

South Africa/ABCP
Special Report

**South African ABCP Bulletin –
2007**

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■ **Summary**

This special report is an update of the South African ABCP bulletin published by Fitch Ratings in January 2006 and addresses developments in the South African ABCP market over the past year.

2007 saw the introduction of a new hybrid ABCP conduit, iVuzi Investments Limited (iVuzi) sponsored and managed by Rand Merchant Bank, a division of First Rand Bank. CP issued by iVuzi is rated 'F1+'(zaf) by Fitch.

In the agency's opinion, the conduits that have been launched in South Africa to date use some of the latest ABCP global technology, owing largely to two factors: first, the sponsor banks in South Africa are structuring conduits within a strict regulatory environment, which encourages innovation to make the vehicles as economical and efficient as possible; second, bankers in South Africa are taking the 'fast track' to sophisticated conduits, using the 25-year structuring history of ABCP in the US and Europe as a platform and tailoring this technology to local market conditions.

Fitch's methodology for asset-backed commercial paper (ABCP) is explained in detail in its criteria piece "*Global Asset-Backed Commercial Paper Criteria*", dated 12 February 2007 and also "*Using the Default VECTOR ZAF Model to rate Securities-Backed ABCP in South Africa*", published in May 2007, both available at www.fitchratings.com. This report does not look at the broad characteristics of ABCP. Parties interested in the broad characteristics of ABCP are referred to the report titled: "*South African ABCP Bulletin – 2005*", dated 10 January 2006 and also the criteria piece referred to above. This report focuses on the growth of the South African ABCP market in the last year.

An ABCP conduit is a bankruptcy-remote special-purpose vehicle (SPV) that issues commercial paper to finance the purchase of various assets, classified either as financial or rated securities. ABCP is short-term debt, generally limited to a tenor of 364 days or less, and issued either on an interest-bearing or discount basis. Credit enhancement and liquidity support mechanisms are of key importance in ABCP conduits.

■ **Impact of the Global Credit Crunch on the SA ABCP Market**

The global financial markets experienced a huge liquidity crisis in the second half of 2007. This was mainly driven by the performance of US subprime mortgages. This crisis affected a lot of conduits in the US and Europe which were directly or indirectly exposed to the subprime market. South Africa was largely isolated from this crisis because there is no subprime mortgage market in South Africa. South African conduits were protected because they do not have any exposure to the US/European subprime mortgages. These conduits only invest in South African assets. Also, the tight regulatory framework which governs the South African financial system played a major role in protecting the rest of the South African financial markets from the global credit problems.

The South African term securitisation market was however affected to some degree compared to the ABCP market. Recently, South African issuers have started tapping into the European investor base by placing some of the paper offshore. All the issuers who wanted to place securitisation paper in the European market had to put their transactions on hold because of the liquidity problems in Europe. It was expected that 2008 would bring more international issuance. Due to the credit crisis this is now unlikely during the first half of 2008 at least. As strong asset origination continues, this pent up demand is now expected to be financed through conduits rather than internationally.

■ **VECTOR ZAF**

In 2005, Fitch Ratings launched its proprietary VECTOR CP model to determine levels of programme-wide credit enhancement (PWCE) for securities backed ABCP conduits. VECTOR CP replaced the previous obligor coverage, or 'matrix' approach, which had been used to calculate PWCE. The new approach is based on Fitch's VECTOR model that was originally created to rate collateralised debt obligations (CDOs) and was adapted to take into account the short-term nature of ABCP. The model allows a more sophisticated Monte Carlo-based approach to calculating PWCE, taking into account a portfolio's characteristics (such as the number of securities in a portfolio, the asset class mix, the ratings and the correlation between the securities) and credit quality.

The VECTOR CP model could not be applied to South Africa because of the difficulties concerning the national rating scale. These difficulties have now been addressed with the launch of the VECTOR ZAF model, which has been tailored uniquely to the South African market. The VECTOR ZAF model is

simply the VECTOR CP model adapted to run on the national South African scale. All inputs into the VECTOR ZAF model are the same as inputs into the VECTOR CP model and the same global criteria underlies its use.

The difference between the models is the rating scale used; VECTOR CP is based on international ratings and therefore international default probabilities. However, South Africa uses a national rating scale (denoted by a 'zaf' appendage). South African conduits are rated on the national rating scale and all securities purchased by the conduits are either rated or credit assessed according to the national rating scale. It would therefore be inappropriate to use a model based on international ratings to analyse these programmes. VECTOR ZAF overcomes this by converting between national and international rating scales.

