

Lehae Programme

Transaction 1

Investor presentation

October 2023



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Executive summary

First National Bank (FNB), a division of FirstRand Bank Limited (FRB), will be issuing its first residential mortgage-backed security (RMBS) issuance of the Lehae Programme (the Programme), with a **limit of R20 billion**

Established for faster execution, time to market, standardised documentation and leveraging economies of scale

Lehae Transaction 1

Secured with a portfolio of R2 000 million of mortgage loan agreements and R60 million of cash

Notes are externally credit-rated by Moody's and publicly listed

FNB – originator, seller and servicer

RMB – distribution and debt sponsor

FRB (Treasury) – arranger, manager and administrator



FNB home loans: strategic overview

A trusted partner to our customer's home ownership journey

Personal segment

Private segment

ENTRY
WALLET

ENTRY
BANKING

MIDDLE

EMERGING
AFFLUENT

AFFLUENT

WEALTH

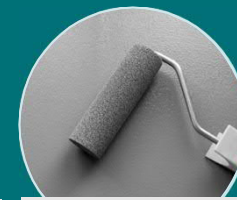
R48K

R240K

R600K

R1.2m

R1.8m/R15m NAV



Affordable
Housing

Traditional
Home Loan

Solar & Eco
Energy Loan

First Home
Finance (FHF)

Pension
Backed
Lending

Development &
Building Loans

Structured
Lending

Securities
Based Lending

SUPPORTING OUR CUSTOMER EXPERIENCE THROUGH...



ASSISTED CHANNELS



UNASSISTED CHANNELS



Mortgage
Originators



Points of
Presence



Advisors



App



Online



Mobi



Mortgage market landscape



Opportunities

- **Semigration:** growth opportunities outside the major metros as a result of hybrid work environment
- **Properties avg ± R500k:** higher demand as a result of stock and macro-economic environment
- **Energy crisis:** created a market opportunity for renewable energy finance
- **Urbanisation:** Metros still continue to grow – GP, WC, KZN



Risks

- **Country risk:** unemployment rate, energy crisis, infrastructure in metros
- **Macros:** inflation, GDP growth, interest rate hikes
- **Emigration:** private segment



Customer confidence & dynamics

- **Rent vs buy:** pros/cons
- **Home:** aspirational purchase
- **South African macros:** affordability challenges
- **Financial literacy:** education around over-exposure and over-indebtedness



Ecosystem

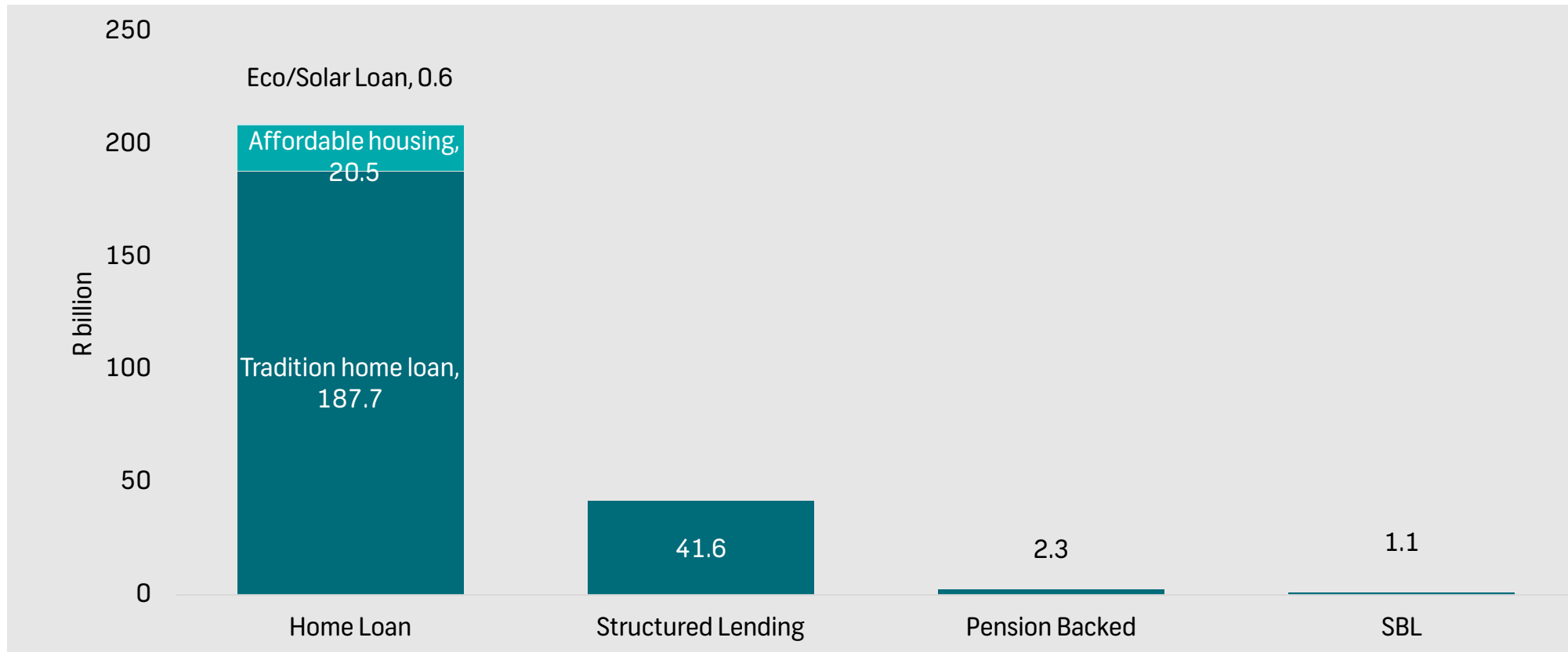
- **Mortgage originator:** key player – expanding services around home purchase and home services ecosystem.



FNB portfolio composition*

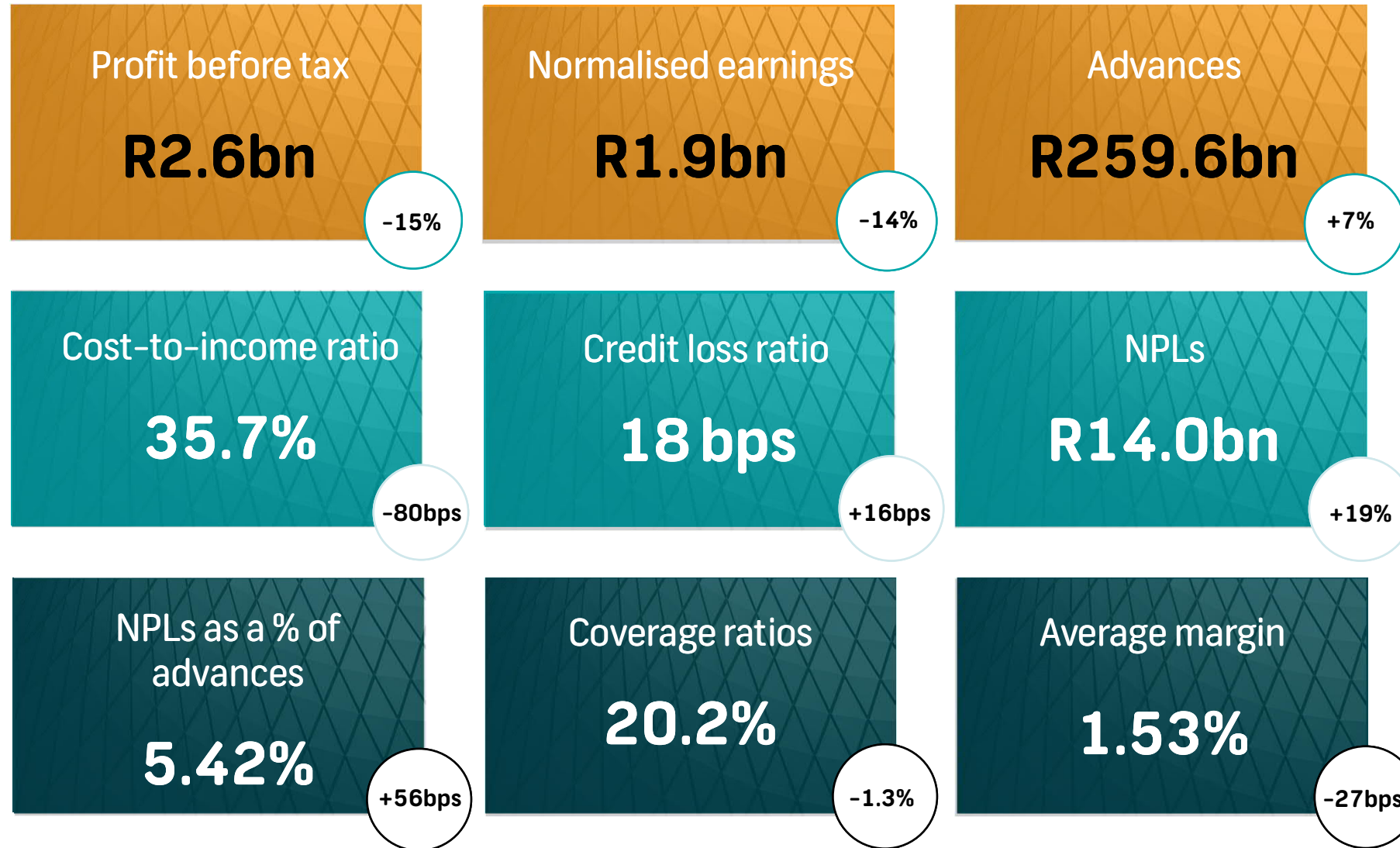
R99bn

Home Loans across Traditional Home Loan/Eco/Affordable Housing
Applicable to Lehae structure



*Excludes Commercial property finance, deferred income and expenses, modification gains or losses and other.

