GCR RATINGS

CRITERIA FOR RATING

TRADE RECEIVABLE SECURITISATIONS

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Scope of the Criteria

1. Trade receivables transactions involve the sale of a portfolio of receivables from a seller or servicer into a revolving structure (the Issuer) that is funded by Noteholders. Included in these transactions are those where the seller is a company that is itself a lender to other companies.

2. This rating criteria (the Criteria) assesses an Issuer's ability to convert short term trading accounts (the assets) that usually belong to corporate clients into cash, factoring in the risk of default and dilution of assets. Short-term trading accounts are typically non-interest bearing, generally funded at a discount and further consideration and possible reserving to service interest payments on the rated Notes should be accounted for where applicable. The Criteria should be read in conjunction with GCR Rating's (GCR) Criteria for Rating Structured Finance Transactions, updated and published in September 2018, and available on www.GCRratings.com.

3. Deriving from accounting International Financial Reporting Standards (IFRS), the assets can be defined as those that are held within a business model whose objective is to hold financial assets to collect contractual cash flows and are due in 12 months or less. A rating report will be published for all publicly rated trade receivables transactions detailing the analysis applied. Any deviations from these criteria will be explained within the rating report.

4. This Criteria applies globally, although each individual jurisdiction and each specific transaction may give rise to additional observations and/or deviations, which will be disclosed in the transaction-specific rating announcement and report.

Summary of the Criteria Changes

5. The Criteria is an update to the version published in November 2018. There are no significant amendments to the Criteria. The update of this Criteria will not have an impact on any existing transactions that have been rated under it. Going forward, all new transactions will be rated using this Criteria.

6. GCR has provided international and national scale stresses, while the previous criteria only focused on the former. All references made to national scale stresses in this document are for illustrative purposes and relate to South Africa (SA).

Introduction

7. This Criteria details GCR's approach to rating trade receivables-backed securitisations. Each trade receivables securitisation is unique, but bearing the following typical characteristics:
    a. A trade receivable is an amount that is due to be paid from an invoice after full performance and typically bears no interest.
    b. The goods and services purchased are central to the operations of the corporate borrower (debtor) and there is an incentive to pay on time and fully to maintain future operational success.

c. The receivables are unsecured.
d. The seller of the goods is a going concern at the time the receivables are sold to the Issuer.

8. The methodology may require certain adjustments depending on the specifics of each transaction; however, the following general approach can be used as a guideline for all trade receivables transactions.

9. GCR considers both qualitative and quantitative factors in its approach.
The qualitative factors include:
    a. The servicer's operational and financial stability, as well as its ability to respond to changing market conditions.
    b. The legal and structural risks related to the securitisation transaction.
    c. Counterparty risks.
    d. Cash flow mechanics and commingling risks.
    e. Reasonability of and adherence to the applicable asset Eligibility Criteria.
    f. Diversification factors.

The quantitative factors include:
    g. Historical default data based over multiple economic cycles.
    h. Historical dilution data over multiple economic cycles, this may materialise through returns, refunds, incorrect invoice amounts, rebates, warranty claims and disputes.
    i. Negative carry where applicable.

10. GCR analyses all these factors in determining the appropriateness of credit enhancement provided before according a rating to a trade receivables transaction.

11. Trade receivables securitisations may enable access to investment grade funding even if the underlying corporate/originator is not rated as high as the debt issued. Importance is however placed on the going concern status of the underlying invoiced originators given the importance of relationship for settlement. Trade receivables are unsecured invoiced obligations that are generated when a business sells goods or services on credit. Typically, obligors will be more concentrated than in a conventional consumer Asset Backed Securitisation (ABS) transaction, and asset performance is driven by the originator's underwriting credit policies, strategic direction, financial condition, which can impact relationships with the borrowers. Further consideration is made of the complexity of the underlying assets and the availability of suitable alternative servicers if the original originator is no longer able to collect on and service the assets.

12. Assets turn rapidly, typically within three months. During its analysis, GCR assumes that a stop purchase trigger is breached, or amortisation event has occurred and will therefore match the required reserving to the contractual maturity profile of the assets (the assumed paydown period) either on a dynamic basis or based on the portfolio covenants.

The funding of trade receivables is usually a critical source of working capital to the debtor of the receivables and as mentioned above, this incentives prompt payment within contractual restrictions. Debtor granularity, debtor industry, and trade commodity diversification provides support to the rating stability and strength.

Rating Approach

13. GCR will review the diversification factors and historical performance of the underlying assets in determining the appropriateness of the available credit enhancement. Depending on the assets and the data available the required credit enhancement is calculated on:
    - a dynamic basis which will periodically adjust to account for delinquency and dilution of the portfolio.
    - data based on periodic reviews and expected values.

14. Given the short-term nature of trade receivables, securitisation structures involving such receivables are usually revolving. GCR however, assesses the required credit enhancement assuming an amortising event or stop purchase event has occurred. The required credit enhancement per targeted rating should be enough to cover the assumed stressed defaults, dilutions, costs and difficulties in collections arising from any other factor including diversification factors.

15. As mentioned GCR considers both qualitative and quantitative factors in its rating approach for trade receivables transactions.

16. The rating process starts with the review of the transaction documents to consider operational aspects of the transaction. GCR does not approve, recommend or structure transactions. Where a presented structure differs from GCR's standard expectations the analysis may be adjusted accordingly and detailed within the rating announcement and rating report.

17. GCR will then carry out a review and monitor both the servicer/seller and back-up servicer to gain understanding of their processes and procedures. Changes to credit policies, invoicing terms, collection procedures, procedures and legislative changes to product / services can significantly affect default or dilution risk.

18. Due to the inherent complexities regarding security arrangements, diversity of security and recovery lengths, recoveries are challenging to quantify. The representations made; insurance structures provided as well as the level of historical losses experienced will be considered in the stresses applied in computing the credit enhancement. There is therefore no recovery analysis for trade receivables.

19. GCR also expects to receive legal and taxation opinions in respect of the transaction to confirm that assumptions made within the analysis are legal, valid, binding and enforceable.

Credit Enhancement

20. The primary risk associated with most asset types is the risk of obligor delinquency and default. The receivables represent indebtedness of obligors from the sale of goods or services. The obligors are the customers that are directly or indirectly indebted to the originator following the provision of goods or services.

    A similar methodology to analysing obligor default risk is applied to all asset-backed financing transactions, starting with a review of historical portfolio performance. Historic delinquency and write-off performance is generally the best indicator of a portfolio's credit quality and originator's credit policies.

21. Typically credit enhancement will be provided for a trade receivables transaction in the form of overcollateralisation, subordination and/or reserves.

22. GCR also expects a transaction to comply with an asset/liability test. This should be tested at each purchase date to ensure that the amount of outstanding debt is less than or equal to the value of eligible receivables plus required reserves (where applicable). As many trade receivables settle weekly or daily, this ensures any non-compliance with the test is then corrected frequently and before it becomes too large. Non-compliance with the test is often a precursor to originator liquidation and can be utilised to assess any deterioration in the receivables balance.

23. GCR will analyse the historic performance of the portfolio of receivables. A list of information requirements is attached in Appendix C. GCR expects to receive at least three years of historical performance information on a portfolio. If this information is not complete, analysts may rely on the available data and may make market related adjustments where gaps in data exist.

24. An illustrative example of the Dynamic Credit Enhancement calculation is provided in Appendix A.

Default Analysis

25. GCR will consider historical information on delinquent and written off receivables as well as payment terms in its analysis. The underwriting and servicing processes and procedures of the originator provide an important insight into the delinquency and write-off statistics. GCR expects to be presented with stable performance information; and where there is volatile performance in the information, GCR will investigate the reasons for such volatility.

26. The information provided to GCR will usually be in the form of ageing tables. GCR will use the payment terms and defaults definition as provided to determine the value of defaults.

    The value of receivables that default in any month is compared with the sales levels in the month when the receivables were generated, thus calculating the monthly default ratio.

27. The monthly default ratio is then used to determine a loss ratio. The loss ratio is the percentage of the eligible receivable portfolio that is expected to default. The result is a factor used in deriving the reserve to cover the expected losses in various rating scenarios.

Dilution Analysis

28. The term dilution is used broadly to refer to any non-cash reduction to a receivable balance that is not attributable to default or write-off. Product returns, early payment discounts, advertising allowances, volume rebates, good customer programs and standard pricing disputes are all examples of dilution.

