

Non-deal roadshow – Nitro

November 2016



FIRSTRAND BANK

Agenda

- Funding and liquidity
 - Regulatory update
 - Funding plans
- Asset-based secured financing
 - International and local developments
 - FirstRand principles on securitisations
 - FirstRand's securitisation performance



FUNDING AND LIQUIDITY

Regulatory update



Update on liquidity ratios

LCR

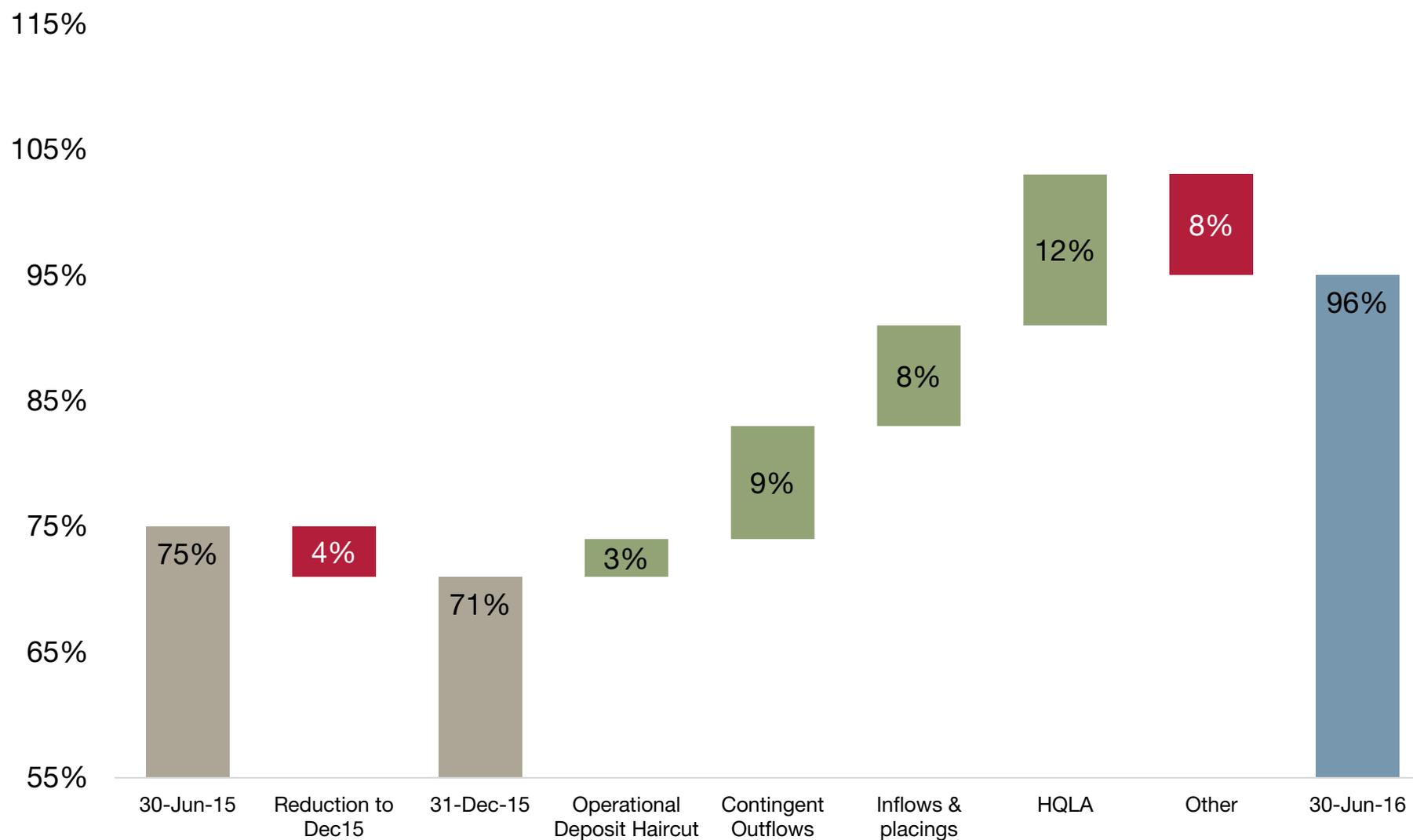
- Exceed minimum requirements – incorporating a management range
- We expect volatility in the ratio due to seasonal factors and flows of government finances
- Level playing fields work continues
 - Important to enable a fair and efficient market
 - Industry work group with BASA, SAICA and SARB to try improve consistency

NSFR

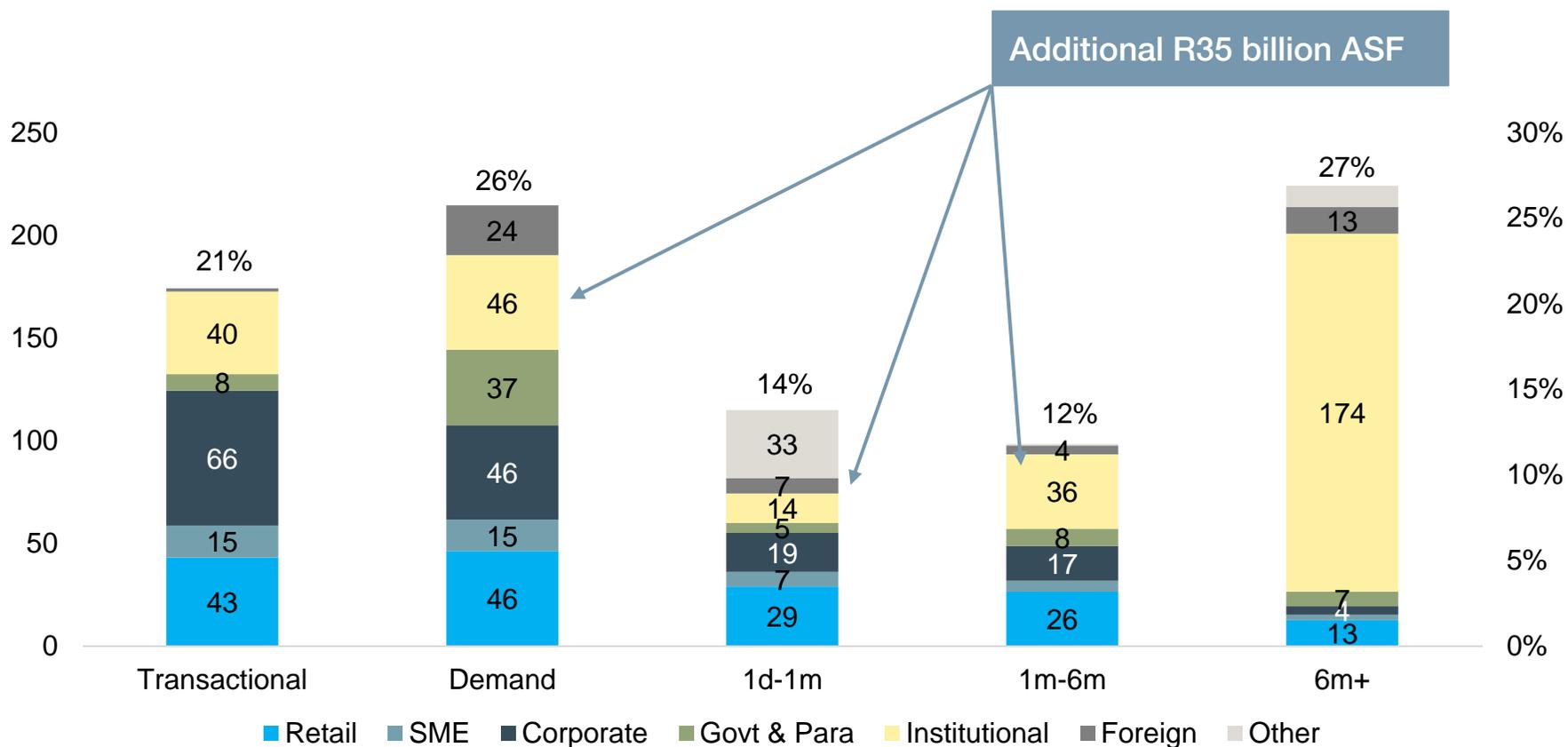
- Welcome the change to the ASF for FI deposits <6m
- In addressing the LCR FirstRand adopted strategies that improve structural liquidity risk thereby also assisting with NSFR compliance
- FRB estimates that we exceed minimum requirements on a pro forma basis
- Disappointed with the exclusion of CLF from NSFR
- NSFR treatment of derivatives retains an asymmetry which does not align to economic value derived from derivative collateral



