



## CREDIT RATING ANNOUNCEMENT

GCR affirms the credit ratings of the Notes issued by Grayston Drive Autos (RF) Limited subsequent to a ZAR150M tap issuance

### Rating action

Johannesburg, 27 March 2024 – GCR Ratings (GCR) has affirmed the AAA<sub>(ZA)(sf)</sub> credit ratings of the Class A1, A2, B1 and B2 Notes of Grayston Drive Autos (RF) Limited (the Issuer or Grayston Drive) subsequent to a tap issuance of ZAR120M of Class A2 Notes and ZAR30M of Class B2 Notes on 27 March 2024:

Rated Entity / Issue	Amount	Rating class	Rating scale	Rating	Outlook / Watch	Rating Action
Class A1	ZAR600,000,000	Long-Term Issue	National	AAA <sub>(ZA)(sf)</sub>	Stable	Affirmed
Class A2	ZAR600,000,000	Long-Term Issue	National	AAA <sub>(ZA)(sf)</sub>	Stable	Affirmed
Class B1	ZAR150,000,000	Long-Term Issue	National	AAA <sub>(ZA)(sf)</sub>	Stable	Affirmed
Class B2	ZAR150,000,000	Long-Term Issue	National	AAA <sub>(ZA)(sf)</sub>	Stable	Affirmed

Prior to the new issuance, the Issuer had an unrated Subordinated Loan of ZAR218,180,669 (\$11.5M) which has been increased to a total of ZAR225,412,792. This increase was used to fund the Liquidity and Redraw Reserves up to their new larger required amounts and to purchase additional Participating Assets.

The credit ratings accorded to the Class A1 and A2 Notes relate to timely payment of interest and ultimate payment of principal by Final Maturity Date. The ratings accorded to the Class B1 and B2 Notes relate to ultimate payment of both interest and principal by Final Maturity Date. The ratings exclude an assessment of the ability of the Issuer to pay either any (early repayment) penalties or any default interest rate penalties.

The ratings are based on an analysis of historical quantitative information and the Transaction structure presented in the Transaction Documentation.

## Rating Rationale

On 31 July 2023, the Issuer issued ZAR750M of Notes. Proceeds of the issuance and the Subordinated Loan were used to acquire a portfolio of Auto Instalment Sale Agreements (ISAs) originated by Investec Bank Limited (Investec) and their Related Security which includes right to payment in respect of the insurance policies. A new issuance of a combined ZAR600M of A2 and B2 Notes took place on 15 March 2024.

Another tap issuance of an additional ZAR150M has taken place on 27 March 2024.

The proceeds of the tap issuances were used to purchase additional Participating Assets. The additional Subordinated Loan amount was used to increase the Liquidity and Redraw Reserves to their new required limits and to acquire further additional Participating Assets. GCR, accordingly updated the Transaction Capital Structure in its model.

In addition, GCR updated its analysis of cumulative defaults, extrapolated default curves and calculated a weighted average extrapolated cumulative default rate of 2.23% (prior 2.17%). The weighted standard deviation of extrapolated cumulative defaults of yearly originations is 0.39% (prior 0.37%). GCR used the extrapolated cumulative default rate plus a volatility adjustment of 0.5x weighted standard deviation to reach a model base case cumulative default rate of 2.43% (prior 2.35%). When GCR compared the covenanted borrower concentration limits to the base case default rate (stressed at different rating levels), the base case default rate times the relevant stress multiple was higher than the borrower concentration limits at all rating levels, as such the base case default rate was maintained.

Modelled recovery rates were also updated with the most recent data. The results showed average recovery rates of 86.14% (prior 86.99%) for new vehicles and 79.14% (prior 78.52%) for used vehicles, which were adjusted downward by half the standard deviation of the terminal values being 5.07% (prior 4.75%) for new vehicles and 7.10% (prior 7.03%) for used vehicles, resulting in adjusted recovery rates of 83.60% (prior 84.61%) for new vehicles and 75.59% (prior 75.00%) for used vehicles. Because of the difference in the recovery rates for new/used vehicles the adjusted rates were combined in accordance with the new/used covenant of 45%/55% resulting in a base case recovery rate of 79.20% (prior 79.33%). The base case recovery rate is further stressed as the rating level increases. At a AAA<sub>(ZA)</sub>(sf) rating level, a haircut of 35% is applied, resulting in a recovery rate of 51.48% (prior 51.56%).

For the base case prepayment rate, modelled prepayments equated to an average annualised monthly historical gross prepayment less 75% of average Redraws over the period since January 2011 to September 2023 (as provided to GCR), plus a volatility factor of 0.5x standard deviation. This resulted in a base case prepayment rate of 5.74% (prior 6.03%).

GCR modelled a swap where the issuer pays the Swap Counterparty Prime less a swap margin, and in turn the Swap Counterparty pays the Issuer 3-month JIBAR. The notional amount for the Swap was previously

based on the outstanding Participating Assets. The notional amount has been changed and is now equal to the Notes outstanding balance. GCR modelled the swap accordingly.