29. The factors contributing to dilution are considered and GCR ensures that the credit enhancement implemented is sufficient to cover any potential dilution. GCR may stress dilution amounts that are expected to change over time, and this will be factored into the dilution reserve calculation.

Reserves

30. Given that trade receivables are typically not interest bearing, a trade receivables transaction should reserve for senior costs and expenses, and interest during the amortisation period. However, where the trade receivable assets earn interest, consideration should be given to the extent this reduces the negative carry risk.

Asset Features

Payment Terms

31. GCR will review the payment terms extended to the underlying obligors and any factors that may result in an extension of such payment terms. The payment terms feed into the credit enhancement calculation and as such are crucial to GCR's analysis. Amendment of payment terms may reflect a change in the originator's business or general market conditions. A transaction will typically limit the payment terms that can be extended, and this limit is factored into the analysis.

Obligor Concentrations

32. Obligor concentrations are present in most portfolios. To ensure that losses or disputes from large obligors do not translate into significant losses for the portfolio, concentration limits are set. Limits can be set by region, country and currency. Since the composition of a portfolio can change over time, concentration limits must be specified and will depend on the specific transaction and the ratings targeted for the transaction. To the extent that an obligor exceeds its specified limit for a transaction, the excess balance should be covered by additional credit enhancement. GCR monitors the transaction to ensure adequate credit enhancement is maintained.

33. GCR will review the underlying obligors and any special obligor limits pertaining to them on an individual level as well as at a group level. GCR will also review whether the originator can monitor potential concentrations going forward.

34. A floor is established in respect of the loss reserve to account for obligor concentration risk. The total applied loss reserve is the higher of: (a) dynamic loss reserve; and (b) the obligor concentration floor.

35. The obligor concentration floor is designed to protect against a number of obligors defaulting during the amortisation period and therefore resulting in a decrease in cash flow available to the transaction.

36. The obligor concentration floor is driven by GCR's assumption that in each rating scenario a number of obligors may default. The floor matrix acts as a guide for a diversified trade receivable portfolio.

To calculate the obligor concentration floor, one would, multiply the number of obligors expected to be covered by the concentration limit for the obligors, as specified in the transaction documents. The floor applied at different rating levels is shown in the table below:

Exhibit 1: Obligor Concentration Floor Matrix

	Highest transaction rating (International)					Highest transaction rating (SA National)				
	AAA(sf)	AA(sf)	A(sf)	BBB(sf)	≤ BB(sf)	AAA(sf)	AA(sf)	A(sf)	BBB(sf)	≤ BB(sf)
Obligor rating										
AAA	0	0	0	0	0	0	0	0	0	0
AA- to AA+	1	0	0	0	0	1	0	0	0	0
A- to A+	2	1	1	0	0	2	1	0	0	0
BBB- to BBB+	3	2	1	1	0	3	2	1	0	0
BB- to BB+	4	3	3	2	0	4	3	2	1	0
<BB- Unrated	6	5	5	4	2	5	4	3	2	1

Source: GCR

Structural Features

37. GCR reviews key structural issues that are particularly relevant to trade receivables in its analysis. Structural components are typically designed specifically to protect the noteholders from deterioration in either the asset quality or the ongoing servicing capabilities of the originator.

38. In a typical trade receivables transaction, the existing trade receivables of the originator are sold via a 'true-sale' mechanism to a special purpose vehicle / entity (SPV), which issues securities backed by the receivables. The rating is based primarily on the creditworthiness of the asset portfolio, with limited regard to the creditworthiness of the originator. In essence, the structured finance structure seeks to isolate transactions from entities, such as receivables sellers or originators, which are generally either lowly rated or unrated.

A worst-case scenario assumes the bankruptcy of each transaction participant that is not a bankruptcy-remote entity. A key requirement is that the SPV must therefore satisfy bankruptcy remote criteria.

39. As such, the structural integrity of a securitisation transaction from a legal perspective is crucial. As in other ABS transactions, when rating trade receivable-backed securities higher than the originator, it is normal procedure for GCR to obtain an independent legal opinion from a recognised firm of attorneys on the relevant legal aspects. This includes confirmation of the following, amongst others:

- That a true sale has taken place;
- Bankruptcy remoteness of the SPV;
- The activities of the SPV comply with all the requirements of the relevant legislation; and
- The transaction structure, documentation as well as the underlying receivables contracts are legal, valid, binding enforceable under the relevant jurisdiction.

Although the impact of a bankruptcy of the originator is a major consideration in analysing a trade receivable portfolio, the originator's credit quality is not a major driver of the rating outcome. Notwithstanding the bankruptcy of the originator, the transaction is structured so that the SPV should remain a going concern. GCR will need to review the final signed and executed legal documentation prior to the accordance of the final rating. The specific requirements for a particular transaction will determine the requirements of the legal opinions.

GCR expects to receive an audit report measuring the accuracy of the receivables data recorded in the originator's database compared to the original contracts with the debtors, based on a portfolio sample.

For existing transactions an originator/servicer review is expected to be carried out on an annual basis to assess changes to policies and procedures. An independent audit report on the underlying collateral/portfolio is required for each new transaction, except in cases where the collateral is fully insured by an external insurance counterparty. GCR may request an additional audit opinion where it is felt that the auditor has a conflict of interest or is not a highly recognised audit firm.

40. Eligibility criteria are key to a trade receivables transaction. GCR will review the eligibility criteria as part of its analysis. Eligibility is defined within the transaction documents and sets the limits for the purchase of receivables. The originator represents and warrants upon sale that the eligibility criteria have been conformed with.

41. Receivables that become ineligible after being sold to the transaction, as a result of a breach of representations and warranties by the seller, are normally removed from the portfolio or substituted. All receivables being funded at any point in time must conform to the eligibility criteria of the transaction. A risk arises if the originator is insolvent when the transaction starts to amortise.

At that point ineligible receivables may not be substituted or repurchased. During the amortization phase, collections arising from ineligible receivables shall remain in the transaction and are used to meet senior transaction expenses and repayment to the Noteholders.

Stop Purchase Triggers

42. Stop purchase triggers are implemented to protect noteholders against a decline in the credit quality of the portfolio of receivables. A decline in portfolio quality may highlight a fundamental problem with the seller's origination and servicing abilities, or a change in market or economic conditions that may not be fully covered by the dynamic reserve mechanism. Performance triggers can assist in minimising the effect of a deterioration of asset performance on the structure. Asset performance triggers are typically set on delinquency, default, dilution, average payment terms, days sales outstanding, as well as cash not invested in receivables. An unresolved breach of trigger may result in a stop-purchase of further receivables.

43. Trigger levels are usually determined based on the historical performance of the portfolio. Triggers should be set at a reasonable level as tight triggers may result in an aggressive early amortisation whilst loose triggers may not enhance the protection of the portfolio and may expose investors to higher risk.

44. A stop-purchase trigger based upon a breach of financial covenants or insolvency or material deterioration in the financial condition of the originator is also expected within the transaction.

Seller and Servicer Representations and Warranties

45. Seller and servicer representations and warranties should be reflected within the transaction documents to maintain the quality of servicing and administration of the receivables portfolio.

46. It is crucial that the quality of receivables is maintained throughout the life of the transaction as triggers and credit enhancement are based on, amongst other things, the underlying portfolio at transaction closing. The seller and servicer should warrant no significant change in their credit and collection or underwriting policies, otherwise GCR will assess the impact of a material change to the ratings of the notes. They should also represent to frequent auditing and reporting information.

47. Should the triggers be breached following an originator insolvency, then less reliance is placed upon an insolvent originator/ servicer to remedy a breach of representations and warranties.

Risks

Negative Carry Risk

48. A trade receivables portfolio may fluctuate in size throughout the transaction life. If insufficient receivables are sold to the transaction over a prescribed period, the transaction should automatically enter early amortisation.

49. Given that trade receivables are typically not interest bearing, a trade receivables transaction should reserve for senior costs and expenses, and interest during the amortisation period.

