



# South African Securitisation Programme (RF) Ltd

MEMORANDUM

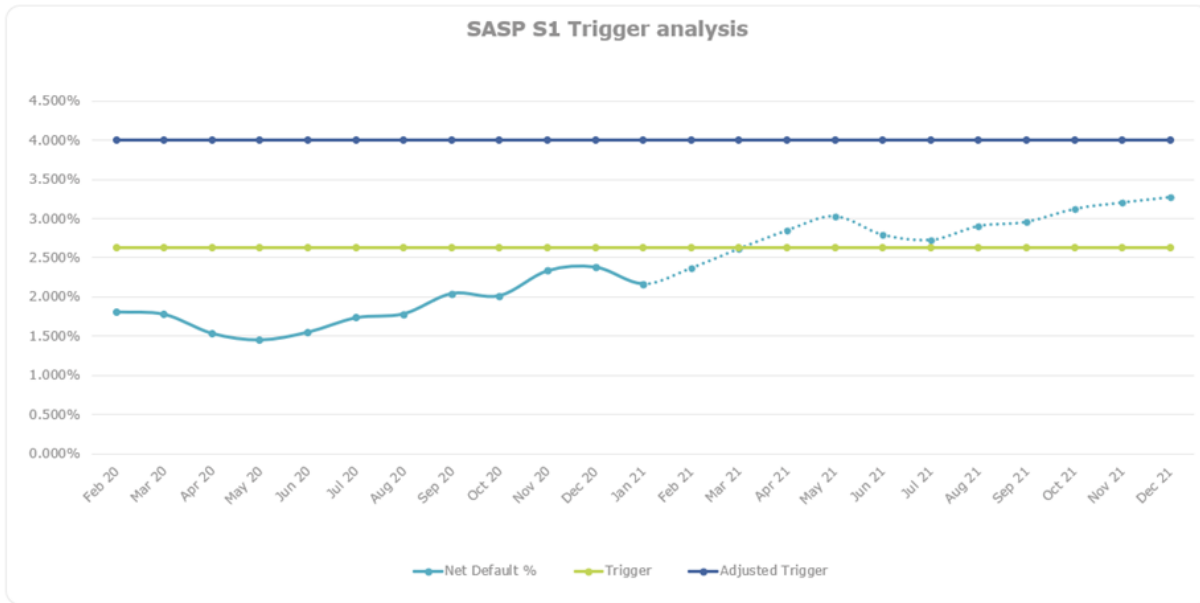
# BACKGROUND

Due to the economic environment and the continuing impacts of the Covid-19 pandemic, Sasfin Bank Limited ("SBL") has experienced a deterioration in performance within the South African Securitisation Programme (RF) Limited ("SASP") portfolio, which has resulted in an increase in the aggregated amount of Series Participating Assets in Default with a possibility of the occurrence of a Net Default Test Event if the current trend continues. The position is exacerbated as the triggers are measured on a 12-month rolling average basis and credit performance metrics from the better performing months (prior to the impact of the state of disaster lockdown) are excluded from the calculation of the ratio and are replaced by poorer performing months. The impact of the rolling average first became noticeable from approximately mid-2020 (4 months into the declaration of the state of disaster). While specific sectors were harder hit than others, this deterioration was evident across multiple industries. The impact in terms of the triggers was experienced most acutely in the latter part of 2020 and into 2021. The combined effect of the increased defaults, reduced recoveries and the impact on the rolling average has resulted in the performance as per the graphs below.

We have forecasted the triggers based on a set of assumptions to December 2021:

## ASSUMPTIONS

- Conservative assumptions on recoveries
- Arrears and default assumptions based on current trajectory
- Moderate adjustments for market improvements

