

# Nitro Securitisation 2 (Proprietary) Limited

## Auto Loans / South Africa

*This pre-sale report addresses the structure and characteristics of the proposed transaction based on the information provided to Moody's as of 7 July 2006. Investors should be aware that certain issues concerning this transaction have yet to be finalised. Upon conclusive review of all documents and legal information as well as any subsequent changes in information, Moody's will endeavour to assign definitive ratings to this transaction. The **definitive** ratings may differ from the **provisional** ratings set forth in this report. Moody's will disseminate the assignment of definitive ratings through its Client Service Desk. This report does not constitute an offer to sell or a solicitation of an offer to buy any securities, and it may not be used or circulated in connection with any such offer or solicitation.*

### Estimated Closing Date

8 September 2006

### Lead Analyst

Anthea Heap  
Senior Associate  
+27 11 217-5473  
Anthea.Heap@moodys.com

### Backup Analyst

Christophe Germain  
Vice President – Senior Analyst  
+33 1 5330-1046  
Christophe.Germain@moodys.com

### Additional Contact

Reynold Leegerstee  
General Manager  
+27 11 217-5471  
Reynold.Leegerstee@moodys.com

### Investor Liaison

New York  
Brett Hemmerling  
Investor Liaison Specialist  
+1 212 553-4796  
Brett.Hemmerling@moodys.com

### Client Service Desk

London: +44 20 7772-5454  
csdlondon@moodys.com  
Johannesburg: +27 11 217-5470  
Paris: +33 1 5330-1074

### Monitoring

monitor.abs@moodys.com

### Website

www.moodys.com

## PROVISIONAL (P) RATINGS

Class	Rating	Amount (million)	% of Notes	Legal Final Maturity	Coupon
A1-A15	(P) <b>Aaa.za</b>	ZAR 4,595	91.9	May 2012	3mJIBAR + [·]%
B	(P) <b>A2.za</b>	ZAR 205	4.1	May 2012	3mJIBAR + [·]%
C	(P) <b>Baa3.za</b>	ZAR 55	1.1	May 2012	3mJIBAR + [·]%
D	(P) <b>Ba1.za</b>	ZAR 50	1.0	May 2012	3mJIBAR + [·]%
Subloan	NR	ZAR 95	1.9	May 2012	3mJIBAR + [·]%
Total		ZAR 5,000	100.0		

*The ratings address the expected loss posed to investors by the legal final maturity. In Moody's opinion, the structure allows for timely payment of interest and ultimate payment of principal at par on or before the rated final legal maturity date. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.*

## OPINION

### Strengths of the Transaction

- FirstRand Bank Limited (**Baa1/Prime-2/C**)<sup>1</sup> (**Aa2.za/Prime-1.za**)<sup>2</sup> ("FirstRand") has provided detailed historical arrears, loss and recovery data. The data underlined steadily improving performance since 2001, linked to strict origination and servicing procedures and a favourable economic climate.
- The transaction includes a conservative provisioning policy. Excess margin will be trapped in the Arrears Reserve in an amount of 50% of the principal balances of loans between 90 and 120 days in arrears and 100% of loans that are more than 120 days in arrears or have otherwise been classified as potentially uncollectible.
- The transaction benefits from a Liquidity Reserve and Liquidity Facility in an aggregate amount of 2.75% of the outstanding notes balance, which will be available to cover shortfalls in payments with respect to senior fees and interest on the notes throughout the life of the transaction.
- The securitised portfolio is well diversified. The vehicles subject to the instalment sale agreements are new or second-hand passenger or light commercial vehicles from a wide range of vehicle manufacturers.

<sup>1</sup> The ratings indicated are foreign currency bank deposit Global Scale Ratings.

<sup>2</sup> The ratings indicated are National Scale Ratings.



## Weaknesses and Mitigants

- The transaction is structured as a static portfolio; however, a portion of the portfolio will be revolving to the extent that prepayments are higher than expected. The transaction includes strict portfolio covenants as well as triggers to stop substitution. Moody's has further taken into account the additional substitution risk via the assumptions used in modelling the transaction.
- The notes and the subordinated loan will amortise pro rata from the closing date. When compared to a structure with sequential amortisation, this feature "erodes" the initial subordination provided to the Class A notes by the Class B, C and D notes and the subordinated loan, i.e. instead of the subordination percentage rising over time, as would be the case with sequential amortisation, the subordination level will stay constant in this case. This risk is mitigated by switching to a sequential amortisation of the notes and the subordinated loan upon breaching either the principal deficiency trigger or the Arrears Reserve trigger.
- The Class A notes issued by the Issuer are "time-tranched", i.e. with regard to principal redemption, the Class A1 notes rank ahead of the Class A2 notes which rank ahead of the Class A3 notes, etc. In an enforcement event or as a consequence of breaching the principal deficiency trigger or the Arrears Reserve trigger, however, all Class A notes rank pari passu and pro rata.
- FirstRand performs various support roles including hedge counterparty, administrator, account bank and servicer. In order to mitigate exposure to FirstRand, the transaction provides for timely replacement of FirstRand in case its financial strength deteriorates to a level not consistent with the rating of the senior notes.
- There are interest rate mismatches between the Prime rate received under the instalment sale agreements and the JIBAR paid under the notes. In order to mitigate this basis risk, the Issuer enters into a basis swap with FirstRand at closing of the transaction.