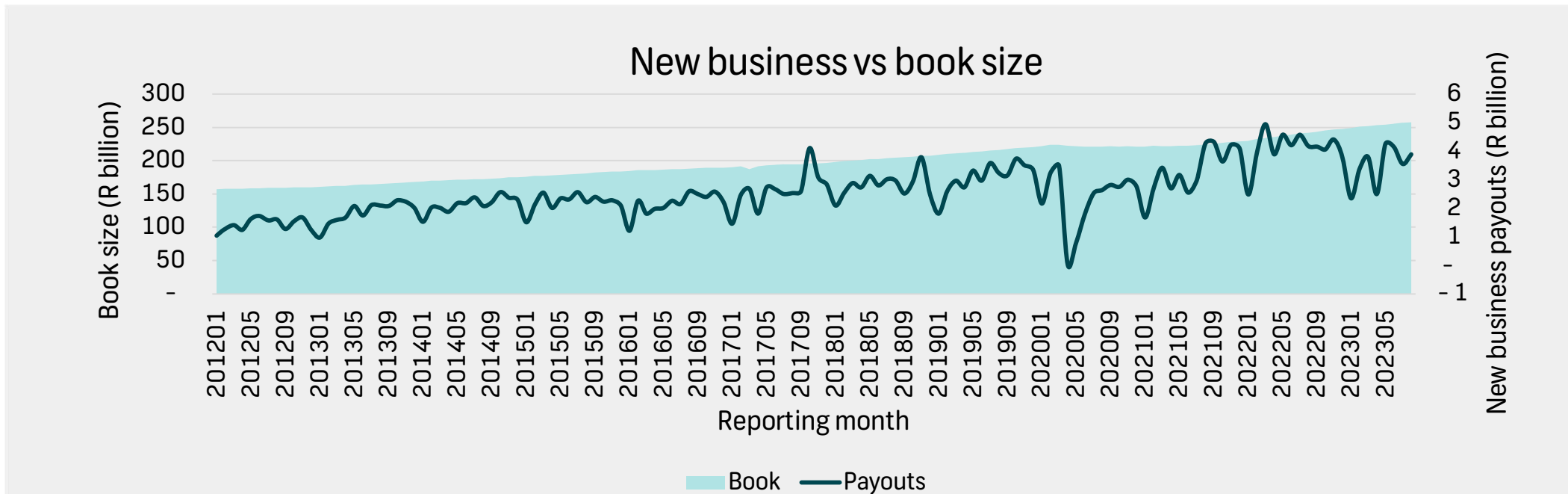
Financial performance – FNB residential mortgages: FY2023



Source: FirstRand Bank annual report for the year ended 30 June 2023.

Origination strategy

- Focused on good quality business with satisfactory returns
- Recent expansions have been made to recognise market need:
 - Higher loan-to-value origination on low-risk customers
 - Improved risk versus reward strategy on lower income segments
- Margin pressure remains high given the competition in the market since Covid-19 lockdown
- Market activity slowing down due to multiple repo rate hikes in recent times



Credit scoring, decisioning and rating

- Automated scoring via internal decisioning platforms
- Channel integration across mortgage originators, banker and digital platforms all routed via platform
- Consistent monitoring of risk appetite and underwriting performance to manage quality and customer experience
- Deals are assessed according to various regulated and internal credit policy guidelines
- Data is validated through internal account and profile conduct as well as external third party sources, e.g. the Bureau and Depart of Home Affairs
- Manual underwriting supports document validation and accuracy of the deal construct.
- Intake to approval rate: 35%*
- Approval rate to pay-out: 52%*,**
- Prior 12 months avg 68%

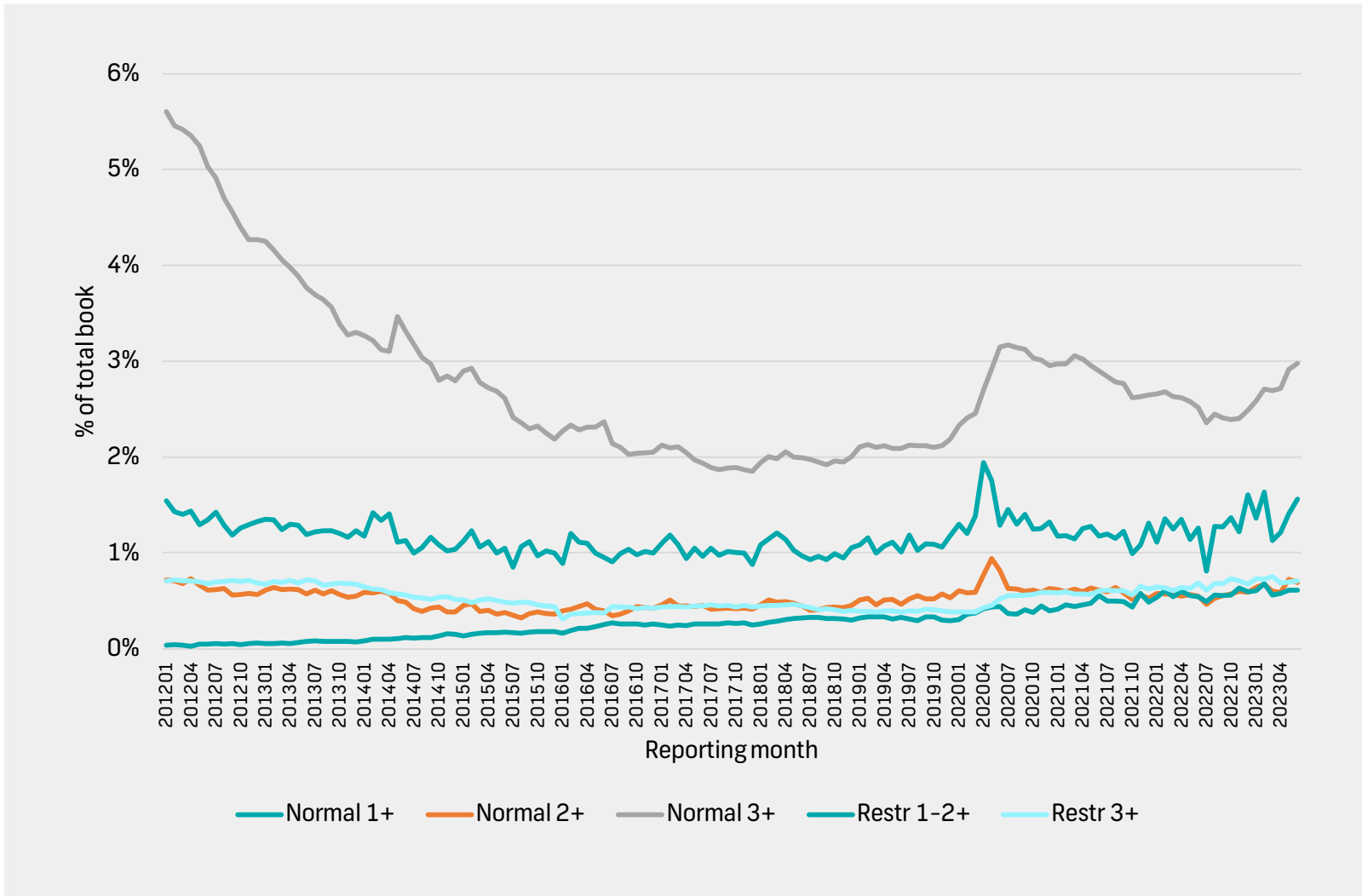
Risk class	Registration %*	12m vintage*
Class 1	47.5%	0.3%
Class 2	26.6%	0.8%
Class 3	13.0%	2.2%
Class 4	3.3%	4.2%
Class 5	0.6%	4.3%
Class 6	0.1%	10.0%
New to credit	0.3%	1.3%

* 12-month balance-weighted averages - July 2022 to June 2023.