■ **National Scale Ratings**

Fitch's National Ratings were developed primarily for use in emerging markets with international sovereign ratings significantly below 'AAA'. They are not based on default history or probability but indicate a relative creditworthiness in a particular sovereign only.

Under the National Rating scale, a 'AAA' Long-Term National Rating is assigned to the best credit within that country, relative to which all other credits are rated. Powers of taxation and foreign exchange control will often render the sovereign the best credit risk in a country, as is currently the case in South Africa. However, such powers are not limitless, especially in emerging markets, and Fitch has established criteria whereby entities may be assigned ratings above the sovereign. The sovereign therefore cannot automatically be assumed to be 'AAA' on a National scale.

With a complete range of notches starting at 'AAA(nat)' on a separate National scale, National Ratings avoid the bunching of international ratings at the often low, sovereign ceiling, permitting better credit differentiation. These ratings are aimed primarily at domestic investors in local currency issues, but, unlike international local currency ratings, National Ratings are country specific, identified by a unique country suffix - in the case of South Africa, '(zaf)'. (For a more detailed explanation of Fitch's National scale rating methodology see "*National Ratings: Methodology Update*", dated 25 September 2002 and available at www.fitchratings.com).

■ **South African ABCP Conduits**

All eight Fitch-rated conduits in South Africa carry National scale ‘(zaf)’ ratings: for an explanation of these ratings, please see the section above.

The eight conduits rated by Fitch to date in South Africa are:

- Asset Backed Arbitrated Securities (Pty) Ltd (ABACAS), sponsored and managed by Absa Capital, a division of ABSA Bank Limited (‘AAA/F1+(zaf)’);
- Blue Titanium Conduit Limited (Blue Titanium), sponsored and managed by The Standard Bank of South Africa Limited (SBSA) (‘AA+/F1+(zaf)’);
- iNdwa Investments Ltd (iNdwa), sponsored and managed by Rand Merchant Bank, a division of FirstRand Bank Limited (‘AA+/F1+(zaf)’);
- iVuzi Investments Ltd (iVuzi), sponsored and managed by Rand Merchant Bank, a division of FirstRand Bank Limited (‘AA+/F1+(zaf)’);
- Sanlam Home Loans 102 (Pty) Ltd sponsored and managed by Absa Capital;
- Sanlam Personal Loans 102 (Pty) Ltd sponsored and managed by Absa Capital;
- Synthesis Funding Limited (Synthesis), sponsored and managed by Nedbank Limited (‘AA-/F1+(zaf)’); and
- The Thekwini Warehousing Conduit (Pty) Ltd sponsored and managed by SBSA.

Of the eight conduits, three are single seller conduits (Sanlam Home Loans 102, Sanlam Personal Loans 102 and Thekwini Warehousing Conduit), one is a segregated multi-seller conduit (ABACAS) and the rest are hybrid conduits.

Blue Titanium Conduit Limited

This was the first ABCP conduit in South Africa and was rated by Fitch in July 2002. Blue Titanium is a hybrid conduit and, as such, can purchase both rated securities and financial assets. ‘F1+(zaf)’-rated CP with a maximum tenor of 364 days may be issued up to the programme limit of ZAR20bn. As at end-November 2007, Blue Titanium had ZAR12.0bn of outstanding CP, compared with ZAR10.33bn in November 2006.

In December 2004, Blue Titanium amended its transaction documentation to allow it to size for PWCE at 10% against financial assets only.

Previously, Blue Titanium had sized for PWCE against rated securities as well as financial assets. This amendment brings Blue Titanium in line with South Africa’s other hybrid ABCP conduits and is consistent with Fitch’s ABCP criteria in this regard. Blue Titanium continues to determine PWCE for rated securities in accordance with the rated securities matrix.

External liquidity support, equating to 100% of the face value of the outstanding CP, is provided by transaction-specific liquidity loan agreements (LLAs). LLAs are 364-day revolving, renewable facilities provided by ‘F1+(zaf)’ rated counterparties.

Asset Backed Arbitrated Securities (Pty) Ltd (ABACAS)

ABACAS is an asset-backed, segregated issuance programme structured to issue a number of distinct series ZAR-denominated notes up to a programme limit of ZAR15bn.

