

Credit Rating Announcement

GCR accords indicative credit rating to the new Class A Notes to be issued by Capital Harvest Finance (RF) Limited.

Rating Action

Johannesburg, 09 November 2022 – GCR Ratings (“GCR”) has accorded indicative national scale long term issue credit rating to the new Class A Notes to be issued by Capital Harvest Finance (RF) Limited (“Capital Harvest Finance” or the “Issuer” or the “Transaction”) in November 2022:

Security Class	Stock Code	Issuance Amount (ZAR)	Rating Class	Rating Scale	Rating	Outlook
Class A Notes	4ACHFA4	100,000,000	Long-Term Issue	National	AAA _(ZA) (sf)(IR)	Stable

The Issuer plans to issue an additional R60,000,000 of existing Class A Notes, Class B and D Notes of R15,000,000 each as well as unrated Class E Notes of R5,000,000, increasing the Class E Notes balance to R23,000,000 and increasing the balance of the unrated Junior Loan from R38,050,000 to R43,000,000. The planned issuances would lead to a capital structure wherein the existing credit enhancement levels available to each Class of Notes respectively are maintained. The new issuance of Notes is therefore not expected to impact the ratings of the existing Classes of Notes negatively.

The expected post-issuance capital structure is shown in the below table:

Security Class	Stock Code	Amount Post Issuance (ZAR)
Class Alpha Notes	4CHFS1	100,000,000
Class A Notes	4ACHFA1	437,000,000
Class A Notes	4ACHFA2	356,000,000
Class A Notes	4ACHFA4	100,000,000
Class A Notes	CHFA3U	141,000,000
Class B Notes	4ACHFB1	98,000,000
Class D Notes	4ACHFD1	91,000,000
Class E Notes	CHFE1U	23,000,000
Junior Loan	N.A.	43,000,000

N.A.: Not Applicable

The proceeds of the planned issuances will be used to purchase additional Participating Assets. To assign the indicative rating, GCR performed cash flow modelling of the Transaction using the updated capital structure and other information provided by the Arranger. In this period of review the Issuer has received Noteholder approval to purchase an asset that is greater than R75m in value per the Eligibility criteria. The top seven obligors account for 43.72% of exposures compared to 45.00% previously. The overall limit of 50% has not been breached.

The credit ratings assigned to all Classes of Notes relate to the ultimate payment of interest and principal by their Final Maturity Dates, as contractually required. The ratings exclude an assessment of the ability of the Issuer to pay either any (early repayment) penalties or any default interest rate penalties. However, interest on the Notes was modelled according to the step-up interest rates, which becomes applicable on an Amortisation Event.

Transaction Summary

The Transaction is an asset-backed securitisation of agricultural loans advanced to commercial farmers in South Africa. The agricultural loans are originated by Capital Harvest (Pty) Ltd (the "Originator" or "CH"), which operates as a primary and secondary agriculture financier, and are sold to the Issuer by CH and/or the Capital Harvest Warehouse SPV (RF) Proprietary Limited (the "Warehouse SPV"). This is the first rated asset-backed securitisation programme that is backed by assets (the "Participating Assets") originated by CH. Only Class A, B, D, and E Notes were issued at the initial issuance. Subsequently, the Issuer issued R121m of which Senior Alpha Notes accounted for R100m. The Issuer will issue a further R100m of new Class A Notes and tap an additional R99.95m across the existing Class A, B, D, E, and Junior Notes to maintain the Capital Structure Covenants.

The proceeds will fund the acquisition of Participating Assets, consisting of Loan Agreements and related security and a Liquidity Reserve which will increase to R33.65m. The Issuer had cash of R52.50m as at September 2022 to fund new assets or undrawn borrower facilities. Interest and principal on all the Notes issued is to be paid quarterly on each Payment Date during the Revolving Period and monthly in the Amortisation Period.

The loans purchased by the Issuer are backed by many forms of security, including suretyships and Indemnity Bonds registered in favour of the Mortgage SPV.

Rating Rationale

GCR modelled the Transaction's cash flows according to the proposed capital structure, Priority of Payments, and other contractual provisions, applying its Criteria for Rating Structured Finance Transactions, September 2018. While the Transaction is an evergreen transaction, the cash flows were modelled as per the Pre-Enforcement Priority of Payments applicable in an Amortisation Period, as per the abovementioned criteria. GCR modelled the asset margin for Capital Harvest Finance at the covenant level to simulate a breach of an amortisation trigger. Defaults, prepayments, and arrears were modelled according to GCR's standard Asset-Backed Securities ("ABS") methodology and assumptions. GCR used the value of immovable property over which a first ranking Indemnity Bond is registered to assess the security value for its modelling of recoveries on defaulted loans. Such recoveries were modelled according to GCR's Criteria for Rating Residential Mortgage-Backed Securities ("RMBS"), November 2018, taking into account the Loan to Value ("LTV") Portfolio Covenants. Adjustments to account for the provincial agricultural sector's economic contribution were made to stress the values of these properties.

The rating outcome is a direct result of the modelling of the Transaction's cash flows in specific rating scenarios, with stresses applied to defaults, recoveries, prepayments, and interest rates, *inter alia*, that increase in severity with each rating level. GCR modelled two scenarios, Scenarios (1), where the obligor concentration limits, which have not changed since the initial issuance, determine modelled defaults, and Scenario (2), where the Default Base Case and default multiples determine modelled defaults. In both cases, the recovery rates are determined based on covenanted LTVs which have not changed. GCR received updated historical default data up to March 2022 and noted that performance aligned with expectations. To date no further defaults have been reported. The most conservative rating outcome of the two scenarios was selected. The new Classes A Notes pass with interest and principal paid in full by its Final Maturity Date in all of the stressed scenarios modelled at levels of severity that correspond with the assigned indicative rating. GCR notes that the untimely payment of interest or principal does not necessarily constitute an Event of Default as per Transaction documentation. Therefore, the Transaction was modelled for the ultimate payment of interest and principal.

