

Investec Property Fund Limited R416m Senior Secured Notes - New Issuance Report

South Africa - Secured Bond New-Issuance Report

15 April 2015

Security class	Amount	Rating scale	Rating	Outlook	Next review
Senior Secured Notes - IPF12	R100m	National	AA _{-(ZA)}	Stable	15 April 2016
Senior Secured Notes - IPF02	R40m	National	AA _{-(ZA)}	Stable	15 April 2016
Senior Secured Notes - IPF03	R50m	National	AA _{-(ZA)}	Stable	15 April 2016
Senior Secured Notes - IPF06	R226m	National	AA _{-(ZA)}	Stable	15 April 2016

Key counterparties:

Issuer: Investec Property Fund Ltd (“IPF”)

Security SPV:

Investec Property Fund Security SPV (Pty) Ltd (RF)

Trustee of Security SPV Owner Trust:

TMF Corporate Services (South Africa) (Pty) Ltd

Property Manager:

Investec Property (Pty) Ltd

Settlement Agent:

Nedbank Ltd (“Nedbank”)

Paying Agent/Transfer Agent/Arranger

Investec Bank Ltd (“Investec”)

Account Banks:

Investec and Nedbank

Summary of Transaction:

Asset class	Secured Notes
Senior Secured Notes aggregate issuance amount	R416m
LT senior unsecured rating of the Issuer	‘A _{-(ZA)} ’/‘Positive’ Outlook
Status	Senior secured by real estate assets
OMV of properties	R967m at 1 st Apr’13
Interest payment frequency	Quarterly for IPF12, IPF02, IPF03, semi-annual for IPF06
Principal payment frequency	Bullet
Negative pledge applicable	Yes
Cross default applicable	Yes
Early redemption possible	Yes, tax related
Listing	Yes, JSE Ltd
Closing date	13 April 2012

Rating history:

Stock Code	Initial Rating	LT rating	ST rating	Rating outlook
IPF12	15 April’14	AA _{-(ZA)}	n.a.	Stable
IPF02	13 April’12	A _(ZA)	n.a.	Stable
IPF03	13 April’12	A _(ZA)	n.a.	Stable
IPF06	13 April’12	A _(ZA)	n.a.	Stable
Stock Code	Last Rating	LT rating	ST rating	Rating outlook
IPF12	New	New	n.a.	Stable
IPF02	18 July’14	AA _{-(ZA)}	n.a.	Stable
IPF03	18 July’14	AA _{-(ZA)}	n.a.	Stable
IPF06	18 July’14	AA _{-(ZA)}	n.a.	Stable

GCR contacts:

Primary Analyst

Mark Vrdoljak

Credit Analyst

markvrd@globalratings.net

Committee Chairperson

Emma-Jane Fulcher

Sector Head : Structured Finance Ratings

fulcher@globalratings.net

Tel: +27 11 784-1771

Analyst location: Johannesburg, South Africa

Website: www.globalratings.net

Transaction Summary

Global Credit Rating Co. (“GCR”) has accorded a *final, public* ‘AA_{-(ZA)}’ long term rating, with a ‘Stable’ outlook to the IPF12 notes to be issued by Investec Property Fund on 15 April 2015.

Concurrently, GCR has affirmed the *final, public* long term ratings of ‘AA_{-(ZA)}’ accorded to the IPF02, IPF03 and IPF06 notes (collectively R316m in value) issued by Investec Property Fund on 13 April 2012. Collectively the IPF12, IPF02, IPF03 and IPF06 notes amounting to R416m, issued under IPF’s DMTN programme (the “**Transaction**”) are referred to as the ‘**Senior Secured Notes**’.

The *final, public* rating accorded to the Senior Secured Notes relates to ultimate payment of interest and principal (as opposed to timely, akin to an expected loss rating, which is a function of probability of default and loss severity).

Rating Rationale

- The high quality pool of real estate assets owned by IPF, evidences long term leases and low vacancy levels. This has ensured strong cash flows, underpinned by sound escalations and reversions. As such, margins remain robust and should support comfortable medium term debt serviceability.
- With respect to IPF’s entire portfolio, the top 10 properties accounted for 43% of the property portfolio’s carrying value at end September 2014 (FYE14: 44%), from 75% at FYE12. Despite the moderate decreases reported, the fund reflects a high proportion of single tenancies (45% of revenue, 47% as at FYE14), while 69% of its rental income is derived from A-grade tenants (FYE14: 70%).
- Vacancies remain very low at 3.0% of gross lettable area (“GLA”), with leases averaging 4.3 years as at end September 2014, reflecting the quality of assets acquired.
- With regards to the properties held by the Security SPV, the market value of the properties rose by R86.3m to R967m as at the end of March 2013’s valuation exercise. IPF’s secured portfolio tenancy and lease expiration profile has remained unchanged as at end September 2014 since the last rating review (conducted in July 2014), with the weighted average remaining lease term equating to around 4.3 years.
- The Issuer and the Security Special Purpose Vehicle (“SPV”) have continued to meet the covenants, relating to the Senior Secured Notes, being that of the maximum 50% LTV ratio covenant, an interest cover ratio covenant of no less than 2x which both apply to the Issuer and, in respect of the Security SPV, a 60% maximum LTV ratio.
- GCR reviewed the applicable insurance cover policies on the buildings held as security for the transaction and took comfort in regards to the adequate insurance cover taken.
- The rating of the Senior Secured Notes is derived by applying a notching up approach, starting from the long term senior unsecured corporate credit rating of the Issuer. Based on fundamentals and prospects of IPF, GCR has accorded a long term ‘A_{-(ZA)}’ national scale corporate credit rating with a ‘Positive’ outlook to the Issuer. A rating uplift of 3 national scale notches was deemed appropriate for this particular transaction, given the “*Excellent Recovery Prospects*” equating to a ‘AA_{-(ZA)}’ rating on the Transaction.
- **GCR analysed the Transaction by applying its:**
 - Criteria for Rating Property Funds (Apr’15); Criteria for Rating Corporate Entities (Feb’15); Global Structurally Enhanced Corporate Bonds Rating Criteria (Feb’15); and with reference to its Investec Property Fund Limited R450m Senior Secured Floating Rate Notes – New Issuance Report (Apr’12); Investec Property Fund Limited’s Corporate Rating Report (Jul’14); and its Investec Property Fund Limited R450m Senior Secured Floating Rate Notes – Surveillance Report (Jul’14).