The segregation between different series is achieved primarily through limited-recourse and non-petition covenants in all documents which prohibits creditors from one series having access to the proceeds of any other series’ assets. Each series is also supported by its own security structure, including a series-specific security SPV.

ABACAS has four series: ABACAS Premier Series (Series 1), ABACAS Global Corporate Series (Series 2), ABACAS Latitude Series (Series 3) and ABACAS Horizon Series (Series 4), the first two of which, rated by Fitch, are discussed below.

ABACAS Premier Series (Series 1)

ABACAS Premier Series (Series 1) (ABACAS Series 1) may issue ‘F1+(zaf)’-rated CP with a maximum tenor of 186 days. It may only purchase ZAR-denominated debt securities rated at least ‘AA-(zaf)’. For this reason, no PWCE is available to ABACAS Series 1. However, should any underlying asset be downgraded below ‘AA-(zaf)’, the ‘F1+(zaf)’ rating on the CP would no longer be supported. In such an event, the rating of the CP would be downgraded unless the asset was removed or replaced with another appropriately rated one.

Series-specific liquidity facilities are provided by ‘F1+(zaf)’ rated counterparties and are sized to cover 100% of the aggregate face value of the outstanding CP.

As at end-November 2007, ABACAS Series 1 had ZAR3.813bn of outstanding CP, compared with ZAR3.996bn at the same time in 2006.

ABACAS Global Corporate Series (Series 2)

ABACAS Global Corporate Series (Series 2) (ABACAS Series 2) may also issue 'F1+(zaf)' rated CP with a maximum tenor of 186 days and may purchase both ZAR-denominated debt securities and credit-linked notes rated at least 'AA-(zaf)'. In contrast to ABACAS Series 1, Series 2 has a credit enhancement facility to provide credit enhancement against assets whose ratings fall below 'AA-(zaf)'.

A series-specific liquidity facility is provided by 'F1+(zaf)' rated counterparties and is sized to cover 100% of the aggregate face value of the outstanding CP, less the face value of assets maturing at least two days prior to an equal face value of CP.

As at end-November 2007, ABACAS Series 2 had ZAR2.67bn of outstanding CP compared with ZAR3.10bn in November 2006.

iNdwa Investments Limited

iNdwa is a hybrid ABCP programme structured to issue CP to fund the purchase of ZAR-denominated financial assets and rated securities up to a programme limit of ZAR15bn. As at end-November 2007, iNdwa had ZAR11,775bn of outstanding CP, compared to ZAR12,548bn at the same time last year.

iNdwa employs an early redemption feature whereby the conduit will pay noteholders the present value of the CP less proportionate losses following an event of default. On this basis, the conduit's maximum exposure at any one time is the payment of the present value of the CP. PWCE is sized at 5% of the present value of financial assets and in accordance with VECTOR ZAF for rated securities. The dynamic programme-wide credit enhancement is specific to rated securities only and reflects a portfolio's changing credit quality over time. For securities rated below 'AA-' iNdwa will dispose of such securities within 15 business days for an amount not less than the present value of such rated securities.

Liquidity is provided by 'F1+(zaf)' rated counterparties and is sized to cover 100% of the face value of the outstanding CP less:

- The value of assets maturing at least two days before an equal face value of CP; and
- Cash actually held.

iNdwa has a make-whole facility to ensure that any amount received by the issuer via prepayments will be sufficient to redeem maturing CP.

iVuzi Investments Limited

iVuzi is a hybrid ABCP programme structured to issue CP to fund the purchase of ZAR-denominated

financial assets and rated securities up to a programme limit of ZAR15bn. iVuzi may issue CP with a maximum tenor of 364 days. iVuzi will issue CP with different credit ratings and each series of CP will rank in accordance with the priority established by credit ratings.

iVuzi employs an early redemption feature whereby the conduit will pay noteholders the present value of the CP less proportionate losses following an event of default. On this basis, the conduit's maximum exposure at any one time is the payment of the present value of the CP. PWCE is sized at 10% of the present value of financial assets, plus the dynamic amount which fluctuates based on the credit quality of the underlying portfolio of rated securities. The dynamic programme-wide credit enhancement is specific to rated securities only and reflects a portfolio's changing credit quality over time. PWCE for rated securities will be calculated by VECTOR ZAF. For rated securities, PWCE will be provided by subordinated notes and where unfunded, by a PWCE facility with RMB as master PWCE provider. The PWCE for rated securities will be tranching. Each tranche will not be drawn upon until the tranche with a lower credit risk rating has been exhausted.