** Payout increase beyond 12 months due to 3+ month lag, e.g., building loans.



Credit performance update

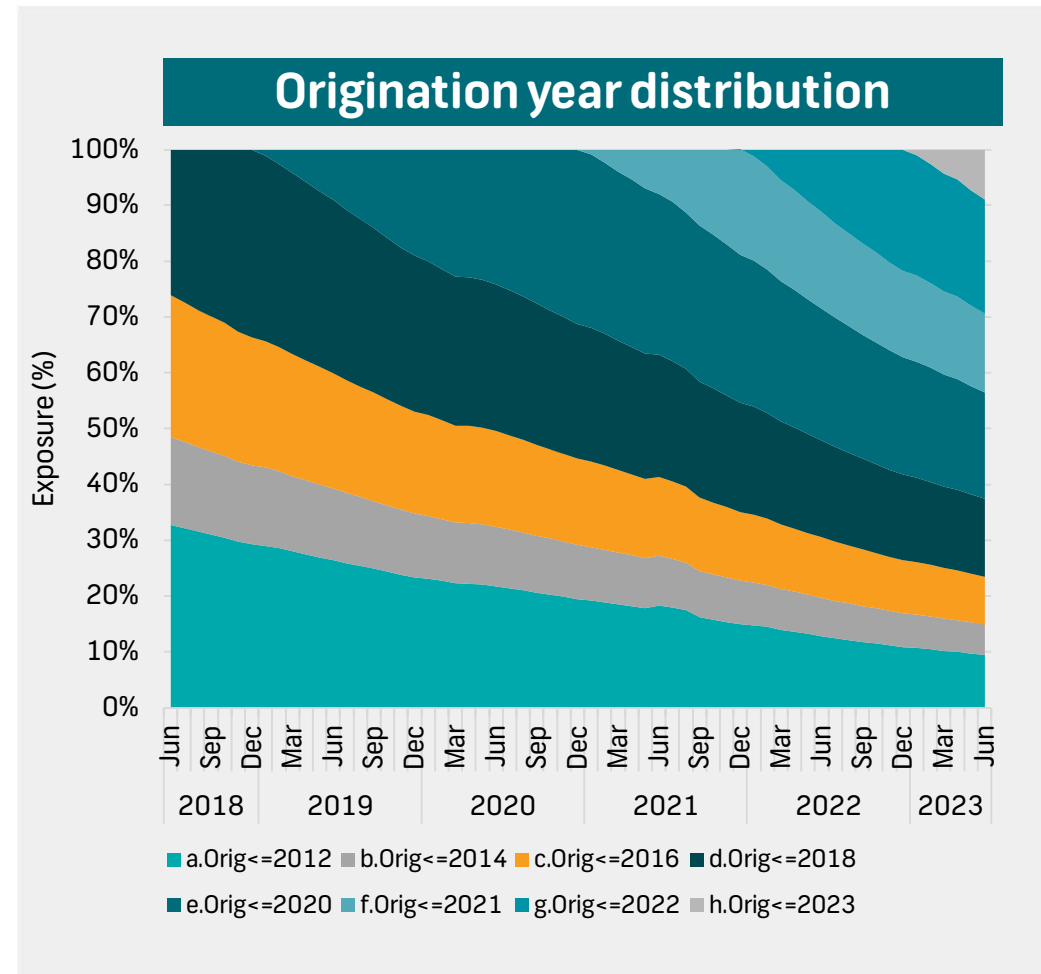
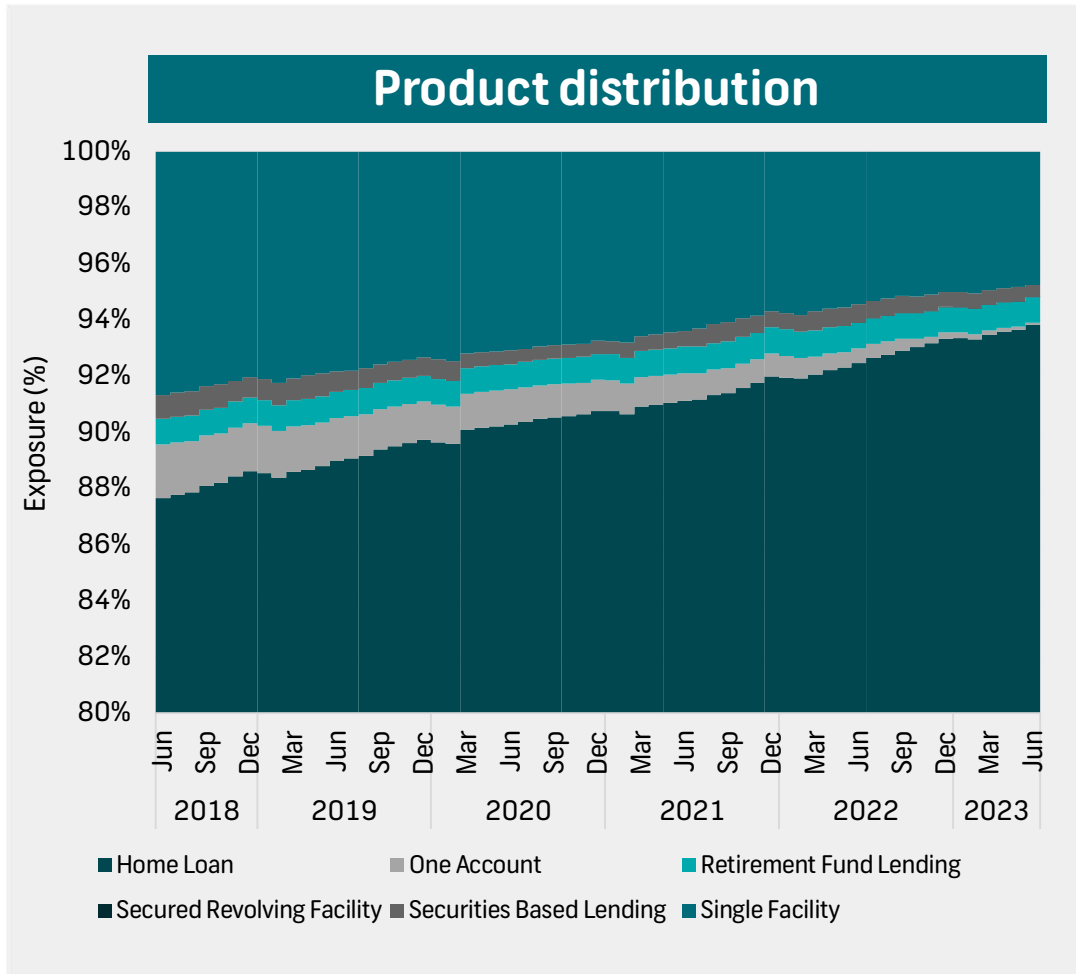


- Subsequent to the start of the Covid-19 lockdown restrictions: NPL (3+) arrears improved, other arrears were stable
- Restructure arrears increased due to higher request received due to the difficult economic conditions



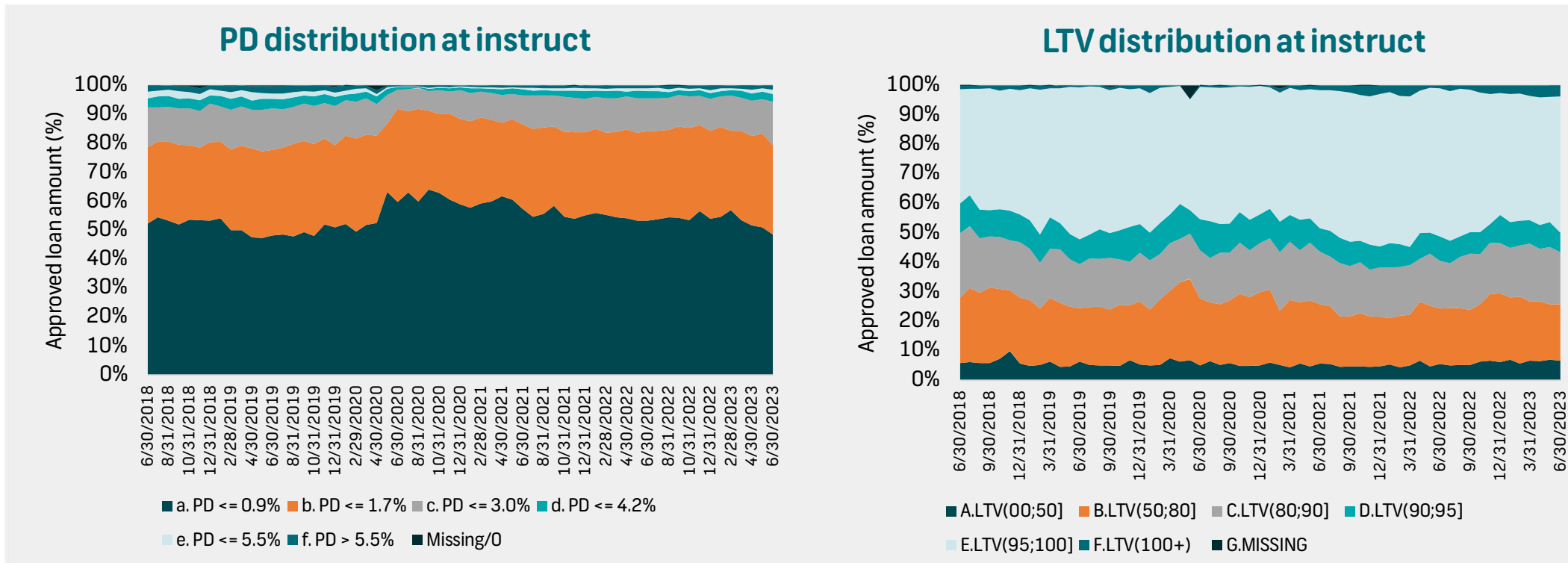
Product and origination portfolio overview

- The portfolio is constructed of **~95% of Home loans**
- **Consistent underwriting** flows across the years are evident based on the vintage layers



PD and LTV portfolio overview

- The underwriting strategy linked to the PD profile has been **stable** and centered around a **low-risk profile**
- The average LTV structures at origination have been **consistent** around 88%
- The portfolio construct undergoes an ongoing **mark-to-market** on the underlying collateral structures
- The 12 months EL show the losses associated with higher LTV profiles given the LGD impact linked to these accounts



Risk management

Governance and compliance

- Centralisation of functions across customer segments aligning to group frameworks and structures
- Oversight from FirstRand Group Enterprise Risk Management and FNB Financial Resource Management committee
- Business conducted in accordance with the National Credit Act
- Credit function responsible for development and monitoring of risk and capital models

Operations

- Manage client onboarding and fulfilment ensuring compliance with regulations and internal frameworks and policies
- Targeted collections strategy with a view to rehabilitate arrears
- Failure to settle the arrears and all other collections efforts have been exhausted, account is then transferred to the litigation department to commence with foreclosure
- Recovery post write off on residual balance pursued off balance sheet



Default and collection processes

Defaulting accounts are given a short window to self-cure. If the accounts don't cure within the timeframe then they are categorised and contacted. Notifications of the default are systematically sent to the customer.