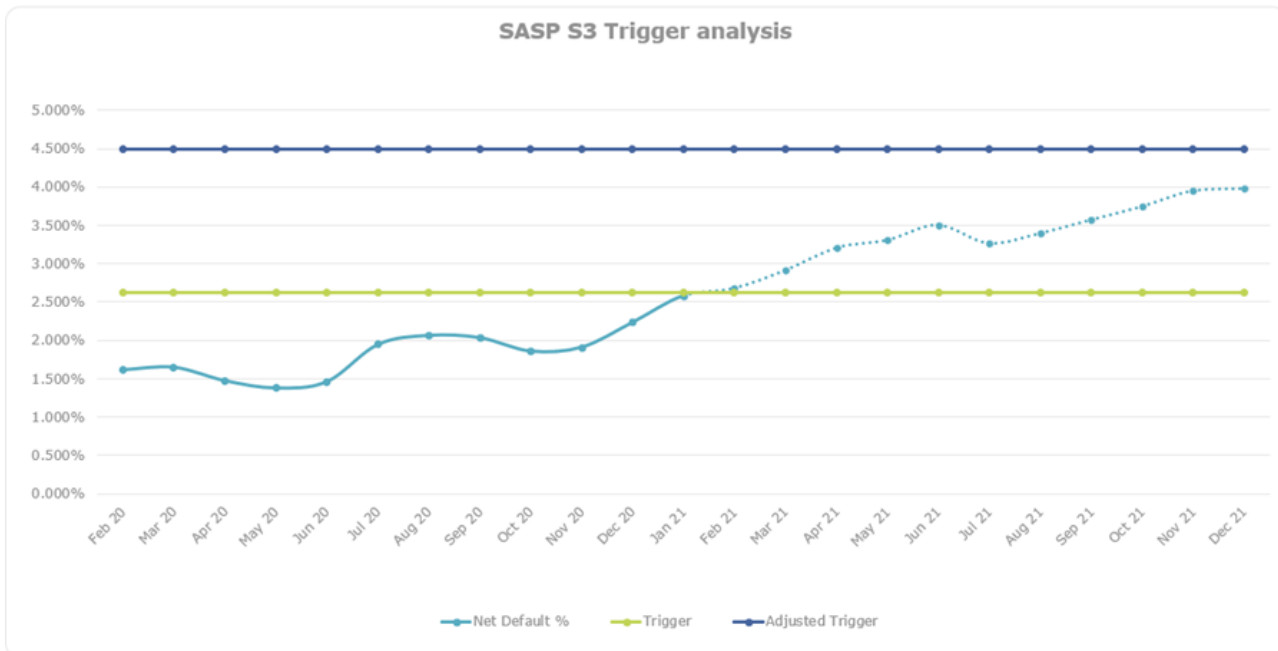


Net default % - 2.170% (as at Jan-21)

Current Benchmark – 2.625%

**Proposal to increase Benchmark – 4.000%**

This would result in an increase of 1.375%



Net default % - 2.586% (as at Jan-21)

Current Benchmark – 2.625%

**Proposal to increase Benchmark – 4.500%**

This would result in an increase of 1.875%



# TRIGGER INFORMATION

**Net Default Test** means, for purposes of a Due Period, the net of the following:

- the aggregate Net Present Value of Series Participating Assets in Default which occurred in the past 12 (twelve) months ending on the last day of that Due Period; less
- the aggregate amount of the Recoveries collected in the past 12 (twelve) months ending on the last day of that Due Period; divided by the aggregate of
- the average Net Present Value of Series Participating Assets for the past 12 (twelve) months ending on the last day of that Due Period.

**Net Default Test Event** means an event where the Net Default Test exceeds 2.625%.

**Series Participating Asset in Default** means, in relation to and as at a Payment Date:

- a Series Participating Asset in respect of which any Series Participating Asset Payment which is due and payable under that Series Participating Asset is more than 150 (one hundred and fifty) days overdue as at the last day of the Due Period relating to that Payment Date; or
- a Series Participating Asset which the Series Servicer has determined to be uncollectable, in accordance with the Series Servicer's customary practices, prior to the last day of the Due Period relating to that Payment Date.

**Delinquent Series Participating Asset** means a Series Participating Asset in respect of which more than 30% of any one Series Participating Asset Payment which is due and payable under that Series Participating Asset is more than 60 (sixty) days but less than 150 (one hundred and fifty) days overdue as at a Measurement Date. The Lease exposure on these assets is provided for in the Arrears Reserve Account.

## **Difference between how SBL classifies NPL's vs SASP**

- SBL classifies a deal 90 days (3 missed payments) in arrears as an NPL/Delinquent vs SASP's delinquent classification is 60 days+ (2 missed payments).
- SBL will only fully write-off a deal on 2 conditions
  - The deal has already been fully impaired – based on the impairment policy.
  - Applying expert judgement there is no reasonable expectation to recover - this could sometimes be more than a year based on court proceedings, etc.

- SASP writes off a deal if in arrears for 150 days (5 missed payments) and there has already been cash provisioning in the Arrears Reserve as the deal was delinquent prior to defaulting.

