

2022

*28 – 31 March*



**FirstRand Bank**

treasury update  
and sustainability  
bond roadshow

# Agenda

- Overview of the bank (debt issuer) and financial performance
- Funding update: Market and liquidity conditions
- Financial sector developments and regulatory update
- FirstRand approach to sustainable finance
- FirstRand Bank's inaugural sustainability bond issuance
- Term sheet



Overview of the bank (debt issuer) and financial performance



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# Adherence to the pandemic response financial resource management framework protected the balance sheet and underpinned ROE recovery

- FirstRand implemented specific actions in March 2020 to emerge from Covid-19 with limited vulnerabilities and with capital to fully participate in the subsequent recovery
- Anchored business to financial resource management principles, including:
  - Carefully price for financial resources
  - Appropriately provide against lending portfolios
  - Focus on cost management
  - Balance sheet appropriately tilted to macro-outlook and strengthened further
  - Accrete capital and NAV
  - Group resumed paying dividends at the bottom end of its cover range (56% payout)

*Emerged with strong balance sheet and capital for growth*



# Key performance metrics (normalised)

	Dec 21	Dec 20	% change
Earnings (R million)	11 933	7 996	49 ▲
Pre-provision operating profit (R million)	19 710	18 057	9 ▲
Net interest margin (%)	4.74	4.56	▲
Credit loss ratio (%)	0.75	1.60	▼
Cost-to-income ratio (%)	53.5	54.9	▼
Return on equity (%)	22.8	16.3	▲
Return on assets (%)	1.66	1.11	▲
Average gross loan-to-deposit ratio (%)	79.2	80.7	▼
Gross advances (R million)	946 621	889 051	6 ▲



# Bank has protected its balance sheet and strengthened liquidity

## BALANCE SHEET POSITION AND TRENDS

	ACTUAL	TREND
Assets in marketable format	<b>&gt;R440 billion</b>	Increased (improved liquidity)
Liquid assets as % total assets	<b>30.0%</b>	Increased (improved liquidity)
LCR and NSFR*	<b>LCR: 124%</b> <b>NSFR: 121%</b>	The bank's strong liquidity position has been maintained and remained well above regulatory minimums
Credit quality of assets	<b>BB-/B+</b>	Stable
Institutional funding term*	<b>40 months</b>	Marginally lower due to increased floating-rate note and NCD issuance (primarily 12-month maturities)
Deposit franchise*	<b>73% core deposit funding</b>	Funding strategy favours client deposits creating an improved liquidity risk profile
RWA risk density	<b>49.9%</b>	Improved
CET1 ratio	<b>14.1%</b>	Improved – well above internal target range
Standalone bank credit rating	<b>Highest in SA</b>	Maintained

\* For South African operations only.

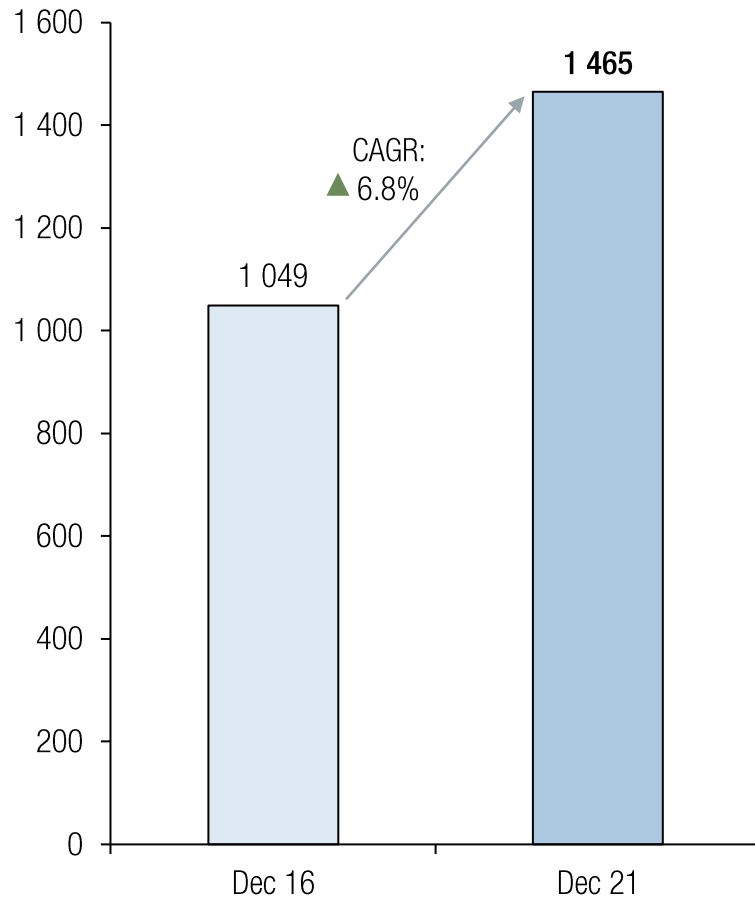
\*\* Including foreign branches and unappropriated profits.