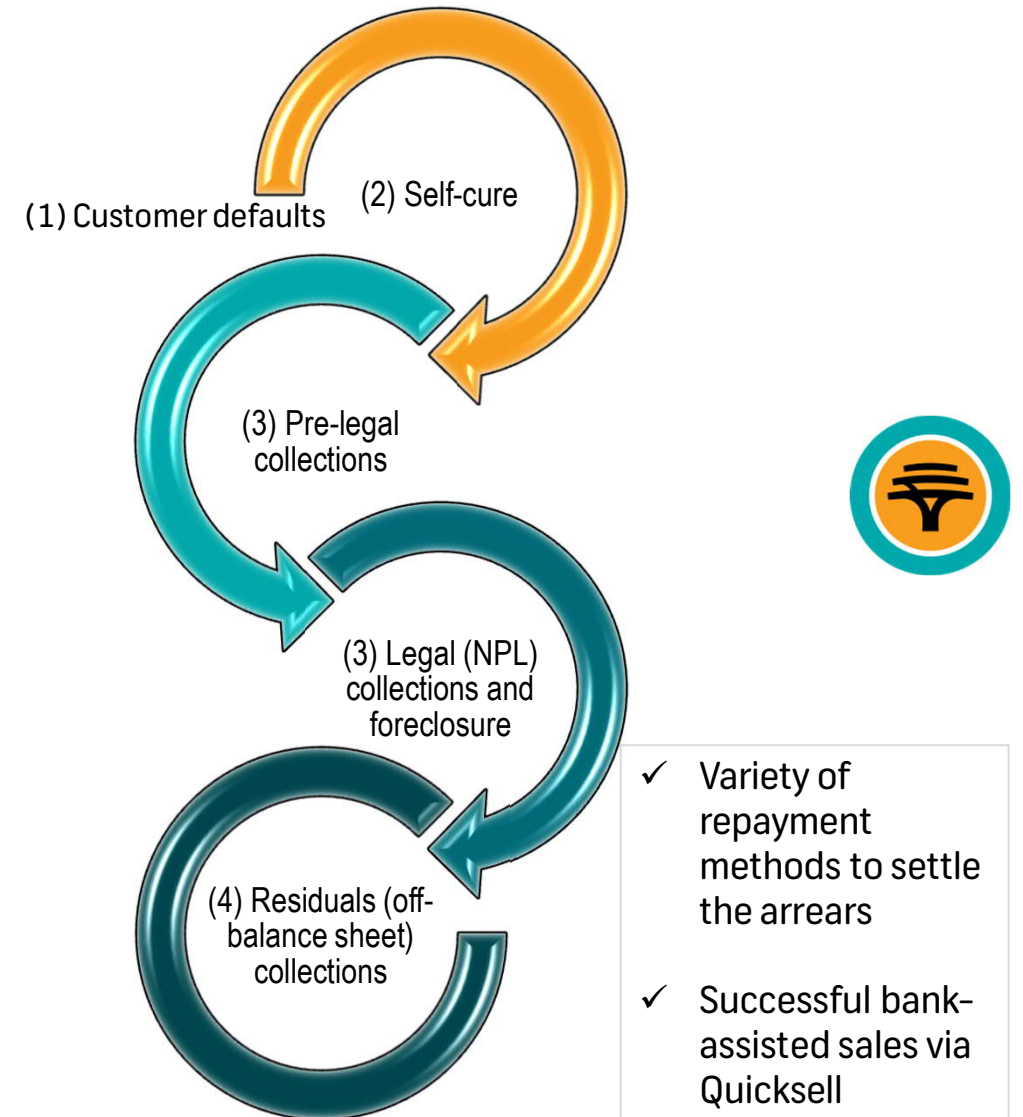
Collectors will contact the customers to repay the arrears or secure a repayment arrangement. App notifications are sent to the customer for unassisted collections via the app as well as other communication methods to the customer. Bankers may also contact the customer, depending on the subsegment. The customer also has the option to sell the property via Quicksell.

Should the customer fail to settle the arrears and all other collections efforts have been exhausted, the account is then transferred to the litigation department to commence with foreclosure

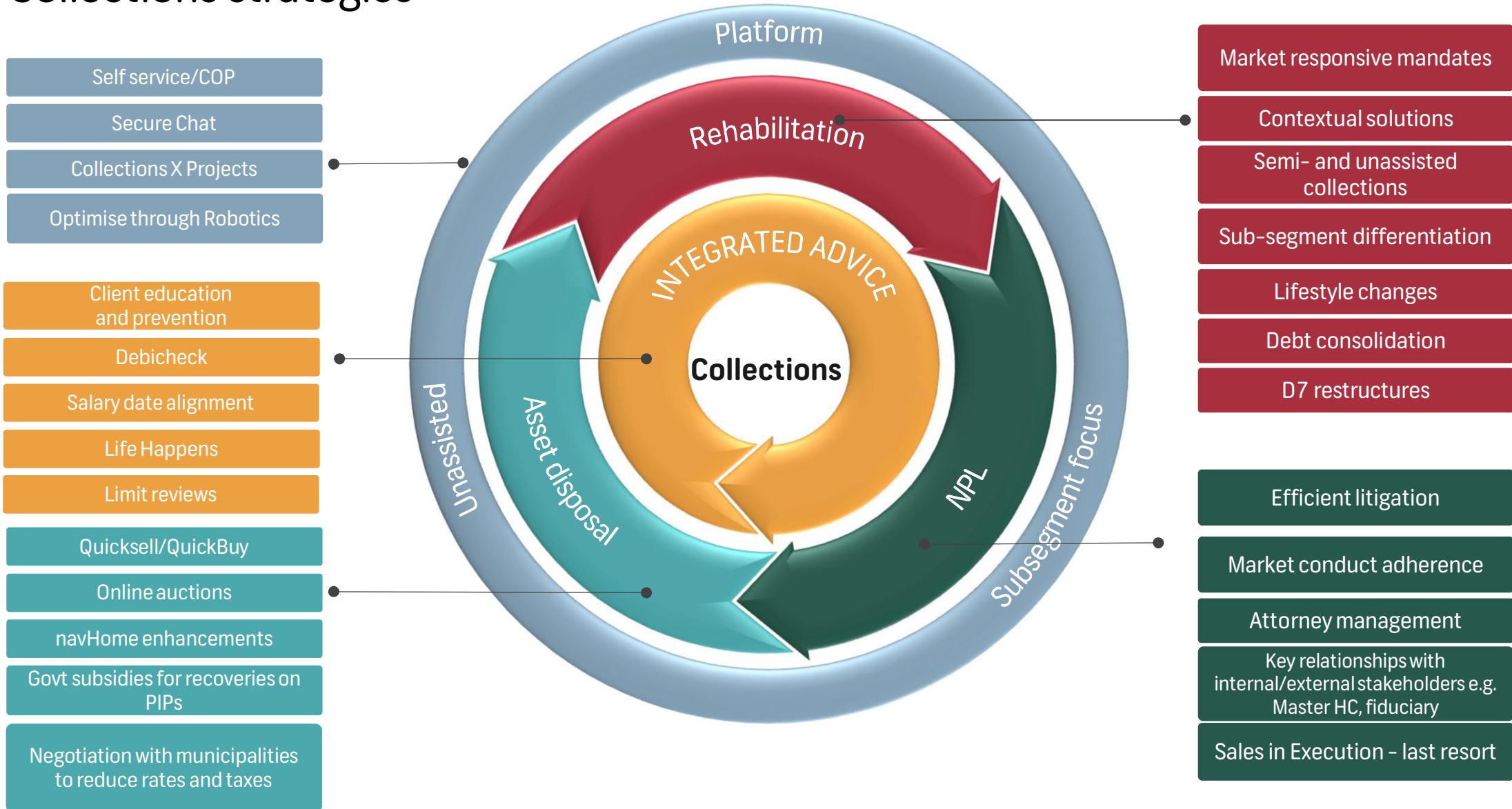
Despite foreclosure commencing, the bank will still try to conclude a repayment arrangement with the customer or reiterate the Quicksell option. If the customer isn't amenable to this then the foreclosure process concludes at a sale in execution.

The account is written off when the proceeds from the sale of the property is received. Recovery of the shortfall is pursued off balance sheet.

Collections value chain



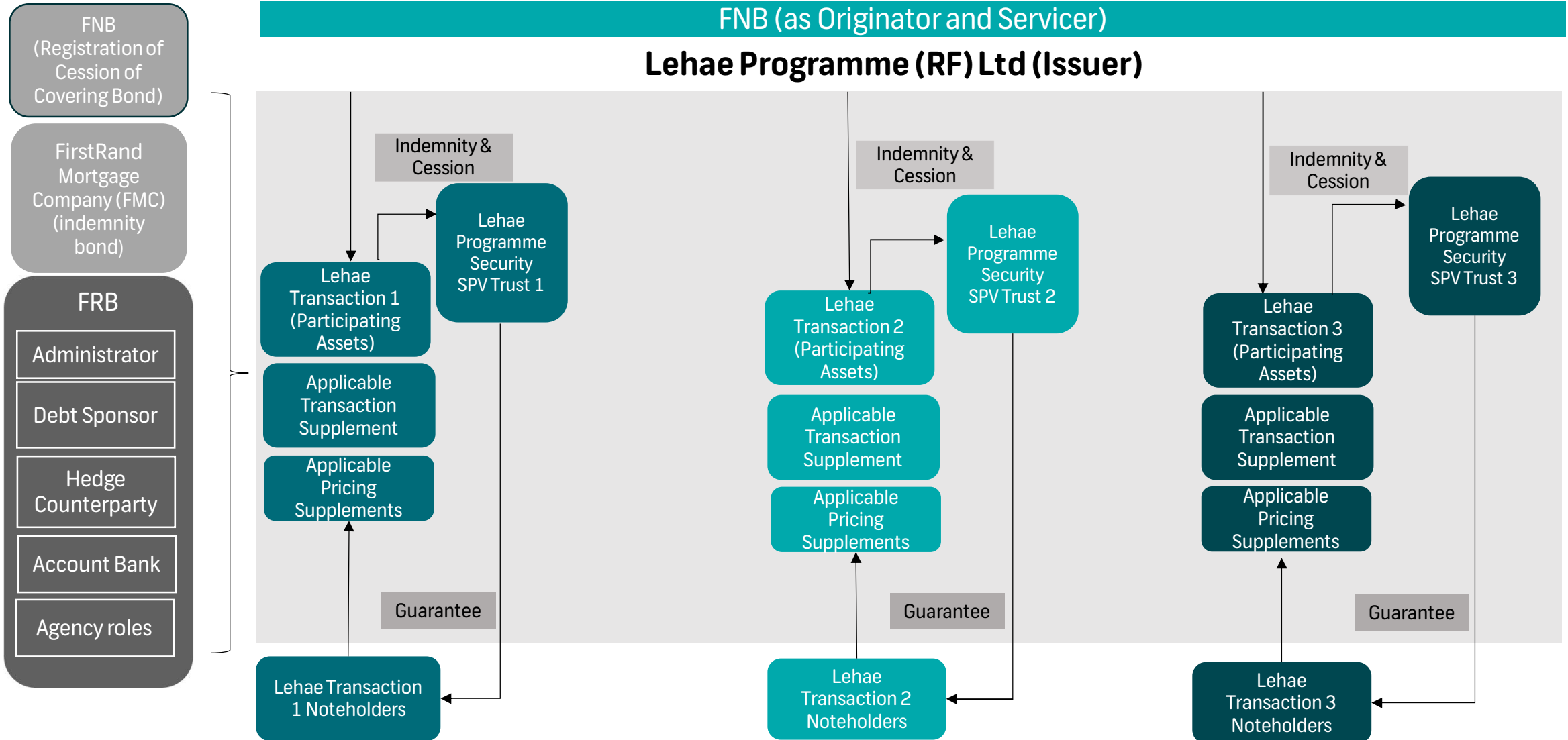
Collections strategies



Structure



Overview



Lehae Programme features

Issuer

- Single newly-established Issuer SPV company
- Issuer SPV enters one or more transactions as specified in the relevant Applicable Transaction Supplements