Introduction

IPF initially issued R450m in Senior Secured Notes on 15 April 2012, with the listing taking place on the Interest Rate Market of the JSE, Johannesburg. The proceeds of the issuance were used by the Issuer to fund the acquisition of investment properties, as well as for general corporate purposes.

Following the initial issuance, the IPF01 notes (R134m) matured on 13 April 2015. Post IPF01's maturity, IPF intends to issue IPF12 (R100m) on the 15 April 2015.

Words in capitals are defined in the transaction documents, unless indicated otherwise.

The DMTN Programme

The Programme will allow the Issuer to issue a wide variety of securities with different maturities and risk profiles. Securities issued may be listed on the JSE or another exchange or may be unlisted. The aggregate Programme limit is R3bn.

Securities will be issued in series and each series may comprise one or more tranches. Each tranche will be accompanied by an applicable pricing supplement detailing the specific features applicable to the tranche (e.g. the interest and repayment profile). The Issuer may issue either senior notes or subordinated notes. *Unless* specified differently in the applicable pricing supplement, the senior notes will rank *pari passu* among themselves and with all other secured or unsecured and unsubordinated obligations of the Issuer. In respect of subordinated notes, such notes will rank *pari passu* among themselves and with all other unsecured and subordinated obligations of the Issuer, save for preferential rights required by law as well as for any debentures which will rank below the subordinated notes. The Senior Notes will be senior secured notes.

The Issuer has the right to early settlement of the securities due to an adverse change in tax laws resulting in the Issuer having to pay gross-up amounts to noteholders. The applicable pricing supplement will state whether i) the Issuer has an option to redeem the notes early; and ii) the Senior Noteholders have an option to request early settlement of the notes. Moreover, the applicable pricing supplement may stipulate additional optional redemption possibilities for the benefit of the Issuer and/or the noteholders.

Events of Defaults

If an Event of Default occurs in relation to the Senior Notes, any Senior Noteholder may provide written notice to the Issuer and/or Security SPV, declaring that all amounts due and payable relating to the Notes held by that specific noteholder, are due and payable. Upon notice of an Event of Default, the Security SPV will provide written notice declaring that all amounts owing under the Senior Notes become due and payable. In the event that the Issuer fails to pay all amounts due and payable under the Senior Notes, the Security SPV will enforce the rights of the Senior Noteholders under the Security Documents. The following **Events of Default** apply, amongst others:

- Failure to pay amounts due under the Senior Notes;
- Failure to perform or observe other material obligations under the terms and conditions of the Senior Notes;

- Any business rescue proceedings are brought against, or a resolution is passed to commence business rescue proceedings against the Issuer;
- The Issuer becomes subject to any liquidation or judicial management order;

Customary negative pledge and negative undertakings apply to the Senior Notes.

GCR expects to be notified sufficiently in advance if further notes are intended to be issued in order to re-assess the transaction on its merits. Please find a transaction diagram in *Appendix A*.

The Issuer

IPF's corporate credit rating is currently 'A_{-(ZA)}'/'A1_{-(ZA)}' on the long term and short term national scale, respectively with a 'Positive' outlook. For more information on IPF, please refer to GCR's rating report on IPF published in July 2014.

As per the applicable pricing supplements relating to the Senior Notes, the following covenants will apply to the Issuer on the aggregate corporate level:

- An Issuer interest cover ratio of 2 times, calculated by dividing EBITDA over interest expense for that period;
- An Issuer Loan to Value ('LTV') ratio of 50%, calculated as total interest bearing financial indebtedness of the Issuer divided by the most recent independent external market valuation or Director's valuation of all the immovable properties and other investments owned by the Issuer as stipulated in the most recent audited financial year-end and interim results.

And on the SPV level:

- The SPV LTV ratio of 60%, calculated as the aggregate Principal Amount of Notes issued in April 2015 (IPF12) plus the aggregate Principal Amount of all Tranches of Secured Notes which are secured in terms of the same nature of the Notes issued in April 2015 (IPF02, IPF03 and IPF06) divided by the amount of the most recent independent external market valuation or Director's valuation of all immovable properties over which the Mortgage Bonds have been registered as set out in the Issuer's latest audited financial year-end and interim results.

The Security SPV

The Security SPV is a ring-fenced insolvency remote special purpose vehicle incorporated in South Africa as a private company with limited liability. The Security SPV is required to act in the best interests of and on the instruction of the Noteholders. Nolands Inc. have been appointed as the auditors of the Security SPV and will conduct an audit on an annual basis.

