



GCR affirms AB Finco 1 (RF) Limited ratings under its Series 3 and 7, while revising the outlook of the latter to Negative.

Rating Action

Johannesburg, 12 May 2020 - GCR Ratings ("GCR") has affirmed the following national scale long term issue credit ratings assigned to the Notes issued by AB Finco 1 (RF) Limited ("AB Finco 1" or the "Issuer") under two separate Series (each Series issuance is referred to as a "Transaction"). The outlook to the Series 3 Notes has been maintained while the Series 7 outlook has been revised to Negative from Stable.

Transaction	Stock Code	Underlying Borrower	Amount	Rating class	Rating scale	Rating	Outlook
Series 3	ABF003	MTN Group Ltd ("MTN")	R1.0bn	Long Term Issue	National	AA _{(ZA)(sf)}	Negative
Series 7	ABF007	Transnet SOC Ltd	R2.4bn	Long Term Issue	National	AA _{(ZA)(sf)}	Negative

The rating actions follow migration of the ratings and/ or outlooks for the underlying borrowers. The ratings reflect the credit linkage of the Notes to the ability of each Borrower to make the payments due in accordance with the terms of each respective Loan Agreement. GCR's ratings for the issued Notes in respect of each Series are based on a look-through approach to the long-term unsecured credit ratings of the respective underlying Borrowers.

The national scale ratings assigned to the Notes relate to timely payment of interest and timely payment of principal. The ratings exclude an assessment of the ability of the Issuer to pay either any early repayment or default interest rate penalties.

The Notes were issued under the AB Finco Multi Issuer Note Programme, administered by Absa Corporate and Investment Banking ("Absa CIB"). The Programme has one Issuer, although other Issuers may be subsequently established and can accede to the Terms and Conditions of the Programme.

The Issuer established separate Transactions (each a Series under the Issuer) with specific collateral being provided for the benefit of the Notes issued under each respective Transaction. The proceeds from the issuance of the Notes under each Transaction were used to purchase the rights, title and beneficial ownership of a Loan Agreement advanced by Absa CIB to a rated South African Borrower (the "Participating Assets" for each Series) in accordance with Absa's credit policies.



Rating Rationale

Counterparty Risk

Our view for the counterparty risk remains the same as at the December 2019 review where it was established that, the structure does not incorporate many counterparties as it is primarily set up for the repackaging of loans. The required ratings and remedial language incorporated in the respective transaction documents for the Account Bank and Permitted Investments are in-line with GCR's counterparty criteria.

We also note that servicing is largely being done remotely due to the recent COVID-19 event. Our discussions with the administrator indicated that not much impact was expected from this transition. In addition, Absa has increased communication with the borrowers and are closely assessing their liquidity needs and potential impact on covenants. As of the end of April 2020, none of the underlying borrowers in this transaction had indicated a need for debt assistance.

Underlying Credit Rating Linkage

The Issuer's performance in relation to each Transaction is largely reliant on the performance of the underlying Borrower in respect of the Loan Agreement forming the Participating Asset for that Series. GCR adopted a look-through approach between the rating of the Borrower and the rating of the Notes, given that the noteholders in each Series is exposed to a single risk entity, as per GCR's Credit Linked Notes and Repackaging Vehicles Rating Criteria.

The ratings for the Series 3 and Series 7 Notes reflect the public ratings of the respective Borrowers assigned by any of the three international rating agencies and the rating actions taken by these agencies in April 2020.

Cashflow Analysis

All of the Issuer's expenses are paid for using proceeds from payments made by the respective Borrowers from each Series. Each Transaction contributes towards the Issuer's collective expenses on a pro rata basis. Also, the structure has a profit retention mechanism whereby some of the cumulative excess spread is retained by the Issuer to cater for future expenses plus a buffer. This mechanism is designed to reserve an adequate amount of cash in the structure to allow the Issuer to pay for senior expenses, irrespective of the number of Series in existence.

GCR assessed the ability of each Series to contribute to the payment of expenses. The updated analysis (updated for the pricing ratchet-up to Series 3 of 30bps, due to S&P downgrading MTN, in-line with the loan and transaction documents) indicates that the interest rate earned by the Issuer in respect of each Transaction's loan together with the reserving mechanism is adequate to meet the expected expenses. In addition, the reserved cash for 1Q20 is in-line with the required amount.

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Related criteria and research

Criteria for Rating Structured Finance Transactions, September 2018
Criteria for Rating Credit Linked Notes and Repackaging Vehicles, November 2018
Criteria for Rating Financial Institutions, May 2019

Ratings history

AB Finco 1 (RF) Limited

Transaction	Borrower	Review	Rating scale	Rating	Outlook	Date
Series 1	Industrial Development Corporation	Initial & Last	National	AA+ _{(ZA)(sf)}	Stable	Dec 2019
Series 3	MTN Group Ltd	Initial & Last	National	AA _{(ZA)(sf)}	Negative	Dec 2019
Series 7	Transnet SOC Ltd	Initial & Last	National	AA _{(ZA)(sf)}	Stable	Dec 2019

Source: GCR

Glossary of Terms/Acronyms

Account Bank	A bank where the transaction account is held.
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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.
Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Assets	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Borrower	The party indebted or the person making repayments for its borrowings.
Cash	Funds that can be readily spent or used to meet current obligations.
Collateral	Asset provided to a creditor as security for a loan or performance.
Conditions	Provisions inserted in an insurance contract that qualify or place limitations on the insurer's promise to perform.
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.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
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 X days on any debt obligations as defined in the transaction documents; 4.) The obligor has filed for bankruptcy or similar protection from creditors.
Excess Spread	The net weighted average interest rate receivable on a pool of assets being greater than the weighted average interest rate payable for the debt securities.
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.
Issuer	The party indebted or the person making repayments for its borrowings.
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.
National Scale Rating	National scale ratings measure creditworthiness relative to issuers and issues within one country.
Noteholder	Investor of capital market securities.
Pricing	A process of determining the price of a debt security.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
Pro Rata	(1) Distribution of the amount of insurance under one policy among several objects or places covered in proportion to their value or the amounts shown. (2) Distribution of liability among several insurers having policies on a risk, usually in the proportion that the amount of coverage in each policy bears to the total amount of coverage in all policies.
Proceeds	Funds from issuance of debt securities or sale of assets.
Public Ratings	See GCR Rating Scales, Symbols and Definitions.
Rating Linkage	The credit rating link that exists in between a holding company and its subsidiary or between two or more transactions parties where the reliance is based upon perceived performance or support from such party. There is dependence on one party to provide support to the transaction.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.

Repack	Rearrangement of securities with the intent to be more attractive for investment. Junior tranches (that have a higher degree of default risk) of a securitisation transaction that have been repackaged into separate debt securities (according to their degree of risk) that utilise credit-enhancement techniques to mitigate the risk. A CDO is created to distribute the prepayment risk amongst different classes of Notes.
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.
Retention	The net amount of risk the ceding company keeps for its own account.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Senior	A security that has a higher repayment priority than junior securities.
Servicing	The calculation of interest and repayments, collection of repayments, advancing of loans, foreclose procedures, maintaining records and seeing that the proceeds of each loan are passed on to the respective party.
Spread	The interest rate that is paid in addition to the reference rate for debt securities.
Stock Code	A unique code allocated to a publicly listed security.
Surveillance	Process of monitoring a transaction according to triggers, covenants and key performance indicators.
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.



Salient Points 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 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 the rated party. The rating was solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the ratings. The rated entity participated in the rating process via face-to-face management meetings, and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.