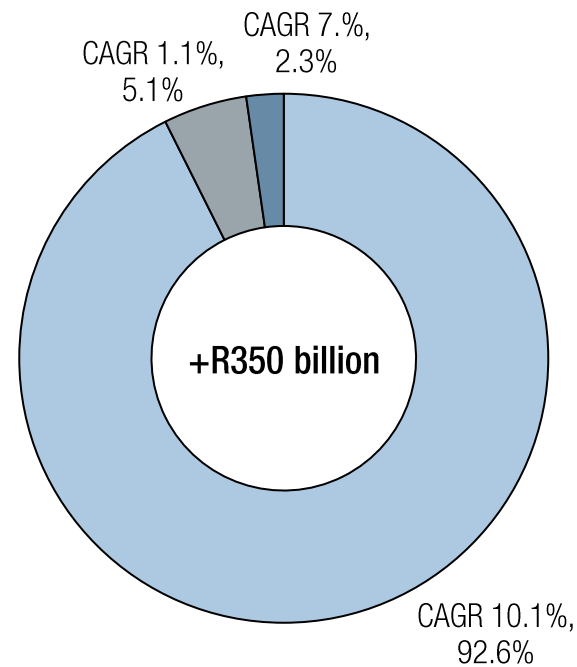
# Consistent execution on balance sheet strategies