All the ordinary shares in the Security SPV will be held by the Security SPV Owner Trust, a trust established in South Africa. The initial capital beneficiaries of this trust will be the secured creditors (which includes the Senior Noteholders). The trustee will be TMF Corporate Services (South Africa) (Pty) Ltd. The Security SPV will have 1 independent director and will be an employee of the Trustee. Any shareholder who holds more than 10% of the issued ordinary shares of the Security SPV, namely the

Security SPV Owner Trust, shall be entitled to appoint the directors.

In order to secure the claims of the Senior Noteholders against the Issuer, the Security SPV has executed a limited recourse irrevocable and unconditional guarantee for the benefit of the Senior Noteholders. This guarantee is backed by a counter-indemnity and a security cession mechanism. The Issuer agrees to indemnify the Security SPV in respect of payments to be made under the guarantee. The collateral backing this indemnification is the Issuer's rights, title and interest in and to:

- First-ranking continuing coverage mortgage bonds registered/to be registered in the name of the Security SPV in relation to selected freehold and leasehold properties held by the Issuer that will serve as security in the Transaction.
- A security cession agreement entered into between the Issuer and the Security SPV pursuant to which the first cedes to the latter the Issuer's rights, title and interest in and to a) the tenants' lease agreements; b) the 'Management Agreement' entered into between the Issuer and the Manager; c) any insurance policies held in the name of the Issuer and insurance proceeds thereof and any interests of the Issuer noted on any insurance policy not held in the name of the Issuer; d) any related security and; e) all amounts received and accruing to the Issuer in relation to the rights owing under a) to d). Such cession is only in respect of selected freehold and leasehold properties designated by the Issuer, following which first ranking mortgage bonds have been/will be registered in the name of the Security SPV.
- A security cession of the bank account (the 'Proceeds Bank Account') established in the name of the Issuer (discussed below).

Following an Event of Default, the Security SPV will enforce its security for the benefit of the Senior Noteholders.

As per the applicable pricing supplements relating to the Senior Notes, a LTV ratio covenant of 60% will apply to the Security SPV in respect of the principal amount outstanding under the Senior Notes issued under stock codes IPF12, IPF02, IPF03 and IPF06.

Covenant compliance

As per the applicable pricing supplements for the Senior Secured Notes, the following covenants apply to the Issuer on the aggregate corporate level:

- An Issuer interest cover ratio of 2 times, calculated by dividing EBITDA over interest expense for that period;
- An Issuer LTV ratio of 50%, calculated as total interest bearing financial indebtedness of the Issuer divided by the most recent independent external market valuation or Director's valuation of all the immovable properties and other investments owned by the Issuer as stipulated in the most recent audited financial year-end and interim results.

And on the SPV level:

- The SPV LTV ratio of 60%, calculated as the aggregate Principal Amount of Notes issued in April 2015 (IPF12) plus the aggregate Principal Amount of all Tranches of Secured Notes which are secured in terms of the same nature of the Notes issued in April 2015 (IPF02, IPF03

and IPF06) divided by the amount of the most recent independent external market valuation or Director's valuation of all immovable properties over which the Mortgage Bonds have been registered as set out in the Issuer's latest audited financial year-end and interim results.

Covenants requirements as at 30 September 2014	Actual ratio
Issuer LTV ratio \leq 50%	22.6% ¹
Issuer Interest Cover ratio \geq 2.0x	4.3x ¹
SPV LTV ratio \leq 60%	46.6% ²
SPV Interest Cover ratio	4.0x ³

¹ Source: Investec Property Fund.

² As at end September 2014, market valuations as at beginning April 2013 (valuation exercise concluded in March 2013).

³ Not a covenant however, provided for performance reporting reasons.

Note: None of the covenants were breached over the review period.

Rental Collections

Although Investec Property is the appointed Manager for the Issuer, the day-to-day building management and maintenance is outsourced to Broll Property Group (the 'Property Manager'). In this regard, the Property Manager is responsible for the monthly collection of rental income from the tenants.

Monies paid by tenants are directly deposited into a trust bank account established by the Property Manager. On a daily basis, the Issuer's fund accountant reviews the Property Manager's trust bank account. The accountant ensures that there are adequate funds available in the trust bank account to pay for property expenses, with the remaining funds swept into a bank account held by the Issuer on a weekly basis.

Account Bank

The trust bank account established by the Property Manager is held with Nedbank. The Proceeds Bank Account will be held with Investec. The current credit ratings of Nedbank and Investec are 'AA_(ZA)/A1_{+(ZA)}' and 'AA_{-(ZA)}/A1_{+(ZA)}' on the national scale on the long and short term respectively.

As per the 'Account Bank Agreement', the incorporation of downgrade language provides for a replacement of the Account Banks should their respective rating drop to below 'A1' on the short term ZAR currency national scale.

Proceeds Bank Account

For the Transaction, the Issuer has established in its name the Proceeds Bank Account that will hold the rental proceeds relating to the properties that will serve as security in the Transaction. Once rental payments are deposited into the Property Manager's trust bank account, the Issuer's accountant will utilise the disbursement statements for the properties (that will serve as security in the Transaction) to identify the respective cash received. Such cash (less funds provisioned for expenses specific to the particular secured properties) will then be swept to the Proceeds Bank Account.

As mentioned above, the Issuer has ceded the Proceeds Bank Account in *securitatem debiti* to the Security SPV. Upon enforcement by the Security SPV, all monies standing to the credit of Proceeds Bank Account will be for the benefit of the Security SPV. The Property Manager and Investec have confirmed in writing that they acknowledge the cession of the Proceeds Bank Account.