Group LCR has improved by reporting alignment and execution on balance sheet strategies



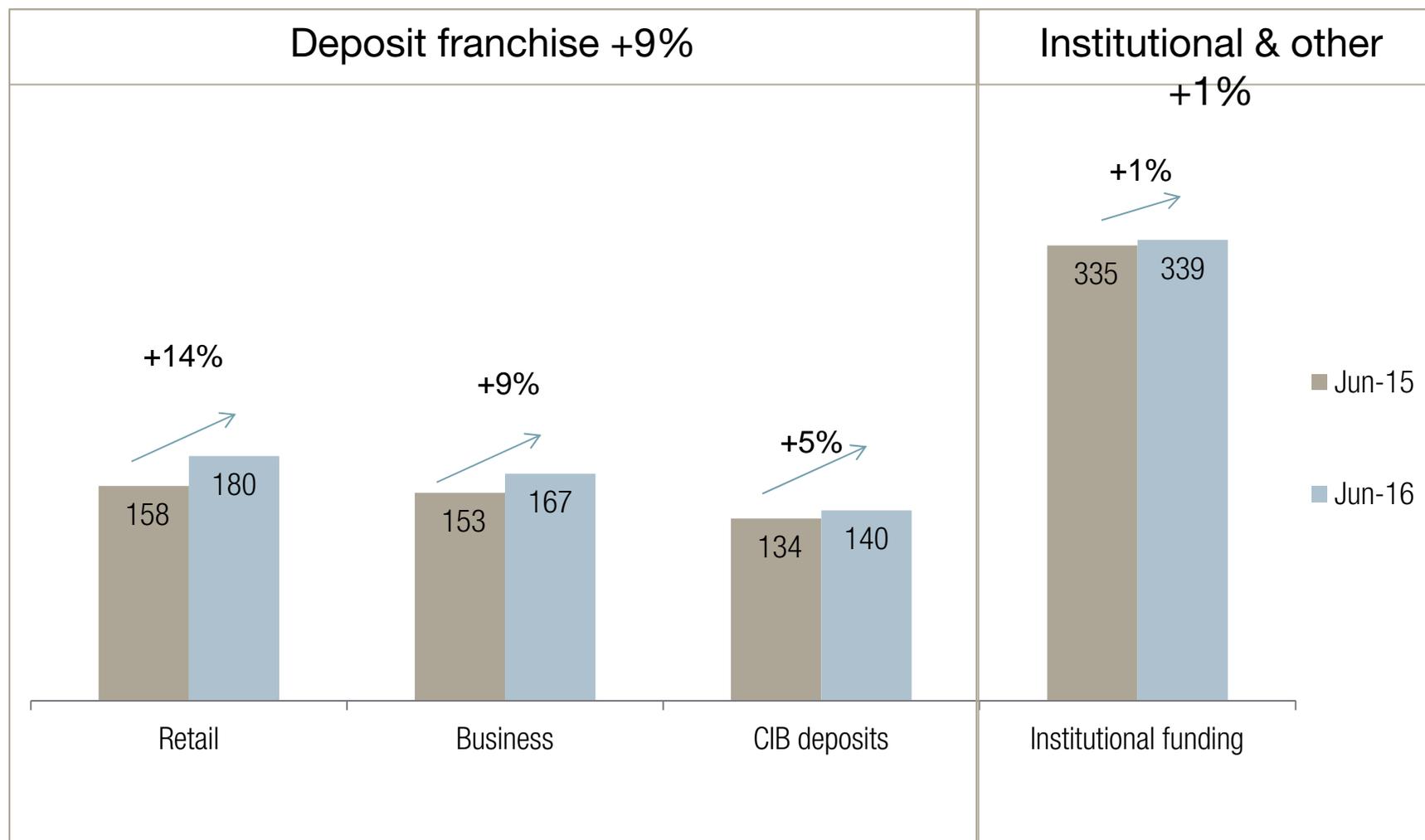
Recalibration of NSFR impacts R96bn+ in balances for FRB



Largely addresses NSFR shortfall of the SA banking sector



FRB funding strategy continues to be anchored in the deposit franchise



Source: FRB analysis of financial results, June 2016



FUNDING AND LIQUIDITY

Funding plans



Allocation of savings flows by platform



Regulatory and economic forces will come to bear

Non-guaranteed liabilities. Relative value pricing, targeted return hurdles, often based on LDI mandates, and real return targets