## Balance sheet growth

Total assets  
R billion



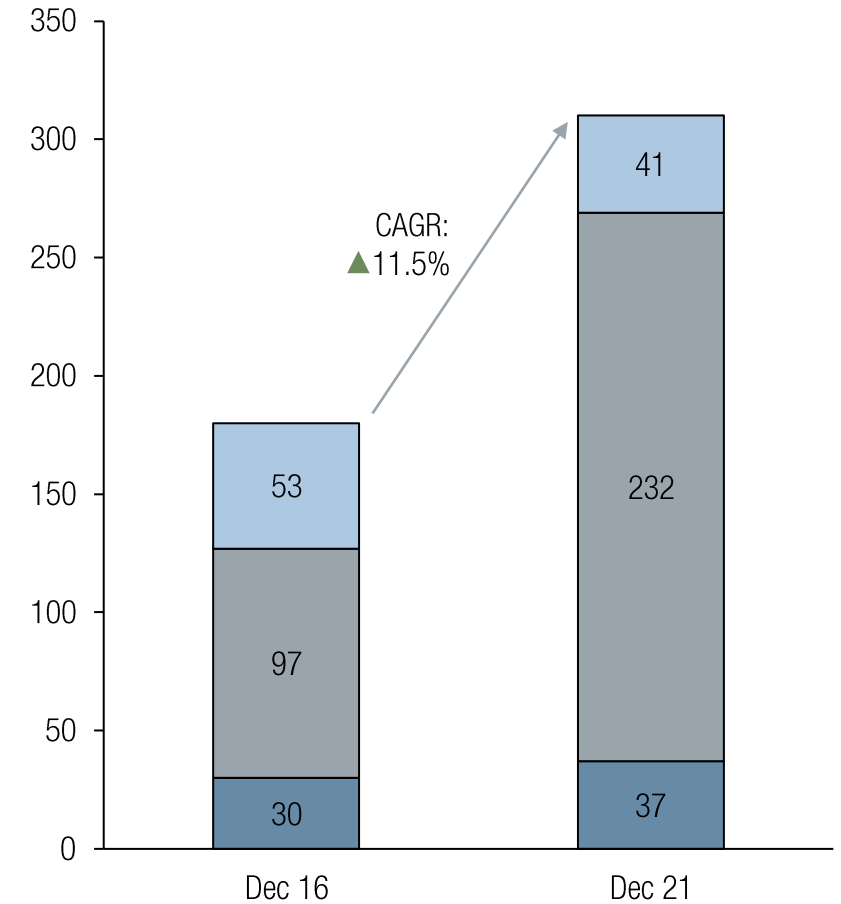
## How the balance sheet was funded



- Customer deposits
- Institutional funding
- Capital

## Liquid asset growth

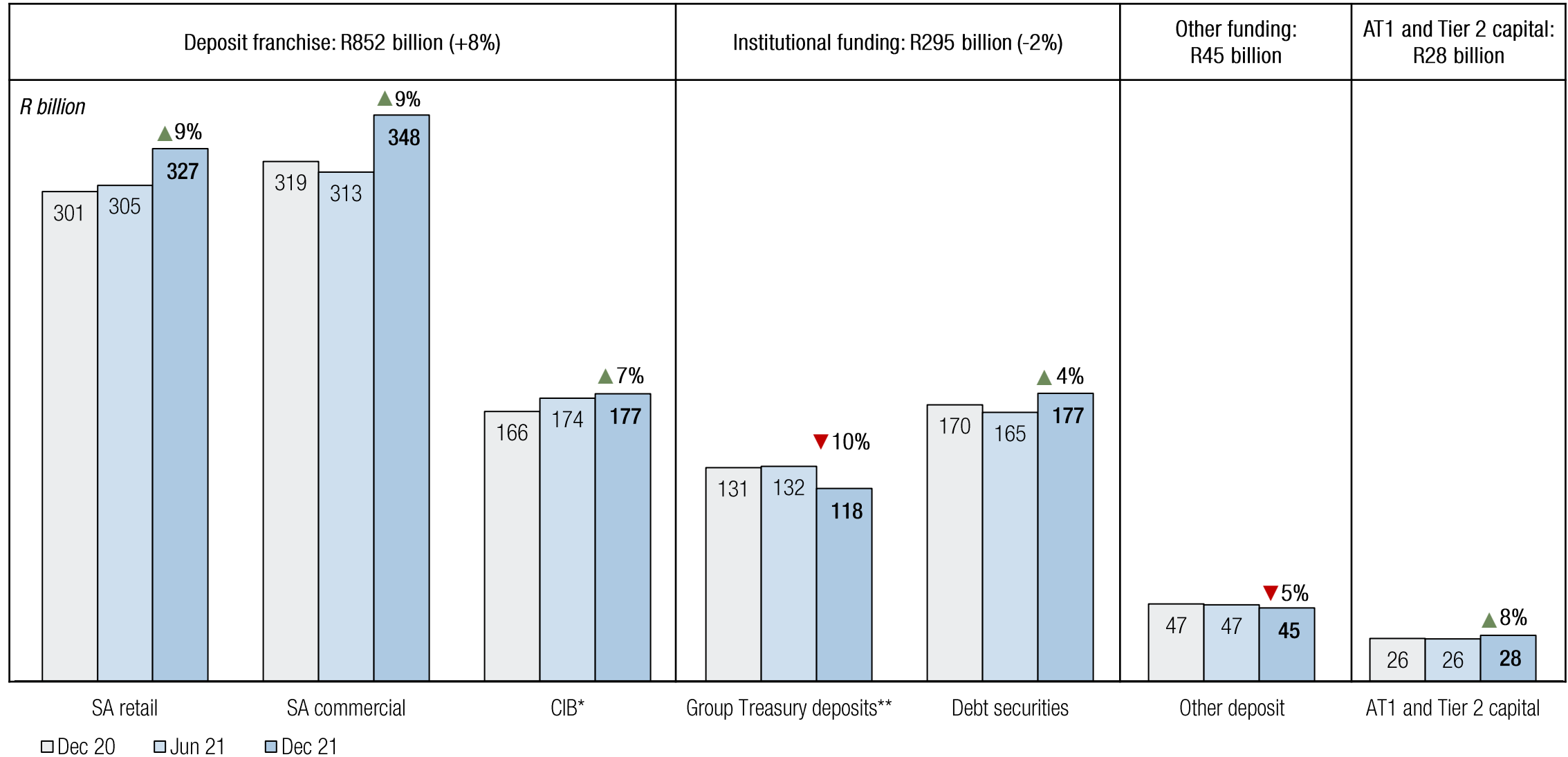
Liquid assets  
R billion



- Other liquid assets
- Government bonds and bills
- Cash and central bank deposits