Security SPV

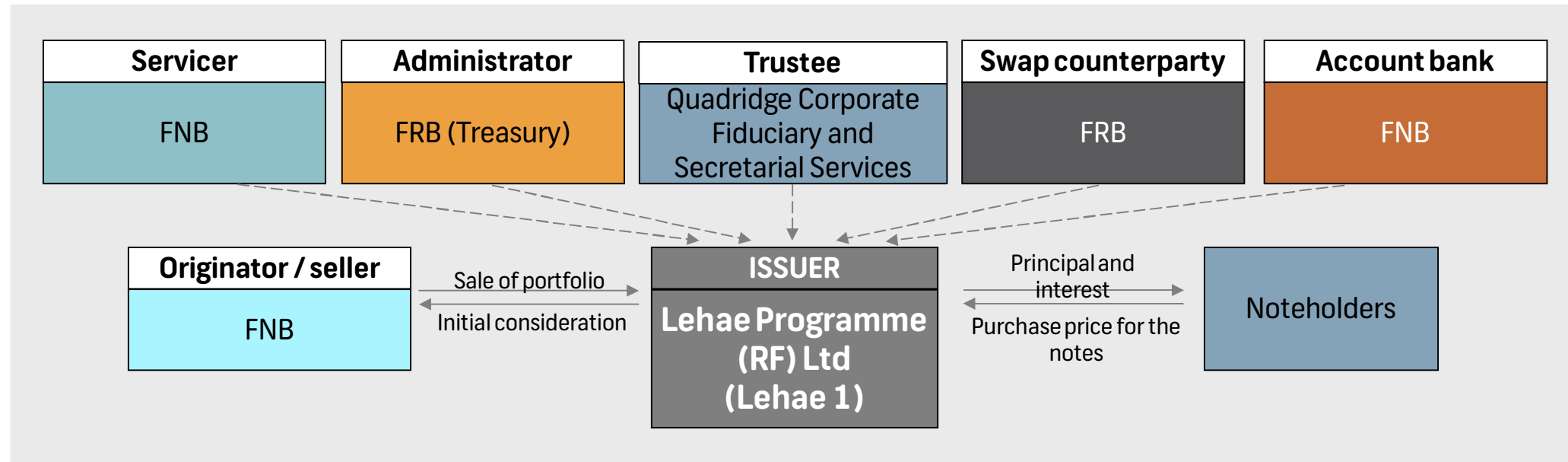
- For each transaction, a Security SPV will be established, which will hold, realise security for the benefit of secured creditors in respect of that transaction
- In respect of each transaction, the Security SPV established in respect of that transaction will furnish a limited recourse guarantee to the noteholders and other secured creditors of the issuer in relation to that transaction only
- The Issuer will indemnify the relevant Security SPV in respect of claims made by the secured creditors under that guarantee
- Obligations of the Issuer to each Security SPV shall be secured by a security cession to the Security SPV of the issuer's rights to the assets applicable to that transaction

Co-mingling

- Secured creditors in respect of a transaction will have recourse only to the participating assets of the transaction
- For each transaction a separate bank account will be opened
- Each transaction administered as independent
- Assets and liabilities relating to each transaction will be identified in the accounting records of the issuer, as being attributable solely to that transaction, and will be contractually segregated from the assets and liabilities relating to each other transaction
- Investor report will be prepared for each transaction



Lehae Transaction 1 – key transaction counterparties



Role	Counterparty	Current long-term rating*	Rating trigger	Possible trigger effects
Account bank	FRB	Aa1.Za	A1.za	Replacement
Servicer	FRB	Aa1.Za	A1.za	Accelerated sweeping Customer notification Replacement
Swap counterparty	FRB	Aa1.Za	A2.za	Collateral posting

Structural features of capital structure

Assets	Liabilities ¹	
Residential home loan assets 100%	40% nominal CE 63%	Class A [Aaa.za]
	50% nominal CE 6%	Class B [Aaa.za]
	7% nominal CE 6%	Class C [Baa3.za]
	4% nominal CE 2%	Class D [not rated]
	2% nominal	Class E [not rated]
Cash (2%) & Redraw (1%) Reserve 3%		

Credit enhancement

- Note subordination
- Redraw Reserve and Cash Reserve
- Benefits from an estimated average excess spread at closing of roughly 0.4%²

Reserves

- Redraw Reserve fully funded at closing from part of the proceeds from Class D notes
- Cash Reserve fully funded at closing from part of the proceeds from Class E notes
- At inception, Redraw Reserve requirement and Cash Reserve requirement is 1% and 2% of the aggregate principal balance of participating assets on issue date, respectively
- At each interest payment date, Redraw and Cash Reserve required to be funded to the required size

Hedging strategy

- Balance-guaranteed interest rate swap between FRB (swap counterparty) and Lehae Transaction 1
- Swap counterparty subject to collateral posting triggers from Moody's

1. Nominal credit enhancement (CE) excludes excess spread, and includes 2% cash reserve and 1% redraw reserve.
2. Estimated post-swap asset yield less estimated senior expenses, senior note interest expressed as a percentage of provisional portfolio.



Capital structure

Tranche	National scale rating (Moody's)	Issuance amount (R million)	Credit enhancement (%) ²	WAL ¹	Legal final tenor	Expected maturity tenor	Coupon	JSE listing	Status
A	[Aaa.za]	[800]	63	2.69	20 years	5 years	3m JIBAR + [●]	Listed	Offered
B	[Aaa.za]	[1 000]	13	8.84	20 years	11.75 years	3m JIBAR + [●]	Listed	Offered
C	[Baa3.za]	[140]	6	12.37	20 years	12 years	3m JIBAR + [●]	Listed	Offered
D	[Not rated]	[80] ³	2	12.39	20 years	12 years	3m JIBAR + [●]	[Listed]	Call Desk
E	[Not rated]	[40] ⁴	0	12.39	20 years	12 years	3m JIBAR + [●]	[Listed]	Call Desk
Total		[2 060]							

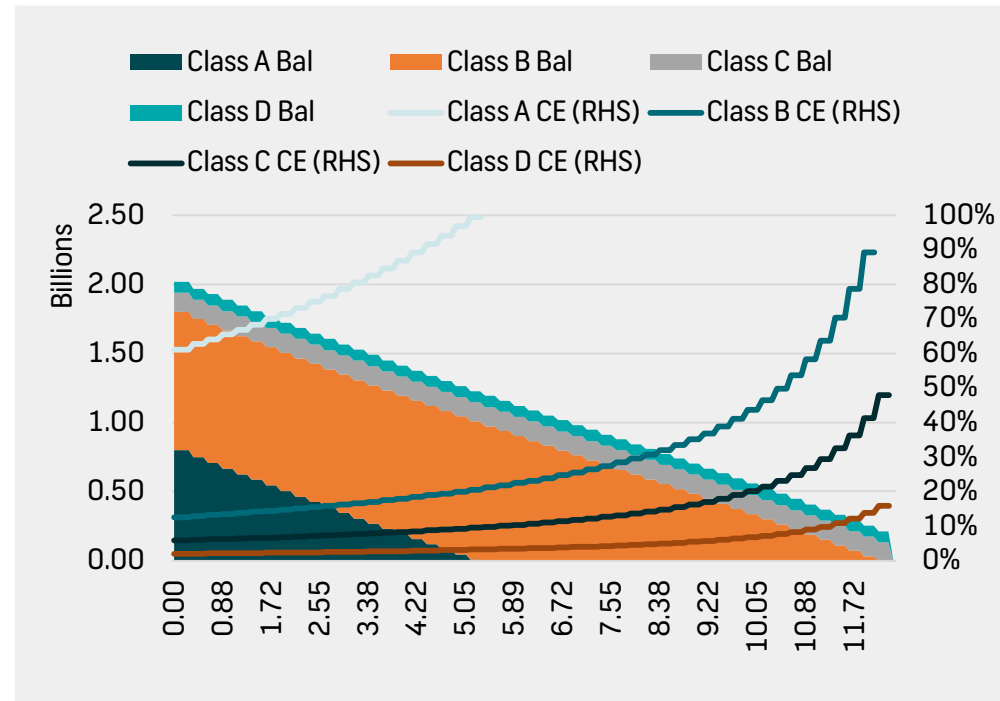
1. 15% CPR assumption, zero losses, zero defaults.
2. Subordination, 1% redraw reserve and 2.0% cash reserve (excluding excess spread).
3. Part of proceeds from the issuance of the Class D tranche are used to fund the redraw reserve at [R20 million] at closing.
4. Proceeds from the issuance of the Class E tranche are used to fund the cash reserve at [R40 million] at closing.



