

Bayport Securitisation (RF) Limited

South Africa Structured Finance Analysis – Surveillance Report

24 July 2013

Security class	Amount	Rating Scale	Rating ¹	Rating Outlook	Next review date
Class A Short Term Notes	R0.4bn	National	A1(ZA)(sf)	N/A	September 2013
Class A Long Term Notes	R2.8bn	National	A(ZA)(sf)	Negative	September 2013

Key counterparties:

Issuer:

Bayport Securitisation (RF) Ltd ("BaySec")

Originator:

Bayport Financial Services 2010 (Pty) Ltd ("BFS 2010")

Manager:

BFS 2010

Standby Administrator:

MBD Accounts Receivable Management (Pty) Ltd

Account Banks:

The Standard Bank of South Africa Ltd / Absa Bank Ltd /
First National Bank Ltd

Sponsor and Dealer:

Deutsche Bank AG, Johannesburg branch

Paying/Calculation/Transfer/Settlement Agent

The Standard Bank of South Africa Ltd

Security Trust:

The Bayport Securitisation Debenture Holders Trust,
with PT & A Trustees (Pty) Ltd acting as trustee

Arranger:

Transaction Capital Ltd

Summary of Transaction (31-05-2013):

Assets

Asset class	Lower income personal loans
Gross loans and advances	R5.62bn
Performing loans	R3.84bn
Non-performing loans	R1.79bn
Total balance bank accounts	R0.22bn
Arrears Reserve	R0.0m
Closing date	6 June 2011

Funding

Class A Notes	R3.24bn
Warehousing Facility	-
Class B Notes (Unrated)	R0.30bn
Subordinated Funding	R0.94bn

Related research:

- [Global Structured Finance Rating Criteria \(Feb '13\)](#)
- BaySec Surveillance Report (Mar '13)
- BaySec New Issuance Report (Jun '11)

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Transaction Summary

Global Credit Rating Co. ("GCR") has affirmed the *final, public* ratings of the securities (the "Senior Notes") mentioned above (please refer to Appendix B for details of the Senior Notes).

Concurrently GCR has placed the ratings accorded to the Senior Notes on Negative Rating Outlook following a review of the Transaction for the period 31 December 2012 to 31 May 2013.

Rating Panel Highlights

- The ratings of the Senior Notes have been placed on Negative Rating Outlook following the gradual slowdown in collections from the underlying loan portfolio compared to expected collections as reflected by the Collections Ratio. The ratio has dropped from 123.8% to 106.0% over the past 12 months. Monthly collections as a proportion of the gross loan book have decreased from 5.85% per month in May 2012 to 4.36% in May 2013 (a 25% decrease). This has partially been as a result of the longer term loans acquired by the Issuer. GCR has however noted the gradual deterioration in the quality of the underlying loan book and tougher market conditions as the other factors affecting collections.
- The arrear ageing distribution of the loan book provided to GCR for cash flow modeling has shown a trend in the declining quality of the underlying loan book (please refer to Appendix A for a breakdown of the loan book and other portfolio statistics). The proportion of the book in the best performing ageing bucket (the non-delinquent bucket) has decreased from 61% at Transaction Closing, to 56% in May 2012 and 44% in May 2013. The proportion of the book in BaySec's 6-12 months arrear buckets has bulked up to 33% as at 31 May 2013 compared to 25% as at 31 May 2012 and 18% at Transaction Closing. GCR has been advised by the Arranger that the bulking of the loan book into the higher arrear buckets is characteristic of a seasoning loan book however GCR is of the view that this has also been caused by the tough environment in the micro-lending industry resulting in the fall in collections.
- The Originator has significantly reduced the amount of new loans granted on a monthly basis. The 3 month rolling average disbursements as a percentage of the prior month outstanding loan book has reduced from 6.1% in May 2012 to 2.8% in May 2013. The Originator has tightened credit granting criteria in response to the tougher economic environment in line with the rest of the market. The effect of the tapering in monthly disbursements has thus seen the performance measures used to model the Transaction by GCR migrate more towards those displayed by the more seasoned underlying loan book which typically performs weaker than newer loans.
- The final public ratings accorded to the Senior Notes relate to timely payment of interest and ultimate payment of principal as opposed to timely repayment of principal.
- GCR is still of the view that in a post-enforcement scenario all Senior Noteholders will be ultimately repaid, however timely principal repayments on the Senior Notes may not be achieved. The decrease in collection levels and migration of the loan portfolio into higher arrear buckets has also lengthened the amount of time that may be taken to achieve the ultimate full repayment of the Senior Notes and this may occur after the final maturity date of the last maturing note assuming the stresses that are applied in an A(ZA)(sf) rating scenario. The decrease in collections and decline in the quality of the loan book have also started to impact the Transaction's ability to meet timely interest payments at an A(ZA)(sf) stress level, although interest is currently expected to be repaid on a timely basis. The further deterioration in collections into the medium term may have an adverse effect on the ability of BaySec to make timely interest payments assuming the stresses that are applied in an A(ZA)(sf) rating scenario and thus GCR has placed the ratings accorded to the Senior Notes on Negative Rating Outlook.
- GCR will continue to monitor the performance of the loan book and GCR has been advised by the Arranger that the collections from the loan book may rise in the near future following an increased execution of emolument attachment orders on delinquent borrowers. GCR may take further rating action if the collections from the loan pool continue to decline.
- GCR noted the Transaction's exposure to refinancing risk in the surveillance report published on 8 March 2013. The ability of the Issuer to make timely interest and principal repayments assuming the stresses that are applied in an A(ZA)(sf) rating scenario has been impacted by the reduced levels of collections raising the amount of refinancing risk of the Transaction.