# SUMMARY OF KEY INVESTOR QUERIES

Due to the current climate and the stated set of assumptions we expect a breach to occur in the short term based on our forecasting. The occurrence of a Net Default Test Event will result in early amortisation of the structures unless the trigger benchmarks are appropriately adjusted.

The impact of early amortisation will be as follows:

- Capital will be paid back to investors over a period (+/- 3.5 years) as per the Priority of Payments;
- The Revolving Period will terminate i.e. no further top-ups;
- Capital and interest will be paid down in terms of seniority i.e. A Class, then B Class and finally C Class.

The trigger benchmark was initially set in 2007 and the performance has been resilient throughout various economic cycles. However, the current situation brought about by the pandemic is more systemic and the credit environment is unlikely to change in the short term. We therefore seek a permanent adjustment of the trigger benchmark given the continued uncertainty in economic conditions and our inability to predict when the situation will return to normal.

The 30% arrear principle is applied to Delinquent Series Participating Assets and not Series Participating Assets in Default. Any deal that pays less than the required instalment for 3 consecutive months (irrespective of the percentage of payment) will be classified as a delinquent deal and written off/defaulted if the arrears exceed 150 days.

Series 3 has a higher probability of breaching the trigger than Series 1. The Series 3 structure was created for the Fintech FR2 deals (Fintech Receivables). Based on our assumptions and the current trend our assessment on Series 3 indicates that it is likely to deteriorate more than Series 1, hence the request for an additional buffer of 50bps.

## Repurchase of Series Participating Assets

If the relevant Series Seller elects to repurchase any Series Participating Asset in terms of the relevant Series Sale Agreement, the repurchase of such Series Participating Asset by the relevant Series Seller will be effected in the manner contemplated in the relevant Series Sale Agreement and will be subject to the satisfaction of the following conditions:

- the aggregate Net Present Value of all Series Participating Assets that are repurchased by the relevant Series Seller shall not in the aggregate exceed 10% of the aggregate Net Present Value of all Series Participating Assets as at the

relevant effective date of the repurchase of the relevant Series Participating Assets, unless the Registrar of Banks grants his written approval to allow such 10% limit to be exceeded;

- if such Series Participating Asset is a Delinquent Series Participating Asset or a Series Participating Asset in Default, the external auditors of the relevant Series Seller having certified in writing that such Series Participating Asset is being repurchased by the relevant Series Seller at a fair market value (which reflects the non-performing status of such Series Participating Asset).

### **Payment Moratoriums (Payment Holidays)**

Companies who faced financial distress because of the impact of the national lockdown and requested a payment moratorium were subject to a credit approval process. The customer was required to meet eligibility criteria to qualify for a payment moratorium which included, *inter alia*, their agreement being in good standing prior to the effective date of the national lockdown. All agreements where we had approved a payment moratorium were removed from the SASP structures and replaced by deals with similar terms and characteristics. None of the deals within the SASP structures have any assistance in terms of restructures or payment moratoriums and the clients within the Group that have requested the above assistance have been granted such on SBL's balance sheet.

SBL has on a combined basis replaced approximately R262 million of the loans and advances portfolio across all the 3 vehicles (S1, S2 and S3) from approved payment moratoriums.

### **Structural protections for investors within SASP**

SASP has other performance tests which if breached will also result in early amortisation. These tests ensure that the required capital structure is maintained and the excess spread within the vehicles is sufficient (critical for Rating Agents). These protections will also mitigate some of the additional risk being assumed by investors for the increase in the benchmark of the Net Default Test Event;

- **Arrears Reserve Test** – cash reserve made up of NPV of all delinquent leases, i.e. prior to these being defaulted. If this Reserve Account cannot be funded this will also result in early amortisation
- **Yield Test** – The annualised yield cannot drop below Prime + 5% [Series 1] and Prime + 4% [Series 3] (ensures adequate spread within the structures)



# SBL PROPOSAL TO INVESTORS

Based on our approval obtained internally we would like to make the following proposal to our investors to compensate for the additional risk being assumed by increasing the trigger limits. The proposal is a combination of an increase in the capital structure (enhancement levels) and an increase in pricing on the listed notes. This proposal will only become effective if/when and for so long as the 2.625% benchmark has been breached.