Risk-based frameworks

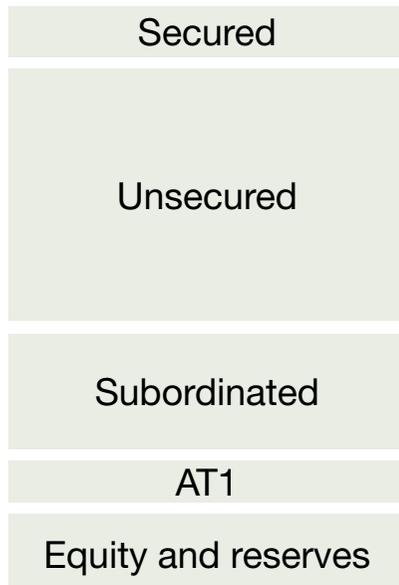
- *Basel II & III*
- *SAM*

Regulation and investor requirements have an influence on hurdles and pricing



Stylised view... risk-return transformation and pricing differentiation

Providers of funds



Risk-adjusted pricing



Bank
intermediation
and
transmission
of monetary
conditions

Risk-adjusted pricing



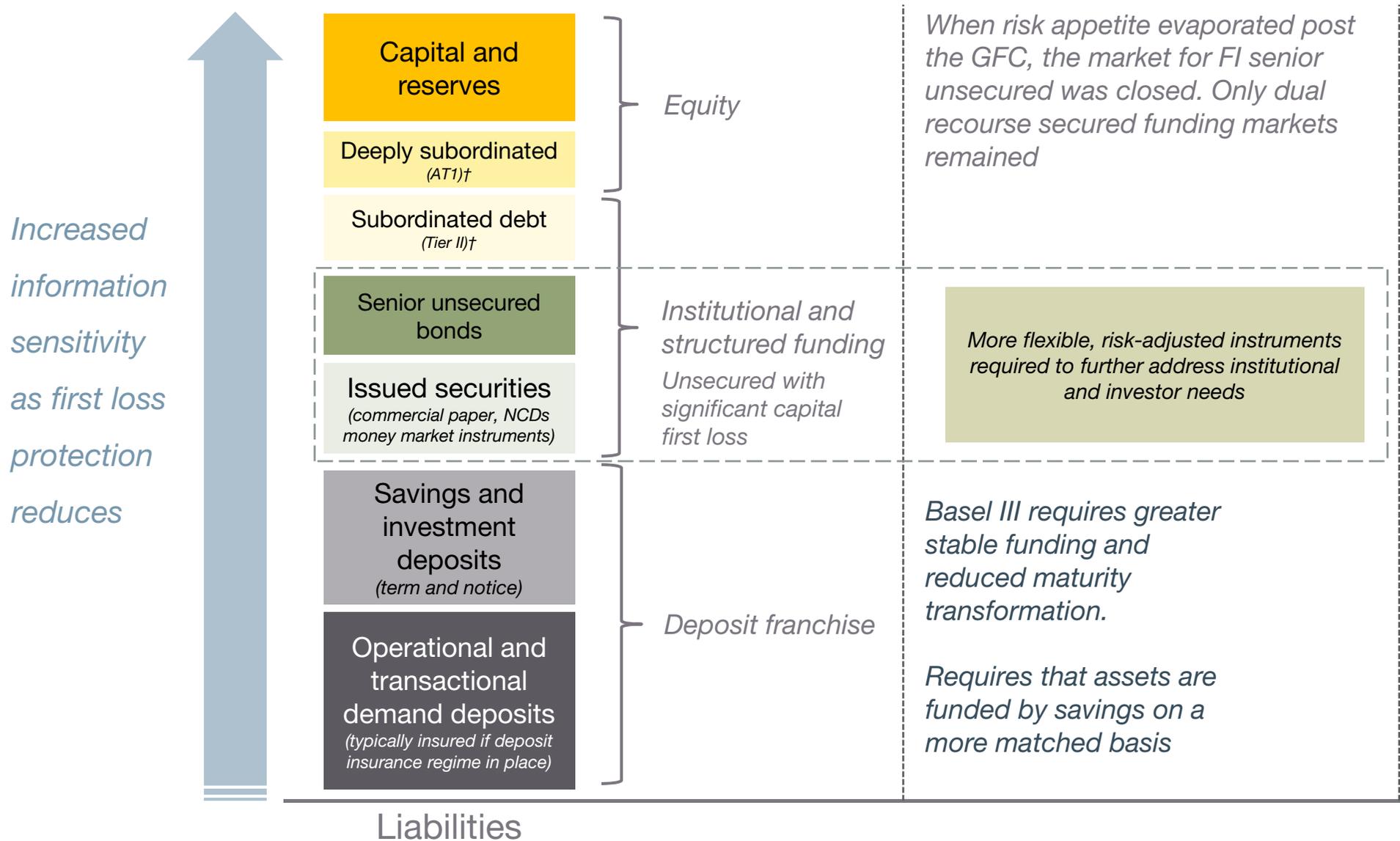
Application of funds



To improve ALM outcomes for the system better matching and risk-adjusted pricing to investor needs is required



A stylised bank liability structure



[†] Risk of bail-in at point of non-viability, subject to the implementation of a recovery and resolution framework



SAM introduces a more risk-sensitive framework and constraints on insurers

1

Credit risk differentiation

- Credit quality steps mapped to PD bands
- Internal rating permissible subject to approval
- Using instrument rating if available not entity rating

2

Concentration risk capital add on

- 3% per counterparty, 10% for RSA banks, and 15% for highly rated RMBS (AA or better)
- Sector concentration limits may also apply
- Concentration risk capital add on will be economically punitive
- Need to think more carefully about how scarce limits are utilised

3

Collateral benefit

- Collateral is considered in broad risk categories
 - Partial collateralised
 - Fully collateralised
 - Over collateralised
 - Cash collateral

