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Too little credit given: Alpha returns above risk adjusted margins

Presented by The South African Securitisation and Asset Backed Debt Securities Forum (SASE)

18 June 2026

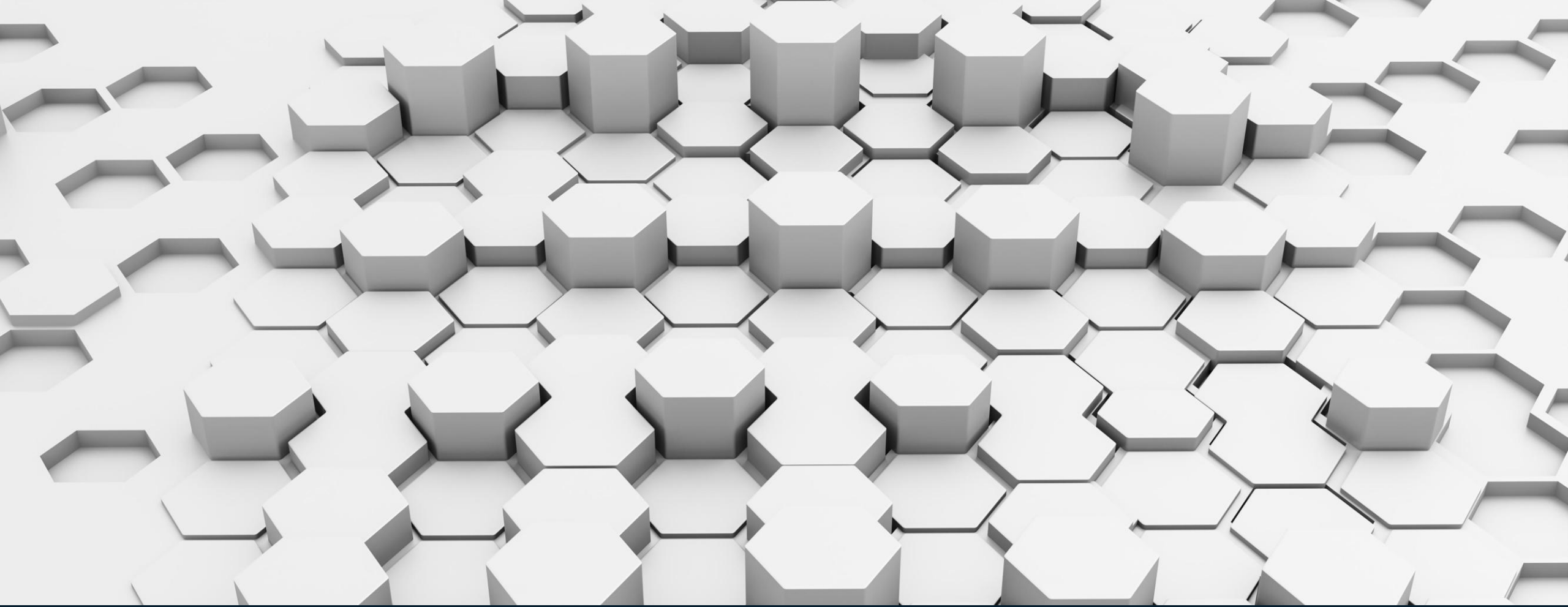
Agenda



Overview of securitisations

The securitisation market

Case studies



Overview of securitisation



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Securitisation

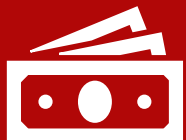
Financing or re-financing of income yielding asset portfolio by pooling them in a special purpose vehicle then issuing tradeable securities referencing the portfolio. To be considered a securitisation the structure must include an **element of tranching** and the **distribution of losses** must be based on subordination. Essentially there is a priority of payments and a cashflow waterfall.

