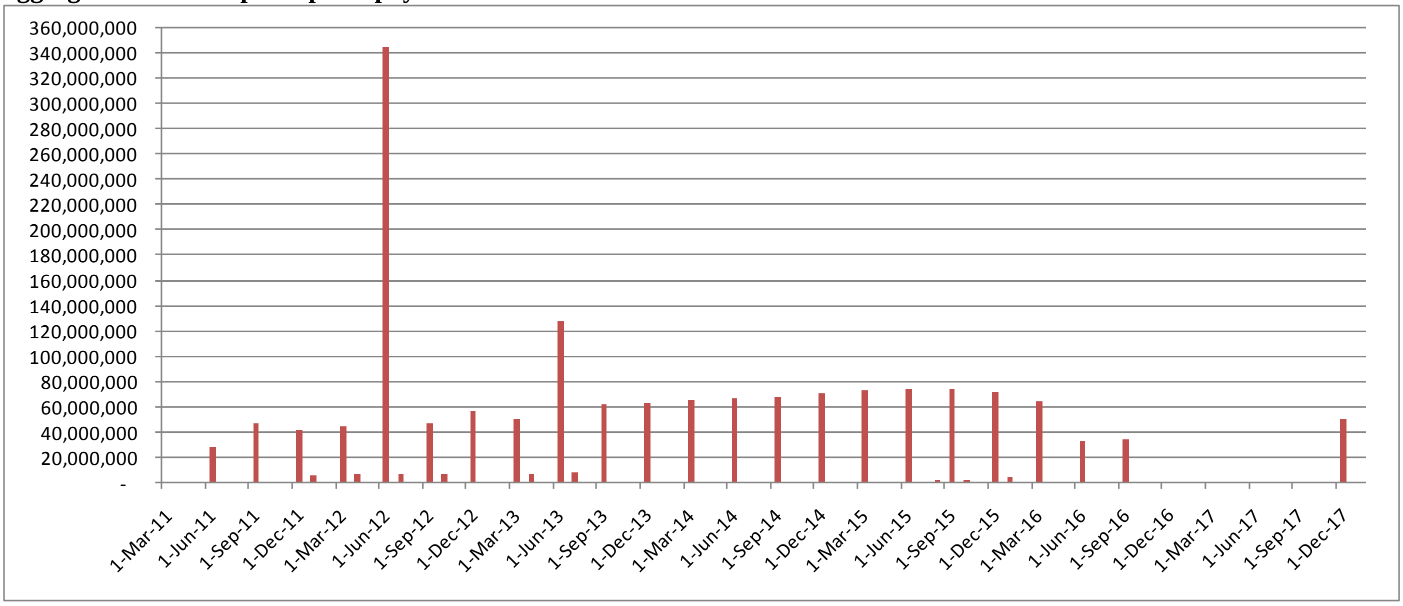
* The increase relates to the write-offs, the decrease relates to the collection rates and recoveries.

Appendix E: Scheduled Repayment Profile of the Senior Notes

Aggregate scheduled principal amount outstanding on the Senior Notes



Aggregate scheduled principal repayments on the Senior Notes



As the above picture indicates, the transaction is subject to some bullet repayments (in addition to other scheduled repayments):

June 2012:	R300mln
June 2013:	R75mln
December 2017:	R75mln

The incorporation of the Capital Redemption Reserve aims to mitigate the bullet repayment risk.

Appendix F: Portfolio Trend Analysis