# Strength of deposit franchise results in lower dependence on institutional funding and provides flexibility



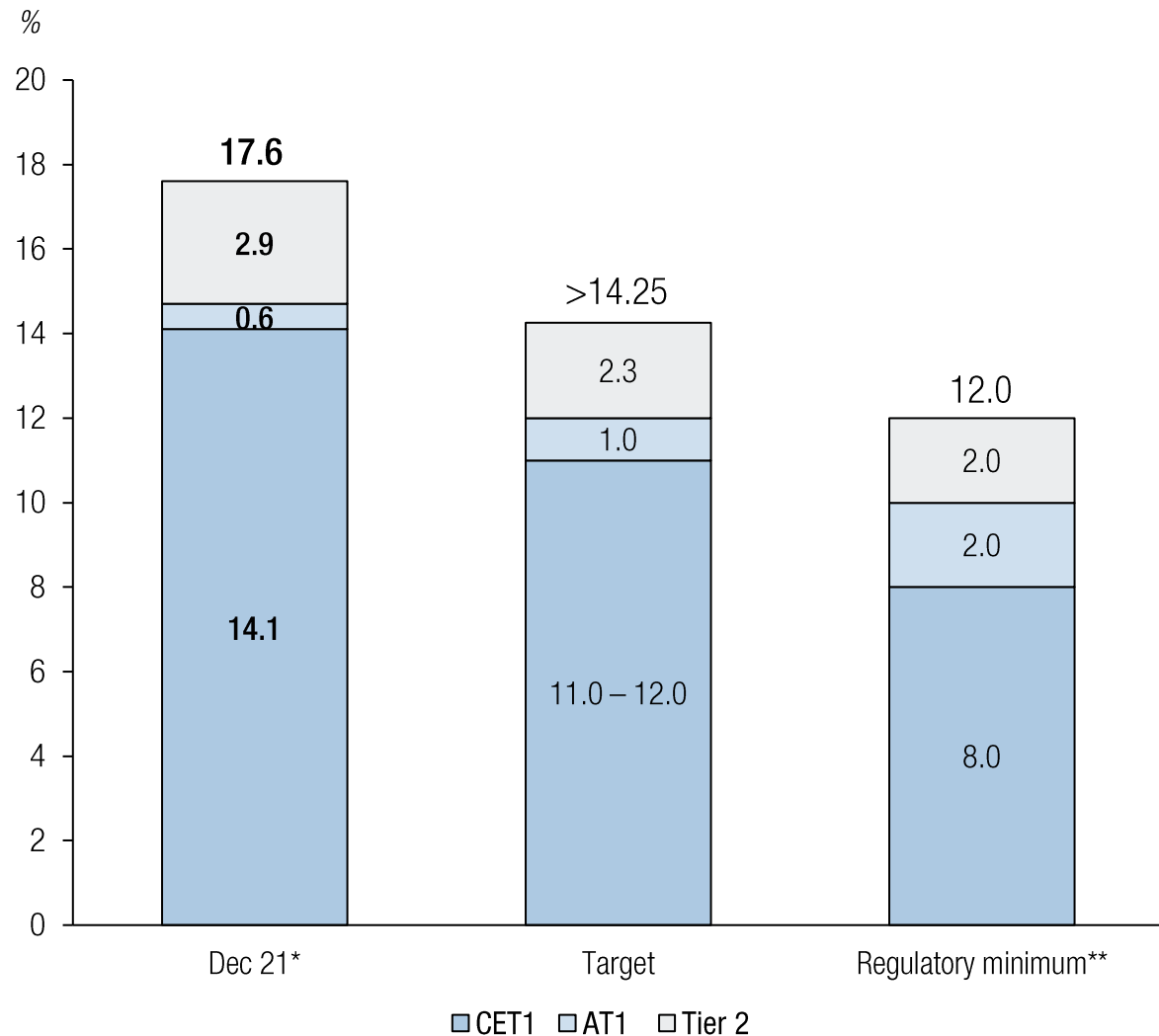
\* CIB deposits include South Africa and the London and India branches.

\*\* Group Treasury deposits include the funding facility related to the South African Covid-19 government-guaranteed loan scheme.





# Strong capital position maintained; ongoing optimisation of the capital stack



- Reinstatement of the Pillar 2A on 1 January 2022; **no impact on internal targets** – aligned to end-state minimums
- **D-SIB disclosure of 1.5%** provides additional transparency around minimum requirements
- **Tier 2** issuance
  - Actual aligns with target levels
  - Issuance to manage roll-over of existing instruments

\* Including unappropriated profits.

\*\* Excluding the individual capital requirement. Includes the capital conservation buffer of 2.5%, Pillar 2A requirement of 0%, and domestic systemically important (D-SIB) requirement of 1.5%.