Expanding the pool of investable instruments in the capital market

Bringing together various types of investors into a single structure

Alignment of risk participation and reward

Rationale for a bank



Funding

Funding diversification
Reduced funding cost
Balance sheet capacity

Risk transfer & capital relief

Risk reduction and transfer
More efficient capital
Improved risk capacity



Client transactions

Arranger fees
Building solutions for clients
Deepening client relationships

High Quality Liquid Assets

SARB Restricted-use
Committed Liquidity Facility
(RCLF)
Liquidity creation



Traditional asset classes

Residential mortgage loans
Vehicle assets
Loans
Commercial property

New/possible asset classes

Solar assets (lease/subscription agreements)
Mobile devices
Music royalties
Data centre asset backed securities

Single loan view – bank example



Client rate	12%
Profit margin	1%
Business cost recovery	1%
Credit Expected losses	1%
Capital Unexpected losses	1%
Funding cost - Base - Regulatory - Liquidity premium	8%

Assets: 1,000 Vehicle Asset Finance of R1,000,000 each

Total portfolio: R1 billion

Annual Probability of Default (PD): 2%

Cumulative PD: 5%

Loss Given Default (LGD): 50%

Annual excess spread: 1%

Cumulative excess spread: 2.5% (R25 million)

Low loss scenario:

- Base scenario
 - Defaults in line
 - Excludes profits

Bank losses excluding profits:

- R1bn x 5% x 50%
- R25m

Bank losses excluding profits:

- R0

Mid stress loss scenario:

- Base scenario
 - x2 defaults
 - Excludes profits

Bank losses excluding profits:

- R1bn x (2 x 5%) x 50%
- R50m

Bank losses excluding profits:

- R25m

High stress loss scenario:

- Base scenario
 - x4 defaults
 - Excludes profits

Bank losses excluding profits:

- R1bn x (4 x 5%) x 50%
- R100m

Bank losses excluding profits:

- R75m

Transformation through securitisation



Subordination

Assets

Capital structure

Assets
100%

Senior note

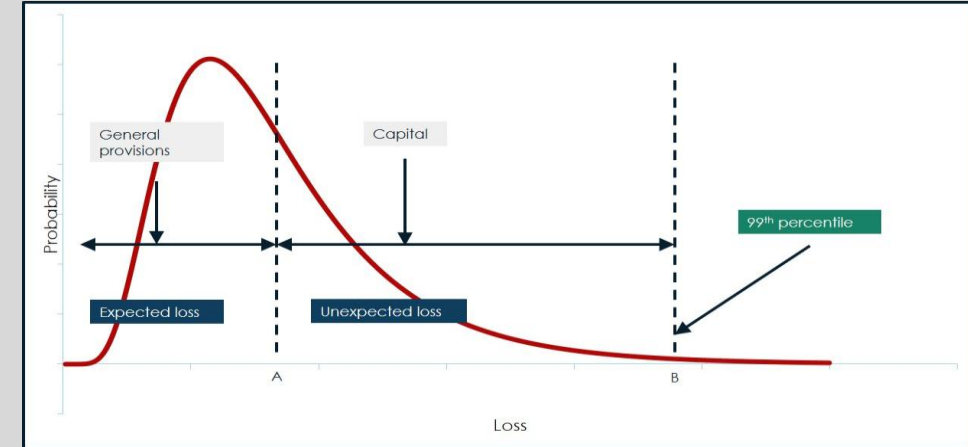
Mezzanine
note

Junior note

Cash
reserve
2.5%

2.5% nominal

Credit risk



Maturity

Comparison of asset amortisation
versus note amortisation

Portfolio view



Bank's credit hierarchy:

Secured

Preferred

Covered deposits

Unsecured creditors

Flac instruments

AT1 and Tier 1

CET1/equity

Low loss scenario:

- Cumulative PD of 5%
- Credit loss: R1bn x 5% x 50%
- Credit losses of R25m
- Cum excess spread of R25m
- Note losses of R0

Senior
80%

R800m

Mezz
15%
R150m

Junior
5%
R50m

Excess spread R25m

No losses for
any
noteholders

R25m of loss
100% write off

Mid stress loss scenario:

- x2 cumulative PD
- Credit loss: R1bn x 10% x 50%
- Credit losses of R50m
- Cum excess spread of R25m
- Note losses of R25m

Senior
80%

R800m

Mezz
15%
R150m

Junior
5%
R50m

Excess spread R25m

No losses

No losses

R25m of loss
50% write off

R25m of loss
100% write off

High stress loss scenario:

- x4 cumulative PD
- Credit loss: R1bn x 20% x 50%
- Credit losses of R100m
- Cum excess spread of R25m
- Note losses of R75m