Rating Methodology of the Senior Secured Notes

The rating of the Senior Secured Notes is derived by applying a notching approach, starting from the long term senior unsecured corporate credit rating of IPF. In determining the appropriate number of rating notches to be applied, GCR compares the estimated overall recovery rate after a potential default of the Senior Secured Notes with an assumed average corporate senior unsecured debt obligation recovery rate. If overall estimated recoveries on the Senior Secured Notes are higher than the assumed average recovery rate, a notching uplift may be applicable.

Based on GCR's Global Structurally Enhanced Corporate Bonds Rating Criteria, the calculated overall recovery rate of 97% carries the qualification "Excellent Recovery Prospects". A 3 notch rating uplift on the national scale is deemed to be appropriate for the Transaction. Accordingly, GCR has accorded a AA_(ZA) rating, with a 'Stable' outlook to the IPF12 notes

Concurrently, the 'AA_(ZA)' rating on the IPF02, IPF03 and IPF06 notes has been affirmed with a 'Stable' outlook.

Recovery rate calculations*	Rands
Principal amount outstanding upon default	416,000,000
Assumed missed interest upon default	13,882,500
Assumed missed interest to give time to realise recoveries	53,463,000
Aggregate exposure Senior Noteholders	483,345,500
Assumed recoveries on sale of properties	(419,530,000)
Assumed recoveries on rentals	(72,996,245)
Assumed sales and legal costs	25,171,800
Unsecured claim on Issuer	15,991,055
Assumed recovery on unsecured claim	0
Remaining claim	0
Overall estimated recovery rate	97%

* For more details, please see under *Appendix A*.

Legal Opinion

GCR received a signed executed copy of the legal opinion prepared by South African transaction legal counsel (Werksmans) in April 2015, and which was reviewed by Norton Rose Fulbright.

GCR understands, amongst others, from the legal opinion that:

- The Security SPV has the features of a bankruptcy remote vehicle.
- The Transaction complies with applicable regulations.
- The transaction documents are legal, valid, binding and enforceable.
- The mortgage bonds that have been registered in the name of the Security SPV, in relation to the freehold and leasehold properties serving as collateral under the Transaction, are first ranking.
- The tenants do not have the right to cancel their rental agreements upon insolvency of the Issuer.
- The trust bank account is protected from insolvency of the Property Manager.
- The tenants relating to the properties that have been secured, have been notified of the cession of the Issuer's rights in terms of the underlying lease agreements to the Security SPV.

- Investec and the Property Manager have confirmed in writing that they have been notified of the cession of the Proceeds Bank Account.
- The insurance companies have acknowledged, in writing, the cession of the insurance policies and the noting of the Issuer's rights under an insurance policy where relevant.

As a matter of South African law, in the event of an insolvency of a transaction party, the liquidator of such party has an election right whether or not to abide by a transaction agreement. This election right is only applicable to agreements that can be qualified as 'executory' agreements. Such election right will be in respect of the entire transaction agreement and not only a part of such transaction agreement as the liquidator may not elect to abide only by the favourable terms of an agreement. As an example, a liquidator may not elect to only not abide by the subordination undertaking aspect in a transaction agreement.

In the Transaction, executory agreements are likely to be the Account Bank Agreement, the Security SPV Guarantee, and the Investec Guarantee where potentially material performance could be expected from the Account Banks and/or the Security SPV. The security cessions provided by the Issuer to the Security SPV would not be regarded as an executory agreement. It is unclear as to whether the Counter-Indemnity would be regarded as an executory agreement. If it would be regarded as an executory agreement, the indebtedness secured by the security cessions include any claim for damages for breach or cancellation of the Counter-Indemnity.

The Account Bank Agreement includes sufficient downgrade language, which ensures that the Account Banks should in principle be replaced sufficiently in advance of insolvency.

It is theoretically possible that the Security SPV would become subject to business rescue procedures as per the new Companies Act in the event it would qualify as being financially distressed. The Security SPV has been set-up such that the likelihood of insolvency proceedings being brought against them is remote. The Issuer is a normal operating company and there is a risk that it may become subject to business rescue proceedings.

GCR has been advised by the Arranger that:

- In relation to the mortgage bonds that have been registered in the name of the Security SPV, the registered transfer deed value for each freehold and leasehold property will equal the amount registered over each respective property. In total, the aggregate mortgage bond value of the properties that will serve as security will amount to R858m. In GCR's stress scenario, the expected recovery value of the properties is substantially lower than R858m, i.e. the mortgage bonds values do not negatively influence the outcome of the calculations.

Tax Opinion

GCR received a signed executed copy of the tax opinion prepared by South African transaction legal counsel (Werksmans) in April 2012, and which was reviewed by Norton Rose Fulbright.

GCR understands from the tax opinion that there should be no taxes materially impacting the security structure. Please note that the Issuer is an operating entity subject to all applicable taxes.

The Issuer bears the risk relating to potential future withholding tax on interest payments as per condition 10 of the terms and conditions of the Senior Notes, excluding circumstances, inter alia, where noteholders are entitled to claim a tax credit.

GCR has not requested a new legal opinion as the Transaction Structure has not changed.

Rating Considerations

Meaning of the Rating of the Senior Secured Notes

The ratings accorded to the Senior Secured Notes are *final, public* long term national scale ratings.