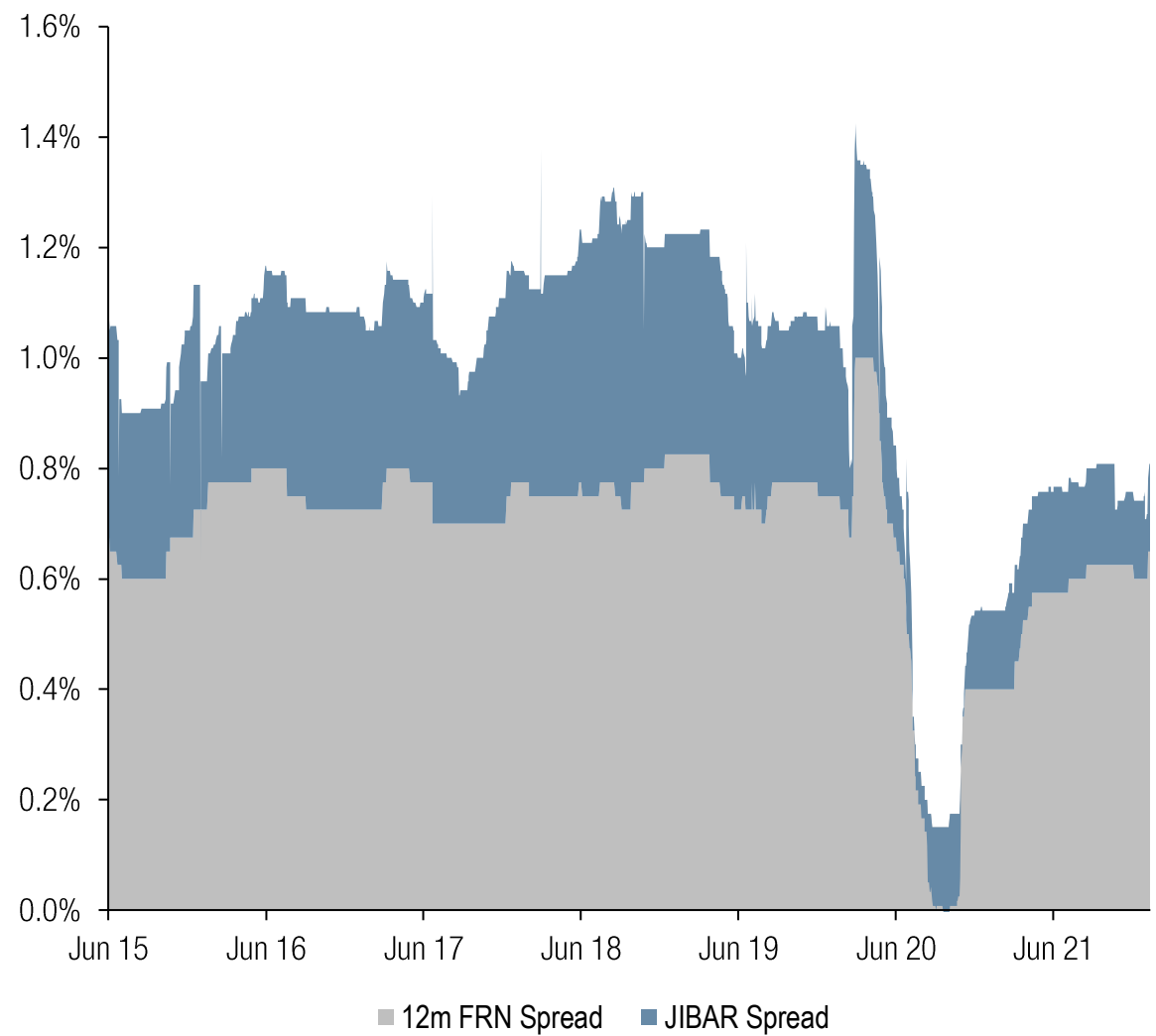
Funding update:  
*Market and liquidity conditions*



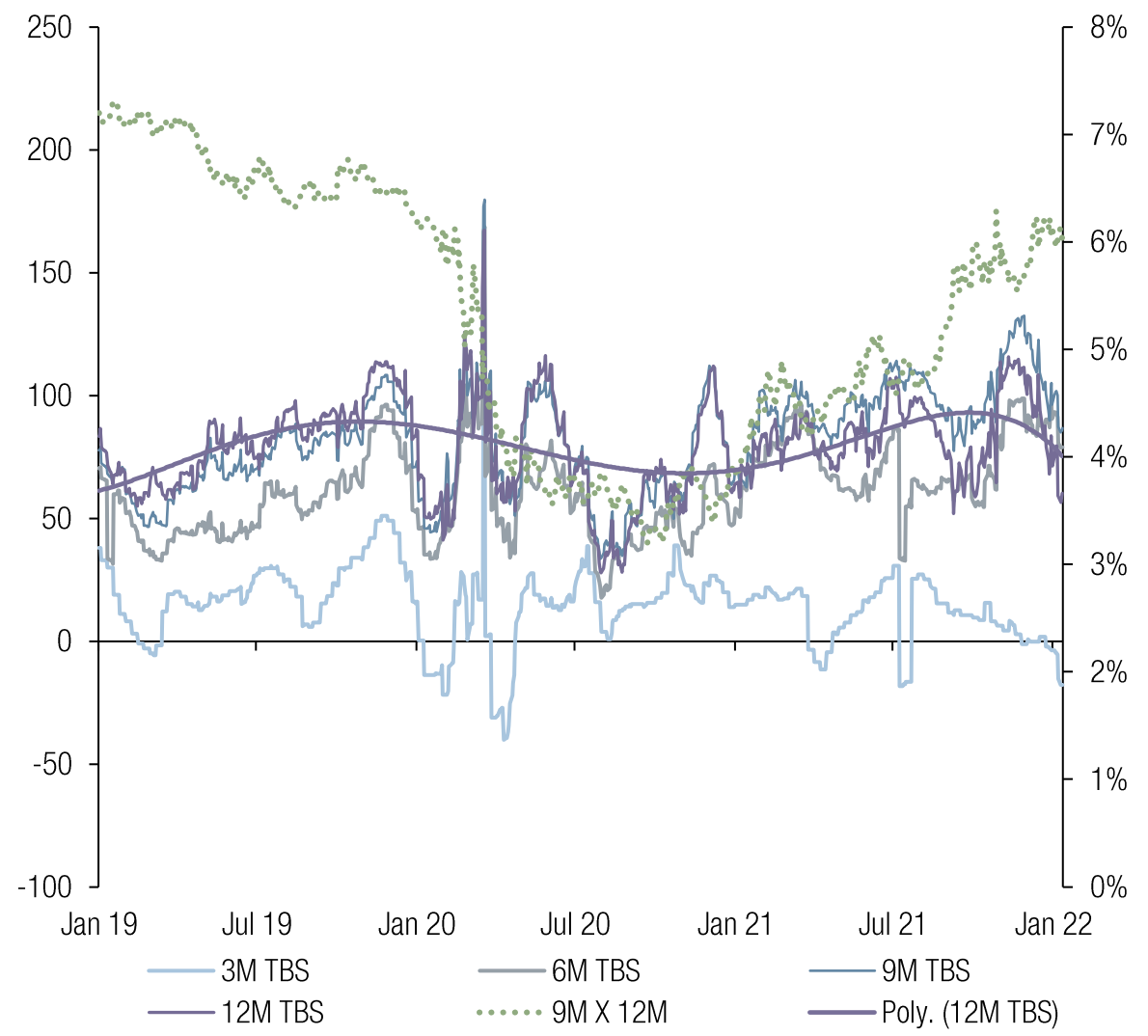
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# Market liquidity spreads have normalised