Senior
80%

R800m

Mezz
15%
R150m

Junior
5%
R50m

Excess spread R25m

No losses

R25m of loss
17% write off

R50m of loss
100% write
off

R25m of loss
100% write off



Securitisation market overview

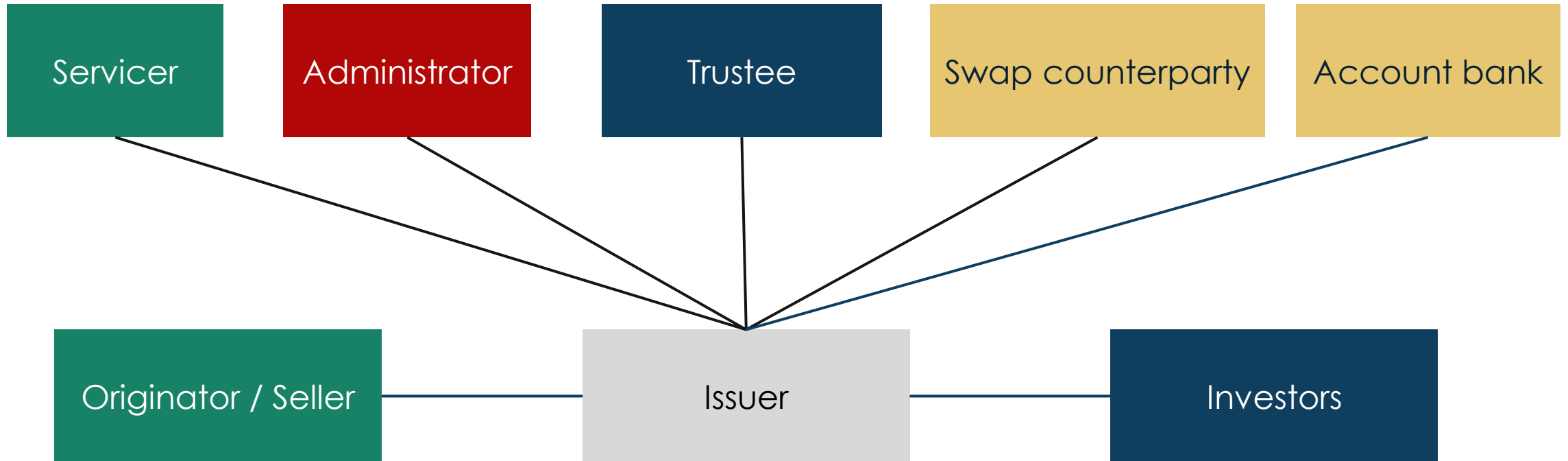


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Stakeholders



Securitisation market overview



Public securitisations

Total outstanding

R48 billion

**Issued amount Jan
– Nov 2025**

R14 billion

**Proportion of term
debt issuances**

8.19%

European market

2025 issued amount: R4 850 billion (over 300x SA)

- **Depth of capital markets and investor base:** larger, diversified and active institutional investor base supporting primary issuance and secondary trading.
- **Regulatory framework:** Rules-based, standardised regulatory framework, enabling repeat issuance with reduced reliance on case-by-case regulatory approval.
- **Core balance sheet management tool:** For capital relief and funding
- **Relatively more liquid secondary market**

Private securitisations

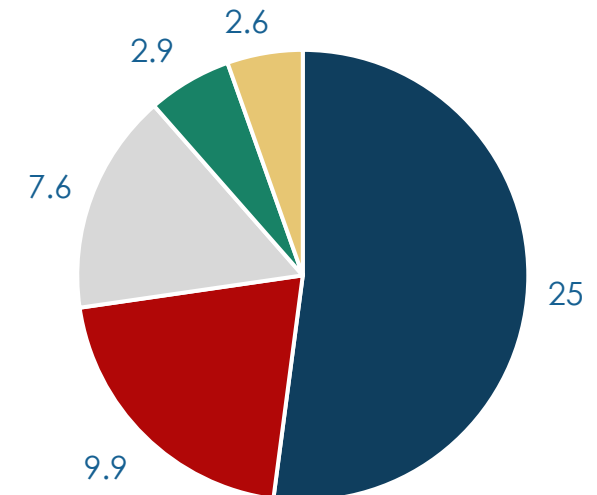
Common asset classes

Residential mortgages

Auto loans

Equipment leases

Distribution by collateral type (R'bn)



■ RMBS ■ ABS - autos ■ ABS ■ ACBP - conduits ■ CMBS

Pricing of securitisation notes



Pricing components	Description
Liquidity term premium	• Compensation for tying up funding or capital for a period of time.
Credit premium	• Premium for expected credit losses after allowing for credit enhancement provided.
Complexity premium	• Investors often require additional return to compensate them for the structural complexity of the asset class compared to, for example, vanilla bonds.
Capital requirement	• Additional yield required by investors subject to regulatory capital or solvency requirements, reflecting the economic cost of holding capital against securitisation exposures.