¹ Note that this rating relates to (1) timely payment of interest and (2) ultimate (as opposed to timely) repayment of principal.

- BaySec did not breach any financial covenants during the review period however GCR has taken note of the reduction in the Collections Ratio and the tightening of Senior Debt Cash Flow Cover Ratio reflecting a reduced ability to meet debt payments by BaySec even though these ratios were still recorded higher than the required levels.
- BaySec issued R590m in Senior Notes during the review period and the funding has been utilised to refinance maturing debt as well as to fund the origination of new loans.
- The total amount of underlying loans as at 31 May 2013 was R5.6bn and non-performing loans classified by BaySec have been relatively stable at 31.8% of the loan book as at 31 May 2013.
- GCR analysed the Transaction by applying its Global Structured Finance Rating Criteria and a tailored stressed collections approach.

Appendix A: Portfolio Trend Analysis

Loan Portfolio Aging Distribution

	Jun 12	Jul 12	Aug 12	Sept 12	Oct 12	Nov 12	Dec 12	Jan 13	Feb 13	Mar 13	Apr 13	May 13
Current	55%	54%	55%	54%	54%	50%	50%	50%	48%	46%	45%	44%
01-30 days	6%	5%	4%	5%	5%	8%	6%	5%	6%	6%	5%	5%
31-60 days	3%	3%	3%	3%	3%	3%	4%	3%	3%	4%	4%	4%
61-90 days	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	4%	4%
91-120 days	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
121-150 days	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
151-180 days	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
181-210 days	3%	2%	3%	2%	3%	3%	3%	3%	3%	3%	3%	3%
211-240days	2%	3%	2%	3%	3%	3%	3%	3%	3%	3%	3%	3%
241-270 days	2%	2%	2%	2%	3%	3%	3%	3%	3%	3%	3%	3%
271-300 days	2%	2%	2%	2%	2%	2%	2%	3%	3%	3%	3%	3%
301-330 days	2%	2%	2%	2%	2%	2%	2%	2%	2%	3%	3%	3%
331-360 days	14%	14%	14%	16%	16%	16%	17%	17%	18%	18%	18%	19%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Other Performance Statistics

	Jun 12	Jul 12	Aug 12	Sept 12	Oct 12	Nov 12	Dec 12	Jan 13	Feb 13	Mar 13	Apr 13	May 13
Gross loans and advances	R4.25bn	R4.38bn	R4.56bn	R4.75bn	R4.94bn	R5.11bn	R5.23bn	R5.37bn	R5.42bn	R5.45bn	R5.51bn	R5.62bn
Non-performing loans ratio	29.5%	29.5%	30.0%	30.1%	30.2%	29.6%	29.5%	30.1%	29.4%	30.2%	31.0%	31.8%
Disbursements	R177m	R233m	R234m	R248m	R287m	R235m	R193m	R197m	R134m	R124m	R154m	R186m
Rolling average disbursements ¹	5.4%	5.2%	5.0%	5.4%	5.6%	5.4%	4.9%	4.1%	3.3%	2.9%	2.5%	2.8%
Collections ²	R249m	R247m	R250m	R237m	R272m	R248m	R242m	R247m	R239m	R235m	R236m	R245m
Collections Ratio	123.5%	122.8%	121.5%	117.6%	117.4%	114.6%	111.1%	108.9%	107.5%	107.5%	105.2%	106.0%
Senior Debt Cash Flow Cover ³	4.3%	3.8%	3.6%	3.8%	3.5%	3.2%	2.9%	2.9%	2.9%	2.6%	2.7%	2.6%

¹ Rolling average disbursements = 3 months rolling average of each month's disbursements as a percentage of the prior month's gross loans and advances.