FRB 12m FRN spreads



TED spreads (treasury bill spreads)



Source: Bloomberg, FirstRand research.



# Financial sector developments and regulatory update



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# Further strengthening the SA financial system

- SA benefits from world class market infrastructure in payments, exchanges and securities clearing
- There is, however, room for further improvements in market functioning and resilience

Financial system functioning and resilience	Regulatory and market developments
<ul style="list-style-type: none"> <li>• Collateral management               <ul style="list-style-type: none"> <li>• Secured interbank market</li> <li>• Triparty collateral management</li> </ul> </li> <li>• Market conduct               <ul style="list-style-type: none"> <li>• Updated money market code of conduct (JIBAR)</li> </ul> </li> <li>• Monetary policy implementation framework</li> <li>• Reference rate reform</li> </ul>	<ul style="list-style-type: none"> <li>• Financial Sector Laws Amendment Act               <ul style="list-style-type: none"> <li>• SARB as the designated resolution authority</li> <li>• Introduces a new tranche of loss-absorbing instruments, i.e. first loss after capital (flac)                   <ul style="list-style-type: none"> <li>• Subordinated to other unsecured creditors and intended for bail-in in resolution</li> </ul> </li> <li>• Establishes Corporation of Deposit Insurance</li> </ul> </li> <li>• Financial conglomerate framework</li> <li>• Financial Market Act review</li> <li>• Final Basel III reforms</li> <li>• Sustainable finance taxonomy</li> </ul>



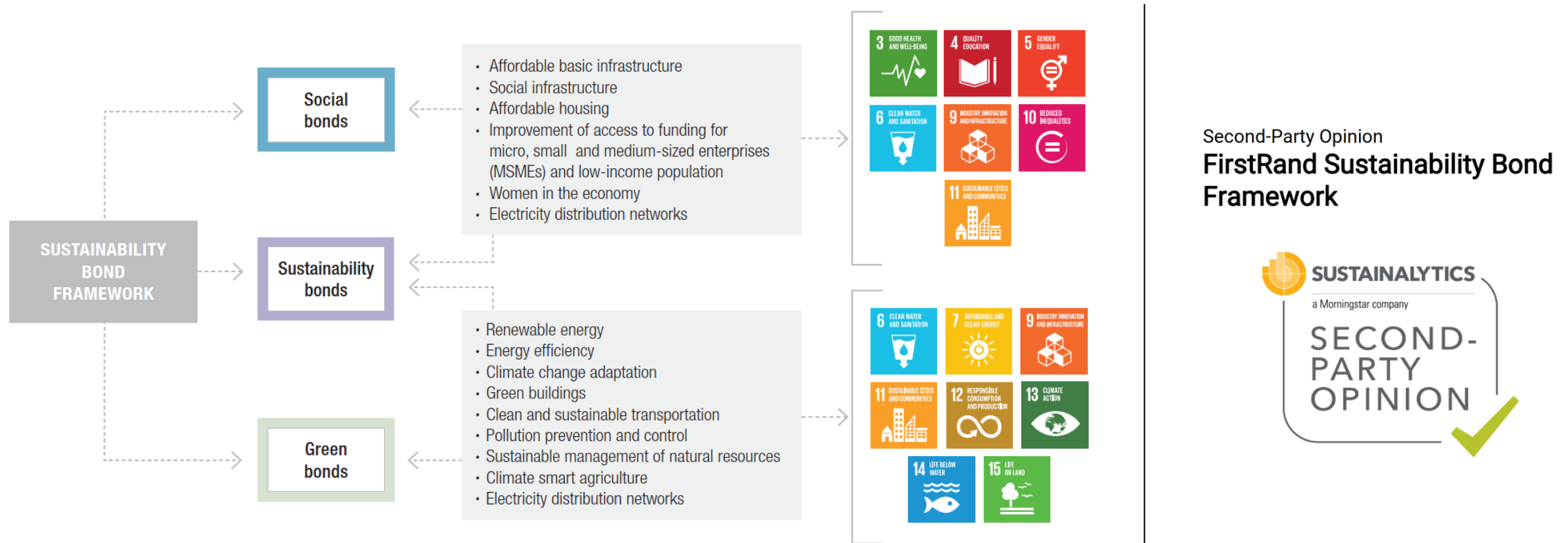
# FirstRand approach to sustainable finance