Investor-related factors affecting price: type of underlying collateral, structural features, originator, transparency, investor mandates / policy, secondary market and understanding of the asset class.

Comparing returns



Comparison of spreads on securitisation notes to investments with similar characteristics.
+ complexity premium and illiquidity in the market

Senior note

Expect lower spread than that of senior unsecured funding (as senior notes are 'secured')

Tenor	Average spread for senior bank paper (Nov-2024 to Nov-2025)	Weighted average spread for securitisations (at issue)	Difference
3 years	85 bps	187 bps	102 bps
5 years	103 bps	152 bps	49 bps
7 years	112 bps	148 bps	36 bps

Reasons for difference:

- Securitisations considered have different:
 - Underlying collateral (residential mortgages, auto loans, unsecured loans, equipment leases etc.),
 - Structural features and
 - Issuance dates
- Complexity premium and illiquidity premium incorporated in the securitisation spreads.
 - Expect this to decrease as securitisation market deepens (regulatory lobbying, frequency of issuance etc.)

Comparing returns



Comparison of spreads on securitisation notes to investments with similar characteristics.
+ complexity premium and illiquidity in the market

Junior note

Equity-like returns with more controlled risk and contractual cashflows.

- Weighted average spread for junior notes across securitisations approx. 450+ bps above JIBAR (i.e. approx. 11.5%* p.a.).
- FTSE/JSE SA Banks Index had a total return of 9% - 10% on annualised basis over last 10 years.

*Latest 3 months JIBAR: 6.99%

Advantages of junior securitisation notes as investment class:

Component	Junior notes	Equity	Advantage
Scope	Single pool	Whole business	Eliminates other corporate risks (take on credit risk)
Time horizon	Defined / amortising	Perpetual	Less dependent on exit / future valuation
Leverage	Single pool of assets	Corporate leverage	Better control of downside
Upside potential	Capped	Unlimited	Predictable cashflows with appropriate pricing of credit risk

Junior notes provide **exposure to first-loss risk** on a ring-fenced, diversified pool, with defined cashflows, **priced in line with equity-like instruments but with potentially lower risk.**



Case studies



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Case studies



Nitro 7

- Retail auto loans

Sun King

- Solar asset financing

Room2Run

- Synthetic securitisation

Bayport

- Personal loans
-

Nitro 7 - Autos



ASSETS	LIABILITIES	
VEHICLE FINANCE ASSETS 100%	21% nominal CE 82%	Class A
	70% nominal CE 12%	Class B
	5% nominal CE 7%	Class C
	4% nominal CE 3%	Class D
CASH RESERVE 3%	3% nominal CE 0%	Class E

Nitro 7

- WesBank (a division of FirstRand Bank Ltd.) is a specialist asset-backed lender focused on vehicle and instalment finance in South Africa.
- The Nitro 7 securitisation monetised a pool of vehicle finance receivables through an SPV, providing matched funding, transferring risk and enabling continued origination.

Credit enhancement

- Credit enhancement for Class A to Class B notes provided by the cash reserve, note subordination and available excess spread
- Structured to pay interest and principal sequentially after payment of senior expenses
- 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 reserve

- Fully funded at closing from proceeds on sale of the Class E notes
- Cash reserve available to support interest payments on Class A to Class B notes

Interest rate hedging

- If assets are referencing a different base rate to what the notes are referencing then interest rate swaps are used to remove any interest rate risk.
- This is to ensure investors are purely exposed to liquidity risk and credit risk