Liquidity is provided by 'F1+(zaf)' rated counterparties and is sized to cover 100% of the face value of the outstanding CP less:

- The value of assets maturing at least two days before an equal face value of CP; and
- Cash actually held.

iVuzi has a make-whole facility to ensure that any amount received by the issuer via prepayments will be sufficient to redeem maturing CP.

As at end-November 2007, iVuzi had ZAR5,249bn of outstanding CP.

Synthesis Funding Limited

Synthesis is also a hybrid conduit. It may issue 'F1+(zaf)' rated CP with a maximum tenor of 364 days up to the programme limit of ZAR15bn. As at end-November 2007, Synthesis had ZA9,069bn of outstanding CP compared with ZAR7,100bn at that time in 2006.

PWCE is provided by 'F1+(zaf)' rated counterparties and is equal to at least 5% of the book value of financial assets and a dynamic percentage of the book value of rated securities, as calculated by the VECTOR ZAF.

Synthesis has an early redemption feature whereby CP may be redeemed at less than its face value on

the occurrence of an event of default. The final settlement amount will be determined using a present value calculation.

Liquidity will also be provided by 'F1+(zaf)' rated counterparties and sized to cover 100% of the face value of outstanding CP. However, on the occurrence of an event of default and the early redemption of CP at its present value, the present value rather than the face value of the outstanding CP will be used to calculate the minimum liquidity commitment.

To mitigate the risk of negative carry if an asset prepays, a prepayment facility has been provided by Nedbank Limited.

Sanlam Home Loans 102 (Pty) Limited

SHL 102 is a single-seller South-African residential mortgage warehousing programme that may issue up to ZAR5bn of ZAR-denominated securities. The CP is issued to fund the purchase of eligible home loans. The conduit may issue 'F1+(zaf)' rated CP with a maximum tenor of 180 days but the programme also provides for the issuance of other debt instruments such as bonds, debentures and bills of exchange.

Credit enhancement is calculated dynamically upon each CP issuance date in accordance with the purchase or sale of eligible home loans and could vary depending upon the credit quality of the underlying portfolio.

To ensure the timely repayment of CP, liquidity will be provided by 'F1+(zaf)' rated counterparties and sized to cover 100% of the face value of outstanding CP.

As at end-November 2007, Sanlam Home Loans 102 had ZAR802,657,000 of outstanding CP compared with ZAR256,868,000 in November 2006.

Sanlam Personal Loans 102 (Pty) Limited

SHL 102 is a single-seller South-African personal loans warehousing programme that may issue up to ZAR5bn of ZAR-denominated securities. The CP is issued to fund the purchase of eligible home loans. The conduit may issue 'F1+(zaf)' rated CP with a maximum tenor of 180 days but the programme also provides for the issuance of other debt instruments such as bonds, debentures and bills of exchange.

Credit enhancement is calculated dynamically upon each CP issuance date in accordance with the purchase or sale of eligible home loans and could vary depending upon the credit quality of the underlying portfolio.

To ensure the timely repayment of CP, liquidity will be provided by 'F1+(zaf)' rated counterparties and sized to cover 100% of the face value of the outstanding CP.

As at end-November 2007, Sanlam Personal Loans 102 had ZAR1.189bn of outstanding CP compared with ZAR1.050bn in November 2006.

The Thekwini Warehousing Conduit (Pty) Limited

The Thekwini Conduit is a South-African residential mortgage warehousing programme that may issue up to ZAR15bn of ZAR-denominated securities. The Thekwini Conduit is a multi-seller programme that warehouses eligible pools of residential mortgage loans originated by South African Home Loans (Proprietary) Limited (SAHL), a lender specialising in home loans in South Africa, and eligible pools of residential mortgage-backed securities (RMBS).

Asset purchases are funded through the issuance of short- and long-term securities and a subordinated credit enhancement facility provided by SAHL as follows:

- **Non-Liquidity Notes:** Consisting of senior, mezzanine or junior short-term notes with a maximum tenor of 364 days;
- **Liquidity Notes:** Used to provide alternative liquidity to the structure. These consist of senior short-term extendible or callable notes;
- **Long-Term Notes:** Consisting of mezzanine and junior notes with a maturity that is defined as the earlier of: i) 10 years from the issue date; and ii) 364 days from the occurrence of a wind-down event.