Weighted average life and amortisation profile

Key assumptions for estimated weighted average life (WAL):

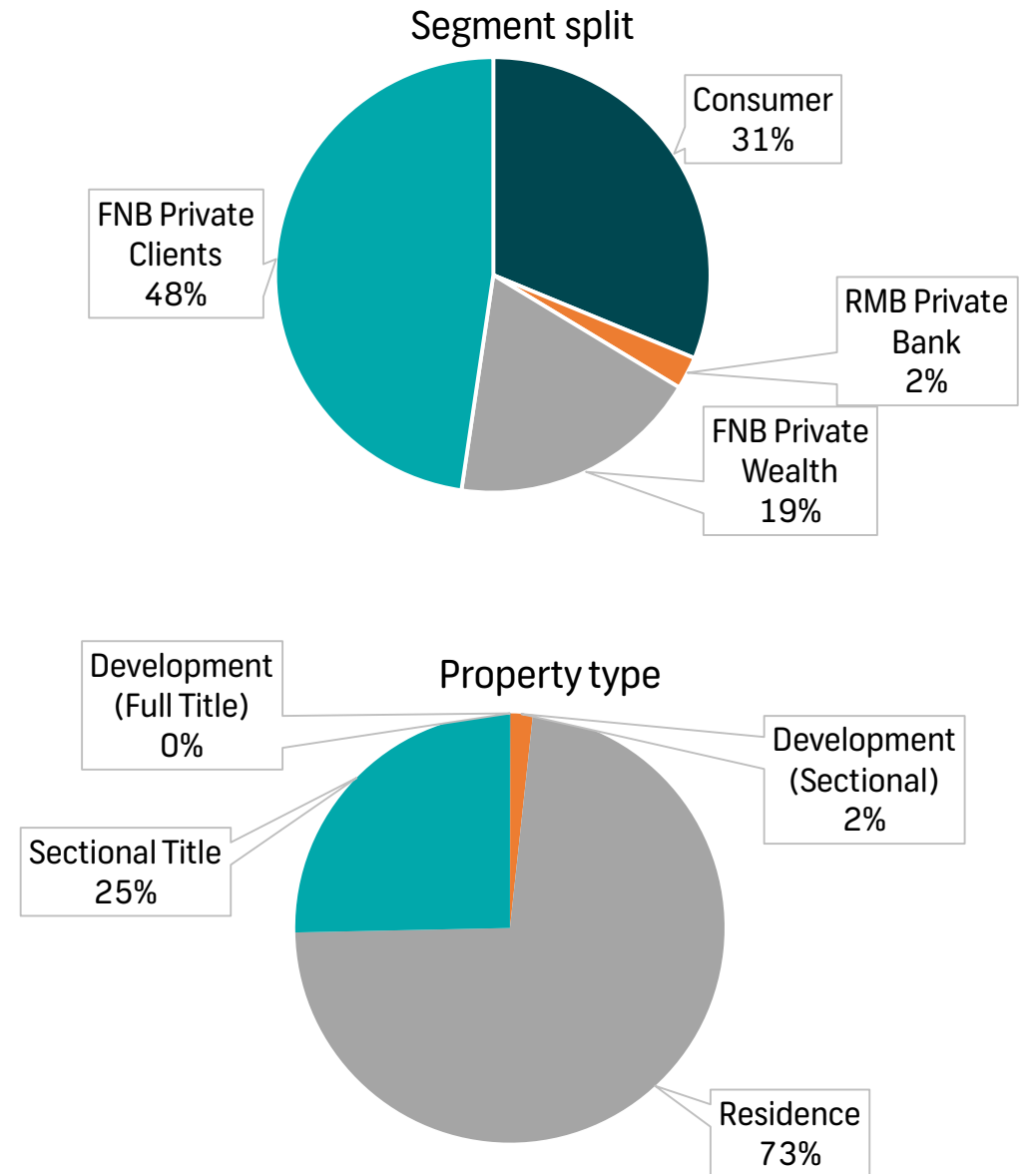
- Portfolio is subject to a constant annual rate of prepayment
- Portfolio sold to the issuer is [R2 000 million]
- Original outstanding balance of each class of notes is equal to principal amount based on the provisional portfolio and capital structure
- There are no delinquent receivables or defaulted receivables during the life of the transaction



Prepayment rate	5%	10.0%	15.0%	17.5%	20.0%	25.0%
Class A (WAL in years)	6.97	5.79	2.69	2.11	1.73	1.28
Class B (WAL in years)	14.45	13.27	8.84	7.40	6.31	4.80
Class C (WAL in years)	15.25	14.89	12.37	11.10	9.87	8.10
Class D (WAL in years)	15.25	14.89	12.39	11.14	9.89	8.14

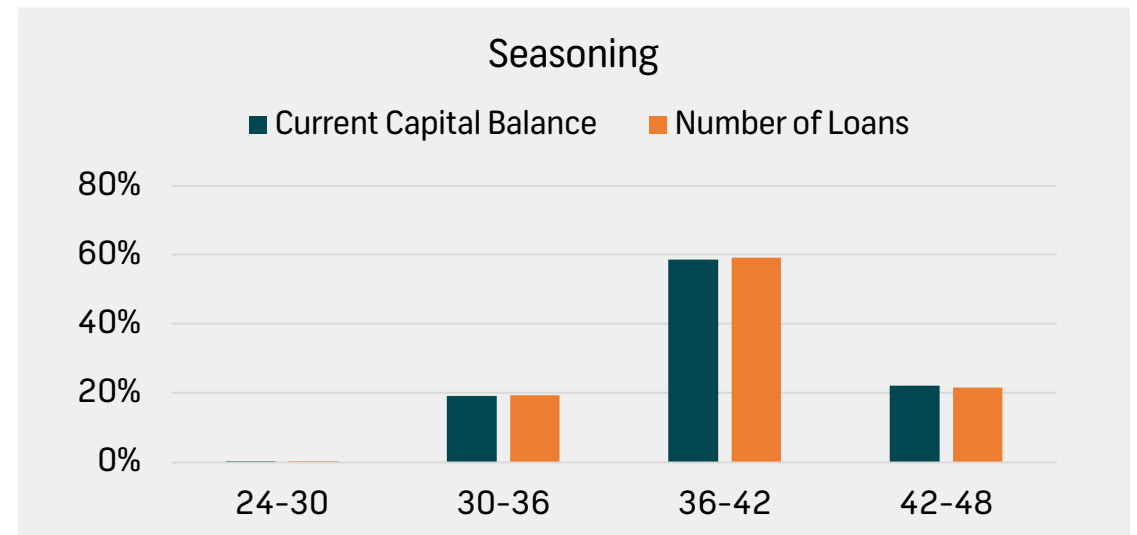
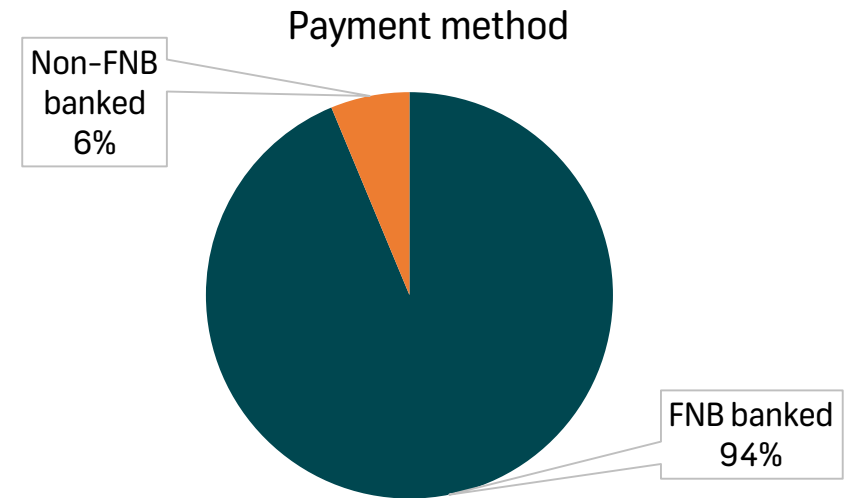
Provisional pool summary

Total capital balance (30 June 2023)	R2 183m
Number of accounts	1,604
WA (weighted average) capital balance	R1.36m
Total original loan amount	R2 485m
WA original loan amount	R1.77m
Total original property valuation amount	R2 841m
WA original property valuation amount	R2.02m
Total current property valuation amount	R3 295m
WA current property valuation amount	R2.34m