## STRUCTURE SUMMARY

Issuer:	Nitro Securitisation 2 (Proprietary) Limited
Structure Type:	South African SPV
Seller/Originator:	FirstRand Bank Limited ( <b>Baa1/Prime-2/C</b> ) <sup>3</sup> ( <b>Aa2.za/Prime-1.za</b> ) <sup>4</sup> , acting through its Wesbank division (“Wesbank”)
Servicer:	Wesbank
Back-up Servicer:	None
Interest Payments:	Quarterly 3-month Johannesburg Interbank Agreed Rate (JIBAR)
Principal Payments:	Quarterly
Credit Enhancement:	Subordination; Reserve Fund; Excess Spread
Liquidity:	Liquidity Reserve to provide liquidity for a 3 month period sized at 2.75% of the outstanding notes balance, amortising down to 1% of the initial notes balance; Liquidity Facility provided to fund the difference between the required liquidity amount and the Liquidity Reserve, provided by ABSA Bank Limited ( <b>Baa1/Prime-2/C</b> ) <sup>5</sup> ( <b>Aaa.za/Prime-1.za</b> ) <sup>6</sup>
Hedging:	FirstRand Bank Limited, acting through its Rand Merchant Bank division (“RMB”)
Security SPV Owner Trustee:	Werksmans Trust (Pty) Limited
Independent directors of the Security SPV:	Sentinel International Trust Company
Owner Trustee:	Werksmans Trust (Pty) Limited
Independent directors of the Issuer:	Sentinel International Trust Company
Administrator:	RMB
Arranger/Lead Manager:	RMB

## COLLATERAL SUMMARY (*Collateral Information as at 7 July 2006*)

Receivables:	ZAR [4,999,980,222 ]
Number of Contracts:	[51,970] Instalment Sale Agreements
Type of Vehicles:	Passenger Vehicles [74.5]%; Light Commercial Vehicles [25.4]%; Minibuses [0.04]%
Geographic Diversity:	Gauteng [36.7]%; Western Cape [19.3]%; Kwazulu-Natal [15.4]%
Average LTV:	[87]%
Remaining Term:	[44.7] months
Seasoning:	[11.8] months
Delinquency Status:	Up to 30 days in arrears
Historical Loss Experience:	1.7% (mean loss)

## NOTES

Class	Subordination	Reserve Fund	Total (excl. Reserve Fund)
A1 to A15	8.1%	Maximum of 1.65% of principal	8.1%
B	4.0%	balances of the loans and 50%	4.0%
C	2.9%	of loans 90 to 120 days in	2.9%
D	1.9%	arrears plus 100% of loans	1.9%
Subloan	0.0%	more than 120 days in arrears	0.0%
		or classified as potentially uncollectible	

<sup>3</sup> The ratings indicated are foreign currency bank deposit Global Scale Ratings.

<sup>4</sup> The ratings indicated are National Scale Ratings.

<sup>5</sup> The ratings indicated are foreign currency bank deposit Global Scale Ratings.

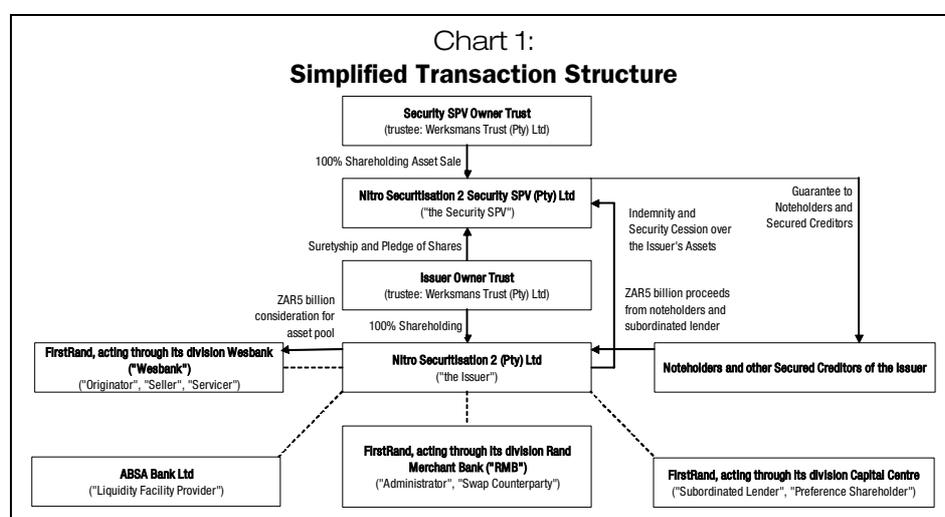
<sup>6</sup> The ratings indicated are National Scale Ratings.

## TRANSACTION SUMMARY

### ***Nitro Securitisation 2 is the third public auto loans securitisation of Wesbank***

Nitro Securitisation 2 ("the Issuer") is the third public auto loan securitisation of FirstRand Bank Limited, acting through its division Wesbank. Procul (Pty) Ltd, a ZAR2 billion synthetic securitisation, closed in June 2002 and Nitro Securitisation 1 (Pty) Ltd, a ZAR2 billion term transaction, closed in March 2006. The present transaction is structured under South African law and has been assigned provisional national scale ratings. It is a pass-through static transaction; however, the portfolio will revolve to the extent that prepayments are greater than expected. The loans have been originated by Wesbank mainly to private individuals in South Africa for the acquisition of new and used cars. FirstRand will continue to perform the servicing of the portfolio (via Wesbank) as well as other key functions. The credit enhancement is provided through excess spread, the Arrears Reserve which will be funded through excess spread trapped throughout the life of the transaction and the subordination of the different classes of notes and the subordinated loan. A liquidity reserve and liquidity facility will provide liquidity to ensure that fees and interest are paid on a timely basis.