² Collections = Total cash received from the loan portfolio including credit life insurance premiums.

³ Senior Debt Cash Flow Cover: means in respect of each Measurement Date, the ratio which the Free Cashflow during the corresponding calendar month bears to the Senior Debt Payment Amount for the same calendar month.

Appendix B: Capital Structure as at 31 May 2013

Security class	Stock code	Long Term Ratings*	Short Term Ratings*	Rating Outlook	Amount (ZAR)	Payment method	Coupon	Issue date	Maturity date
Class A	BAYA01	A(ZA)(sf)		Negative	251,693,598	Amortising	12.55%	31 Mar 2010	31 Mar 2016
Class A	BAYA02	A(ZA)(sf)		Negative	75,000,000	Bullet	3M JIBAR + 4.75%	31 Mar 2010	30 Jun 2013
Class A	BAYA04	A(ZA)(sf)		Negative	11,420,255	Bullet	11.48%	31 Mar 2010	30 Sep 2015
Class A	BAYA05	A(ZA)(sf)		Negative	18,846,558	Amortising	11.45%	31 Aug 2010	30 Sep 2015
Class A	BAYA06	A(ZA)(sf)		Negative	404,917,085	Amortising	3M JIBAR + 4.75%	27 Sep 2010	30 Sep 2016
Class A	BAYA07	A(ZA)(sf)		Negative	20,154,701	Amortising	11.36%	30 Sep 2010	31 Dec 2015
Class A	BAYA08	A(ZA)(sf)		Negative	50,000,000	Amortising	11.78%	25 Oct 2010	31 Dec 2017
Class A	BAYA09	A(ZA)(sf)		Negative	43,558,960	Bullet	3M JIBAR + 5%	15 Nov 2010	31 Dec 2015
Class A	BAYA10	A(ZA)(sf)		Negative	23,180,738	Amortising	3M JIBAR + 5%	06 Dec 2010	31 Dec 2015
Class A	BAYA11	A(ZA)(sf)		Negative	38,245,321	Amortising	3M JIBAR + 5%	13 Dec 2010	31 Mar 2016
Class A	BAYA12	A(ZA)(sf)		Negative	13,284,659	Amortising	11.005%	03 Jan 2011	31 Mar 2016
Class A	BAYA13	A(ZA)(sf)		Negative	53,612,865	Amortising	12.07%	12 Jan 2011	31 Mar 2016
Class A	BAYA14	A(ZA)(sf)		Negative	7,423,168	Amortising	11.48%	10 Mar 2011	30 Sep 2015
Class A	BAYA15	A(ZA)(sf)		Negative	71,324,193	Amortising	11.53%	31 Aug 2011	30 Jun 2016
Class A	BAYA16	A(ZA)(sf)		Negative	7,818,564	Amortising	10.38%	14 Jun 2011	30 Sep 2016
Class A	BAYA17	A(ZA)(sf)		Negative	62,432,395	Amortising	3M JIBAR + 4.45%	12 Oct 2011	30 Sep 2016
Class A	BAYA18	A(ZA)(sf)		Negative	78,040,493	Amortising	3M JIBAR + 4.45%	21 Oct 2011	30 Sep 2016
Class A	BAYA19	A(ZA)(sf)		Negative	107,206,271	Amortising	3M JIBAR + 4.45%	30 Nov 2011	31 Dec 2016
Class A	BAYA20	A(ZA)(sf)		Negative	86,567,405	Amortising	3M JIBAR + 3.90%	30 Nov 2011	30 Sep 2014
Class A	BAYA22	A(ZA)(sf)		Negative	79,538,091	Amortising	3M JIBAR + 3.80%	30 Apr 2012	30 Sep 2015
Class A	BAYA23	A(ZA)(sf)		Negative	264,323,900	Amortising	10.51%	2 Jul 2012	30 Jun 2017
Class A	BAYA24	A(ZA)(sf)		Negative	95,000,000	Bullet	11.09%	2 Jul 2012	30 Jun 2017
Class A	BAYA25	A(ZA)(sf)		Negative	45,704,178	Amortising	3M JIBAR + 4.15%	15 Aug 2012	30 Jun 2017
Class A	BAYA26	A(ZA)(sf)		Negative	185,000,000	Amortising	10.225%	1 Oct 2012	2 Oct 2017
Class A	BAYA27	A(ZA)(sf)		Negative	102,076,497	Bullet	3M JIBAR + 3.50%	27 Sep 2012	30 Sep 2015
Class A	BAYA28		A1(ZA)(sf)	n/a	200,000,000	Bullet	3M JIBAR + 1.65%	1 Oct 2012	30 Sep 2013