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# FirstRand's sustainability bond framework

- The group recently published its **sustainability bond framework** under which its subsidiaries intend to issue thematic debt instruments, such as **green, social and/or sustainability bonds**
  - Aligned to international best practice** and guidance as issued by the **International Capital Market Association (ICMA)**
  - Independently assessed** by **Sustainalytics**
  - Framework and second-party opinion **available on FirstRand's website**



# Incorporating climate factors into financial resource management

## Financial resource management

- Development and incorporation of a sustainable bond
- Issuance framework into the overall funding strategy
- Partnering with DFIs, where appropriate
- Targeting prudent ESG rating levels for the group
- Transmitting the price of financial resources, taking account of positive outcomes and negative externalities

## Productive capital formation

- Support productive capital formation
- Support efficient financial resource allocation
- Promotes balanced sustainable economic growth

## Climate

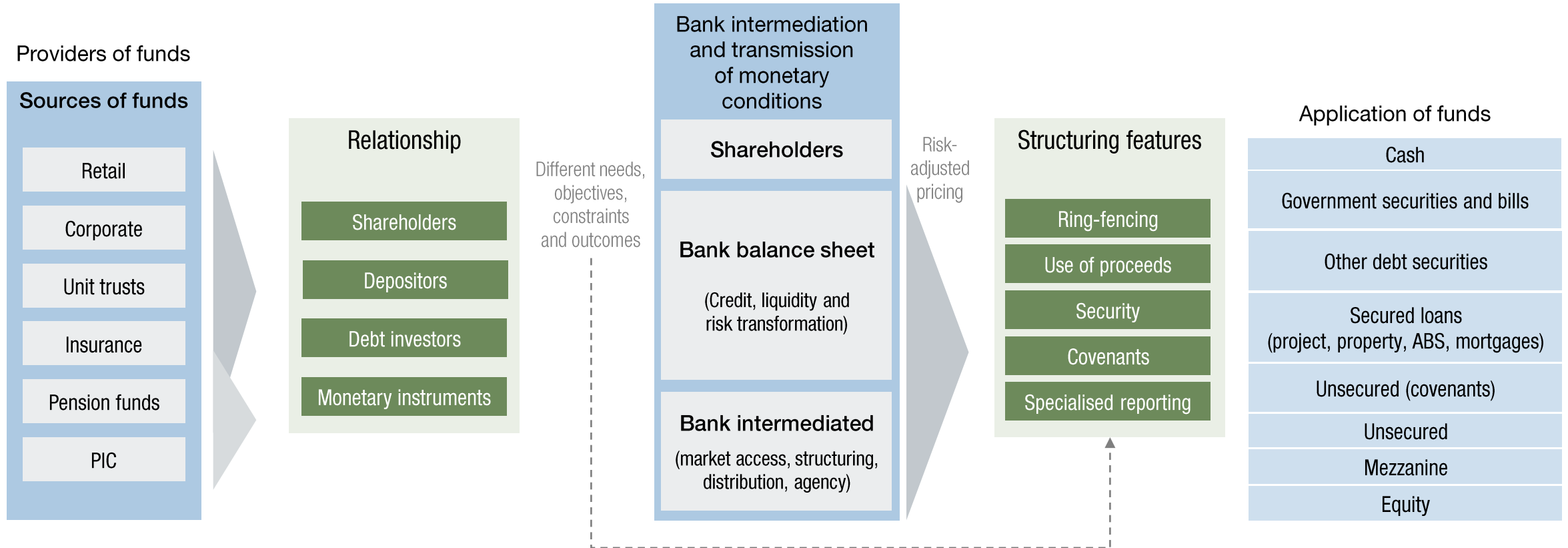
Support climate resilience and transition to lower carbon economy

- Take steps to limit the environmental impact of the group's energy supply and other supplier sources
- Formally assess transactions for transition risks and liability risks
- Price for the climate impact of the businesses, assets and projects being financed