## STRUCTURAL AND LEGAL ASPECTS



***The Issuer purchases an auto loans portfolio from FirstRand, funded through proceeds from the subordinated loan and the issuance of notes placed with investors in South Africa***

The Issuer purchases a portfolio of auto loans from FirstRand, funded through the proceeds from the subordinated loan and the issuance of notes placed with investors in South Africa. The notes will be amortised on a pass-through basis on each quarterly payment date following the priority of payments as described below, and according to their target maturity dates as determined by the scheduled amortisation profile of the assets and assuming a 1.3% monthly prepayment rate. To the extent that monthly prepayments are greater than 1.3% and a stop-purchase event has not occurred, the excess prepayments will be utilised to purchase further eligible receivables subject to certain eligibility criteria and portfolio covenants. The notes' amortisation may be accelerated subject to certain triggers described hereafter. All of the notes bear the same legal final maturity date set at 12 May 2012.

FirstRand will continue to service the auto loans portfolio subject to the terms and conditions of the Servicing Agreement. FirstRand will perform further functions in the transaction as listed in the summary table above.

### **Priority of Payments**

From the closing date of the transaction, the Pre-Enforcement priority of payments will apply and the Class A, B, C and D notes and the subordinated loan will be amortised on a pro rata basis. The Pre-Enforcement priority of payments may change in the event that any principal deficiency is recorded or if the Arrears Reserve is not fully funded at any payment date. Upon the delivery of an enforcement notice (see below), the transaction will switch to the Post-Enforcement period and the Post-Enforcement priority of payments will apply. During the Post-Enforcement period, the Class A, B, C and D notes and the subordinated loan will be amortised on a sequential basis.

Pre-Enforcement Priority of Payments (simplified):

- 1) Fees, costs, expenses and taxes due and payable by the Issuer;
- 2) Pari passu and pro rata: remuneration, fees, costs, charges, liabilities and expenses of the Security SPV & Security SPV Owner Trustee and Owner Trustee;
- 3) Pari passu and pro rata: fees, costs, charges, liabilities and expenses due to third parties;
- 4) Pari passu and pro rata: servicing fee and administration fee;
- 5) Pari passu and pro rata: payments due to the swap counterparty, excluding breakage costs in the event of swap counterparty default under the Swap Agreement, and fees, interest and capital due and payable to the Liquidity Facility Providers;
- 6) Pari passu and pro rata: interest on each Class of notes in descending order of rank;
- 7) Payments to credit the Liquidity Reserve up to the required amount;
- 8) Payments to credit the Redemption Reserve (amounts to be added to available funds in the Transaction Account at the following payment date for the redemption of notes in accordance with the priority of payments);
- 9) Purchase of additional assets up to the aggregate amount of unexpected prepayments, provided that a Stop Purchase Event has not occurred;
- 10) Pari passu and pro rata: Redemption Amount to be applied in redemption of Class A, B, C and D notes and the subordinated loan, with payments within Class A made on a sequential basis;
- 11) Payments to credit the Arrears Reserve to the required amount;
- 12) Breakage cost due to the swap counterparty in the event of swap counterparty default under the Swap Agreement;
- 13) Further expenses due by the Issuer;
- 14) Interest and fees on the subordinated loan;
- 15) Dividend due to the Preference Shareholder (shareholders of the Security SPV);
- 16) Residual cash to be invested in permitted investments or paid to the ordinary shareholders of the Issuer once all the obligations to the noteholders have been discharged in full.

The following events may change the above priority of payments:

**Principal Deficiency Ledger:** As long as the transaction is in the Pre-Enforcement period, any positive principal deficiency shall have the following consequences on the priority of payments:

- The Class A, B, C and D notes and the subordinated loan will be amortised on a sequential basis; and
- The Class A notes will be amortised on a pro rata basis.

The principal deficiency is calculated as any positive difference between the potential redemption amount (principal collections *plus* written off amounts *plus* any previous period principal deficiency) and cash available after payment of items 1 to 6 in the waterfall and following the release of cash from the Arrears Reserve.

**Arrears Reserve:** If the Arrears Reserve is not fully funded at any payment date, the priority of payments will change as described in the Arrears Reserve section below.

**Enforcement Notice:** Upon the occurrence of an Event of Default, the Security SPV may trigger the Post-Enforcement period by the delivery of an Enforcement Notice which will have the following consequences on the priority of payments:

- The Class A “time-tranched” notes will collapse into one class and will therefore amortise on a pro rata basis;
- The Class B, C, and D notes’ interest payment will be subordinated to the full redemption of the Class A notes;
- The Class B, C and D notes will be amortised on a sequential basis; and
- Payments in respect of the subordinated loan will be subordinated to payments on the notes.

An Event of Default will notably occur if the Issuer fails to pay any amount due to the Controlling Class of noteholders within 3 days, where the Controlling Class of noteholders are the holders of the highest-ranking Class of notes at any point in time.

## **Credit Enhancement**

### ***Excess Spread***

The first source of credit enhancement is excess spread, which is defined as the difference between the income and expenses of the Issuer, where income is defined as the interest receipts on the loans and on the investment returns of any cash available to the Issuer. The expenses of the Issuer consist of the interest payable on the notes and the running expenses of the Issuer.