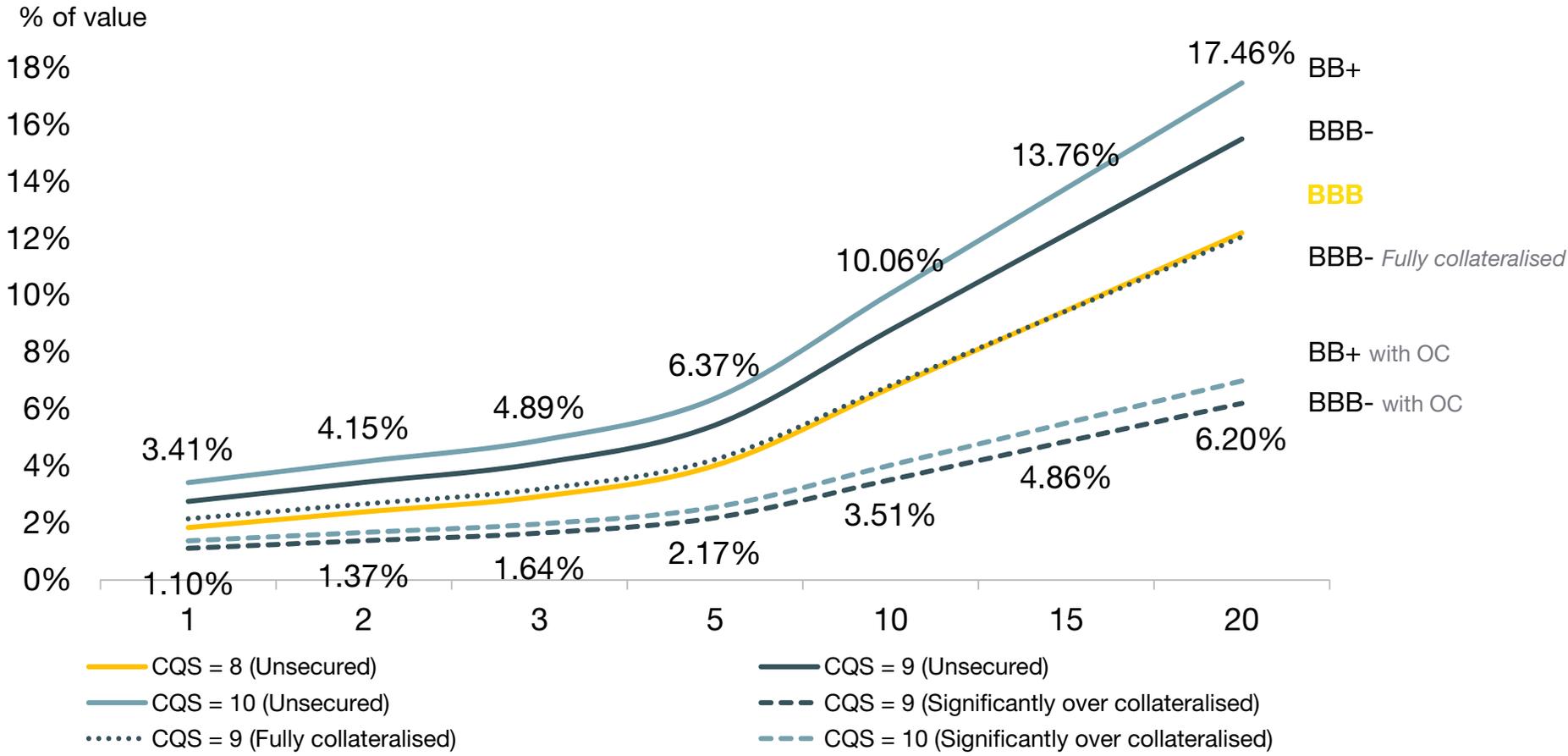
4

Matching adjustment

- If matching conditions are met liabilities may be discounted at a spread to the risk free curve
- This adjustment is currently capped at 50bps p.a.
- Part of this benefit is consumed again by the capital charge on this



SAM is akin to Basel II foundation approach



Securitised assets can achieve both a PD and an LGD uplift
 Approx BB+ with OC, can reach A unsecured

Source: FSB, SAM, Discussion document 111.V2.4



Funding plans

- Diversification across segments, source, currency, markets, instrument types and maturities
- Flexibility across markets, investors, products, investor risk appetite
- Given we expect to exceed the min NSFR, require greater optimisation
- Funding levels in the SA market are very high, *as noted by IMF in SA FSAP 2016*
 - Focus on alignment of funding strategies and further granularity in risk-adjusted pricing
 - Secured notes program
 - Simple, transparent and comparable securitisation
 - Improved liquidity
- Need to evolve funding instruments and mix to reduce regulatory volatility, better matching of assets and liabilities



Market developments

- Strate and Clearstream collateral management JV has gone live in SA, enables:
 - Efficient collateralization
 - A secured square-off between clearing banks
- Improving the liquidity of SA NT TBs
 - Proposals are with SARB, FMLG, and NT
- London clearing house (LCH)
- Funding models for SA Inc. workgroup
 - Securitisation task group to update exemption notice
 - Updates to commercial paper regulations
 - NT, JSE, ASISA with banks working on project bond framework



FUNDING AND LIQUIDITY

Secured funding



Simple, transparent and comparable ABS (STC)

- In July 2015, BCBS and IOSCO published criteria to identify STC securitisations¹ in response to calls made by the industry and regulators to simplify and standardise securitisation to improve credit risk transmission and unfreeze lending
- 14 criteria developed under the themes:
 - Simplicity – homogeneous underlying pool with simple characteristics, simple transaction structure
 - Transparency – sufficient information on the underlying assets, transaction and counterparties
 - Comparability – criteria to promote comparison and understanding of securitisation products within an asset class

Section	Criteria Summary	Purpose ¹
A. Asset risk	1. Nature of the assets	S, T, C
	2. Asset performance history	T, C
	3. Payment status	S, T, C
	4. Consistency of underwriting	S, C
	5. Asset selection and transfer	S, T, C
	6. Initial and ongoing data	S, T, C
B. Structural risk	7. Redemption cash flows	S
	8. Currency and interest rate asset and liability mismatches	S, C
	9. Payment priorities and observability	S, T, C
	10. Voting and enforcement rights	S, T, C
	11. Documentation disclosure and legal review	T, C
	12. Alignment of interests	S, C
C. Fiduciary and servicer risk	13. Fiduciary and contractual responsibilities	T, C
	14. Transparency to investors	T, C

¹ Criteria for identifying simple, transparent and comparable securitisations, July 2015 (<http://www.bis.org/bcbs/publ/d332.pdf>)

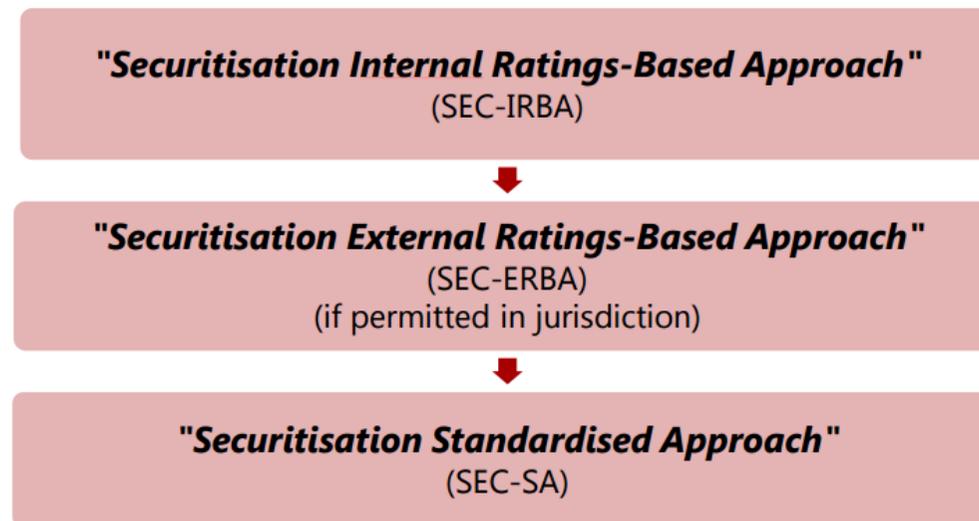
² S = simplicity; T = transparency; C = comparability



Simple, transparent and comparable ABS (STC) *(continued)*

- Following the published criteria, the BCBS published an update to the revised securitisation capital framework to be introduced in 2018¹
- The update carried with it preferential capital treatment for securitisations that meet the STC criteria
- Consequently, STC securitisations benefit from scaled down risk weights and a risk weight floor of 10% compared to 15% for non-STC securitisations
- Advantageous in UK and the EU where banks may hold STC instruments as qualifying HQLA for LCR purposes
- The local industry has been in discussion to introduce similar STC criteria and capital treatment for SA

The revised hierarchy of approaches in the revised framework for securitisation exposures is:



¹Basel III Document, Revisions to the securitisation framework, July 2016 (<http://www.bis.org/bcbs/publ/d374.pdf>)



Securitisation task group (NT)

Industry requirements

- Transparency
 - What will assist you with the investment case
 - Credit work
 - Time frames
 - Granular loan-level data
 - Cash flow models
- Standardisation
 - Documentation and definitions
 - Standardised investor reports
- Market liquidity
- Credit ratings (reliance, rating agency criteria)
- Originator risk retention and disclosure

Task group response

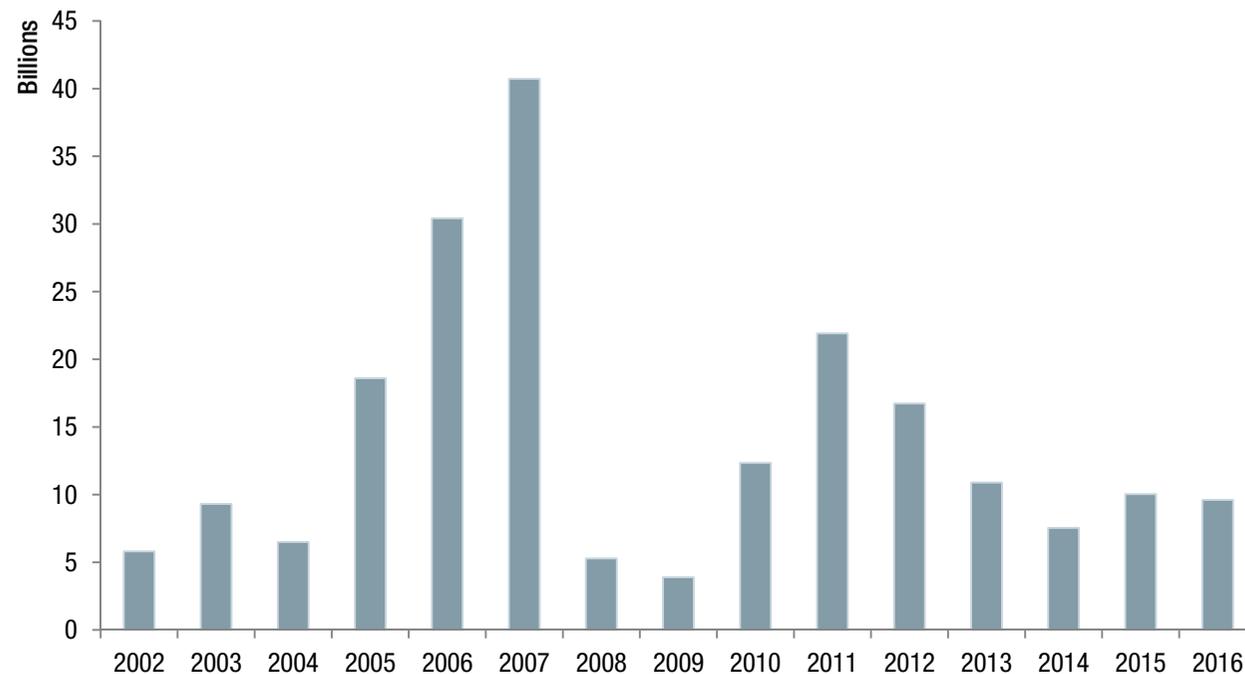
- Review and commentary on the updated Basel securitisation framework
- Review and update of the Securitisation Exemption Notice under the following themes:
 - Simple, transparent and comparable securitisations
 - True sale vs significant risk transfer
 - Market making
 - Distinguishing the purpose and approval for securitisation, i.e. capital optimisation vs. funding
 - Sponsor/originator risk retention
 - Clarification on the use of the 10% clean-up call
 - Amendments for liquidity purposes



SA securitisation market 2015/2016

- Issuance in the local securitisation market by banks has remained subdued in 2015/16, mainly due to the big four banks ability to source funding relatively cheaper in the local bond market
- Nedbank's Greenhouse and FRB's Nitro 5 have been the only bank issuance since Jan 2015

Total Securitisation 2002-2016 YTD



Complete and robust markets combine bank and market-based financing

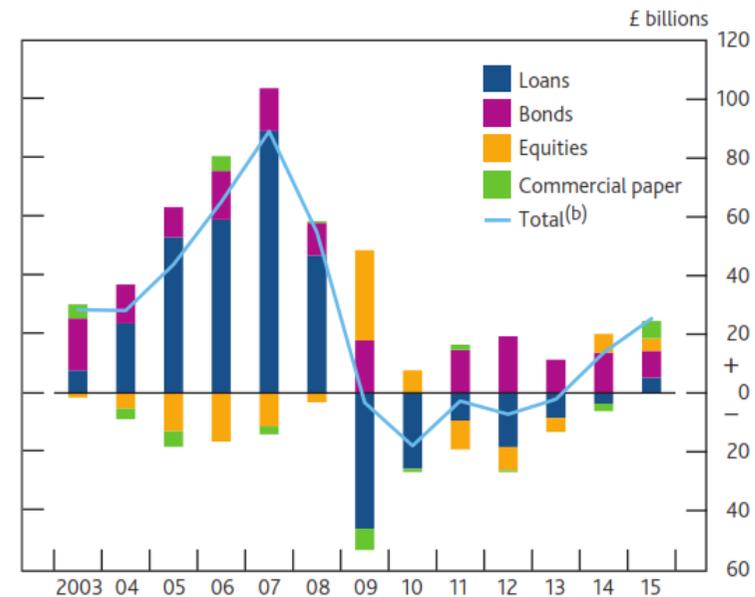
AFME European Market Statistics

2Q 2016

	ABS	CDO/CLO	CMBS	RMBS	SME	WBS/PFI	TOTAL
Austria	0.5			1.5			2.0
Belgium	0.2		0.1	49.0	17.3		66.6
Finland	0.5					0.5	1.0
France	22.3		0.4	57.7	0.2	0.6	81.2
Germany	43.7	0.2	6.3	26.2	6.6	0.0	83.2
Greece	9.6	1.8	0.2	2.5	6.3		20.4
Ireland	0.25	0.0	0.2	32.0			32.5
Italy	49.3	1.7	8.0	61.7	17.7	0.3	138.7
Netherlands	3.2	0.5	1.3	205.2	6.1		216.2
Portugal	3.0			20.3	5.9		29.2
Russia				0.4			0.4
Spain	16.3	0.5	0.1	129.3	16.4	0.0	162.5
Turkey	1.1						1.1
UK	39.7	8.5	49.6	150.8	7.2	68.0	323.7
Other	4.1	0.2	0.18	0.7			5.2
PanEurope	1.2	59.1	6.0	0.2	0.3	0.2	67.1
Multinational	0.4	37.2	2.7			0.5	40.8
European Total	195.3	109.8	75.1	737.3	84.1	70.1	1271.6