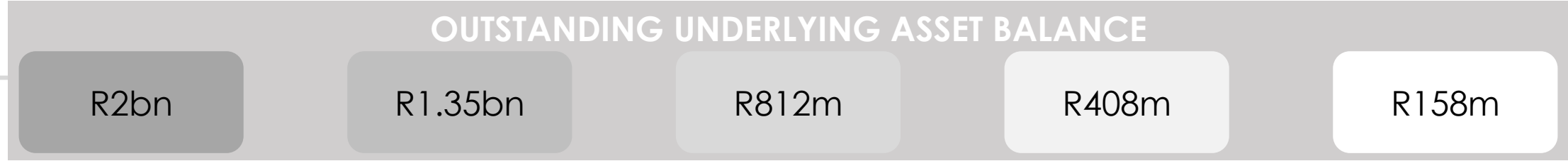
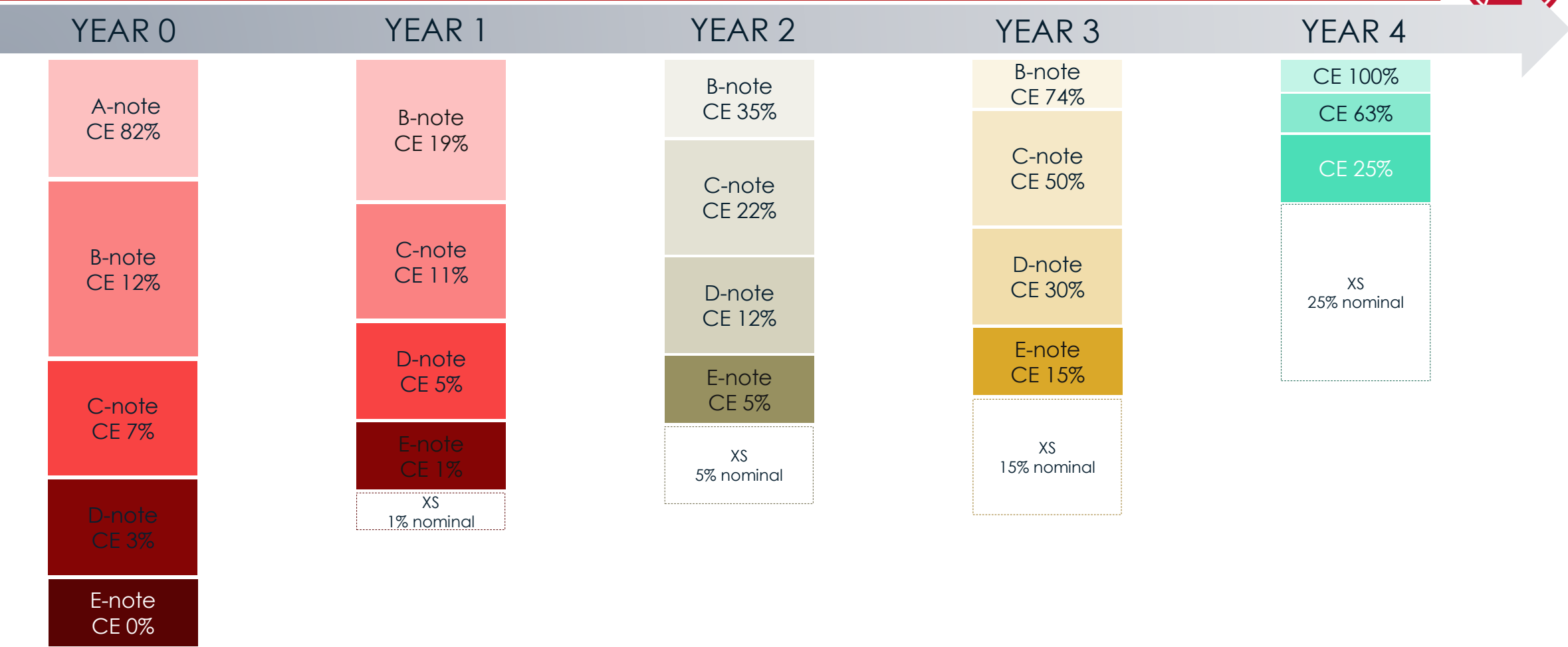
Nitro 7 – realised returns



Tranche	Issuance amount (R million)	Term (years)	Coupon*
A	420	0.83	JIBAR + 0.91%
B	1,400	3.83	JIBAR + 1.33%
C	100	4.33	JIBAR + 2.80%
D	80	4.33	JIBAR + 4.05%
E	60	4.33	JIBAR + 5.20%