CE is calculated quarterly on a dynamic basis and can vary depending on the credit quality of the underlying portfolio of assets.

Liquidity is provided through several 364-day revolving liquidity facilities sized to cover the interest on the short-term notes and outstanding principal on the non-liquidity notes (plus estimated costs and expenses). SBSA acts as liquidity facility provider.

As at end-November 2007, Thekwini Conduit had ZAR7.84bn of outstanding CP, compared to ZAR5.39bn at the same time in 2006.

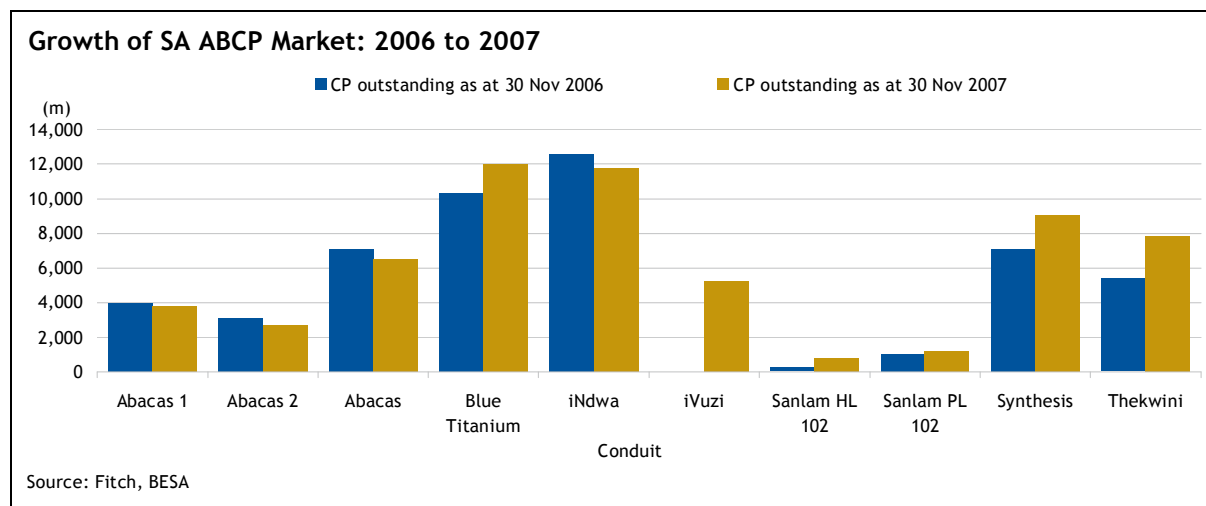
All seven conduits are monitored by Fitch's performance analytics team and, to date, continue to perform within expected parameters. Performance data and detailed credit analysis reports on each of the conduits is available at www.fitchratings.com.

■ SA ABCP Market Growth Statistics 1

Growth of SA ABCP Market: 2006 to 2007

Conduit	Total CP outstanding (ZAR)	
	CP outstanding as at 30 Nov 2006	CP outstanding as at 30 Nov 2007
Abacas 1	3,966,000,000	3,812,878,000
Abacas 2	3,100,000,000	2,673,917,000
Abacas	7,066,000,000	6,486,795,000
Blue Titanium	10,330,000,000	12,004,500,000
iNdwa	12,548,000,000	11,775,000,000
iVuzi	0	5,249,000,000
Sanlam HL 102	256,868,000	802,657,000
Sanlam PL 102	1,050,000,000	1,189,734,805
Synthesis	7,100,000,000	9,069,000,000
Thekwini	5,391,900,000	7,842,500,000