Liquidity Risk

50. Liquidity risk typically arises where an originator becomes insolvent, and a back-up servicer steps in to collect on receivables. During this period, obligors may take longer to pay than when the originator was servicing the portfolio. Some obligors may use the originator's insolvency as an excuse to try to avoid payment for as long as possible, or until threatened with legal action. Transactions typically provide sufficient liquidity so that all senior costs and interest on the notes can be paid during this transition. Should the mechanisms triggering the substitution of the primary servicer by a backup servicer be deemed insufficient by GCR, this timing delay should be covered by a liquidity facility or an appropriately sized liquidity reserve from / held at an appropriately rated institution in accordance with GCR's counterparty guidelines. The size of the liquidity facility will vary between transactions.

    Senior costs included in the calculation of the liquidity facility and senior costs reserved will normally include interest payable on the fully drawn amount of the liquidity facility, as well as any commitment fees.

Commingling Risk

51. GCR expects all cash flows in respect of the transaction to flow through a bank account held in the name of the SPV.

52. If an originator does not notify obligors of the sale of receivables, obligors will continue to pay to the originator's account. In this circumstance commingling risk exists. If such risk exists in the transaction, GCR will calculate a commingling reserve based on (a) the number of days of collections that could be trapped in an originator's bankruptcy estate, and (b) peak historical daily collection levels. Following originator insolvency, GCR expects all future collections to flow directly to an account held in the name of the SPV.

53. Another way to mitigate commingling risk is a documented notification trigger, which requires that all collections be paid directly to the SPV prior to insolvency of the originator. Alternatively, an effective pledge, in favour of the SPV, can be created over the amounts in the seller's bank account. In this

situation GCR expects to see satisfactory evidence of such pledge/cession as well as relevant transaction legal opinions to confirm that such arrangement is an enforceable contractual obligation and is sufficient to eliminate the risk of cash being trapped in the originator's insolvency estate.

Key Counterparties

Origination and Servicing

54. As already highlighted, the origination and servicing of the portfolio is critical to the ongoing performance of the transaction. In order for a transaction to operate effectively the originator must be able to continue to generate eligible receivables, service and monitor a portfolio of receivables over the life of the transaction and segregate cash received in respect of securitised receivables. The ability of the originator, servicer and back-up servicer is crucial in GCR forming a qualitative view on the transaction.

55. GCR will carry out an originator/servicer review as detailed in its Criteria for Rating Structured Finance Transactions, September 2018and as detailed in Appendix C to ascertain the ability of the originator/servicer to carry out their role. Excessive originator/servicer risks may impose ratings caps on the transaction, therefore it may be difficult for non-investment grade originators (those rated 'BB+$_{(sf)}$' or below) to achieve a 'AAA$_{(sf)}$' notes rating.

Back-Up Servicer

56. The role of the back-up servicer is to take over collection activities in the event of bankruptcy of the originator/servicer, in order to wind down the SPV book and settle senior debt investors from the proceeds. The back-up servicer plays a crucial role in ensuring that securitisation structures are "bankruptcy remote" in practical terms.

57. GCR will also perform an onsite review of the back-up servicer as well as a review of its processes, procedures, and previous experience. The back-up servicer should have performed an "on-premises" systems review of the originator and ensured that the collection systems can be seamlessly interfaced, that a backup of all relevant invoicing and client information will be obtained and stored by themselves on a regular basis.

58. The transaction documents should also reflect that in the event the back-up servicer wishes to withdraw from the back-up servicer role, they would be required to give at least six months advance written notice. The SPV should be able to cancel the standby administration agreement at any time and appoint an alternate back-up servicer to perform the function in the event that they do not perform their obligations satisfactorily.

59. Compliance with the above criteria should address any practical concerns, while also enabling suitable quantification of the extent to which a particular asset portfolio may be diminished in value as a result of the originator/servicer going into bankruptcy.

Taxation

60. Where tax arises in respect of the receivables or the transaction, i.e., transfer tax, VAT, withholding tax, etc. GCR expects this to be adequately addressed by the transaction parties as well as to receive a tax opinion on the effect of the taxes on the noteholders. Where tax arises, this should be adequately mitigated, and such mitigation will be considered in the rating analysis.

Rating Sensitivities

61. During the revolving period, a new discount rate, which will impact over-collateralisation, is calculated upon each purchase date based on the performance of the portfolio. If no new purchases occur, the transaction will enter early amortisation. Given the dynamic nature of this, combined with the eligibility criteria and performance triggers, GCR considers that any rating sensitivity to the deterioration of the performance of the underlying portfolio is largely mitigated.

62. It is also considered that an originator downgrade, unless a commingling risk exists, will not directly impact the rating of the notes provided sufficient back-up servicer arrangements are in place.

Performance Monitoring

63. Ongoing performance monitoring of the transactions and the underlying receivables are key to the rating process and maintaining current ratings. GCR expects sufficient performance information to be provided on a monthly/quarterly basis. GCR also expects to be notified of any changes to the transactions such as amendments to concentration limits, etc. that may impact on the current ratings and its analysis.

64. The key performance reporting items are the amount of eligible receivables and ineligible receivables, ageing breakdown of the receivables, default ratio, dilution ratio, turnover rate of the receivables portfolio, performance in respect of trigger limits, exposure to large obligors and obligor concentration limits, collections, new purchases, and the calculation of dynamic credit enhancement calculated on each reporting date.

65. Upon each reporting period, GCR will review the performance information provided to ensure it is reflective of the information/analysis that was reviewed at the outset. In addition, surveillance rating panels are held annually at a minimum or as events warrant. Given the short-term nature of trade receivables, reviews are typically performed on a quarterly basis. Negative or improved performance of the underlying portfolio may trigger a potential rating action.

Disclaimer

66. Note that GCR is not a legal, tax or financial adviser and will only provide a credit opinion of the rated securities. For example, a rating does not cover a potential change in the applicable laws, nor can it be regarded as an audit. Moreover, GCR is not a party to the transaction documents, nor does it provide legal, tax or structuring advice.

Appendix A: Dynamic Credit Enhancement Reserve Calculation

The Dynamic Credit Enhancement Reserve is calculated by summing the Loss Reserve, Dilution Reserve and Carrying Cost Reserve.

The Loss Reserve

The Loss Reserve is calculated by multiplying the *Loss Ratio* by the *Loss Horizon Ratio* and *Rating Multiplier* and adding on the *Default Volatility Factor*.

Loss Ratio

The loss ratio is the highest three-month rolling average default ratio in the most recent 12 months. The default ratio is the monthly level of receivables that fall into the deemed default bucket, plus any identified write-offs occurring prior to the deemed default date, divided by the total credit sales in the month in which these deemed defaulted receivables were generated.

Loss Horizon

The timing difference between the origination of a receivable and the date at which the receivable is deemed in default is the default horizon. The default horizon is used to capture the potential defaults embedded in a balance of eligible assets.

Loss Horizon Ratio

The loss ratio estimates the default of single vintages. However, an eligible asset balance outstanding at any given point contains multiple vintages. In order to capture the effect of each vintage in the balance, a loss horizon ratio is computed.

The loss horizon ratio equals the cumulative sales that occurred during the loss horizon (which is a total period of potential default) divided by the end balance of the eligible and non-defaulted receivables. This is similar to the seasoning adjustment in the Criteria for Rating Consumer Asset Backed Securities, September 2018. Combining the loss horizon ratio with the loss ratio, estimates the value of receivables likely to generate a loss that are embedded in the current portfolio.

Rating Multiplier

The rating multiplier is used to stress the loss reserve appropriately in respect of the rating levels under the same rating scenario.

	International	SA National
AAA(sf)	2.50x to 3.50x	1.75x to 2.00x
AA(sf)	2.00x to 3.00x	1.50x to 1.80x
A(sf)	1.75x to 2.75x	1.30x to 1.60x
BBB(sf)	1.50x to 2.50x	1.20x to 1.40x
BB(sf)		1.10x

Source: GCR

GCR does not give credit to collections on receivables that come in from the obligor after default or the cash collected on ineligible receivables held by the SPV, however, these collections will benefit the transaction. The stress multiples for trade receivables transactions are lower than for other asset classes and consider both the short-term nature of the assets as well as taking recoveries indirectly into account.

Default Volatility Factor

The default volatility factor is measured by the 12-month standard deviation of the monthly default ratio, adjusted by a multiple, thus covering the majority of statistical default occurrences. This volatility factor aims to protect noteholders from volatility occurring after a period of relatively stable performance and to smooth out potential decreases of the loss reserve.