The *final, public* ratings accorded to the Senior Secured Notes relate to ultimate payment of interest and principal (as opposed to timely, akin to an expected loss rating, which is a function of probability of default and loss severity). The rating excludes an assessment of the ability of the Issuer to pay any (early repayment) penalties.

The rating of the Senior Secured Notes incorporates recoveries potentially arising from the sale of the underlying collateral and can therefore not be compared with, for example, a traditional corporate credit rating (the latter, which is also an expression of expected loss, but refers to probability of default and an average historical loss given default for generalised senior unsecured debt).

If the rating of the Issuer changes, the rating of the Senior Secured Notes may also change, but not necessarily in the same quantum. The rating of the Senior Secured Notes may also change if the estimated stressed value of the underlying collateral materially changes.

The rating mentioned above is a national scale credit rating (as opposed to an international scale rating). National scale credit ratings are an assessment of credit quality relative to the rating of the lowest credit risk in a country. This lowest risk will normally, although not always, be accorded to financial commitments issued or guaranteed by the relevant sovereign state. National scale ratings are not intended to be internationally comparable. The suffix code identifies to which country the rating relates; 'ZA' means Republic of South Africa. A Rating Outlook indicates the potential direction of a rating over the medium term, typically a one or two year period.

The rating of the Senior Secured Notes will be reviewed at a minimum on an annual basis or as events warrant. GCR will perform regular surveillance on the Transaction. Surveillance reports will be made available to subscribers by GCR's information services

Rating Criteria Application

GCR analysed the Transaction by applying its Criteria for Rating Property Funds (Apr'15); Criteria for Rating Corporate Entities (Feb'15); Global Structurally Enhanced Corporate Bonds Rating Criteria (Feb'15); and with reference to its Investec Property Fund Limited R450m Senior Secured Floating Rate Notes – New Issuance Report (Apr'12); Investec Property Fund Limited's Corporate Rating Report (Jul'14); and its Investec Property Fund

Limited R450m Senior Secured Floating Rate Notes – Surveillance Report (Jul'14). Aforementioned Criteria are freely available on www.globalratings.net.

Rating Criteria Application

GCR analysed the Transaction by applying its Criteria for Rating Property Funds and its Global Structurally Enhanced Corporate Bonds Rating Criteria. Both Criteria are freely available on www.globalratings.net.

Other

Data Received from Arranger as at 7 April 2015

- Independent property valuations on all five properties (as at 31 March 2013).
- Management reporting pack for the 6 month period ended 30 September 2014.
- Audited Annual Financial Statements for the financial year ended March 2014.
- A signed final Legal opinion prepared in April 2015.
- Tenant lease schedules for the properties secured.
- Tenant gradings relating to the properties secured.
- Building gradings relating to the properties secured.
- Insurance policies relating to the properties secured.
- Letter confirming no properties (securing the noteholder obligations) have been dual ceded.

Other

Audit Opinion

GCR received audited financial statements relating to the Issuer per 31 March 2014 and reviewed financial results for the 6 month period ended 30 September 2014. Auditors Ernst & Young issued an unqualified report on IPF's financial statements for the year ended 31 March 2014. The open market value relating to the properties before applying the recovery assumptions have been sourced from the Arranger, which have been sourced from the Issuer in terms of the latest available valuations as at 31 March 2013. GCR also received valuation reports for the period spanning 2011-2013. The property valuations were subject to estimations provided by an independent third party property valuer, namely Mills Fitchet Magnus Penny (Proprietary) Limited. In an instance where a property was valued by two property valuers, GCR will utilise the lower open market value of the relevant property in estimating recovery rate calculations.

Transaction Documents

GCR has received satisfactory copies of all executed signed transaction documents.

Disclaimer

Note that GCR is not a legal, tax or financial adviser, and only provides a credit opinion of the rated securities. For example, a rating does not cover a potential change in laws nor can it be regarded as an audit. The recovery rate calculations made, are based on information presented, numerous input variables and modelling assumptions which may prove (very) different in a positive or negative way in real life. Moreover, GCR is not a party to the transaction documents. Users of our credit ratings should familiarise themselves with the Transaction (including the legal and tax opinion), and should form their own views in this respect.

They should not rely on GCR for legal, tax or financial advice, and are encouraged to contact the relevant advisers.

Appendix A: Recovery Rate Calculations Relating to the Security for the Senior Secured Notes

1. Principal Amount Outstanding upon Default

This is the aggregate issuance amount of the Senior Secured Notes. Given the differing legal maturity dates on the respective tranches of the Senior Secured Notes, the principal amount outstanding during the life of the Senior Secured Notes may change. It is assumed the Issuer defaults prior to the legal maturity date of the first tranche of Senior Secured Notes. Given the bullet nature of the Senior Secured Notes, the principal amount at default is equivalent to the initial issuance amount of the Senior Secured Notes.