Source: AFME, Securitisation Data Report, Q2 2016

Private non-financial corporate issuance



Source: Bank of England, Financial Stability Report, July 2016

- UK has historically been a successful securitisation market, Europe has historically been a covered bond based financing market
- It is estimated that approximately 10% of UK bank assets and 25% of asset based finance is funded via securitisation
- Similar levels applied to SA would suggest an securitization market of R350-R400bn



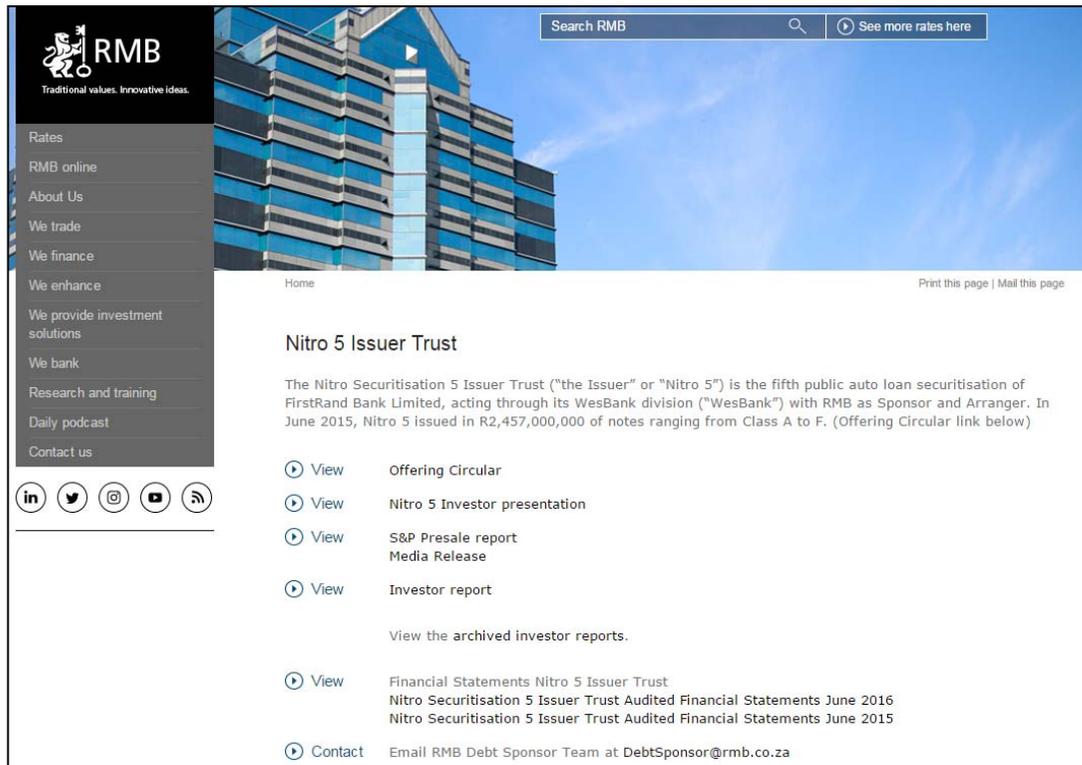
FirstRand principles on securitisations

- Transaction structure is simplified with principal pass-through to note holders
- The securitisation SPV is an insolvency remote vehicle
- Securitisation is primarily used for funding
- Assets are originated under the bank's approved credit processes
- FirstRand seeks to provide full transparency on underlying credit performance, loan-level data, cash flow models, accurate and timely investor reporting, where legally permitted
- FirstRand retains a significant portion of the equity risk in the securitisation



Investor reporting

- SA Securitisation Forum <http://sasf.co.za/investorreporting.htm>
- RMB website <http://www.rmb.co.za/globalmarkets/nitro.asp>
 - Offering circular, investor presentation
 - Rating agency pre-sale reports
 - Investor reports



The screenshot displays the RMB website interface. On the left is a dark navigation menu with the RMB logo and tagline "Traditional values. Innovative ideas." Below the menu are social media icons for LinkedIn, Twitter, Instagram, YouTube, and RSS. The main content area features a search bar and a "See more rates here" link. The page title is "Nitro 5 Issuer Trust". The main text describes the trust as the fifth public auto loan securitisation of FirstRand Bank Limited, acting through its WesBank division, with RMB as Sponsor and Arranger. It mentions that in June 2015, Nitro 5 issued R2,457,000,000 of notes ranging from Class A to F. Below this text is a list of documents with "View" links:

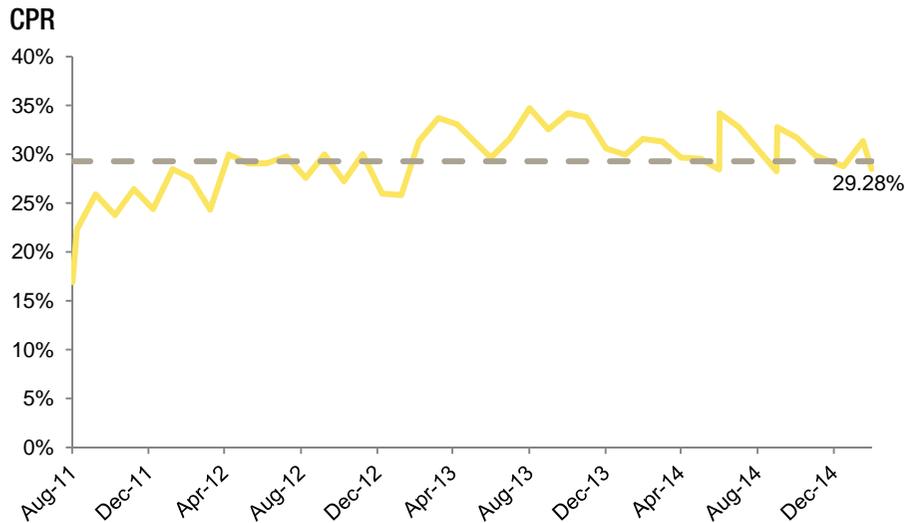
- View Offering Circular
- View Nitro 5 Investor presentation
- View S&P Presale report Media Release
- View Investor report

Below the list, there is a link to "View the archived investor reports." and another "View" link for "Financial Statements Nitro 5 Issuer Trust Nitro Securitisation 5 Issuer Trust Audited Financial Statements June 2015 Nitro Securitisation 5 Issuer Trust Audited Financial Statements June 2015". At the bottom, there is a "Contact" link with the email address "DebtSponsor@rmb.co.za".