As mentioned above the Loss Reserve may be subject to a minimum reserve floor based on obligor concentrations. Typically, obligors are unrated, and the following would apply:

<table>
<tr><th colspan="6">Obligor Multiple (SA National)</th></tr>
<tr><td>Obligor rating</td><td>AAA(sf)</td><td>AA(sf)</td><td>A(sf)</td><td>BBB(sf)</td><td>≤ BB(sf)</td></tr>
<tr><td><BB-</td><td rowspan="2">5x</td><td rowspan="2">4x</td><td rowspan="2">3x</td><td rowspan="2">2x</td><td rowspan="2">1x</td></tr>
<tr><td>Unrated</td></tr>
</table>

Source: GCR

The multiples provided are applied to the covenanted maximum single obligor exposure.

Dilution Reserve

The Dilution Reserve is calculated by multiplying the *Dilution Ratio* by the *Rating Multiplier*, adding the *Dilution Volatility factor* to the result and then multiplying the overall result by the *Dilution Horizon Ratio*.

Dilution Ratio

The dilution ratio is calculated as the 12-month average of the percentage of current dilutions over the sales in the month in which the diluted receivables were originated. Where dilutions are not observable, a conservative expectation is incorporated based on the information provided.

Dilution Volatility Factor

The dilution volatility factor is a sample standard deviation over 12 months of the dilution ratio, adjusted by a multiplier aiming to cover most of statistical occurrences of such event. The dilution ratio is calculated as a 12-month average ratio that gives an expected dilution for a portfolio over the past 12 months. The volatility factor added to the dilution ratio addresses deviations from the expected dilution ratio and smoothes potential decreases to the dilution reserve.

Dilution Horizon Ratio

Similarly, the dilution horizon ratio is calculated as the cumulative sales in the dilution horizon divided by the end balance of the eligible receivables. The dilution horizon is the average time difference between the sale and the occurrence of the dilution.

The dilution horizon ratio combined with the dilution ratio, estimates the value of receivables likely to be subject to dilution that are embedded in the current portfolio.

Carrying Cost Reserve

Typically, the assets are not interest earning, and thus a carrying cost reserve is implemented to cover interest, and senior costs and expenses during the stressed amortisation period. The amortisation period is calculated as the current average days sales outstanding multiplied by the stress factor. All fees and expenses senior to the notes should be included in the calculation. Where interest is earned on the portfolio of assets, the expected interest income from non-defaulted and non-diluted loans can be factored in to reduce the required reserve amount.

The Carrying Cost Reserve is calculated as the sum of the **Senior Costs Reserve** and the **Yield Reserve.**

The Senior Costs Reserve is calculated by multiplying the Days Sales Outstanding, the Rating Multiplier and the Annual Senior Expenses that rank higher than the notes in the priority of payments.
The Days Sales Outstanding estimates the turnover rate of the receivables portfolio. Given a monthly reporting period, the days sales outstanding is calculated as the total amount of receivables divided by the sales generated in that month, multiplied by 30 days.

The Yield Reserve is calculated by multiplying the Days Sales Outstanding by the Rating Multiplier and the Annual Coupon.
Annual Coupon is the sum of the margin, the base interest rate and the interest rate stress applied to the notes.

Appendix B: Illustrative Examples at AAA$_{(ZA)(sf)}$ rating

Historical details are provided in the illustration below. The level of reserves will be adjusted to reflect the latest historical performance on the receivables.

Total Dynamic Reserve as of month 12 = Max (Dynamic Loss reserve; Concentration Floor) + Dynamic Dilution Reserve + Dynamic Carrying Cost Reserve

Total Dynamic Reserve as of month 12 = Max (3.66%; 12.50%) + 8.03% + 5.48% = 26.01%

Exhibit 4.1: Dynamic Loss Reserve

Month	(a) 90-day bucket/sales 90 days prior	(b) 3 month rolling average	[A] Default Ratio (highest in 12 month)	(c) 3 months cumulative sales	(d) Eligible Receivables Balance	[B] Loss Horizon Ratio (c)/(d)	[C] Stress Multiple (AAA$_{(ZA)(sf)}$)	(e)12-month Std Deviation	[D] Volatility Factor (e) x 1.96	[E] Loss Reserve {[A] x [B] x [C]} + [D]
1	0.25%	0.25%	0.25%	100,000	33,000	3.03	2.00	0.14%	0.27%	1.79%
2	0.45%	0.45%	0.45%	350,000	175,000	2.00	2.00	0.14%	0.28%	2.08%
3	0.35%	0.35%	0.45%	300,000	135,000	2.22	2.00	0.10%	0.20%	2.20%
4	0.30%	0.37%	0.45%	290,000	174,000	1.67	2.00	0.08%	0.16%	1.66%
5	0.15%	0.27%	0.45%	250,000	105,000	2.38	2.00	0.08%	0.16%	2.30%
6	0.25%	0.23%	0.45%	150,000	45,000	3.33	2.00	0.08%	0.16%	3.16%
7	0.80%	0.40%	0.45%	200,000	70,000	2.86	2.00	0.08%	0.16%	2.73%
8	0.50%	0.52%	0.52%	350,000	112,000	3.13	2.00	0.10%	0.20%	3.43%
9	0.36%	0.55%	0.55%	295,000	91,450	3.23	2.00	0.12%	0.23%	3.80%
10	0.48%	0.45%	0.55%	250,000	82,500	3.03	2.00	0.11%	0.22%	3.57%
11	0.25%	0.36%	0.55%	230,000	78,200	2.94	2.00	0.11%	0.21%	3.46%
12	0.62%	0.45%	0.55%	300,000	108,000	2.78	2.00	0.10%	0.20%	3.27%
13	0.74%	0.54%	0.55%	315,000	100,800	3.13	2.00	0.10%	0.20%	3.66%

Exhibit 4.2: Concentration Floor

[A] Single Exposure Limit (%)	2.50%
[B] Stress Multiple	5.00
Concentration Floor (%) [A] x [B]	12.50%

Exhibit 5: Dilution Reserve									
Month	(a) Dilution/Sales 30 days prior	(A) 12 month rolling average of (a)	(c) 1-month sales	(d) Eligible Receivables Balance	[B] Dilution Horizon Ratio (c)/(d)	[C] Stress Multiple (AAA$_{(ZA)(sf)}$)	(e)12-month Std Deviation	[D] Volatility Factor (e) x 1.96	[E] Dilution Reserve {[A] **x** [C] **+** [D]} **x** [B]
1	1.98%	1.98%	33,333	33,000	1.01	2.00	0.56%	1.10%	5.11%
2	3.56%	2.77%	116,667	175,000	0.67	2.00	0.56%	1.10%	4.43%
3	2.77%	2.77%	100,000	135,000	0.74	2.00	0.46%	0.90%	4.77%
4	2.38%	2.67%	96,667	174,000	0.56	2.00	0.38%	0.75%	3.39%
5	1.19%	2.38%	83,333	105,000	0.79	2.00	0.34%	0.67%	4.30%
6	1.98%	2.31%	50,000	45,000	1.11	2.00	0.32%	0.62%	5.82%
7	6.34%	2.89%	66,667	70,000	0.95	2.00	0.33%	0.64%	6.10%
8	3.96%	3.02%	116,667	112,000	1.04	2.00	0.35%	0.68%	7.00%
9	2.85%	3.00%	98,333	91,450	1.08	2.00	0.35%	0.69%	7.19%
10	3.80%	3.08%	83,333	82,500	1.01	2.00	0.36%	0.70%	6.93%
11	1.98%	2.98%	76,667	78,200	0.98	2.00	0.35%	0.69%	6.52%
12	4.91%	3.14%	100,000	108,000	0.93	2.00	0.36%	0.70%	6.47%
13	5.86%	3.47%	105,000	100,800	1.04	2.00	0.40%	0.77%	8.03%

Exhibit 6: Carry Cost Reserve		
[A] Senior Costs Reserve (a) x (d) x [(c)/365]		0.66%
(a) Annual Fixed Senior Costs (%)	1.50%	
[B] Yield Reserve (b) x (d) x [(c)/365]		4.82%
(b) Annual Coupon on rated Notes (%)	11.00%	
(c) Days sales outstanding (days)	80	
(d) Stress Multiple	2.00	
Carrying Cost Reserve [A] + [B]		5.48%

Appendix C: Information Requirements

The following core information is typically required as a minimum, although, depending on the nature of the transaction, additional information may also be requested:

- Monthly receivable balances for the last three years. The period should preferably cover at least one recession cycle of the concerned industry.
- Details on the underwriting and credit vetting procedures, including the use of credit scoring models.
- Details of the loan approval process, including lender application documents.
- Monthly receivables balance and the breakdown of receivables into different aging buckets.
- Monthly credit sales volumes.
- Monthly credit notes or dilutions issued.
- Monthly write-offs.
- Monthly turnover rate of the trade receivable portfolio (measured by days of sales outstanding).
- Monthly delinquency statistics for the last three years with an explanation of the aging process (aged from the invoice date or the due date).
- A summary of payment terms offered and a historical analysis of the percentage of the receivables portfolio subject to a particular payment term, including weighted average payment terms figures. Receivables must be aged on a past due rather than a past invoice basis.
- Monthly dilution figures for the last three years, together with a summary of the items giving rise to dilution and an explanation of each item.
- A breakdown of the top obligor concentrations (the top twenty exposures are requested) and their related ratings, if any.
- Audited financial statements of the originator, together with forecasts and strategic initiatives.