Capital Structure of Senior Secured Notes

Stock code	Amount (Rands)	Coupon	Maturity date	Length of period till maturity	Interest payment frequency
IPF12	100,000,000	3M JIBAR + 1.50%	13 April 2018	3 years	Quarterly
IPF02	40,000,000	3M JIBAR + 1.55%	13 April 2016	1 year	Quarterly
IPF03	50,000,000	3M JIBAR + 1.65%	13 April 2017	2 years	Quarterly
IPF06	226,000,000	8.80%	13 April 2017	2 years	Semi-annual
Subtotal	416,000,000				

2. Assumed Missed Interest Payments upon Default

GCR assumes that upon default the last quarterly coupon is not paid (in respect of the Senior Secured Notes issued under stock code IPF06, it is assumed the last semi-annual coupon is not paid). In addition, interest payments during the assumed recovery period (18 months) are sized. This equates to 6 quarterly coupon payments and 3 semi-annual coupon payments in respect of the Senior Secured Notes issued under stock code IPF06. GCR assumes an 18 month recovery period due to the concentrated nature of the secured property portfolio towards single tenants and its concentration towards the office sector. As such, GCR assumes that such properties will take longer to dispose of compared to a well-diversified portfolio. For the Senior Secured Notes issued under stock code IPF12, GCR used a 3 year swap rate (6.91% as at 02 April 2015) plus the interest margin (1.50%) as the combined assumed interest rate (8.41% per annum). The 3 year swap rate instead of 3M JIBAR is used because the weighted average life of the Senior Secured Notes is assumed to be 3 years, given the bullet nature. Similarly, for IPF02, GCR used the 1 year swap rate (6.36% as at 02 April 2015) plus the interest margin (1.55%) as the combined interest rate (7.91% per annum). For IPF03, GCR used the 2 year swap rate (6.70% as at 02 April 2015) plus the interest margin (1.65%) as the combined interest rate (8.36% per annum). For IPF06, the interest rate as at closing date (8.80% per annum) is utilised as this interest rate is a fixed until the legal maturity date. GCR understands that no default interest is applicable after an Event of Default.

3. Assumed Recoveries on Sale of Properties

GCR assumes that 18 months after default of the Senior Secured Notes, all properties are eventually sold in a single circumstance. GCR used the independent market valuations of the properties (per end March 2013) as the starting point for the analysis to derive the stressed sales value for the portfolio of secured properties. In deriving the relevant haircut to be applied to each property, GCR looked at 3 components, namely i) the length of each tenant's lease; ii) the underlying credit quality of each tenant and iii) the grading of each building as provided by the Issuer. In the event a property met all 3 criteria (i.e. the lease is longer than the maturity date of the Senior Secured Notes, the tenant has an underlying credit quality at least commensurate with the rating of the Senior Secured Notes and if the building has been accorded an 'A' grade by the Issuer), a 45% haircut was applied to the market valuation of the respective property. In the event a property meets only 1 or 2 of the 3 criteria, a 65% haircut was applied. A 100% haircut will be applied to an untenanted property (i.e. 100% vacant). Please refer to the table below for an overview:

Property	Haircut Applied	Lease Maturity	Tenant Credit Quality	Building Grade
Investec Offices Durban	45%	Long	Rated	A
Woolworths House	45%	Long	Rated	A
Innovation Group	65%	Long	Unrated	B
Montague Gardens	100%	Vacant	Vacant	B
4 Protea Place	65%	Medium	Unrated	A
Apostolo Pavlo Trading		Medium	Unrated	
Group I Tenants Association		Medium	Unrated	
Maisels Group		Medium	Unrated	
Stansher Developments (Pty) Ltd		Medium	Unrated	

Please refer to *Appendix B* for an overview of values.

4. Assumed Recoveries on Rentals (Net Property Cash Flows during the 18-Month Enforcement Period)

From a legal perspective, the Security SPV can continue to collect rentals from the tenants upon enforcement. Once the properties are sold, the tenants' lease agreements will follow the sale of the properties and the new owner can start collecting the rentals.

GCR was provided with per property income and expense information for the 2014 financial year and the 6 month period ended 30 September 2014. This information was used as a basis for estimating rental cash flows during the 18 month enforcement period.

Conservatively, no rental income is assumed to be generated over the enforcement period from the Innovation Group, 4 Protea Place buildings and Montague Gardens (given it is currently vacant). This is because the underlying credit quality of the tenants is unknown (unrated entities) and the number of tenants is concentrated and in the case of Montague Gardens unoccupied. For the remaining tenants comprising the other 3 properties, GCR assumes that 2% of rental amounts owing by these tenants over the enforcement period will remain in arrears. GCR will review the rating in 12 months to gauge the impact of any changes to the tenant profile or rental agreements.

5. Assumed Sales and Legal Costs

GCR applied 6% costs to the stressed value of the properties, and 3% to the stressed recoveries on rentals.

6. Remaining Claim

Please note that the assumptions, haircuts and stresses applied by the GCR (discussed below) relating to the secured properties (and thus the calculation of the potential recoveries and the remaining claim) in a stressed situation are conservative in nature, and are deemed to be appropriate in the context of the relevant rating scenario.

It is noted that an increase in the Security SPV LTV ratio to 60% will likely have a material adverse impact on estimated recovery rate calculations. As such, the rating of the Senior Secured Notes may change.

Appendix B: Overview of Properties that Serve as Security for the Senior Secured Notes

Property	Sector	Building Grading ²	Market valuations as at 1 April 2011 (Rands)	Market valuations as at 1 April 2013 (Rands)
Investec Offices Durban	Office	A	215,000,000	232,000,000
Woolworths House ¹	Office	A	288,000,000	319,000,000
Innovation Group	Office	B	160,000,000	190,000,000
4 Protea Place	Office	A	115,000,000	142,800,000
Montague Gardens	Industrial	B	80,000,000	83,000,000
Total			858,000,000	966,800,000

¹ This is a leasehold property.

² As graded per the Issuer's grading scale.