### ***Arrears Reserve***

The Arrears Reserve will be available on any payment date to meet principal due and payable on the notes in the event of a principal shortfall. The Arrears Reserve will be funded from notes proceeds in an amount of ZAR5,000,000 at the issuance date, and will further be built up through excess spread during the life of the transaction. Excess spread will be paid into the Arrears Reserve up to the required amount equal to the greater of:

- a) 1.65% of the principal balances of the loans; and
- b) the sum of:
  - 50% of the outstanding balances of loans that are between 90 and 120 days delinquent; plus
  - 100% of loans that are in arrears greater than 120 days; plus
  - 100% of loans that have been classified as uncollectible.

If the Arrears Reserve is not fully funded at any payment date, then principal amounts will continue to be allocated pro rata between Class A, B, C and D notes and the subordinated loan. However, while the Class A notes will continue to be amortised using the pro rata amount, redemption amounts in respect of the remaining tranches and the subordinated loan will be held in a separate account until the next payment date.

- (i) If at the following payment date the Arrears Reserve is still not fully funded, then all amounts (including amounts held back at the previous quarter) will be used to pay down the notes in sequential order (and pro rata within Class A) and this further constitutes a Stop Purchase Trigger event.
- (ii) Alternatively, if the Arrears Reserve is fully funded at the next payment date, then amounts held back at the previous quarter may be used to pay down the Class B, C and D notes and the subordinated loan (in terms of the previous quarter's pro rata allocation), and principal amounts will continue to be allocated pro rata between the notes and the subordinated loan.

The Arrears Reserve will be allowed to build up over 6 months from the closing date of the transaction. If the Arrears Reserve is not fully funded after the first 6 months, then cash will be held back for one quarter, to be released in accordance with either (i) or (ii) in the same way as described above.

### ***Subordination***

The third layer of credit enhancement is the allocation of losses firstly to the subordinated loan. If the losses reach the amount outstanding under the subordinated loan, the losses will be allocated to the Class D notes and then to the Class C notes and then to the Class B notes. In the unlikely event that the amount of losses exceeds all the credit support to the Class A notes, the losses will be allocated pro rata to the Class A notes.

## **Target Maturity Dates of the Notes**

Each note has a different target maturity date corresponding to its anticipated redemption date, which has been determined according to the scheduled amortisation profile of the assets and assuming a 1.3% monthly prepayment rate.

To the extent that prepayments are lower than 1.3% and proceeds from the assets are insufficient to redeem any tranche of notes at its target maturity date, the respective tranche of notes will earn interest at a step-up rate until they have been redeemed in full. Given that actual prepayments on FirstRand's auto loan book have been significantly higher at around 1.7% on average and with a minimum of 1.1% since December 2002, Moody's takes comfort from the fact that the assumption has been set relatively conservatively.

Alternatively, if monthly prepayments are higher than 1.3%, the Issuer may use the portion of prepayments in excess of 1.3% to purchase further eligible receivables which meet the eligibility criteria set out in the Collateral section below, provided that the portfolio continues to comply with the Portfolio Covenants and further provided that a Stop-Purchase Event has not occurred.

Portfolio Covenants:

- the weighted average yield of the performing loans in the total portfolio must be maintained or improved following the substitution;
- the proportion of loans in respect of used vehicles in the total portfolio must be maintained or decreased following the substitution;
- balloon payments as a percentage of the aggregate principal balances of the loans in the total portfolio must be maintained or decreased following the substitution; and
- the weighted average default probability of the portfolio of loans must be maintained or decreased following the substitution.

Stop-Purchase Events:

- a principal deficiency exists;
- the Arrears Reserve is not fully funded at any two consecutive payment dates.

***Moody's has not rated the notes to their target maturity dates, but rather to the legal final maturity date.***

## **Hedging**

The Issuer enters into a swap agreement with FirstRand to hedge the interest mismatch between the Prime rate to which the auto loans are linked and the 3-month JIBAR interest rate index of the notes. The Issuer will pay Prime flat to the swap counterparty which will in turn pay 3-month JIBAR plus 3.36%. The notional balance of the swap will be the simple average balance of the performing assets, where the simple average balance takes into account the opening balance thereof at the beginning of the quarterly swap calculation period and the closing balance thereof at the end of the quarterly swap calculation period.

In the event that FirstRand is downgraded below **Prime-1.za** or **A1.za**, FirstRand either provides, *inter alia*, a suitable guarantor or, in the event that FirstRand cannot comply, the Issuer has the right to terminate the swap agreement and to enter into a new agreement with an alternative counterparty. Any breakage costs associated with such an event of default of the swap counterparty will rank below the interest and principal payments to the noteholders.

## **Liquidity Reserve and Liquidity Facility**

The Liquidity Reserve is available to meet senior fees and expenses of the Issuer and interest payments on the notes in case there is a temporary liquidity shortfall.

The Liquidity Reserve will be funded from the closing date through interest and principal receipts on loans, following interest payments on the notes in terms of the priority of payments. It is anticipated that the Liquidity Reserve will be built up to the required amount of 2.75%, equal to one quarter's worth of fees and interest under stressed interest rates, within 3 to 6 months from closing. To the extent that the Liquidity Reserve is not fully funded at any payment date, the Issuer will enter into a liquidity agreement (which meets Moody's criteria for liquidity facilities in EMEA term transactions) with a Liquidity Facility provider with the required rating to ensure that liquidity is available within the transaction up to the required amount.

The Liquidity Reserve will amortise over the life of the transaction in line with the notes down to a floor, sized at 1% of the initial notes balance. Once the outstanding balance of the assets have been reduced to zero at the end of the transaction, any remaining balance in the Liquidity Reserve will be applied in redemption of the outstanding notes.