More information requirements related to the Originator/Service and Legal and Tax reviews can be found in the appendices of the Criteria for Rating Structured Finance Transactions, September 2018.

Glossary

TERM	DEFINITION
ABSOLUTE PRIORITY RULE	Rule by which senior creditors are to be paid in full before junior creditors.
ACCOUNT BANK	A bank in which the Transaction account is held, generally a party to an Account Bank Agreement.
ADMINISTRATION (INSOLVENCY)	A debtor that is unable to pay a debt and does not have sufficient realisable assets that can be attached in satisfaction of judgement or obligations.
ADMINISTRATOR	An appointed agent responsible for the managing of a Conduit or a Special Purpose Vehicle. Its 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.
ADVANCE RATE	The percentage value of the collateral that a lender is willing to extend a loan.
ADVERSE SELECTION	The process by which the risk profile of an asset portfolio might be influenced negatively by selection.
AGEING	The age of an asset or obligation or its arrears status over time.
AGENT	A part that undertakes to perform a task or mandate on behalf of the principal.
AGREEMENT	A negotiated and usually legally enforceable understanding between two or more parties.
AGREEMENT (SECURITY AGREEMENT)	An agreement that allows for collateral to be held as security.
AMORTISATION	The gradual reduction of the principal value of an obligation over time as the net result of repayment.
AMORTISATION PERIOD	A period that may follow the Revolving Period of a Transaction, during which cash is applied towards redemption of the securities in issuance rather than towards the acquisition of new assets.
APPLICABLE PRICING SUPPLEMENT	A Transaction document that describes the particulars of securities issued.
ARM'S LENGTH TRANSACTION	A Transaction in which the parties act independently and have no favourable relationship with each other, or are not subject to undue influence or duress from one another.
ARRANGER	An adviser that assists in structuring a Transaction and connects the various Transaction parties.
ARREARS	General term for non-performing obligations, i.e., obligations that are overdue.
ARREARS BUCKET	A non-performance classification, classified according to the number of days in arrears, i.e. 30, 60, 90 days.
ARREARS RESERVE	A cash reserve fund to counter arrears accumulated in the portfolio.
ASSET	An item with economic value that an entity owns or controls.
ASSET BACKED SECURITIES (ABS)	Securities that are backed or covered by a portfolio of collateral and the cash flow that emanates therefrom.
ASSET-BACKED COMMERCIAL PAPER (ABCP)	Securities with a tenor of one year or less that are collateralised by a pool of assets or receivables.
AVERAGE LIFE	The average time to maturity of all the payment obligations or expected payment receipts relating to a liability or an asset.
BACK-UP SERVICER	An entity that is retained to stand ready to assume servicing responsibilities upon the termination of the initial servicer in the event of its default or non-performance.
BAD DEBT	Amounts in arrears, i.e. overdue, and often classified as defaulted or written-off.
BALLOON LOAN	A loan which does not fully amortise over its term, thus leaving a balance due at maturity.
BANKRUPTCY REMOTE	When financial risk is isolated and bankruptcy risk is minimised, generally within a Special Purpose Vehicle, such vehicle may be considered bankruptcy remote.
BASIS POINTS (BPS)	One-hundredth of a percent.
BOND	A long-term debt certificate issued to raise money in the capital markets.
BONDHOLDER	A person owning a bond or bonds. See *Noteholder*.
BORROWER	A person, country, or organisation that has borrowed and owes money. See *Debtor*.
BULLET LOAN OR BULLET MATURITY OR BULLET REPAYMENT	The settlement of a security or a loan at maturity in a single principal repayment.
BUSINESS RESCUE	A term under the Companies Act 71 of 2008 (South Africa) Chapter 6 to remedy an entity that is likely to become insolvent.
CALCULATION AGENT	An agent appointed by the Issuer to calculate the: 1. Coupon in accordance with the Applicable Pricing Supplement; 2. Other related fees and expenses and Priority of Payments; and 3. Transaction covenants.
CALLABLE	The legal right of an Issuer to repurchase a security.
CAPITAL	The sum of money that is used to generate proceeds.
CAPITAL GAINS	Increase of an asset price in excess of the purchase price, realised on the disposal of the asset.
CAPITAL MARKETS	The part of a financial system concerned with raising capital by dealing in shares, bonds, and other debt securities.
CASH COLLATERAL	Cash held in an account against outstanding obligations as a form of credit protection.
CASH FLOW	Cash received and spent over a certain period.
CEDENT	The party that transfers its rights in a cession.
CESSION (NON-OUTRIGHT CESSION)	Transfer of a right by agreement, however the cedent retains ownership.