No breaches of covenants and no Non-Performing Loans ("NPLs") or later stage arrears were reported in the investor report of September 2022. The Transaction is therefore performing in line with expectations.

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Related Criteria and Reports

Criteria for the GCR Ratings Framework – January 2022
 Criteria for Rating Structured Finance Transactions – September 2018
 Criteria for Rating Residential Mortgage-Backed Securities – November 2018
 Criteria for Rating Consumer Asset-Backed Securities – September 2018
 Criteria for Rating Servicer Quality – April 2021
 Criteria for Rating Financial Institutions, May 2019
 Rating Scales, Symbols, and Definitions – May 2022

Ratings History

Security Class	Review	Rating Scale	Public Rating	Outlook	Date
Class Alpha Notes	Initial/Last	National	A1+(ZA)(sf)	N.A.	June 2022
Class A Notes	Initial	National	AAA(ZA)(sf)	Stable Outlook	December 2021
	Last	National	AAA(ZA)(sf)	Stable Outlook	June 2022
Class B Notes	Initial	National	AA-(ZA)(sf)	Stable Outlook	December 2021
	Last	National	AA-(ZA)(sf)	Stable Outlook	June 2022
Class D Notes	Initial	National	BBB-(ZA)(sf)	Stable Outlook	December 2021
	Last	National	BBB-(ZA)(sf)	Stable Outlook	June 2022

N.A.: Not applicable

Glossary

Account Bank	A bank where the transaction account is held.
Administrator	A transaction appointed agent responsible for the managing of a Conduit or a Special Purpose Vehicle. The responsibilities may include maintaining the bank accounts, making payments and monitoring the transaction performance.
Advance	A lending term, to transfer funds from the creditor to the debtor.
Agent	An agreement where one party (agent) concludes a juristic act on behalf of the other (principal). The agent undertakes to perform a task or mandate on behalf of the principal.
Agreement	A negotiated and usually legally enforceable understanding between two or more legally competent parties.
Amortisation Period	A period that may follow the Revolving Period of a transaction, during which the outstanding balance of the related securities may be partially repaid.
Amortisation	From a liability perspective, the paying off of debt in a series of instalments over a period of time. From an asset perspective, the spreading of capital expenses for intangible assets over a specific period of time (usually over the asset's useful life).
Arrears	An overdue debt, liability or obligation. An account is said to be 'in arrears' if one or more payments have been missed in transactions where regular payments are contractually required.

Asset Backed Securities	Securitisation: debt securities issued that are backed or covered by a pool of assets or receivables (auto loans and leases, consumer loans, commercial assets, credit cards, mortgage loans).
Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Bond	A long term debt instrument issued by either a company, institution or the government to raise funds.
Capital	The sum of money that is invested to generate proceeds.
Cash	Funds that can be readily spent or used to meet current obligations.
Covenant	A provision that is indicative of performance. Covenants are either positive or negative. Positive covenants are activities that the borrower commits to, typically in its normal course of business. Negative covenants are certain limits and restrictions on the borrowers' activities.
Credit Rating Agency	An entity that provides credit rating services.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Credit	A contractual agreement in which a borrower receives something of value now, and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company
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 90 days on any debt obligations as defined in the transaction documents; 4.) The obligor has filed for bankruptcy or similar protection from creditors.
Financial Institution	An entity that focuses on dealing with financial transactions, such as investments, loans and deposits.
Indemnity	A security or protection against a loss or other financial burden.
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.
Junior	A security that has a lower repayment priority than senior securities.
Legal Opinion	An opinion regarding the validity and enforceable of a transaction's legal documents.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Loan To Value	Principal balance of a loan divided by the value of the property that it funds. LTVs can be computed as the loan balance to most recent property market value, or relative to the original property market value.
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.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Obligor	The party indebted or the person making repayments for its borrowings.
Payment Date	The date on which the payment of a coupon or dividend is made.
Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
Prepayment	Any unscheduled or early repayment of the principal of a mortgage/loan.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
Proceeds	Funds from issuance of debt securities or sale of assets.
Property	Movable or immovable asset.
Ranking	A priority applied to obligations in order of seniority.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Redemption	The repurchase of a bond at maturity by the Issuer.
Repayment	Payment made to honour obligations in regards to a credit agreement in the following credited order: 3.) Satisfy the due or unpaid interest charges; 4.) Satisfy the due or unpaid fees or charges; and 5.) To reduce the amount of the principal debt.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
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.
Security	One of various instruments used in the capital market to raise funds.
Servicer	A transaction appointed agent that performs the servicing of mortgage loans, loan or obligations.
Structured Finance	A method of raising funds in the capital markets. A Structured Finance transaction is established to accomplish certain funding objectives whilst reducing risk.
Transaction	A transaction that enables an Issuer to issue debt securities in the capital markets. A debt issuance programme that allows an Issuer the continued and flexible issuance of several types of securities in accordance with the programme terms and conditions.
Ultimate Payment	A measure of the principal debt, interest, fees and expenses being repaid over a period of time determined by recoveries.

Salient Points of Accorded Ratings

GCR affirms that a.) no part of the ratings were 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 Issuer. The ratings were solicited by, or on behalf of, the Issuer, and, therefore, GCR has been compensated for the provision of the ratings. The Issuer participated in the rating process verbal and written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The information received from the Issuer and other reliable third parties to accord the credit rating included:

- Proposed Capital Structure September 2022
- Investor Reports to September 2022
- Terms for the new Class A Notes
- Other miscellaneous data and information

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