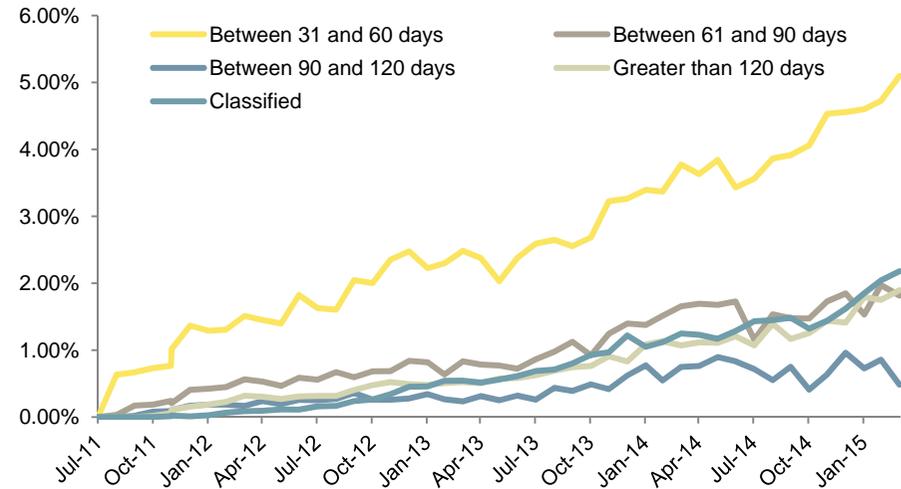


Nitro 4: Clean-up call exercised

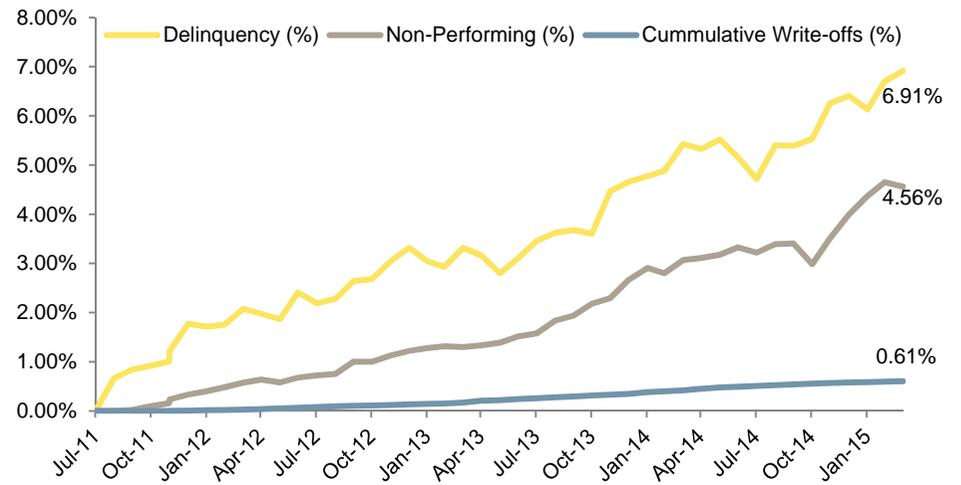
- The Clean-up call for Nitro 4 was exercised in April 2015, with the final redemption of all outstanding notes due on the 14th May 2015.
- CPR at maturity was 28.58%, averaging 29.28% over the duration of the transaction
- Nitro 4 performed very well with cumulative write-offs of 0.61% of the Aggregate Initial Pool Balance
- In May 2014, Moody's upgraded the Nitro4 Class B notes to A3(sf)/Aa2.za(sf) and the Class C notes to Baa3(sf)/A2.za(sf). The upgrades reflected the good collateral performance, the deleveraging of the transaction and the build-up of credit enhancement since the closing date.



Delinquency trends



Cumulative net loss

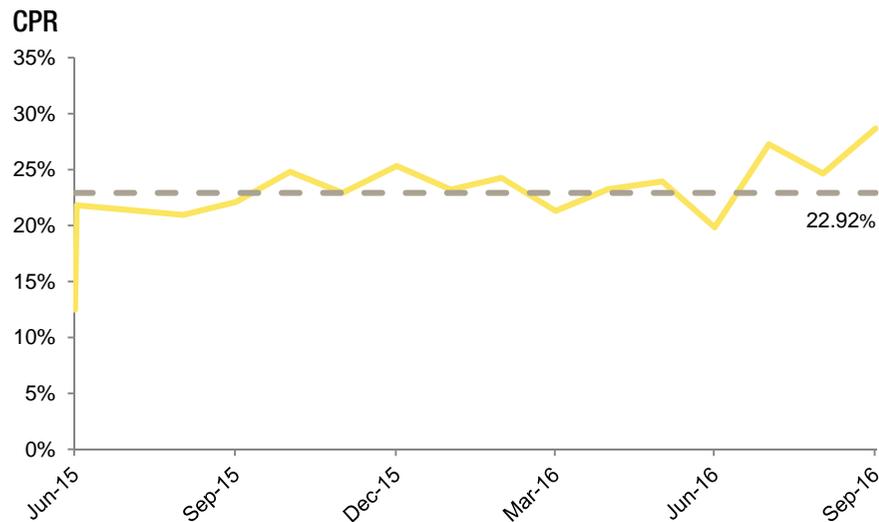


Source: Nitro 4 Servicer Reports, March 2015, Moody's Ratings, refer to website for announcement, https://www.moodys.com/research/Moodys-upgrades-South-African-auto-ABS-notes-issued-by-Nitro--PR_303457



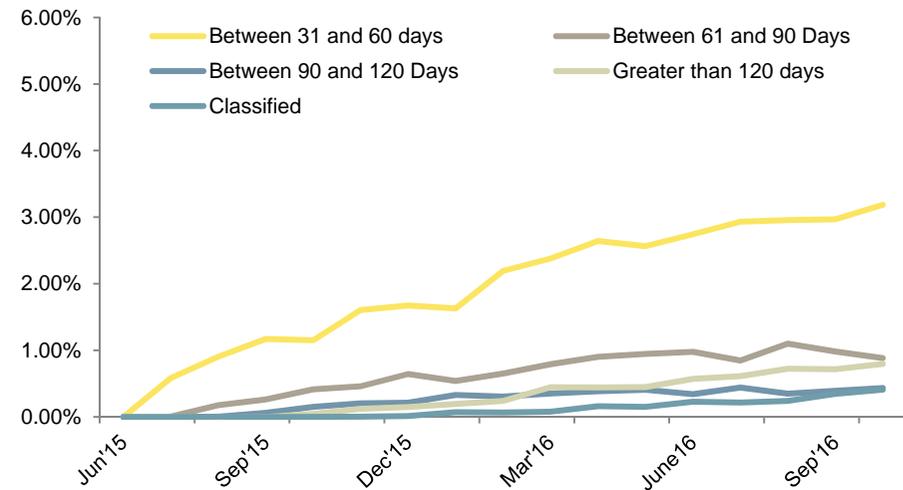
Nitro 5: performing within expectations

- Having closed in June 2015, the Class A notes have redeemed within the 1 year maturity. Class B has begun amortising in line with the underlying portfolio, with 72% having being redeemed thus far
- CPR has averaged 22.92% for the past 15 months
- Nitro 5 is performing very well with cumulative write-offs to date of less than 5 bps