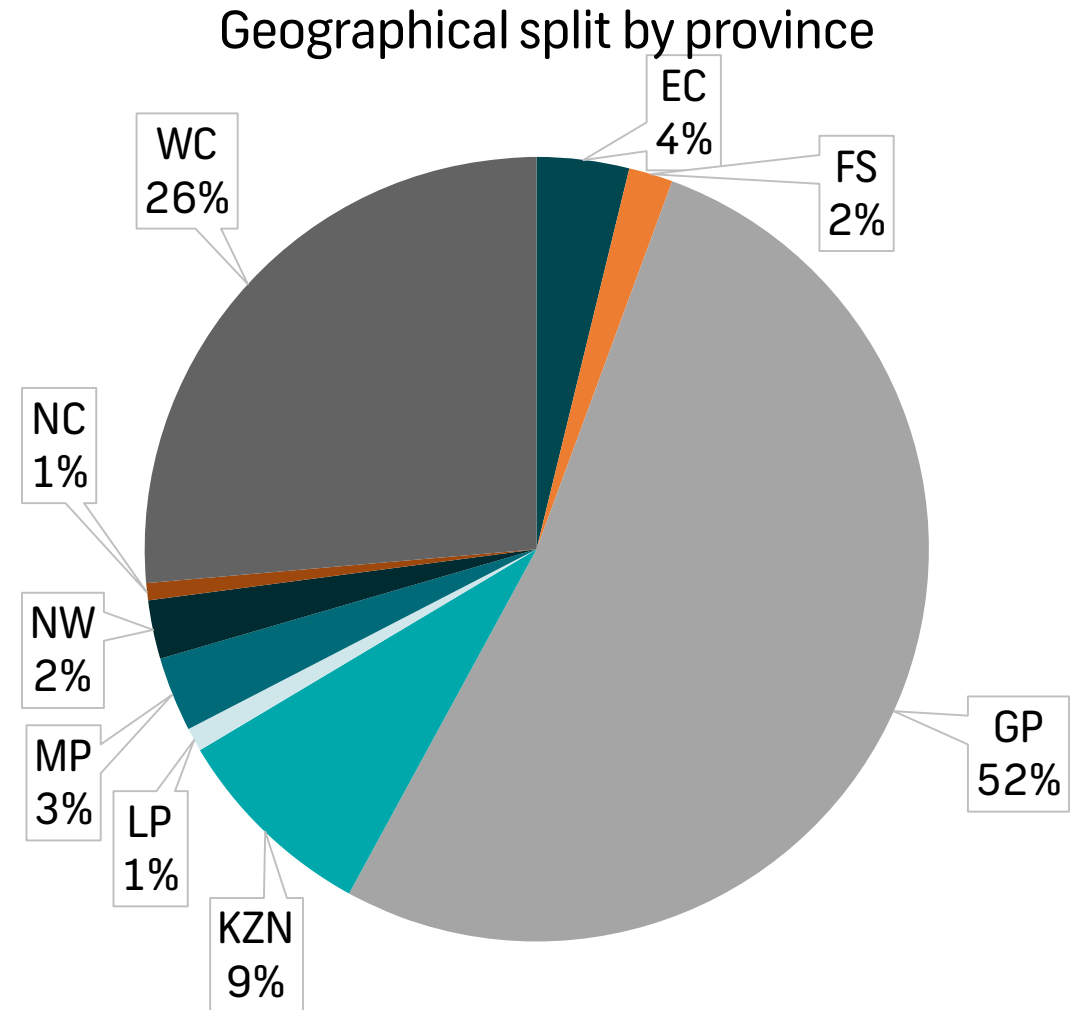
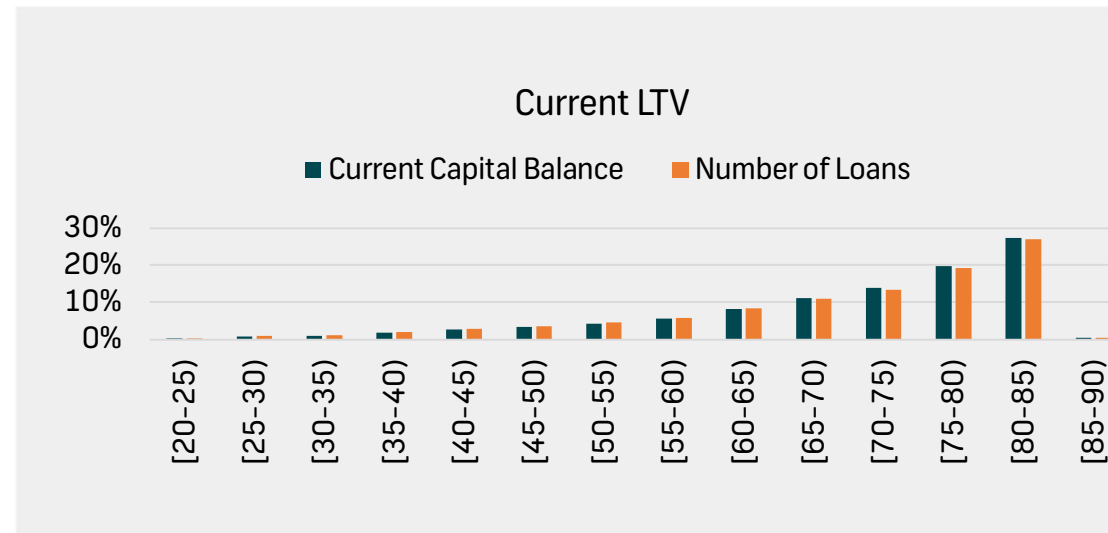
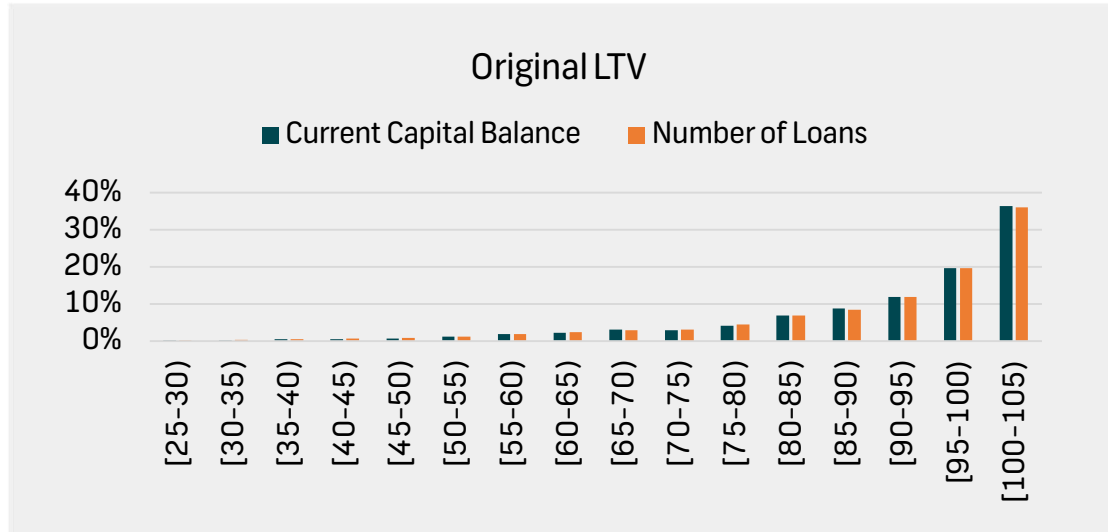


Provisional pool summary (continued)

Largest borrower concentration	0.21%
Number of borrowers	1,598
WA yield	Prime - 0.40%
WA current LTV	70.10%
WA original LTV	90.52%
WA original term	238 mo
WA seasoning	39 mo
WA remaining payments	198 mo
WA current PD	0.51%



Provisional pool summary (continued)



All statistics are based on a provisional portfolio as at 30 June 2023. The final portfolio is expected to have similar statistical properties.

Transaction timeline and auction details

- Roadshow: 9 – 12 October 2023
- Target price guidance: [tbc]
- Target issuance size: [R2bn]
- Target auction: [14 November 2023]
- Target settlement: [21 November 2023] (T+5)
- Auction will be uniform price sealed bid on issue margin relative to 3-month JIBAR
- Request investors to submit by 11:00am
 - Maximum allocation per note/overall
 - Spread required per note
 - Staggered bids are acceptable
 - Allocations will be on tightest spread first – marginal spread *pro rated*
 - Final allocations will be reported to investors by 1:00pm



Contacts

First National Bank (FNB)	Rand Merchant Bank	FirstRand Group Treasury
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Dawid Spangenberg (Head: FNB Retail credit risk)		Kireshan Royan (Funding and Liquidity)



FIRSTRAND INVESTOR RELATIONS
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Appendix

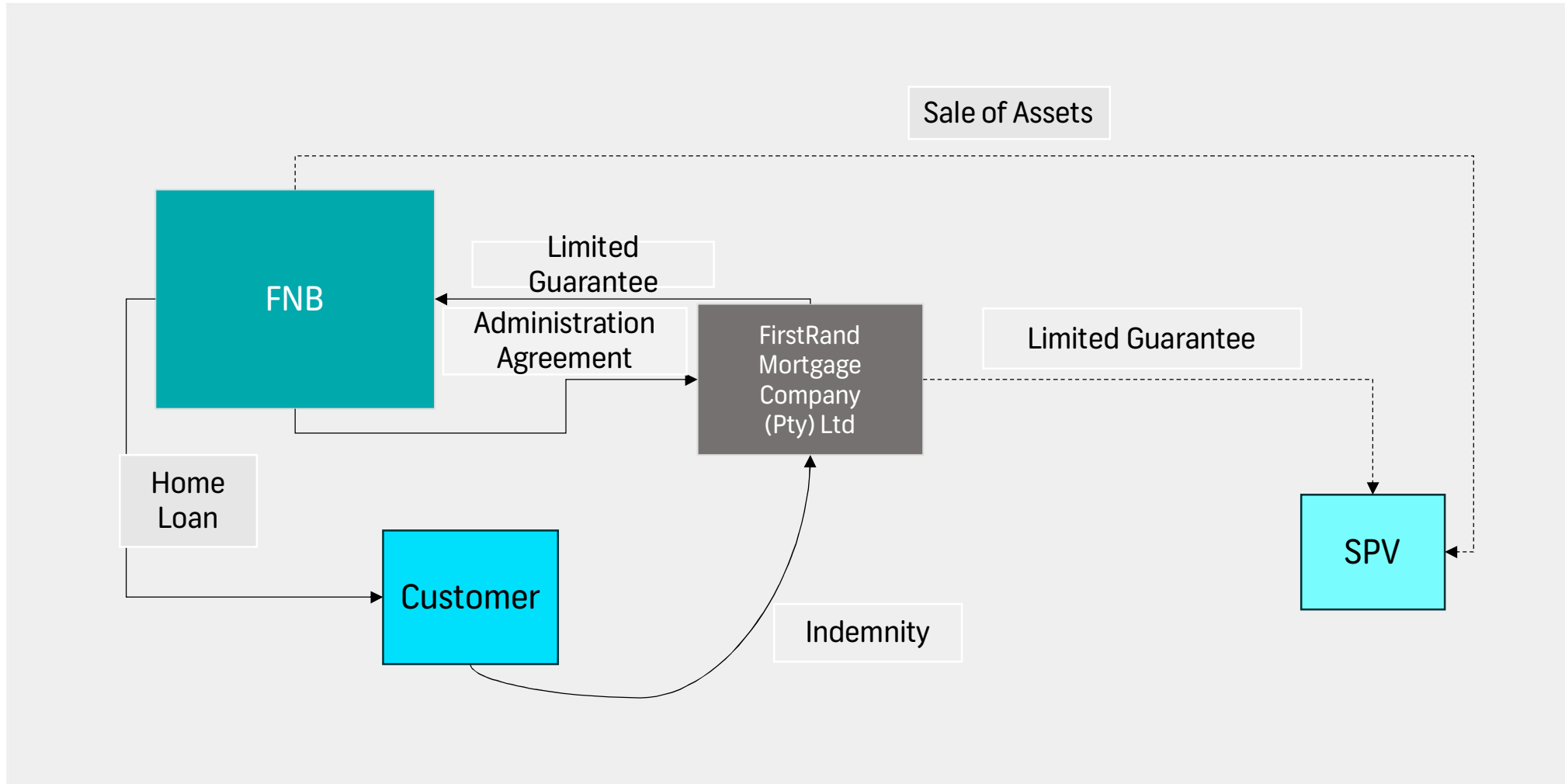


Main eligibility criteria

Not in arrears for more than 30 days or more than 1 instalment
Not related to vacant land
Current LTV \leq 100%
Max total outstanding balance per loan \leq R5m
Seasoning \geq 12 months
Not an employee of FRB
Not be subject to an active application for a Further Lending or a Re-advance
Prime-linked
Not been non-performing in last 12 months
Maximum initial maturity of 240 months
Fully amortising loans
Remaining repayment term \geq 36 months



Indemnity bond structure



Programme and Transaction Information

Credit enhancement

- Credit enhancement for Class A to Class C notes provided by the reserves, note subordination and available excess spread.
- Credit enhancement for Class D note provided by the cash reserve and available excess spread.
- Credit enhancement for Class E note provided by the available excess spread
- Benefits from an estimated average excess spread at closing of roughly 0.4%²
- Structured to pay interest and principal sequentially after payment of senior expenses
- Interest and principal payments on Class C to E notes is subordinated to principal on Class A to Class B notes as per pre-enforcement order of priority (refer to next slide)
- Any losses due to insufficient cash flows will be subject to the following order:
 - Covered by excess spread
 - Borne by the subordinated notes in reverse order of seniority

Cash and redraw reserve

- Redraw reserve fully funded at closing from part of the proceeds from Class D notes.
- Cash reserve fully funded at closing from part of the proceeds from Class E notes.
- At inception, redraw reserve requirement and cash reserve requirement is 1% and 2% of the aggregate principal balance of participating assets on issue date, respectively.
- At each interest payment date, redraw and cash reserve required to be funded up to the following requirement, respectively:
 - 1% and 2% of aggregate principal balance of participating assets respectively on each determination date prior to such interest payment date
 - Subject to a floor of 1% of aggregate principal balance of initial assets
 - Cash reserve available to support interest payments on Class A to Class D notes.