Property	Tenant	Tenant Grading ¹	Expiry date of current lease	Stressed Value of Properties
Investec Offices Durban	Investec Bank	A	2020/04/30	127,600,000
Woolworths House ¹	Woolworths	A	2022/01/31	175,450,000
Innovation Group	Innovation SA	A	2021/08/31	66,500,000
Montague Gardens	Vacant	Vacant	Vacant	0 ²
4 Protea Place	Apostolo Pavlo Trading	C	2018/06/30	49,980,000
	Group I Tenants Association	B	2018/02/28	
	Maisels Group	B	2018/02/28	
	Stansher Developments (Pty) Ltd	B	2018/02/28	
Total				419,530,000

¹ As graded per the Issuer's grading scale.

² Refer to discussion Appendix A, paragraph 3 in this regard.

SALIENT POINTS OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the rating is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

The Issuer and the Arranger participated in the rating process via face-to-face meetings, teleconferences and other written correspondence. Furthermore, the quality of info received was considered adequate and has been independently verified where possible.

The rating/s above were solicited by the Issuer of the Transaction; GCR has been compensated for the provision of the ratings.

The credit rating/s has been disclosed to the Issuer and the Arranger with no contestation of the rating.

The information received from the Arranger and other reliable third parties to accord the credit ratings included the latest Issuer's audited annual financial statements for the year ending March 2014; reviewed interim consolidated financial results for the period ended 30 September 2014; an overview of the Issuer's property portfolio as at 30 September 2014; a performance forecast for the period beginning March 2014 and ending March 2016; the insurance policies covering the ceded properties; the applicable Open Market Valuation Reports; a legal opinion prepared in April 2015 and the relevant transaction documents together with the relevant tax opinion.

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GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S STRUCTURED FINANCE GLOSSARY

Account Bank	A bank where the transaction account is held.
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.
Applicable Pricing Supplement	A transaction document that describes the particulars of notes issued.
Arranger	Usually an Investment bank that advises and constructs a transaction and acts as a conduit between the transaction parties: Client, Issuer, Credit Rating Agency, Investors, Legal Counsel and Servicers.
Arrears	General term for non-performing obligations, i.e. obligations that are overdue.
Asset	An item with economic value that an entity owns or controls.
Average Life	The average lifetime of an asset or obligation. Typically measured from origination to cancellation or termination date.
Bankruptcy	Court proceedings at which an individual or a company is declared unable to pay its creditors. The liability of a bankrupt company typically exceeds its assets.
Bankruptcy 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.
Bond	A long term debt instrument issued by either: a company, institution or the government to raise funds.
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. Entities that are likely to become insolvent (where liabilities exceed assets) or unlikely to be able to pay their debts as they fall due and payable in the coming six months.
Capital	The sum of money that is used to generate proceeds.
Cash Flow	A financial term for monetary changes in operations, investing and financing activities.
Claim	A formal request or demand.
Collateral	An asset pledged as security in event of default.
Conduit	A commercial lending entity that is established to purchase assets to securitise.
Corporate Credit Rating	A credit rating accorded to a corporate entity.
Coupon	Interest payment on a security.
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	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
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 Rating Agency	An entity that provides credit rating services.
Credit Risk	The probability or likelihood that a borrower or issuer will not meet its debt obligations. Credit Risk can further be separated between current credit risk (immediate) and potential credit risk (deferred).
Creditor	A credit provider that is owed debt obligations by a debtor.
Creditworthiness	An assessment of a debtor's ability to meet debt obligations.
Debenture	A long term debt instrument issued by either: a company, institution or the government to raise funds.
Debt	An obligation to repay a sum of money.
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 X days on any debt obligations as defined in the transaction documents; 4.) The obligor has filed for bankruptcy or similar protection from creditors.
Downgrade	The assignment of a lower credit rating to a corporate, sovereign or debt instrument by a credit rating agency. Opposite of upgrade.
Early Redemption	The repurchase of a bond by the issuer before it matures.
EBITDA	EBITDA is useful for comparing the income of companies with different asset structures. EBITDA is usually closely aligned to cash generated by operations.
Enforceable	To make sure people do what is required by a law or rule et cetera.
Enforcement	To make sure people do what is required by a law or rule et cetera.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer

	grouping. Exposure may also arise from an overreliance on one source of funding.
Floating Rate Notes	Debt securities that have a periodic interest rate reset in relation to the reference rate, i.e. JIBAR.
Forecast	A calculation or estimate of future financial events.
Gross Lettable Area	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 event of default.
Haircut	The percentage by which the market value of a security used as collateral for a loan is reduced. The size of the haircut reflects the expected ease of selling the security and the likely reduction necessary to the realised value relative to the fair value.
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	When an entity's liabilities exceed its 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.
Insolvent	When an entity's liabilities exceed its assets.
Insurance	Provides protection against a possible eventuality.
International Scale Rating	International scale ratings relate to either foreign currency or local currency commitments, assessing the capacity of an issuer to meet these commitments using a globally applicable (and therefore internationally comparable) scale.
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 licenced exchange under the Securities Services Act of 2004 (South Africa).
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	A credit provider that is owed debt obligations by a debtor.
Lessee	The party that enjoys temporary use of a corporeal thing.
Lessor	The owner or agent that acts on behalf of the owner of property that grants the temporary use of a corporeal thing.
Liability	All financial claims, debts or potential losses incurred by an individual or an organisation.
Lien	A right of retention of someone else's property due to expensed money or labour on property acquires a lien until payment is made. A lien outranks all other forms of security claims. A lien arises by operation of law and not as agreement between parties. There are three types of liens: 1.) Storage or salvation of property; 2.) Improvement of property; and 3.) Contractual debt.
Liquidation	The process by which a company is wound-up and its assets distributed to creditors. Liquidation proceedings are initiated either compulsorily or voluntarily by the company.
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 Risk	The risk that a company may not be able to meet its financial obligations or other operational cash requirements due to an inability to timeously realise cash from its assets. Regarding securities, the risk that a financial instrument cannot be traded at its market price due to the size, structure or efficiency of the market.
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.
Long Term Rating	A long term rating reflects an issuer's ability to meet its financial obligations over the following three to five year period, including interest payments and debt redemptions. This encompasses an evaluation of the organisation's current financial position, as well as how the position may change in the future with regard to meeting longer term financial obligations.
Loss	A tangible or intangible, financial or non-financial loss of economic value.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Mortgage Loan	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.
Mortgagee	A creditor under a mortgage agreement.
National Scale Rating	The national scale provides a relative measure of creditworthiness for rated entities only within the country concerned. Under this rating scale, a 'AAA' long term national scale rating will typically be