## Cash Commingling Risk

If the agent (usually the seller) collecting payments from obligors on behalf of an SPV in a securitisation transaction should become insolvent, there is a risk of commingling between collections belonging to the SPV and the assets of the agent. Commingling arises when payments owned by the SPV are initially directed to an account in the name of the seller, which are not easily identifiable in case of bankruptcy of the seller.

To this end, payments under the assets, which are considered part of the seller's property, may not be recoverable for some time or at all, as a result of the insolvency proceedings.

- **Daily Sweep:** In this case, collections paid by obligors on a monthly basis to FirstRand's account as servicer are transferred into the Issuer account on a quarterly basis for payment to the noteholders. In order to mitigate the commingling risk arising as a consequence of the cash held by the servicer, the payments will be held by the servicer as agent of the Issuer and the collections shall be transferred to the Issuer account on a daily basis if the Servicer rating is downgraded below **Baa2.za**.
- **Liquidity:** In order to mitigate the risk of delayed payments to noteholders due to cash commingling, the Liquidity Reserve has been sized to provide liquidity to the Issuer to meet its obligations to noteholders arising during any such delay (see above Liquidity Reserve and Liquidity Facility).
- **Account Bank:** In order to further mitigate commingling risk, FirstRand's rating shall be at least **Prime-1.za** or **Aa3.za**.

## Set-Off / Obligor Notification Risk

If the obligors under the receivables make payments to the servicer and have not been notified that the Issuer is the owner of the receivables, there is a risk that the obligors will continue to pay the servicer after it has become insolvent. The obligors would be entitled to set off any amounts they have paid the servicer against their debt on the receivables, causing a loss to noteholders.

To mitigate this risk, Moody's requires that obligors will be notified to pay all amounts directly into the Issuer account upon the occurrence of an Event of Default or if the rating of the Servicer is downgraded below **Baa3.za**.

## COLLATERAL

---

***Auto loans finance the purchase of new and used cars mainly by private individuals***

The loans mainly finance the purchase of passenger vehicles (75%) or light commercial vehicles (25%), which are new (52%) or used (48%) with an average LTV of 87%. The auto loans will have an average seasoning of 14 months at closing and a weighted average margin of 0.58% below the Prime rate. The proportion of balloon loans is limited to 27% (see portfolio breakdown in the Appendix).

Eligibility Criteria:

- Rand denominated;
- Originated in the ordinary course of business of FirstRand, applying the standard credit approval policies and procedures at the time of origination;
- At least three instalments have been paid;
- The obligor may, at its election, terminate such loan agreement without penalty;
- The principal debt financed at the commencement of the loan agreement was not more than ZAR500,000;
- The last instalment is due and payable on or prior to the date which is 1.5 years prior to the legal final maturity of the transaction set at May 2012;
- Bears an interest rate of not less than the Prime rate minus 3%;
- Payable in monthly instalments;
- Is not more than 30 days in arrears at the notes issuance date;
- Only one vehicle is financed.

## ORIGINATOR, SERVICER AND OPERATIONS REVIEW

---

Wesbank has been a division of First National Bank since 1993, which during 1998 merged with Southern Life, Momentum and Rand Merchant Bank to form FirstRand Bank Limited. Wesbank consists of six distinct business units and provides financing to inter alia retail (via its motor division), corporate and fleet customers.

Wesbank's motor division originates loans mainly through its dealer network comprising approximately 2,500 new and used dealerships throughout South Africa, as well as to a lesser extent through First National Bank's branch network. Since the mid-1990s, Wesbank has formed joint ventures with motor manufacturers and large dealer groups, including Nissan, General Motors SA, Fiat, Volkswagen, Investment Cars, Toyota, Honda, McCarthy's and Combined Motor Holdings.

Risk management is centralised and is carried out at Wesbank's head office in Johannesburg. Wesbank was the first to introduce credit scoring in South Africa, and currently about 85% of all business by number of loans is scored (all loans within the securitised pool have been scored). Key aspects that are assessed by the scorecard include: credit bureau information, applicant information, affordability and FirstRand account history. Wesbank has a dedicated team responsible for the continued development, implementation and monitoring of scorecards.

Administration and collections activities are performed by a separate division, which handles Wesbank's total book of about 750,000 active accounts and employs about 600 collections staff. Wesbank has well defined guidelines and procedures in place in order to deal with arrears and repossessions. Loans that are one instalment overdue (i.e. 23 days overdue) are handled by the relationship centre, which is also responsible for general customer enquiries. Loans that are two or more instalments overdue are moved on to a separate division where loans are subject to more stringent collections procedures and are handled by more experienced staff members. Once it has been determined that a loan is potentially non-paying, the vehicle is repossessed and held for up to 30 days during which time the obligor may settle the outstanding loan amount. If the outstanding balance has not been settled at the end of a 30-day holding period, the vehicle is sold via auction. The loan is then moved on to the specialised collections division, which will apply further collections procedures in order to recover any shortfall on an unsecured basis from the obligor. The specialised collections division is also responsible for handling abscondments, alienations and insurance matters.

Moody's met with senior management of Wesbank in December 2005 to discuss the history of the company, its current market position, as well as its strategy going forward. A key aspect of the meeting was a discussion of Wesbank's origination channels, underwriting guidelines and procedures, as well as the portfolio servicing, administration and recovery procedures. Moody's believes that the management and system capabilities are sufficient to fully comply with their responsibilities under this transaction.