*Average 3-month JIBAR over the transaction's life was c.6.18%

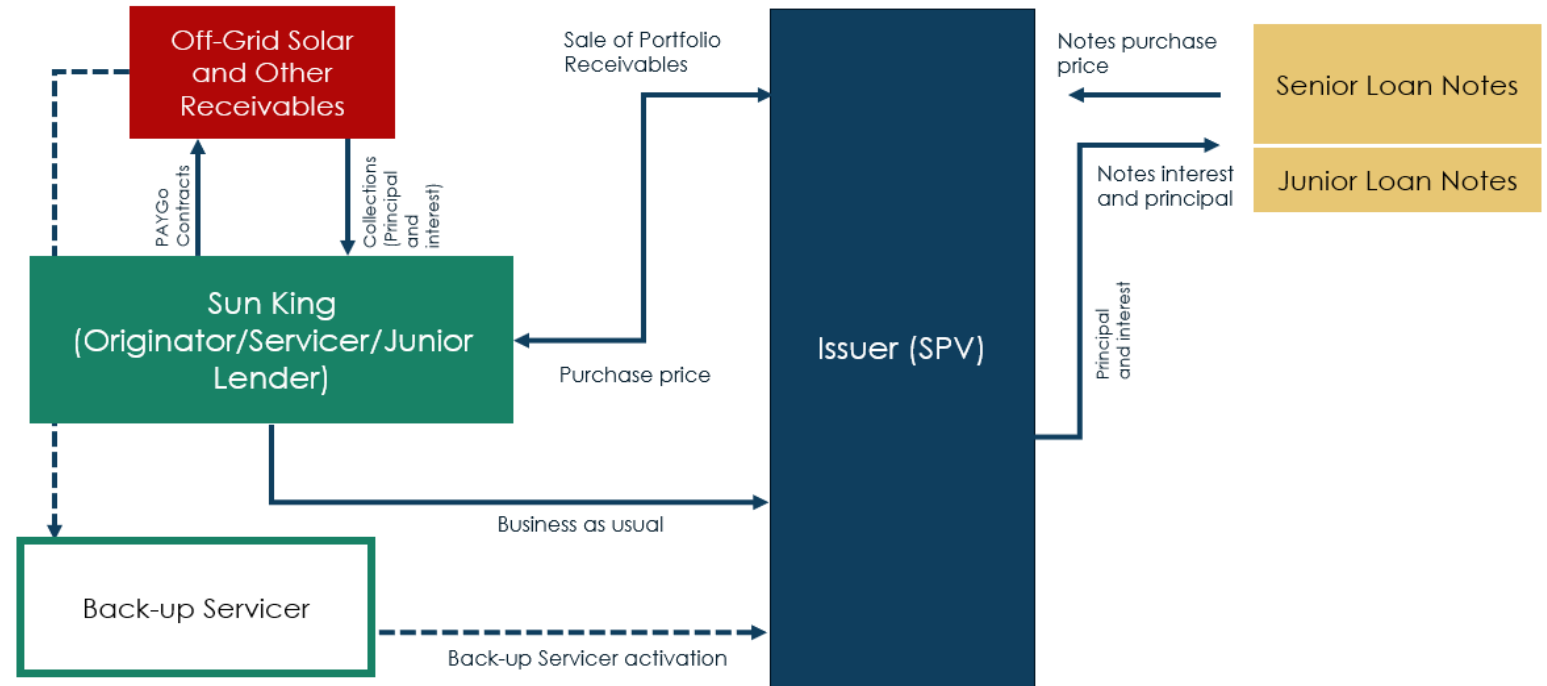
Nitro 7 – default protection



Sun King - Solar



ASSETS	LIABILITIES
PAYG solar contracts 100%	Senior tranche Investors: ABSA, Citi, Co-operative Bank of Kenya, KCB Bank Kenya, Stanbic Bank Kenya
	Mezz tranche Investors: British International Investment, FMO, Norfund

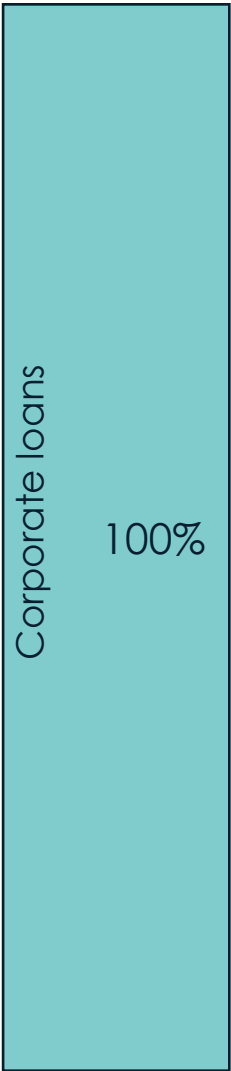


- Sun King is a specialist off-grid solar provider operating mainly across sub-Saharan Africa (and parts of Asia), delivering financed solar solutions to underserved households via pay-as-you-go models.
- Its solar securitisation allows it to raise long-term funding by converting future customer repayment streams into investable assets, supporting continued origination of solar loans while transferring risk and mobilising bank and DFI capital.
- \$156m solar securitisation - largest and first majority commercial-bank-backed deal of its kind in Sub-Saharan Africa outside South Africa.
- Finances approx. 1.4 million solar systems & smartphones
- Demonstrates bankability of PAYG solar receivables, mobilises local currency capital and blends commercial + development finance