Class A	BAYA29	A(ZA)(sf)		Negative	51,723,912	Bullet	3M JIBAR + 3.50%	9 Oct 2012	31 Dec 2015
Class A	BAYA30	A(ZA)(sf)		Negative	139,046,628	Amortising	9.28%	14 Dec 2012	31 Dec 2015
Class A	BAYA31	A(ZA)(sf)		Negative	60,000,000	Bullet	3M JIBAR + 4.30%	14 Dec 2012	31 Dec 2018
Class A	BAYA32	A(ZA)(sf)		Negative	75,000,000	Bullet	10.108%	28 Feb 2012	31 Dec 2018
Class A	BAYA33	A(ZA)(sf)		Negative	15,000,000	Bullet	3M JIBAR + 4.00%	25 Mar 2013	31 Mar 2018
Class A	BAYA34	A(ZA)(sf)		Negative	100,000,000	Bullet	3M JIBAR + 4.25%	25 Mar 2013	31 Mar 2018
Class A	BAYA35	A(ZA)(sf)		Negative	50,000,000	Bullet	3M JIBAR + 4.25%	25 Mar 2013	31 Mar 2018
Class A	BAYA36	A(ZA)(sf)		Negative	50,000,000	Amortising	3M JIBAR + 3.88%	2 Apr 2013	31 Mar 2018
Class A	BAYA37	A(ZA)(sf)		Negative	100,000,000	Bullet	3M JIBAR + 3.88%	2 Apr 2013	31 Mar 2016
Class A	BAYA38		A1(ZA)(sf)	n/a	200,000,000	Bullet	3M JIBAR + 1.65%	2 Apr 2013	31 Mar 2014
Subtotal					3,237,140,435				
Warehousing facility					-				
Total Senior debt					3,237,140,435				
Class B	BAYB02	Unrated		n/a	18,396,135	Amortising	15.55%	31 Mar 2010	31 Mar 2016
Class B	BAYB03	Unrated		n/a	55,000,000	Bullet	15.36%	30 Nov 2011	31 Dec 2016
Class B	BAYB04	Unrated		n/a	76,659,380	Amortising	14.23%	2 Apr 2012	31 Mar 2017
Class B	BAYB05	Unrated		n/a	50,000,000	Bullet	3M JIBAR + 7.50%	15 Aug 2012	30 Jun 2019
Class B	BAYB06	Unrated		n/a	30,000,000	Bullet	3M JIBAR + 7.50%	14 Dec 2012	31 Dec 2019
Class B	BAYB07	Unrated		n/a	20,000,000	Bullet	3M JIBAR + 7.50%	22 Feb 2013	31 Mar 2020
Class B	BAYB08	Unrated		n/a	50,000,000	Bullet	3M JIBAR + 8.00%	25 Mar 2013	30 Sep 2020
Total Class B					300,055,515				
Class C	BAYC1U	Unrated		n/a	120,000,000	Bullet	Based on profit	6 Jun 2011	31 Dec 2016
Class D	Various	Unrated		n/a	199,000,000	Bullet	Various	6 Jun 2011	30 Jun 2035
Total Debt					3,856,195,950				

* The 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.

SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the rating is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

The Arranger participated in the rating process via face-to-face meetings, teleconferences and other written correspondence. Furthermore, the quality of info received was considered adequate and has been independently verified where possible.

The rating/s above were solicited by the Arranger of the Transaction; GCR has been compensated for the provision of the ratings.

The credit rating/s has been disclosed to the Arranger with no contestation of the rating.

The information received from the Arranger to accord the credit ratings included the Issuer's audited annual financial statements for the year ending 30 September 2012; management accounts for the month ending 31 May 2013; portfolio performance data relating to the underlying loan book; monthly investor reporting packs; and the transaction documents together with the relevant legal and tax opinions.

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