## MOODY'S ANALYSIS

---

***Moody's has been provided with detailed portfolio information***

Moody's has been provided with detailed information (including socio-demographic data) on the portfolio, delinquencies on a dynamic basis as well as monthly static loss cohorts. Recovery values following write-off were also provided on a dynamic basis. Static loss information was provided as far back as January 2001, delinquency information was provided going back to June 2002 and recovery information was provided from July 2001 onwards.

The data underlined an improving performance since 2001, mainly due to the favourable economic conditions experienced during the period as well as improvements in the collections processes of Wesbank. However, Moody's has noted a deterioration in the delinquency performance since January 2005. We have been advised that the deterioration is due to, inter alia, a change in Wesbank's call centre environment whereby agents dealt with both inbound and outbound calls during the period from July 2005 until February 2006, as well as a loss of skilled staff and growth in advances over the same period. As the change reportedly did not achieve the desired results, Wesbank subsequently reverted to a true inbound call centre in February 2006, while the outbound centre again focused on arrears.

Delinquencies have shown a declining trend since February 2006, although the general trend is still above that observed prior to January 2005.

In order to model the loss pattern on the portfolio, Moody's uses a loss distribution which assigns a certain probability to each loss rate scenario. Moody's expects the loss distribution to be log normally distributed for granular portfolios. The rationale for the application of this distribution is that historic loss distributions of granular portfolios show a pattern which is very similar to that of a lognormal distribution. Therefore Moody's believes that this distribution is appropriate to model the probability for the various cumulative loss rate scenarios that the portfolio may experience.

The cumulative mean loss rate and the standard deviation of the cumulative mean loss rate determine the shape of the default rate distribution. These two parameters have been estimated from the historical loss data provided by FirstRand to Moody's.

The recovery process employed by Wesbank consists of three steps:

- (i) Firstly, a loan that has been identified as potentially non-paying is classified as non-performing and stringent collection methods are applied, including a repossession of the vehicle for safe-keeping by Wesbank. Classification as non-performing is not linked to any delinquency definition, but is done in accordance with Wesbank's standard collections procedures. If the outstanding balance of the non-performing loan has not been settled at the end of a 30 day holding period, the vehicle is sold and the loan will be moved to step (ii).
- (ii) If there is a shortfall in proceeds from the sale of the vehicle to cover for the outstanding loan amount, Wesbank will apply further collections procedures in order to recover on an unsecured basis from the obligor. These recoveries are typically minimal. Should Wesbank determine that there are no further recoveries forthcoming from the client or if the costs of further recoveries outweigh the potential recovery amount, the account will be moved to step (iii).
- (iii) Any remaining outstanding balance on the account is written off.

Moody's has been provided with static loss data following step (i) above, i.e. following sale of the vehicle. In addition, Moody's has been provided with dynamic recovery data following step (ii).

Moody's has determined a cumulative mean loss rate and an expected volatility, based on the static loss data provided by Wesbank. The static loss curves were extrapolated until month 60 in order to calculate the total cumulative mean loss rate of 1.7%.

Due to the revolving element introduced by unexpected prepayments in the transaction (i.e. monthly prepayments in excess of 1.3%), Moody's has used a stressed cumulative mean loss rate of up to 2.5% as an input for the lognormal distribution, where 2.5% corresponds to the maximum cumulative loss rate experienced over time. In addition, Moody's has incorporated a stressed standard deviation of 1.0%, which is equal to a coefficient of variation of 40%.

Based on the dynamic recovery data, Moody's has calculated an average recovery rate of 18%. Moody's has run different recovery rate scenarios down to 0%.

The timing of the losses is another key input parameter for the cash flow model, and expresses the loss per period as a percentage of the cumulative loss in each respective loss rate scenario. Moody's estimated the timing of loss curve from the static gross loss analysis. In the base scenario, Moody's used the historical loss timing curve but has run different loss timing scenarios to take into consideration the sensitivity of the ratings to this input.

To reflect the 14 months of seasoning in the portfolio, the loss curve was not run from month 1 to month 45 but only from month 15 onwards. Since the loss rate calculation is based on the initial outstanding amount at origination, the loss amounts need to be readjusted to the original balance of the portfolio at origination.

Since any monthly prepayments above 1.3% (i.e. above 14.53% on an annual basis) will be used to purchase further eligible receivables rather than pay down the notes, Moody's used the scheduled amortisation profile for the portfolio and applied various annual prepayment rate (CPR) scenarios down to 14.53%, in order to determine the amortisation of the portfolio.

Moody's used a weighted average interest rate of 10.92% (Prime minus 0.58%) to derive the portfolio yield. Within the swap, the Issuer will pay to the swap counterparty Prime and will in turn receive from the swap counterparty JIBAR plus 3.36%. For modelling purposes, Moody's used a Prime Rate of 11.5% and a JIBAR rate of 8%. Based on the assumed spreads for the respective notes and the subordinated loan, Moody's used an initial weighted average spread over JIBAR of 0.46%.

The initial servicing fee will be a fixed percentage of the asset balance as long as FirstRand is the servicer. However, in the event that a back-up servicer assumes servicing of the portfolio, the servicing fee may be higher. Moody's has incorporated in the modelling a stressed servicing fee rather than the initial fee. Other costs to the Issuer have also been taken into account.

The liability side of Moody's cash flow model reflects the priority of payments as set out in the transaction documents, including the consequences of the principal deficiency trigger. However, the model does not take into consideration the Post-Enforcement priority of payments linked to an Event of Default.

Moody's uses an expected loss methodology that reflects the probability of each loss rate scenario times the percentage loss for each tranche of notes in the respective loss scenarios, where the probability for each loss rate scenarios is derived from the lognormal distribution, as noted above.