Hedging strategy

- Balance-guaranteed interest rate swap between FRB (swap counterparty) and Lehae 1
 - Hedge basis risk between prime rate paying assets and JIBAR-paying liabilities
 - Swap counterparty will pay 3-month JIBAR on the notional outstanding of the notes and receive a prime-linked rate from the issuer
- Swap counterparty subject to collateral posting triggers from Moody's

1. *Nominal credit enhancement (CE) excludes excess spread, and includes 2% cash reserve and 1% redraw reserve.*
2. *Estimated post-swap asset yield less estimated senior expenses, senior note interest expressed as a percentage of provisional portfolio.*

PROGRAMME DOCUMENTATION FLOW

Programme memorandum

- Structural backbone
- General overview of the programme
- Generic terms and conditions

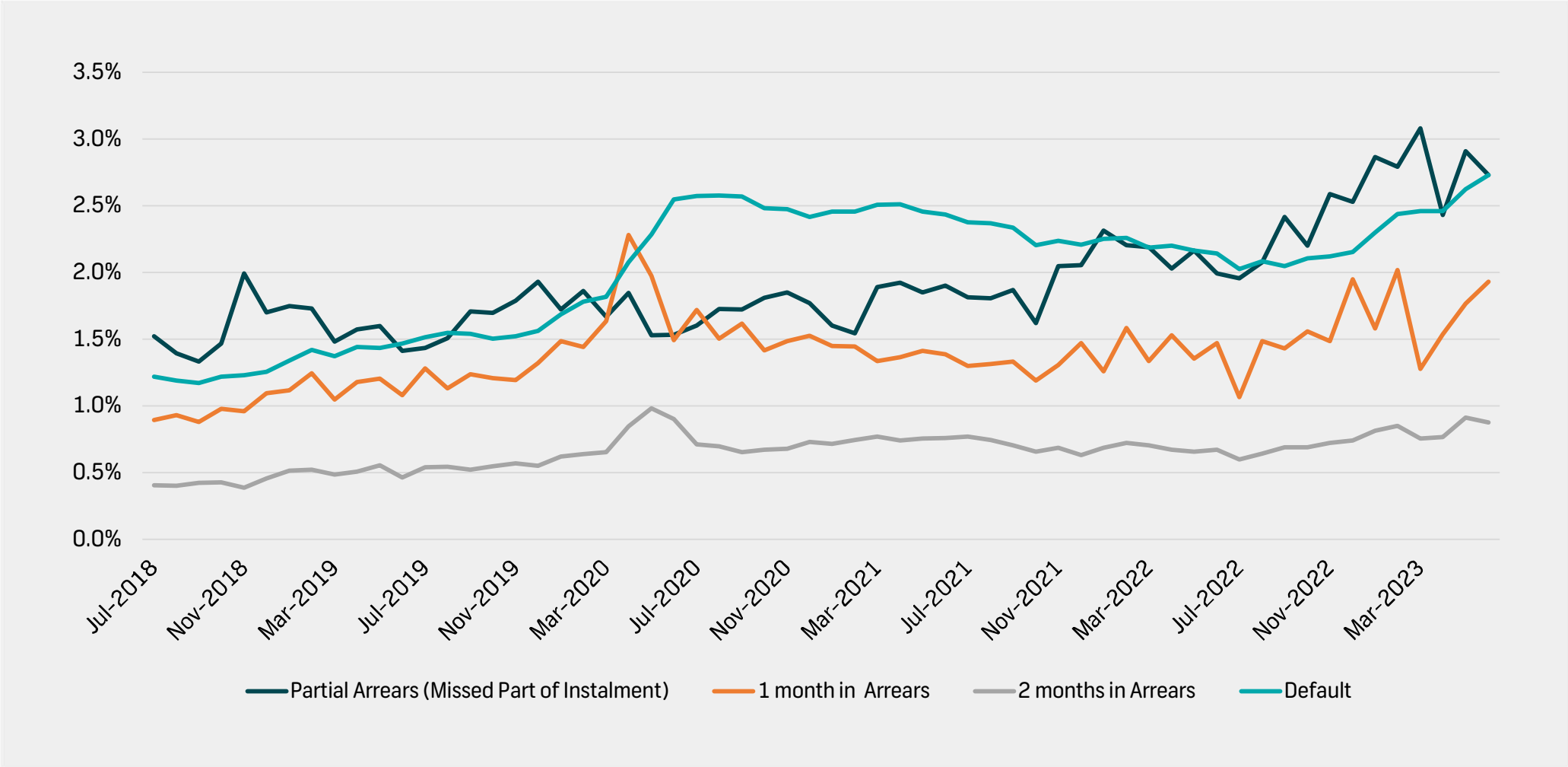
Applicable transaction supplement

- Each transaction will have its own transaction supplement
- Description of the offering
- Eligibility Criteria
- Specific structural features and priority of payments
- Specific terms and conditions
- Unique investor considerations

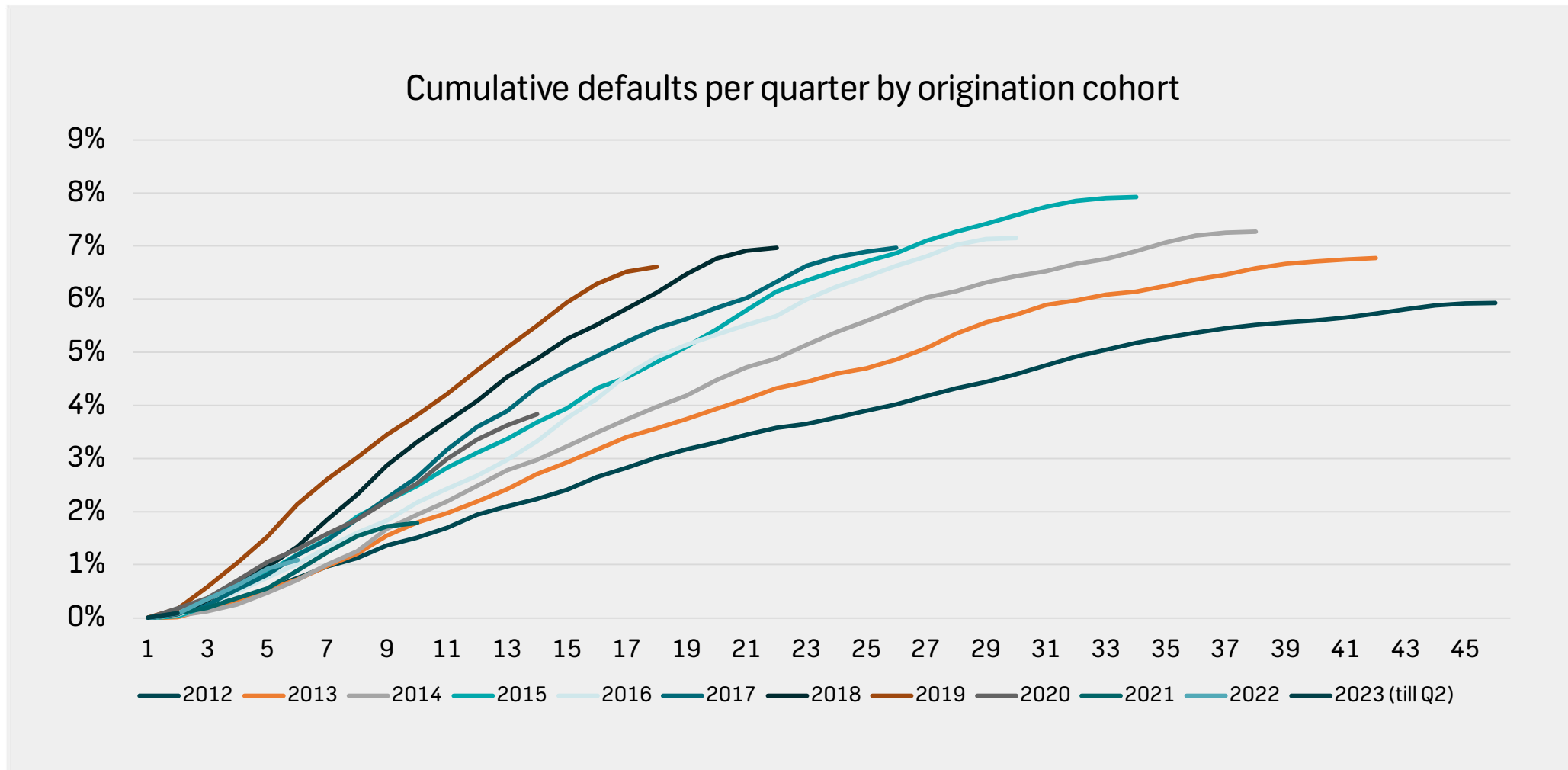
Applicable pricing supplement

- Contains the terms and conditions of specific note

Portfolio arrears (FNB portfolio)



Cumulative defaults (FNB portfolio)



Cumulative prepayment (FNB portfolio)