CESSION (OUTRIGHT CESSION)	Total transfer of a right by agreement.
CESSIONARY	The party to whom a right is transferred in a cession.
CHARGE-OFF	Amounts written off as uncollectable.
CHERRY-PICKING	A process of selectively choosing collateral assets, typically of superior quality.
CLAIM	A formal request or demand.
CLEAN-UP CALL	The legal right of an Issuer to purchase all of the outstanding debt instruments at a certain point or over a certain period.
CLEARING AGENT	See *Settlement Agent*.
CO-ARRANGER	An Arranger that works together with (an)other Arranger(s) on the same Transaction.
COLLATERAL	An asset pledged as security in event of default.
COLLATERALISED BOND OBLIGATION (CBO)	A security that represents various bonds bundled together and sold on the capital market. See *Collateralised Debt Obligation*.
COLLATERALISED DEBT OBLIGATION (CDO)	A security that represents various loans bundled together and sold on the capital market.
COLLATERALISED LOAN OBLIGATION (CLO)	See *Collateralised Debt Obligation*.
COLLATERALISED MORTGAGE OBLIGATION (CMO)	A security that represents various mortgage loans bundled together and sold on the capital market. See *Collateralised Debt Obligation*.
COMMERCIAL MORTGAGE-BACKED SECURITIES (CMBS)	Debt securities issued by a securitisation vehicle that are backed by mortgage loans secured by income-producing commercial real estate as collateral.
COMMERCIAL PAPER	A debt security of short-term nature, less than or equal to a year.
COMMINGLING	The mingling of various Transaction parties' funds in a single bank account.
CONCENTRATIONS	A high degree of positive correlation between factors or excessive exposure to a single factor or a few factors.
CONDUIT	A commercial lending entity that is established to purchase assets to securitise. Usually used to refer to an issuer of short-term asset-backed debt.
CONVERTIBLE BOND	A hybrid security that grants the holder the right to convert a bond to shares.
CORPORATE CREDIT RATING	An issuer credit rating accorded to a corporate entity.
CORPORATE GOVERNANCE	The system by which corporations are directed and controlled.
COUPON	Scheduled interest payment on a debt security.
COUPON RATE	The interest rate that is applied to a security. Also called nominal rate.
COVENANT	A condition that requires the Borrower to fulfil certain conditions or which forbids the Borrower from undertaking certain actions.
COVERED BOND	Debt securities collateralised against a pool of assets that, in case of failure of the Issuer, can cover claims.
CREDIT	A credit agreement is one by 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.
CREDIT BUREAU	Provider of consumer credit information to credit providers.
CREDIT DEFAULT SWAP	A Credit Derivative contract that effects a form of insurance for the Lender against default by the Borrower. See Credit Derivative.
CREDIT DERIVATIVE	A type of derivative in which the risk that a loan will not be repaid is sold to a party other than the lender.
CREDIT ENHANCEMENT	Protection against losses arising from the assets in a securitisation. Credit enhancement can be internal or external. Internal credit enhancement may include: Subordination; over-collateralisation; excess spread; security package; and reserve fund and hedging. External credit enhancement may include: Guarantees; letters of credit and hedging.
CREDIT RATING	An ordinal ranking of the ability of a Borrower to fulfil its financial obligations.
CREDIT RATING AGENCY	A party that provides an opinion on the credit quality of assets, debt securities and companies.
CREDIT-LINKED NOTE (CLN)	A security with an embedded Credit Default Swap allowing the issuer to transfer a specific credit risk to another party. See Credit Default Swap.
CREDITOR	A party that is owed debt obligations.
CREDITWORTHINESS	An assessment of a debtor's ability to meet debt obligations.
CROSS COLLATERALISATION	The use of a single asset as collateral for more than one loan.
CURRENT LOAN TO VALUE RATIO	Current principal balance divided by the most recent property market value.
CURTAILMENT	Partial or full prepayment of the outstanding loan amount.
DEBENTURE	See *Bond*.
DEBT (LONG-TERM DEBT)	Debt securities that are due in more than one year from issuance date.
DEBT (SECURED DEBT)	Debt securities that are secured by collateral.
DEBT (SHORT-TERM DEBT)	Debt securities that are due within one year from issue date.
DEBT (UNSECURED DEBT)	Debt securities that have no collateral.
DEBT COUNSELLOR	Under the National Credit Act (South Africa), a party that renegotiates a debtor's repayments.
DEBT REVIEW	A willing declaration by a consumer to a debt counsellor to remedy its over-indebtedness. A debt restructuring proposal is either accepted or rejected by the magistrates' court.
DEBTOR	The party indebted or the person making repayments for its borrowings.
DEED	A legal document that is signed and delivered, especially one regarding the ownership of property or legal rights.
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 the specified period as defined in the transaction documents; 4) The obligor has filed for bankruptcy or similar protection from creditors.
DEFAULTED RECEIVABLES	A receivable in arrears for more than the specified period, as defined by the transaction documents, that has not been written off, or are deemed uncollectable.
DELINQUENCY	When a receivable is overdue and not paid on it's payment due date.
DELINQUENT RECEIVABLES	A receivable that is one or more days past its payment due date and not classified as defaulted.
DERIVATIVE	A financial instrument that offers a return based on the return of another underlying asset.
DILUTION	A reduction in the amount of trade receivables due to: credit notes; returned goods, faulty goods et cetera.
DOMESTIC MEDIUM TERM NOTE PROGRAMME (DMTN)	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.
DUTCH AUCTION	A debt securities auctioning process typically used to reduce the clearing spread. A bid consists of the monetary value and interest rate spread per issuance or tranche. The clearing spread is calculated as the highest interest rate spread of the cumulative monetary value per issuance or tranche.
EARLY AMORTISATION EVENT	An event that causes a transaction to change from a revolving period to amortising, primarily to windup the transaction and to repay Noteholders.
EBITDA	Earnings before interest, taxes, depreciation and amortisation.
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.
ENFORCEABLE OR ENFORCEMENT	Able to be imposed so that it must be complied with.
ESCROW	To place in custody or trust until certain conditions have been fulfilled.
EXCESS SPREAD	The difference between 1) the weighted average interest rate receivable on a pool of assets and 2) the weighted average interest rate payable for the debt securities and the expenses incurred.
EXECUTED DOCUMENTS	Final signed transaction documents.
FAIR VALUE	Is the estimated price at which an asset can be sold or a liability settled in an orderly transaction to a third party under current market conditions.
FIRST LOSS PIECE	The most junior tranche of subordinated debt of a transaction that will take the first loss in a amortising or default scenario.
FIXED RATE NOTES	Debt securities that have a fixed interest rate.
FLOATING RATE NOTES	Debt securities that have a periodic interest rate reset in relation to the reference rate, i.e., JIBAR.
FORBEARANCE	A temporary suspension of repayments, granted by a creditor to a debtor.
FORECAST	A calculation or estimate of future financial events.
FORECLOSURE	Legal proceedings initiated by a creditor to repossess the collateral for obligations that defaulted.
FORWARD RATE	The forward rate is the future yield on a bond. It is calculated using the yield curve.
GEARING	A degree or borrowed funds used for financing growth.
GROSS LETTABLE AREA (GLA)	Used in commercial property to indicate the amount of floor space rented or available for rental.
GUARANTEE	An undertaking for performance of another's obligations in the event of default.
GUARANTEED INVESTMENT CONTRACT (GIC)	A contract that guarantees the principal and interest repayment over a period of time. Typically, GICs are used in relation to a bank account.
GUARANTOR	A party that gives the guarantee.
HEDGE	A form of insurance against financial loss or other adverse circumstances.
HEDGING	A financial risk management process or function to take a market position to protect against an eventuality. Taking an offsetting position in addition to an existing position. The correlation between the existing and offsetting position is negative.
HYBRID SECURITY	A form of financing security that has characteristics of both debt and equity securities.
IMPAIRMENT	An amount set aside for expected losses to be incurred by a creditor.
IN DUPLUM RULE	This common law rule provides that interest on a debt will cease to run where the total amount of arrear interest has accrued to an amount equal to the outstanding principal debt.
INCOME	Money received, especially on a regular basis, for work or through investments
INDEMNITY	A security or protection against a loss or other financial burden.
INSOLVENCY	Refers to a status of diminished legal capacity imposed by the courts on persons who are unable to pay their debts, or a legal person whose liabilities exceed their assets.
INSOLVENCY REMOTE	A feature, through real security and guarantees, that reduces the enforceability of a creditor against a Special Purpose Vehicle. Typically, a Security Special Purpose Vehicle should be bankruptcy remote.
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 3) To reduce the amount of the principal debt.
INSURANCE	Provides protection against a possible eventuality.
INTEREST (FIXED INTEREST)	An interest rate that does not change as the repo or reference rate changes.
INTEREST (FLOATING INTEREST)	An interest rate that changes as the repo or reference rate changes.
INTEREST (PRIME INTEREST)	Prime lending rate quoted on the Reserve Bank website.
INTEREST (REPO INTEREST)	An interest rate charged to commercial banks for money lent by the South African Reserve Bank.
INTEREST RATE SWAP	A form of insurance against interest rate risk. The exchange of interest rates from floating to fixed or vice versa.
INVESTMENT GRADE	Credit ratings equal to or higher than 'BBB-'.
IRREVOCABLE	Not able to be changed, reversed, recovered and final.
ISSUER	The party indebted or the person making repayments for its borrowings.
JIBAR	Johannesburg Interbank Agreed Rate. A reference rate.
JSE	Johannesburg Stock Exchange Limited, a licensed exchange under the Securities Services Act of 2004 (South Africa).
JUNIOR TRANCHE / JUNIOR DEBT	A security that has a lower repayment priority than senior securities.
KING IV	A code of corporate governance principals.
LEASE	Agreement or temporary use and enjoyment of a corporeal thing (movable or immovable property) the whole or part thereof for rent. The essential elements of a contract of lease are: 1) Undertaking of lessor to give the lessee the use and enjoyment of something; 2) Agreement between the lessor and lessee that the lessee's right to use and enjoyment is temporary; and 3) Lessee's undertaking to pay a sum or rent.
LEGAL OPINION	An opinion regarding the validity and enforceable of a transaction's legal documents.
LENDER	See Creditor.
LESSEE	The party that enjoys temporary use of a corporeal good.
LESSOR	The owner or agent that acts on behalf of the owner of property that grants the temporary use of a corporeal thing.
LETTER OF CREDIT (LOC)	A guarantee for payments under certain conditions.
LEVERAGE	A degree or borrowed funds used for financing growth.
LIEN	A right of retention of someone else's property due to expensed money or labour on property acquired until payment is made. A lien arises by operation of law and not as agreement between parties. There are three main types of liens: 1) an enrichment lien; 2) Improvement of property; and 3) Contractual debt.
LIEN (FLOATING LIEN INVENTORY)	A secured short-term loan against inventory under which the lender's claim is on the borrower's inventory in general.
LIMITED RECOURSE LANGUAGE	A debt where the creditor has limited claims on the obligation in event of default.
LIQUIDATOR	A person appointed to wind up the affairs of a company or firm.
LIQUIDITY	The ability to repay short-term obligations or short-term availability of liquid assets to a market or entity.
LIQUIDITY FACILITY	A facility provided to a structured finance transaction that will pay the Noteholders interest in the event that the underlying asset's cash flows are inadequate.
LOAN	A sum of money borrowed by a debtor that is expected to be paid back with interest to the creditor. See mortgage.
LONG-TERM RATING	A credit rating based on the opinion of the ability to repay obligations that are greater than one year. At GCR, the term should be greater than 13 months.
LOSS	A tangible or intangible, financial or non-financial loss of economic value.
MANAGEMENT AGENT	The manager of a transaction that overviews and takes action together with other transaction parties according to the clients and or investors wishes.
MARK TO MARKET	The accounting of securities' price change in comparison to the markets change.
MATURITY (EXPECTED MATURITY)	The expected maturity date of the Notes. In an ABS transaction, the maturity date is based on the underlying collateral's expected maturity, including prepayments.
MATURITY (LEGAL FINAL MATURITY)	The legal maturity date of the Notes which is greater than the expected maturity date. In an ABS, the maturity date is based on the underlying collaterals legal binding documents. Also called Final Maturity.
MEDIUM TERM NOTES	Debt securities with a tenor ranging from 5 to 10 years.
MONTE CARLO	A broad class of computational algorithms that rely on repeated random sampling to obtain numerical results.
MORTGAGE LOAN	Constituted by agreement between the mortgagor who undertakes to deliver the article, and the mortgagee, and subsequent delivery of the property in question as security for debt. A mortgage is only applicable to immovable property. 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.
MORTGAGOR	A debtor under a mortgage agreement.
MULTIPLIER	A stress applied to a variable that may impact the performance of a transaction.
NATIONAL CREDIT ACT	The National Credit Act 34 of 2005 (South Africa).