The cash flow model is fed with various loss rate scenarios and the percentage loss of each tranche of notes in each of the loss rate scenarios is recorded. The percentage loss for each tranche of notes in a certain loss rate scenario is calculated as 1 minus the ratio of (i) the net present value of the cash flows (interest and principal) received for that tranche in that loss rate scenario using the interest rate of that tranche (JIBAR plus spread on that tranche) as the discount rate to calculate the NPV and (ii) the original outstanding principal amount of that tranche.

The expected loss is then calculated as the sumproduct of the probability of each loss rate scenario and the corresponding loss in each loss rate scenario for a specific tranche of notes. Additionally, Moody's calculates the average life for each tranche in each loss rate scenario. The weighted average life of each tranche of notes is then calculated as the sum product of the probability of each loss rate scenario and the corresponding average life in each loss rate scenario for a specific tranche of notes.

The combination of the expected loss and the weighted average life for each tranche of notes is mapped into a Moody's rating, based on the idealised expected loss table.

## RATING SENSITIVITIES AND MONITORING

---

***Several rating triggers have been defined either to replace FirstRand in one of its functions or to initiate actions in order to limit exposure to FirstRand risk***

FirstRand has several functions in the transaction as servicer of the portfolio, account bank, swap counterparty and administrator of the Issuer. In order to reduce the sensitivity of the notes' ratings to FirstRand, several rating triggers linked to the national scale ratings assigned to FirstRand have been defined either to replace FirstRand in one of its functions or to initiate actions in order to limit the exposure to FirstRand risk.

Moody's will monitor the transaction on an ongoing basis to ensure that the transaction continues to perform in the manner expected, including checking all supporting ratings and reviewing periodic servicing reports. Any subsequent changes in the rating will be publicly announced and disseminated through Moody's Client Service Desk.

## RELATED RESEARCH

---

For a more detailed explanation of Moody's approach to this type of transaction as well as similar transactions please refer to the following reports:

### **Special Reports**

- Moody's Approach to Rating European Auto ABS: More Rubber Set to Hit European Roads, 19 November 2002 (SF17579)
- Historical Default Data Analysis for ABS Transactions in EMEA, 29 November 2005 (SF64042)
- Clawback Risk in EMEA Securitisation Transactions, 9 March 2005 (SF34076)
- Liquidity Facilities in European Term Securitisations, 22 August 2002 (SF15810)
- Swaps in European Term Securitisations, 21 May 2002 (SF13204)