The minimum required amount on the Liquidity Reserve was increased from ZAR37.5M to ZAR41.7M and GCR modelled this accordingly.

The rating outcomes indicate the highest rating levels at which the various Classes of Notes' interest and principal is paid in full in all modelled scenarios that relate to such rating. The modelled results show that the expected issuance would have no impact on the existing ratings.

## Analytical contacts

<b>Primary analyst</b>	Kyle Bales	Senior Structured Finance and Securitisation Analyst
Johannesburg, ZA	KyleB@GCRratings.com	+27 11 784 1771
<b>Committee chair</b>	Yehuda Markovitz	Deputy Head: Structured Finance and Securitisation
Johannesburg, ZA	YehudaM@GCRratings.com	+27 11 784 1771

## Related criteria and research

Criteria for the GCR Rating Scales, Symbols & Definitions, May 2023

Criteria for GCR Ratings Framework, Jan 2022

Criteria for Rating Consumer Asset Backed Securities, Sep 2018

Criteria for Rating Financial Institutions, May 2019

Criteria for Rating Structured Finance Transactions, Sep 2018

Asset-Backed Securities Cash Flow Model, Sep 2018

## Ratings history

### Grayston Drive Autos (RF) Limited

Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Class A1	Initial	National	AAA <sub>(ZA)(sf)</sub>	Stable	July. 2023
Class A1	Last	National	AAA <sub>(ZA)(sf)</sub>	Stable	Mar. 2024
Class A2	Initial & Last	National	AAA <sub>(ZA)(sf)</sub>	Stable	Mar. 2024
Class B1	Initial	National	AAA <sub>(ZA)(sf)</sub>	Stable	July. 2023
Class B1	Last	National	AAA <sub>(ZA)(sf)</sub>	Stable	Mar. 2024
Class B2	Initial & Last	National	AAA <sub>(ZA)(sf)</sub>	Stable	Mar. 2024

## Glossary

Account Bank	A bank where the transaction account is held.
Administrator	A transaction appointed agent responsible for the managing of a Conduit or a Special Purpose Vehicle. The responsibilities may include maintaining the bank accounts, making payments and monitoring the transaction performance.
Advance	A lending term, to transfer funds from the creditor to the debtor.
Agreement	A negotiated and usually legally enforceable understanding between two or more legally competent parties.
Arrears	An overdue debt, liability or obligation. An account is said to be 'in arrears' if one or more payments have been missed in transactions where regular payments are contractually required.

Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Benefits	Financial reimbursement and other services provided to insureds by insurers under the terms of an insurance contract.
Borrower	The party indebted or the person making repayments for its borrowings.
Capital	The sum of money that is invested to generate proceeds.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Cash	Funds that can be readily spent or used to meet current obligations.
Claim	1. A request for payment of a loss, which may come under the terms of an insurance contract (insurance). 2. A formal request or demand (corporate finance).
Concentrations	A high degree of positive correlation between factors or excessive exposure to a single factor that share similar demographics or financial instrument or specific sector or specific industry or specific markets.
Contract	An agreement by which an insurer agrees, for a consideration, to provide benefits, reimburse losses or provide services for an insured. A 'policy' is the written statement of the terms of the contract.
Covenant	A provision that is indicative of performance. Covenants are either positive or negative. Positive covenants are activities that the borrower commits to, typically in its normal course of business. Negative covenants are certain limits and restrictions on the borrowers' activities.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Credit	A contractual agreement in which a borrower receives something of value now, and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company
Creditor	A credit provider that is owed debt obligations by a debtor.
Default	A default occurs when: 1.) The Borrower is unable to repay its debt obligations in full; 2.) A credit-loss event such as charge-off, specific provision or distressed restructuring involving the forgiveness or postponement of obligations; 3.) The borrower is past due more than typically 90 days on any debt obligations as defined in the transaction documents; 4.) The obligor has filed for bankruptcy or similar protection from creditors.
Eligibility Criteria	Limitations imposed on the type and quality of assets that can be sold by the Originator / Servicer into the Securitisation vehicle which ensure the transaction will track the performance of historical data analysed as closely as possible.
Enforcement	To make sure people do what is required by a law or rule et cetera.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an individual or company's vulnerability to various risks
Facility	The grant of availability of money at some future date in return for a fee.
Guarantee	An undertaking in writing by one person (the guarantor) given to another, usually a bank (the creditor) to be answerable for the debt of a third person (the debtor) to the creditor, upon default of the debtor.
Guaranteed Investment Contract	A contract that guarantees the principal and interest repayment over a period of time. Typically GIC are used in relation to a bank account.
Hedge	A form of risk management aimed at mitigating financial loss or other adverse circumstances. May include taking an offsetting position in addition to an existing position. The correlation between the existing and offsetting position is negative.
Indemnity	A security or protection against a loss or other financial burden.