NEGATIVE PLEDGE	A pledge made by a creditor that it will not incur any debt or event that may negatively impact the transaction or entity or material subsidiary.
NON-INVESTMENT GRADE	Credit ratings equal to or lower than 'BB+'.
NON-PERFORMING	When a Borrower is overdue, typically 90 + days in arrears or as defined in the transaction documents.
NON-RECOURSE	A mortgage or deed of trust securing a note without recourse allows the creditor to look only to the collateral for repayment in the event of default, and not personally to the borrower.
NOTARIAL BOND	A manner in which a creditor can obtain preference over movable goods of a debtor. A notarial bond has to be registered over the movable property. A notarial bond is not a real security unless: the movable priority has been delivered to the bondholder, unless a special notarial bond has been registered over the movable property after the commencement of the Movable Property Act 57 of 1993 (South Africa) and described in such a manner that it is readily recognisable, then only is it deemed to have been pledged to the bondholder although not delivered.
NOTCHING	A movement in ratings.
NOTEHOLDER	Investor of capital market securities.
NOTES (A-NOTES)	The most senior tranche of notes.
NOTES (B-NOTES)	The second highest tranche of notes. Subordinated to the Class A-Notes.
NOTIONAL AMOUNT	The nominal or face value of an instrument. Also called notional principal.
NOVATION	An agreement between a creditor and debtor, where the old agreement is extinguished, and a new obligation is created in its place.
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.
OBLIGOR	The party indebted or the person making repayments for its borrowings.
OPTION	An option gives the buyer or holder the right, but not the obligation, to buy or sell an underlying financial asset at a pre-determined price.
ORIGINAL LOAN TO VALUE RATIO	Principal balance at origination date divided by the original (as at origination) property market value.
ORIGINATION	The process of underwriting loans/claims.
ORIGINATOR	An entity that created assets and hold on balance sheet for securitisation purposes.
OVER-COLLATERALISATION	Principal balance or value of the assets exceeds the debt securities issued by the securitisation vehicle. Over-collateralisation is a form of credit enhancement.
OVERNIGHT RATE	The overnight rate is the interest rate at which money due to be returned the next day is lent by one bank to another.
OWNER TRUST	Owner of a securitisation vehicle that acts in the best interest of the Noteholders.
PARI PASSU	Securities issued with a *pari passu* clause have rights and privileges that are equivalent to those of existing securities of the same class.
PASS-THROUGH	The receipts or repayments from the underlying security are passed to the holder of the security.
PAYING AGENT	An appointed Transaction party that is responsible for the payment of Noteholders scheduled interest and principal, as well as other transactional obligations.
PAYMENT DATE	The date on which the payment of a coupon or dividend is made.
PAYMENT TO INCOME RATIO (PTI)	Repayment, debt repayment, instalment divided by the total gross income.
PERFORMING	An obligation that performs according to its contractual obligations.
PLEDGE	Constituted by an agreement between the pledgor, who undertakes to deliver the article, and the pledgee, and subsequent delivery of the property in question as security for debt. A pledge is only applicable to movable property.
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.
POST-ENFORCEMENT PERIOD	Following a Transaction pre-enforcement period caused by an unremedied covenant / performance trigger / event of default breach. Typically, the Security SPV would take over the operations from the Issuer, with the intention to wind-up the Transaction, for the best interest of the Noteholders.
PRE-ENFORCEMENT PERIOD	A period whilst all Transaction covenants are adhered and no enforcement takes place. A going concern basis.
PREFERENCE SHARE	A source of long-term equity funding that has no voting rights and higher pay-out priority than common shares.
PREPAYMENT	Any unscheduled or early repayment of the principal of a mortgage/loan.
PREPAYMENT RATE	The rate of prepayment in relation to the pool of obligations. Also called prepayment speed.
PRIMARY MARKET	The part of the capital markets that deals with the issuance of new securities.
PRINCIPAL	The total amount borrowed or lent, e.g., the face value of a bond, excluding interest.
PRINCIPAL REPAYMENTS	Scheduled payments and prepayments.
PRIORITY OF PAYMENTS	In securitisation, the order in which the cash flows are allocated to creditors of the issuing SPV.

PRIVATE OR DIRECT PLACEMENT	An issuance of securities without market participation, however with a select few investors. Placed on a private basis and not in the open market.
PRO RATA	The allocation of an amount proportionally.
PROCEEDS	Funds from issuance of debt securities or sale of assets.
PROPERTY	Movable or immovable asset.
PROTECTION BUYER	The Protection buyer makes regular payment to the Protection seller in exchange for compensation of a security default event. In such an event, the Protection seller takes possession of the security and compensates the Protection buyer.
PROTECTION SELLER	The Protection seller insures the Protection seller of a security default event, in exchange for regular payment. In such an event, the Protection buyer receives compensation from the Protection seller in exchange for the security.
RANKING	A priority applied to obligations in order of seniority.
RATED SECURITIES	Debt securities that have been accorded a credit rating.
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.
RATING WATCH	Indicates that a rating is under review for possible change in the short-term and the movement may be either positive or negative.
REAL ESTATE	Property that consists of land and / or buildings.
REAL SECURITY	Obtained by a creditor when either as a consequence of agreement with a debtor or operation of law, the creditor acquires the right to be reimbursed from the proceeds of movable or immovable property of the debtor in the event of the debtor default. Real security includes: 1. Pledge; 2. Notarial bonds; 3. Mortgage bonds; 4. Liens or Hypothecs; and 5. Cession to secure debt.
RECEIVABLES	General term for economic benefit derived from an asset.
RECOVERY	The action or process of regaining possession or control of something lost. To recoup losses.
REDEMPTION	The repayment of a bond at maturity by the issuer.
REFERENCE RATE	A rate that is the basis of the calculation such as JIBAR.
REFINANCING	The issue of new debt to replace maturing debt. New debt may be provided by existing or new lenders, with a new set of terms in place.
RELEASE	An agreement between the creditor and debtor in terms of which the creditor release the debtor from its obligations.
RENOUNCE OR RENUNCIATION	Formally declare one's abandonment of a claim, right, or possession.
RENT	Payment from a lessee to the lessor for the temporary use of an asset.
REPACK	Rearrangement of securities with the intent to be more attractive for investment. See *Collateralised Debt Obligation*.
REPAYMENT	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 3. To reduce the amount of the principal debt.
REPLACEMENT SERVICER	See *Back-up Servicer*.
RESERVE	An amount allocated for a special purpose. Note that a reserve is usually a liability. On occasion a reserve may be an asset, such as a reserve for taxes not yet due.
RESERVE FUND	A funded account available for use by a Special Purpose Vehicle for one or more specified purposes. A reserve fund is often used as a form of credit enhancement. Typically accumulated over time through excess cash flows.
RESIDENTIAL MORTGAGE-BACKED SECURITIES (RMBS)	Type of debt securities issued by a securitisation vehicle that has residential mortgages as the collateral.
REVOLVING PERIOD	The period whereby assets can be purchased in addition to the initial portfolio sold to the SPV. During this period, the Notes are generally not repaid and only bear interest.
RISK	The chance of future uncertainty (i.e., deviation from expected earnings or an expected outcome) that will have an impact on objectives.
RISK WEIGHTING	A weighting allocated to certain assets or obligations that have higher amount of risk attached to it than another.
SCHEDULED INTEREST	The interest payment due on a scheduled date.
SCHEDULED PRINCIPAL	The principal payment due on a scheduled date.
SEASONING	The age of an asset, the time period passed since origination.
SECONDARY MARKET	The part of the capital markets that deals with the previously issued financial instruments which are traded from other investors rather than the Issuer.
SECURED CREDITOR	A creditor that has specific assets pledged as collateral that will receive the proceeds in the event of default.
SECURITATEM DEBITI	Cession to secure debt where the cession of a personal right is affected as security for a debt.
SECURITIES	Various instruments used in the capital market to raise funds.
SECURITISATION	A process of repackaging portfolios of cash-flow producing financial instruments into securities for sale to third parties.
SECURITISATION VEHICLE	See *Special Purpose Vehicle*.
SECURITY	One of various instruments used in the capital market to raise funds.