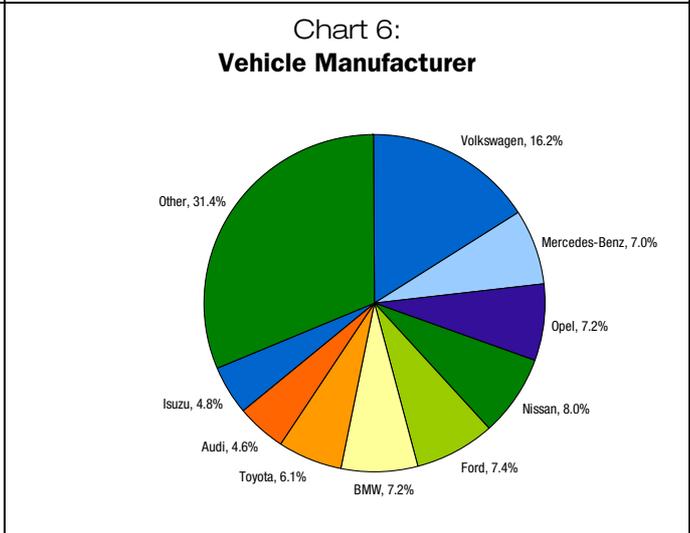
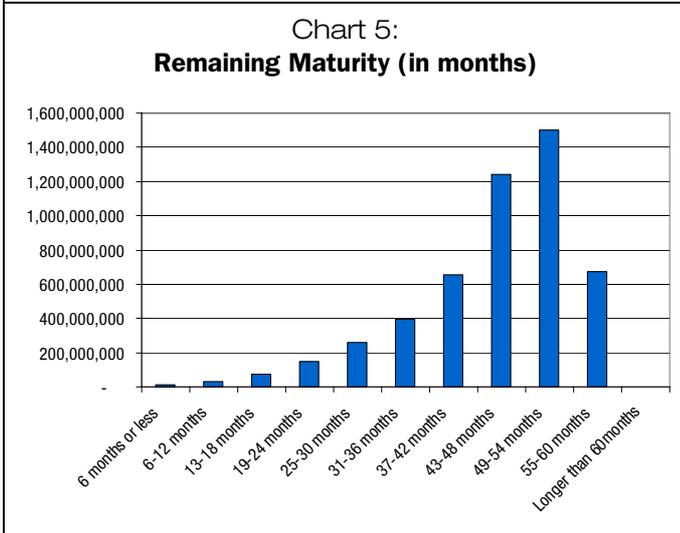
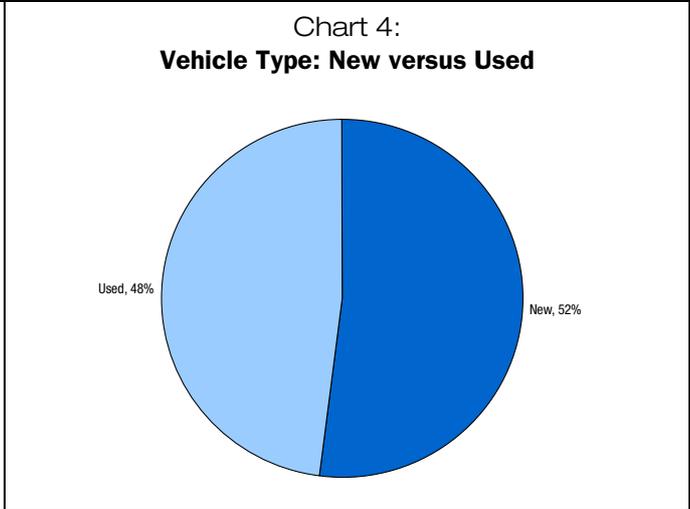
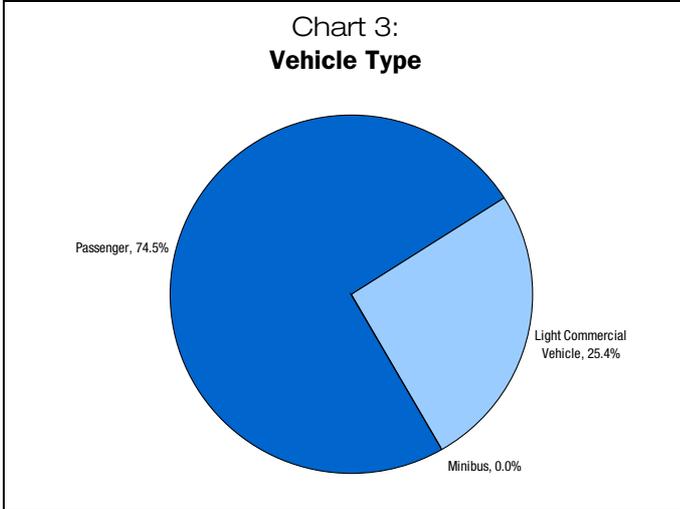
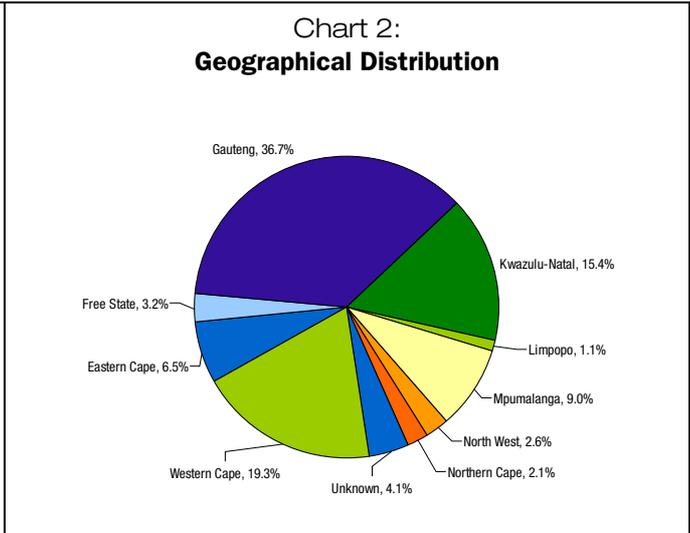
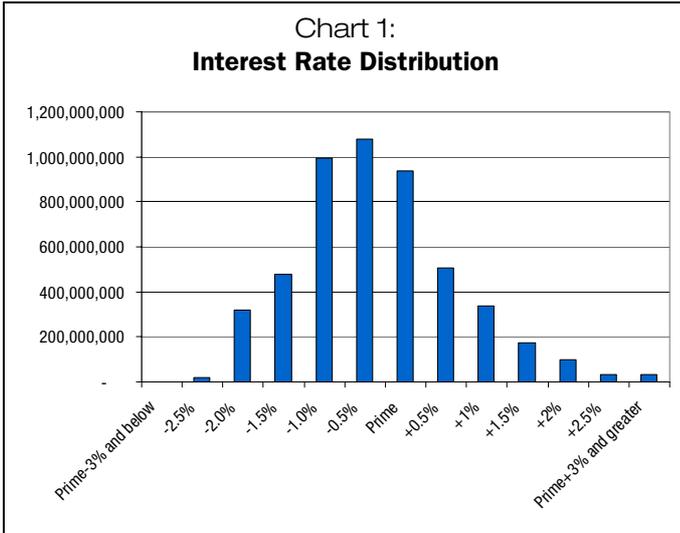
### **Rating Methodologies**

- The Lognormal Method Applied to ABS Analysis, 27 July 2000 (SF8827)
- Moody's Approach to Legal Risk Analysis in South African Securitisation Structures, 27 August 2003 (SF25100)

### **New Issue Report**

- Nitro Securitisation 1 (Proprietary) Limited, 26 April 2006 (SF73213)

*To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.*



SF81176isf

© Copyright 2006, Moody's Investors Service, Inc. and/or its licensors and affiliates including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved. **ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.** All information contained herein is obtained by **MOODY'S** from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and **MOODY'S**, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall **MOODY'S** have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of **MOODY'S** or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if **MOODY'S** is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings and financial reporting analysis observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. **NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.** Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling.

**MOODY'S** hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by **MOODY'S** have, prior to assignment of any rating, agreed to pay to **MOODY'S** for appraisal and rating services rendered by it fees ranging from \$1,500 to \$2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at [www.moody's.com](http://www.moody's.com) under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

This credit rating opinion has been prepared without taking into account any of your objectives, financial situation or needs. You should, before acting on the opinion, consider the appropriateness of the opinion having regard to your own objectives, financial situation and needs.