## SASP S1 PROPOSAL

- The 1<sup>st</sup> loss loan will be increased on a 1:1 ratio based on the increase in the benchmark of the Net Default Test Event i.e. **1.375%** of outstanding notes in issue from time to time;
- The above results in an additional **R 15,235m** of enhancement which will be in the form of cash collateral held in the Reserve Account;
- There will also be an increase in the spread of the listed notes as follows:
  - Class A - 10 bps
  - Class B - 15 bps
  - Class C - 20 bps
- The above will only become effective if/when and for as long as the Net Default Test is above 2.625% but below 4%;
- The proposed changes will be amended in the relevant agreements, the Series 1 Supplement and the APS' accordingly.

## SASP S3 PROPOSAL

- The 2<sup>nd</sup> loss loan will be increased on a 1:1 ratio based on the increase in the benchmark of the Net Default Test Event i.e. **1.875%** of outstanding notes in issue from time to time;
- The above results in an additional **R 23,72m** of enhancement which will be in the form of a subordinated loan which will be used to purchase overcollateralized assets;
- There will also be an increase in the spread of the listed notes as follows:
  - Class A - 12.5 bps
  - Class B - 17 bps
  - Class C - 25 bps
- The above will only become effective if/when and for as long as the Net Default Test is above 2.625% but below 4.5%;
- The proposed changes will be amended in the relevant agreements, the Series 3 Supplement and the APS' accordingly.

# PROCESS (PROJECTED TIMELINE)

Task 1	<b>INVESTOR ENGAGEMENTS</b>	
Task 2	<b>ENS ENGAGEMENTS</b>	
Task 3	<b>JSE APPROVAL</b>	<i>Allow ± 10 Business days to obtain formal approval (5 days informal comment; 3 days informal approval and 2 days formal approval) Obtain conditional formal approval iro amendments to Supplements T&amp;C</i>
Task 4	<b>NOTEHOLDER APPROVAL</b>	<i>Last date to submit Noteholder vote, shall be no later than the 20th business day after the notice was submitted An "<b>Extraordinary Written Resolution</b>" is defined in the Debt Listings Requirements as "a resolution passed other than at a meeting of the holders of debt securities or the holders of a specific class of debt securities, with the written consent of the holders of debt securities or the holders of the specific class of debt securities, holding not less than <u>66.67% (sixty-six point six seven percent)</u> of the value of all outstanding debt securities or the specific class of debt securities, as the case may be" [underlining added]</i>
Task 5	<b>SASFIN BOARD APPROVAL</b>	<i>The board of directors of SBL is required to pass a resolution approving the Subordinated Loan</i>
Task 6	<b>SENS ANNOUNCEMENT</b>	<i>Within 2 business days after responses from relevant Noteholders have been obtained, release Sens announcement containing the details of the voting results in respect of the proposed resolution</i>
Task 7	<b>SUBMIT NOTEHOLDER APPROVAL TO JSE</b>	
Task 8	<b>RATING AGENCY NOTICE</b>	<i>In terms of Condition 22.5 in the Programme Memorandum and Series Condition 6 in the Series 1 Supplement and the Series 3 Supplement, if and for so long as any Tranche of Notes in a Series then in issue has been rated by the Rating Agency, no amendment to the applicable Terms and Conditions of a Tranche of Notes in that Series may be made unless the Rating Agency has been furnished with 10 business days' prior written notice of the proposed amendment and has not informed the Issuer that such amendment would adversely affect its current Rating of that Tranche of Notes.</i>
Task 9	<b>SECURITY SPV APPROVAL</b>	<i>Each of the Series 1 Security SPV and the Series 3 Security SPV is required to give its prior written consent in respect of the relevant amendments.</i>
Task 10	<b>SERIES SECURED CREDITOR'S APPROVAL</b>	<i>In terms of Condition 22.4 in the Programme Memorandum, no amendment to the Applicable Terms and Conditions of a Tranche of Notes in a Series which amends the rights and/or obligations of a Series Secured Creditor of that Series (other than a Noteholder in that Series) may be made without the prior written consent of that Series Secured Creditor.</i>
Task 11	<b>BOARD APPROVAL</b>	<i>The board of directors of the Issuer is required to pass a resolution approving the amendments, which resolution must be submitted to the JSE (DLR8.4(b)).</i>
Task 12	<b>SHAREHOLDER APPROVAL</b>	<i>The shareholder of the Issuer is required to pass the relevant resolutions under sections 44 and 75 of the Companies Act.</i>