	assigned to the lowest relative risk within that country, which in most cases will be the sovereign state.
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.
Notching	A movement in ratings.
Noteholder	Investor of capital market securities.
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	Either a call or a put option. A call option gives the holder the right to buy assets at an agreed price on or before a particular date. A put option gives the holder the right to sell assets at an agreed price on or before a particular date.
Origination	A process of creating assets.
Owner Trust	Owner of a securitisation vehicle that acts in the best interest of the Noteholders.
Pari Passu	Side by side; at the same rate or on an equal footing. Securities issued with a pari passu clause have rights and privileges that are equivalent to those of existing securities of the same class.
Paying Agent	An appointed transaction party that is responsible for the payment of Noteholders scheduled interest and principal, as well as other transactional obligations.
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.
Pricing	A process of determining the price of a debt security.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
Private	An issuance of securities without market participation, however, with a select few investors. Placed on a private basis and not in the open market.
Proceeds	Funds from issuance of debt securities or sale of assets.
Property	Movable or immovable asset.
Provision	An amount set aside for expected losses to be incurred by a creditor.
Ranking	A priority applied to obligations in order of seniority.
Rated Securities	Debt securities that have been accorded a credit rating.
Rating Outlook	A Rating outlook indicates the potential direction of a rated entity's rating over the medium term, typically one to two years. An outlook may be defined as: 'Stable' (nothing to suggest that the rating will change), 'Positive' (the rating symbol may be raised), 'Negative' (the rating symbol may be lowered) or 'Evolving' (the rating symbol may be raised or lowered).
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.
Recourse	A source of help in a difficult situation.
Recovery	The action or process of regaining possession or control of something lost. To recoup losses.
Redemption	The repurchase of a bond at maturity by the issuer.
Reference Rate	A rate that is the basis of the calculation such as JIBAR.
Refinance	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.
Rent	Payment from a lessee to the lessor for the temporary use of an asset.
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.
Scheduled Interest	The interest payment due on a scheduled date.
Secured Creditor	A creditor that has specific assets pledged as collateral that will receive the proceeds in the event of default.
Secured Debt	Debt backed with or secured by collateral to reduce lending risk and thus the interest rate charged.
Securitem 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	Is a process of repackaging portfolios of cash-flow producing financial instruments into securities for sale to third parties.
Securitisation Vehicle	An entity that is created to fulfill specific objectives. Normally insolvency remote and created to isolate financial risk.
Security	An asset deposited or pledged as a guarantee of the fulfilment of an undertaking or the repayment of a

	loan, to be forfeited in case of default.
Security Special Purpose Vehicle	A Special Purpose Vehicle that has been created to realise and hold the security of the performance of the obligations of the Issuer that sold its assets to the Security SPV.
Security SPV	A Special Purpose Vehicle that has been created to realise and hold the security of the performance of the obligations of the Issuer that sold its assets to the Security SPV.
Senior	A security that has a higher repayment priority than junior securities.
Senior Unsecured Debt	Securities that have priority ahead of all other unsecured or subordinated debt for the payment in the event of default.
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.
Settlement	Full repayment of an obligation.
Settlement Agent	The person that acts on behalf of the debtor for repayment or settlement of obligations.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Special Purpose Vehicle	An entity that is created to fulfill specific objectives. Normally insolvency remote and created to isolate financial risk.
SPV	An entity that is created to fulfill specific objectives. Normally insolvency remote and created to isolate financial risk.
Stock Code	A unique code allocated to a publicly listed security.
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.
Subordinated Debt	Debt that in the event of default is repaid only after senior obligations have been repaid. It is higher risk than senior debt.
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. Normally an investment bank, which provides a swap.
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	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.
Trust	A third party that acts in the best interest of another party, according to the trust deed, usually the investors. Owner of a securitisation vehicle that acts in the best interest of the Noteholders.
Trust Deed	A deed of conveyance creating and setting out the conditions of a trust.
Trustee	A third party that acts in the best interest of another party, according to the trust deed, usually the investors. Owner of a securitisation vehicle that acts in the best interest of the Noteholders.
Ultimate Payment	A measure of the principal debt, interest, fees and expenses being repaid over a period of time determined by recoveries.
Unconditional	Not subject to any conditions.
Unsecured Claim	Debt securities that have no collateral.
Unsecured debt	Debt securities that have no collateral.
Vacancy	In commercial property, usually expressed as a percentage of unoccupied floor space in relation to the GLA.
Valuation	An assessment of the property value, with the value being compared to similar properties in the area.
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 component by a factor reflecting its importance or, relative size to a pool of assets or liabilities.