Instalment	Payment made to honour obligations in regards to a credit agreement in the following credited order: 1.) Satisfy the due or unpaid interest charges; 2.) Satisfy the due or unpaid fees or charges; and To reduce the amount of the principal debt.
Insurance	Provides protection against a possible eventuality.
Interest Rate	The charge or the return on an asset or debt expressed as a percentage of the price or size of the asset or debt. It is usually expressed on an annual basis.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Issue Date	The date of issue of a new security. Often used as the date from which interest begins to accrue.
Issuer	The party indebted or the person making repayments for its borrowings.
Junior	A security that has a lower repayment priority than senior securities.
Legal Opinion	An opinion regarding the validity and enforceable of a transaction's legal documents.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Loan	A sum of money borrowed by a debtor that is expected to be paid back with interest to the creditor. A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan. Registration is a prerequisite for the existence of any mortgage loan. A mortgage can be registered over either a corporeal or incorporeal property, even if it does not belong to the mortgagee. Also called a Mortgage bond.
Loss Given Default	This is an estimate of the amount of the exposure at default that will not be recovered. It also includes other costs such as legal costs.
Loss	1. A tangible or intangible, financial or non-financial loss of economic value. 2. The happening of the event for which insurance pays (insurance).
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Noteholder	Investor of capital market securities.
Obligation	The title given to the legal relationship that exists between parties to an agreement when they acquire personal rights against each other for entitlement to perform.
Origination	A process of creating assets.
Payment Date	The date on which the payment of a coupon or dividend is made.
Pool	An organisation of insurers or reinsurers through which particular types of risk are underwritten and premiums, losses and expenses are shared in agreed-upon amounts.
Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
Prepayment Rate	The rate of prepayment in relation to the pool of obligations. Also called prepayment speed.
Prepayment	Any unscheduled or early repayment of the principal of a mortgage/loan.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
Proceeds	Funds from issuance of debt securities or sale of assets.
Ranking	A priority applied to obligations in order of seniority.

Recovery	The action or process of regaining possession or control of something lost. To recoup losses.
Redemption	The repurchase of a bond at maturity by the issuer.
Repayment	Payment made to honour obligations in regards to a credit agreement in the following credited order: 3.) Satisfy the due or unpaid interest charges; 4.) Satisfy the due or unpaid fees or charges; and 5.) To reduce the amount of the principal debt.
Reserve	(1) An amount representing actual or potential liabilities kept by an insurer to cover debts to policyholders. (2) An amount allocated for a special purpose. Note that a reserve is usually a liability and not an extra fund. On occasion a reserve may be an asset, such as a reserve for taxes not yet due.
Reserves	A portion of funds allocated for an eventuality.
Secured Creditor	A creditor that has specific assets pledged as collateral that will receive the proceeds in the event of default.
Securitisation	A process of repackaging portfolios of cash-flow producing financial instruments into securities for sale to third parties.
Security Agreement	A negotiated and usually legally enforceable understanding between two or more legally competent parties that specifies the collateral held as security.
Security	One of various instruments used in the capital market to raise funds.
Senior	A security that has a higher repayment priority than junior securities.
Servicer	A transaction appointed agent that performs the servicing of mortgage loans, loan or obligations.
Short Term	Current; ordinarily less than one year.
Standard Deviation	An indication of risk amongst the dispersion of values. Higher value indicates greater risk.
Stop Purchase Event	An event caused by deteriorating performance of a transaction or environmental changes that would stop the purchasing of new assets into the transaction.
Subordinated Loan	A loan typically given by the Issuer to the securitisation vehicle that is more junior than a junior tranche.
Timely Payment	The principal debt, interest, fees and expenses being repaid promptly in accordance with the contractual obligation.
Transaction	A transaction that enables an Issuer to issue debt securities in the capital markets. A debt issuance programme that allows an Issuer the continued and flexible issuance of several types of securities in accordance with the programme terms and conditions.
Ultimate Payment	A measure of the principal debt, interest, fees and expenses being repaid over a period of time determined by recoveries.
Weighted Average	An average resulting from the multiplication of each component by a factor reflecting its importance or, relative size to a pool of assets or liabilities.
Weighted	The weight that a single obligation has in relation to the aggregated pool of obligations. For example, a single mortgage principal balance divided by the aggregated mortgage pool principal balance.
Yield	Percentage return on an investment or security, usually calculated at an annual rate.

### Salient points of accorded ratings

GCR affirms that a.) no part of the ratings process was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit ratings have been disclosed to Grayston Drive Autos (RF) Limited.

The ratings above were solicited by, or on behalf of, the rated entities, and therefore, GCR has been compensated for the provision of the ratings.

The rated entity participated in the rating process via in person interaction and/or via online virtual interaction and/or via electronic and/or verbal communication and correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from the rated entity and other reliable third parties to accord the credit ratings included:

- Pool cut, 31 December 2023;
- Capital Structure;
- Historical Default Data, 2011 to 2023;
- Historical LGD data, 2011 to 2023;
- Historical Prepayment date from January 2011 to September 2023;
- Senior Expenses, October 2023;
- Other miscellaneous data and presentations;
- Executed APS's and Transaction documentation;
- Exchange Rate Source: <https://www.bloomberg.com/markets/currencies> ZAR18.9950:1\$ as at 22 March 2024



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