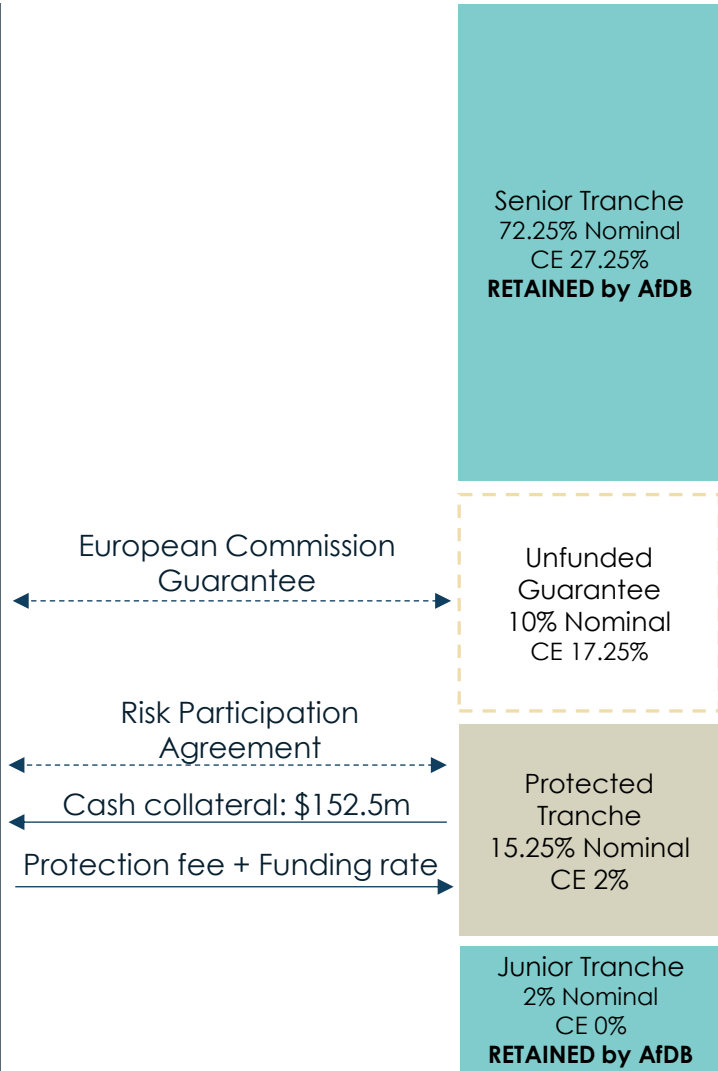
Room2Run – synthetic securitisation



LOAN PORTFOLIO



BILATERAL AGREEMENT



BEFORE

Asset type	Nominal	WA Risk Weight	RWA
Institution loans	\$510m	144%	\$734m
Corporate loans	\$490m	167%	\$818m
TOTAL	\$1,000m	155.3%	\$1,553m