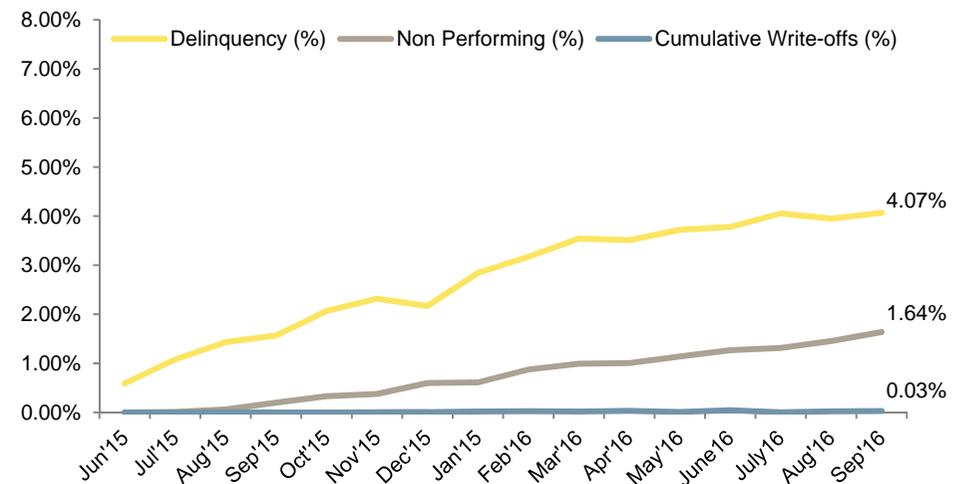


Source: Nitro 5 Investor Reports, September 2016

Delinquency trends



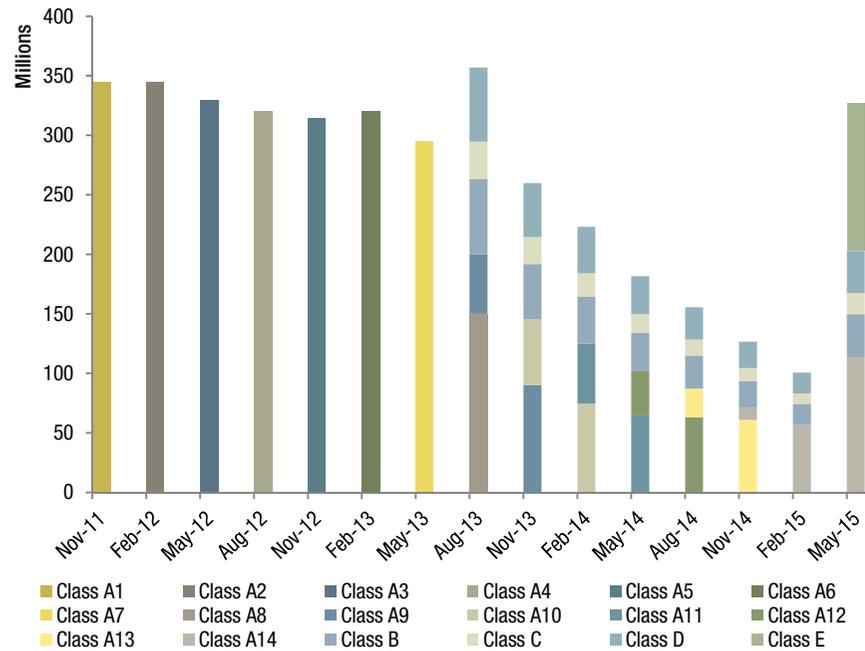
Cumulative net loss



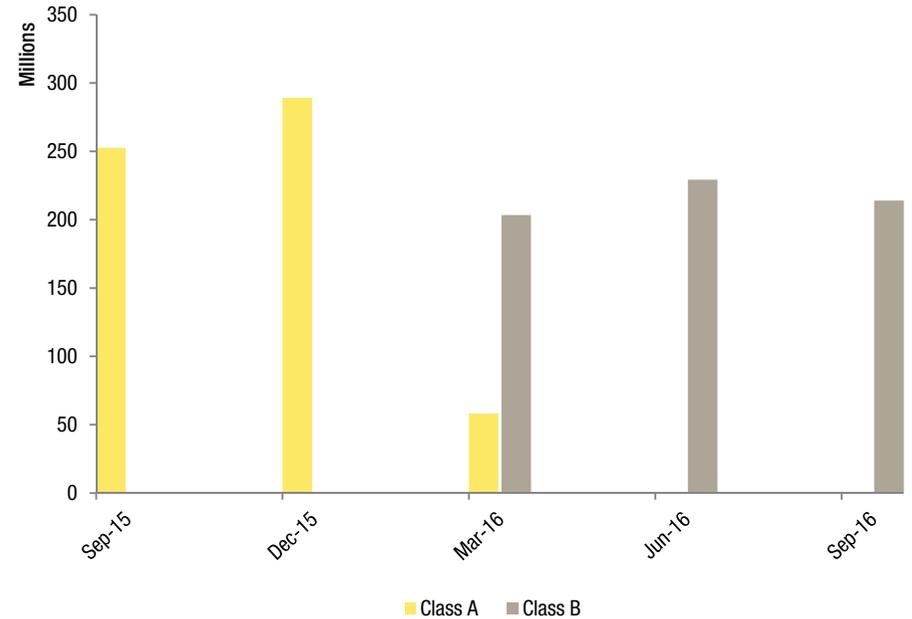
Nitro note redemptions

- Nitro 4 note redemptions were managed to meet a target maturity
- Nitro 5 note redemptions are fully pass-through based on the prepayment characteristics of the underlying pool

Nitro 4 – Note redemptions



Nitro 5 – Note redemptions



APPENDIX



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Appendix: SAM

Credit quality step	Probability of default	Rating (S&P LC, IS)
1	0.01%	AA+
2	0.02%	AA
3	0.03%	AA-
4	0.06%	A+
5	0.09%	A
6	0.11%	A-
7	0.16%	BBB+
8	0.22%	BBB
9	0.39%	BBB-
10	0.54%	BB+
11	0.81%	BB
12	1.39%	BB-
13	2.50%	B+
14	5.37%	B
15	8.72%	B-
16	20.00%	CCC+
17	25.00%	CCC
18	30.00%	CCC-

Collateral	LGD
Fully cash covered with regular MTM of the collateral	5.0%
Significantly over collateralised	18.0%
Fully collateralised	35.0%
Partially collateralised	42.5%
Unsecured	45.0%
Less than 50% of assets pledged as collateral to other creditors	72.0%
More than 50% of assets pledged as collateral to other creditors	86.0%
Equity exposure, junior or mezzanine debt, structurally subordinated	100.0%



Glossary of terms

Term	Definition
ASF	Available Stable Funding
EL	Expected loss
FI	Financial Institution
LCR	Liquidity Coverage Ratio
NCOF	Net Cash Outflows
NSFR	Net Stable Funding Ratio
RSF	Required Stable Funding
TB's	Treasury Bills
FMLG	Financial Markets Liaison Group
CLF	Committed Liquidity Facility
BCBS	Basel Committee for Banking Supervision
IOSCO	International Organisation of Securities Commissions