SECURITY SPV	A bankruptcy remote SPV created to protect and act in the interest of the issuer's creditors during a post-enforcement period.
SENIOR CLASS	A security that has a higher repayment priority than subordinated securities.
SERVICER	A Transaction appointed agent that performs the servicing of mortgage loans, loan or obligations.
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.
SET-OFF	A set-off refers to a settlement of mutual debt between a creditor and a debtor through offsetting transaction claims.
SETTLEMENT	Full repayment of an obligation.
SETTLEMENT AGENT	The person that acts on behalf of the debtor for repayment or settlement of obligations
SHARES (COMMON SHARES)	A source of long-term equity funding that has voting rights and entitles the bearer as an owner of the entity.
SHORT-TERM RATING	A credit rating based on the opinion of the ability to honour short term (less than a year) obligations.
SPECIAL PURPOSE VEHICLE	A special purpose vehicle is an entity created by a company to isolate financial risk. Its legal status as a separate company makes its obligations secure even if the company goes bankrupt. For this reason, a special purpose vehicle is sometimes called a bankruptcy-remote entity.
SPONSOR (DEBT SPONSOR)	Usually as Investment bank that brings a Transaction to the capital market, similar to an Arranger.
SPREAD	The interest rate that is paid in addition to the reference rate for debt securities.
STANDARD DEVIATION	An indication of risk amongst the dispersion of values. Higher value indicates greater risk.
STATIC POOL	A snapshot of a pool of assets at a specific period in time.
STEP-UP COUPON	A margin/spread added to the reference rate on the Interest Step-Up Date or on the occurrence of an eventuality
STEP-UP DATE	The Date on which the step-up coupon applies
STOCK CODE	A unique code allocated to a security.
STOCK EXCHANGE NEWS SERVICE (SENS)	The Stock Exchange News Service for the JSE.
STOP PURCHASE EVENT	An event caused by transactional performance or environmental changes that would stop the purchasing of new assets into the Transaction.
STRESS TESTING	A risk management technique of taking Transaction and environmental variables by stressing according to various scenarios of market conditions to determine the possible outcomes.
STRUCTURAL ENHANCEMENT	This may be provided as credit enhancement or as various other methods to enhance the security of a Transaction such as performance triggers, short revolving periods et cetera.
STRUCTURED FINANCE	A method of raising funds in the capital markets. A Structured Finance Transaction is established to accomplish certain funding objectives whist reducing risk.
SUBORDINATED LOAN	A loan typically issued by the Issuer that is paid off only after a higher-ranking loan is according to the priority of payments
SUBORDINATION	The prioritising of the payment of interest and principal payments to tranches (senior, junior etc. Senior tranches are paid before junior tranches.
SURVEILLANCE	Process of monitoring a Transaction according to triggers, covenants and key performance indicators.
SWAP	An agreement between two parties for the exchange of a series of future cash flows. The exchange of one security for another.
SWAP PROVIDER	Normally an investment bank, which provides a swap.
SYNDICATED LOAN	Loans provided from several creditors to a single debtor.
TAXATION	A source of government revenue levied on income and accruals.
TECHNICAL INSOLVENCY	Inability of an entity to satisfy liabilities as they become due based purely on balance sheet value.
TENOR	The term or duration of a debt security.
TRADE RECEIVABLES	A legally enforceable claim for payment to a business by its customer or clients for goods supplied and or services rendered in execution of the customer's order.
TRANCHE	In a structured finance, a slice or portion of debt securities offered that is structured or grouped to resemble the same degree of risk associated with the underlying asset or with a similar degree of risk. A junior tranche has a higher degree of default risk than a senior tranche.
TRANSACTION	An issuing entity and its related legal documentation
TRANSACTION MANAGER	See Management Agent.
TRIGGER EVENT	An event caused by transactional performance or environmental changes that would impact a transaction e.g. non-payment
TRUE SALE	An asset's right, title and obligations are transferred to a securitisation vehicle by means of pledge, mortgage or cession. The assets should no longer be under the control of the previous owner.
TRUST DEED	The trust deed represents an agreement between the borrower and a lender to have assets held in trust by a neutral and independent third party until the loan is paid off.

TRUSTEE OR TRUST	A third party that acts in the best interest of another party, according to the trust deed, usually the investors. See Owner Trust.
UNCONDITIONAL	Not subject to any conditions.
UNDER REVIEW	The entity undergoing a review process.
UNDERWRITER	See Stabilisation Agent.
UNSECURED CLAIM	A loan made without an asset given as security.
VACANCY	The percentage of all available units in a rental property, that are vacant or unoccupied at a particular time.
VALUATION (MARKET OR MARKET COMPARISON OR DESKTOP OR INDEX)	An assessment of the property value, with the value being compared to similar properties in the area.
VALUATION (PHYSICAL VALUATION)	A physical assessment of the property value by a property valuator.
VALUATION (RENTAL YIELD VALUATION)	An assessment of the property value based on the rental income.
WAIVER	See Release.
WATERFALL	Waterfall payment structures require that higher-tiered creditors receive interest and principal payments first, while the lower-tiered creditors receive principal payments after the higher-tiered creditors are paid back in full.
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.
WEIGHTED AVERAGE	An average resulting from the multiplication of each obligation by a factor reflecting its importance or, relative size to a pool of assets or liabilities.
WEIGHTED AVERAGE CURRENT LOAN TO CURRENT VALUE RATIO (WACLTCV)	An average resulting from the multiplication of each obligation 'Current Loan to Current Value Ratio' by a factor reflecting its importance or, relative size to a pool of assets or liabilities.
WEIGHTED AVERAGE MATURITY (WAM)	An average resulting from the multiplication of each obligations maturity by a factor reflecting its importance or, relative size to a pool of assets or liabilities.
WEIGHTED AVERAGE ORIGINAL LOAN TO ORIGINAL VALUE RATIO (WAOLTOV)	An average resulting from the multiplication of each obligation 'Original Loan to Original Value' Ratio by a factor reflecting its importance or, relative size to a pool of assets or liabilities.
WEIGHTED AVERAGE ORIGINAL PAYMENT TO ORIGINAL INCOME (WAOPTOI)	An average resulting from the multiplication of each obligation 'Original Payment to Original Income' Ratio by a factor reflecting its importance or, relative size to a pool of assets or liabilities.
WEIGHTED AVERAGE SEASONING (WAS)	An average resulting from the multiplication of each obligation seasoning by a factor reflecting its importance or, relative size to a pool of assets or liabilities.
WORKING CAPITAL	The capital of a business which is used in its day-to-day trading operations, calculated as the current assets minus the current liabilities.