AFTER

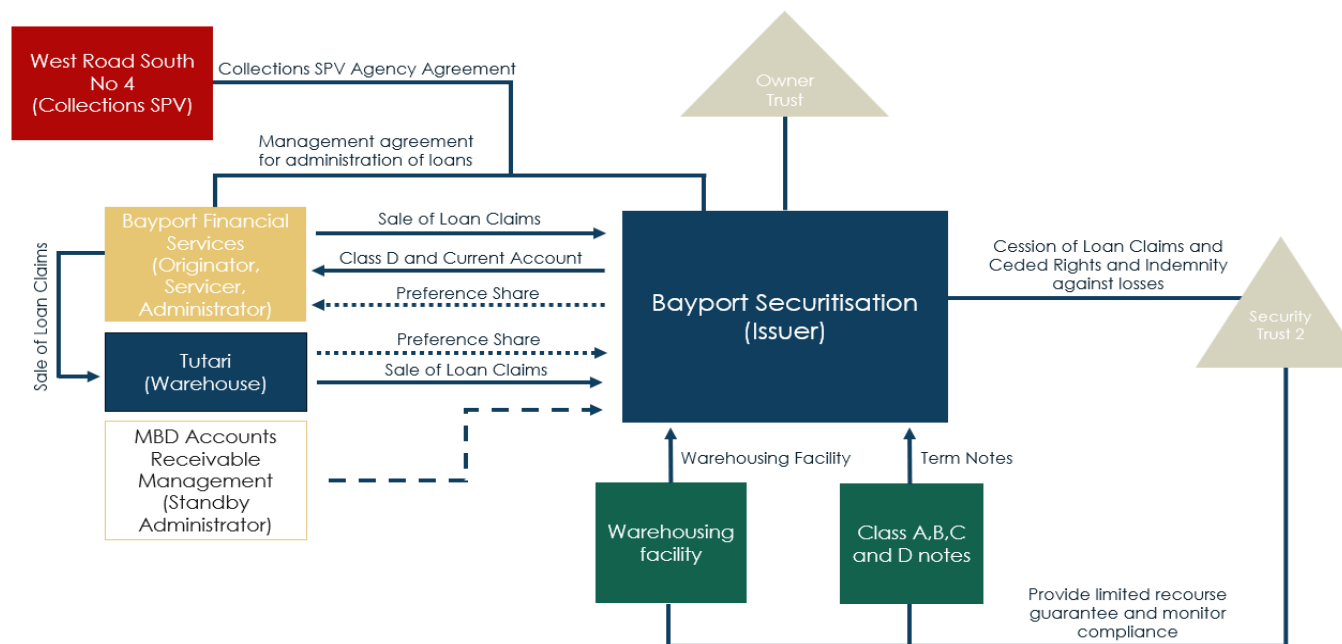
Asset type	Nominal	WA Risk weight	RWA
Senior Tranche	\$727.5m	50%	\$734m
Unfunded Guarantee	\$100m	3%	\$818m
Protected Tranche	\$152.5m	3%	\$1,553m
Junior Tranche	\$20m	1 250%	\$250
TOTAL	\$1,000m	62.1%	\$621.3m

- African Development Bank (AfDB) is a multilateral development finance institution that provides funding for infrastructure and economic development across Africa.
- Synthetic securitisation where AfDB did not transfer / derecognise the assets from their balance sheet.
- Credit risk is transferred via guarantees/credit protection:
 - European Commission provided an unfunded guarantee
 - IIFC and Africa50 provided funded credit protection
- By transferring credit risk, AfDB was able to reduce its risk weight on this portfolio from 155% to 62%, achieving significant regulatory and economic capital relief.

Bayport – loan claims



LOAN ASSETS	LIABILITIES
Personal loans R4.920bn	A-notes Number of A-notes outstanding: 23 Original nominal value: R3.15bn Outstanding nominal value: R2.85bn
	B-notes Number of B-notes outstanding: 11 Original nominal value: R1.37bn Outstanding nominal value: R1.33bn
	Subordinated funding: R632m



- Bayport South Africa is a specialist unsecured lender focused on providing consumer credit (often payroll-deduction / employer-linked) and financial wellness solutions.
- The Bayport securitisation enables Bayport to raise funding, and enable continued loan origination while transferring risk/leveraging capital markets.
- Bayport (**Originator**) sells Loan Claims to either:
 - Tutari: which Tutari acquires with the intention of on-selling to Bayport Securitisation (**Issuer**)
 - Bayport Securitisation
- **Issuer** funds the ongoing acquisition of Loan Claims through:
 - borrowings under Warehousing Facilities
 - issuance of Notes and/or
 - from the proceeds of collections of previously acquired Loan Claims

UCT securitisation course



AN INTRODUCTION TO SECURITISATION

ESTIMATED LEARNING TIME

15 hours (11 modules)

You will have access to the course platform for 1-year

LEARNING PLATFORM

Presented in collaboration with UCT Law @ work.

This course aims to equip you with:

- An understanding of what is meant by securitisation.
- An overview of the main role players and types of structures.
- The process involved in structuring a securitisation programme and the legal, regulatory, accounting and tax complexities to consider.
- The overall benefit of securitisation as an innovative tool in supporting economic growth in the financial markets.

Link to register: [An introduction to securitisation](#) | [UCT Law at Work](#)

Questions and follow up



For more information:



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