Source: Fitch, BESA



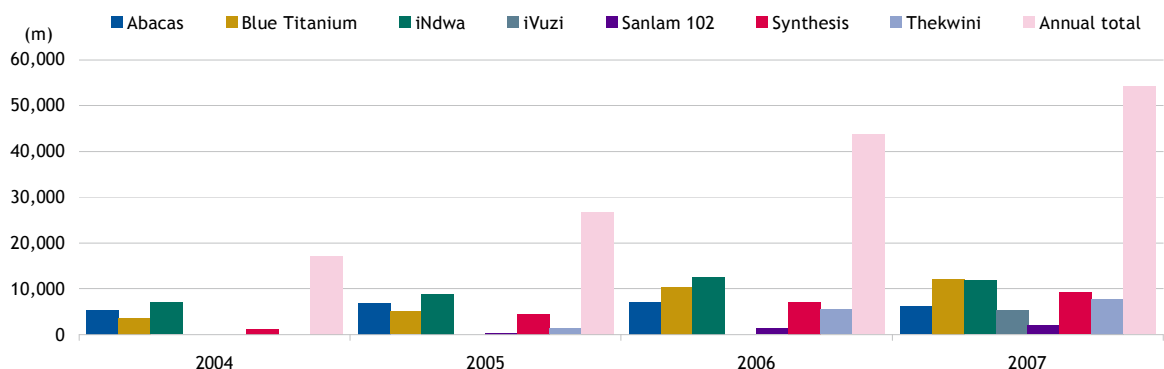
■ SA ABCP Market Growth Statistics 2

Annual Growth of SA ABCP Market: 2004 to 2007

Conduit	Annual CP outstanding totals(ZAR)			
	30 Nov 04	30 Nov 05	30 Nov 06	30 Nov 07
Abacas	5,444,675,000	6,816,200,000	7,066,000,000	6,091,984,000
Blue Titanium	3,589,000,000	4,926,000,000	10,330,000,000	12,004,500,000
iNdwa	6,897,607,280	8,803,000,000	12,548,000,000	11,775,000,000
iVuzi	0	0	0	5,249,000,000
Sanlam 102	0	300,000,000	1,306,868,000	1,992,391,805
Synthesis	1,277,000,000	4,487,000,000	7,100,000,000	9,142,000,000
Thekwini	0	1,327,300,000	5,391,900,000	7,842,500,000
Annual total	17,208,282,280	26,659,500,000	43,742,768,000	54,097,375,805

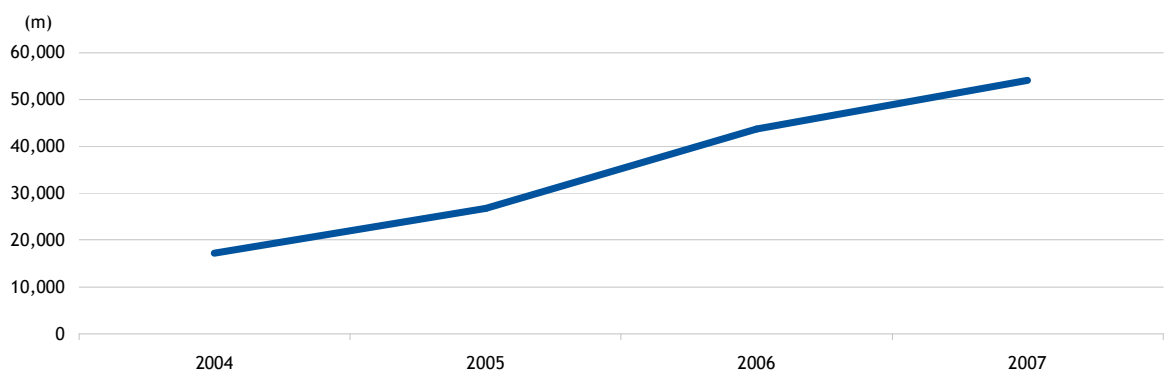
Source: Fitch, BESA

Annual CP Outstanding: 2004 to 2007



Source: Fitch, BESA

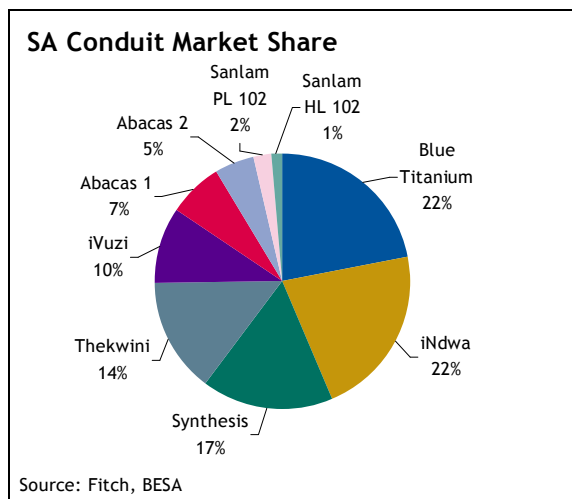
Annual Conduit Growth 2004 to 2007



Source: Fitch, BESA

■ **SA Conduit Market Share**

The South African Conduit market share as at 30 November 2007 is shown below:



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