# The financial system transmits financing conditions to real economy

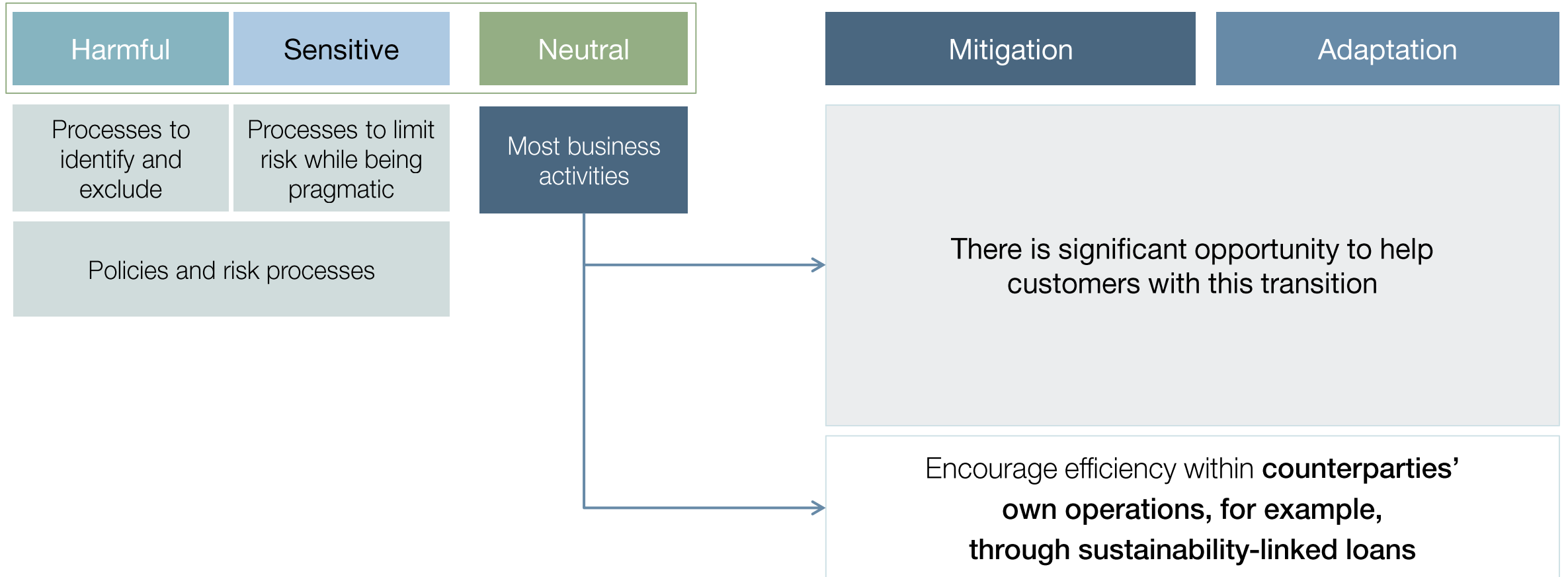


*Requires better ALM matching to be more competitive, more sustainable and achieve better financial transmission*



# Evolving approach to transition finance

## Financing activities



# FirstRand Bank's inaugural sustainability bond issuance



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# Sustainability bonds

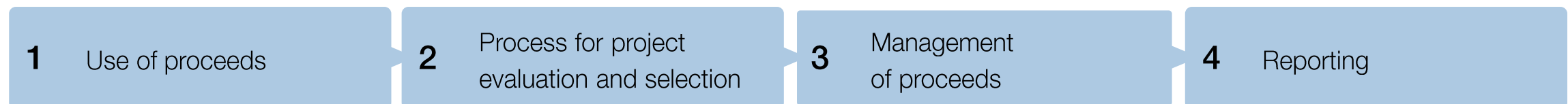
## What is a sustainability bond?

- **Known use of proceeds bond** – proceeds must be used to finance and/or refinance 100% eligible green and social assets
- A **sustainability bond framework** needs to be established prior to issuance
- **Pre-issuance verification** is current market best practice to ensure investor confidence with respect to the credibility and impact of the thematic bonds issued under the framework

## Industry governing standards

- ICMA green and social principles and sustainability bond guidelines were created with the vision of **promoting** the role that the global debt capital markets can play in financing progress towards **environmental and social sustainability**
- **Outline best practices** when issuing green, social or sustainability bonds through global guidelines and recommendations that promote transparency and disclosure

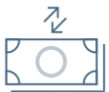
## Core pillars



# Allocation of proceeds



**Existing loans** are those which have reached financial close, up to 24 months prior to the issuance or where the assets are not yet fully operational



**New loans** are those where disbursements have been made up to one year prior to issue of the bond and at any time from the date of the issuance



Any unallocated bond proceeds will be **fully allocated** to any eligible loan/asset portfolio within two years from the date of issuance

**50%** of total sustainability bond issuance will be allocated to new and existing green and social assets

**50%** of total sustainability bond issuance will be allocated to future green and social assets

*Proceeds will be allocated to existing assets with intention to also allocate to new assets*



# Use of proceeds – green assets

## Indicative existing green assets – green buildings

Green housing project (IFC EDGE green certified) located in **Ekurhuleni** within the eastern metropolitan region of **Johannesburg, South Africa**



21% **energy savings** – energy saving, smart meters, solar and optimal window-to-wall ratio



24% **water savings** – low-flow showerheads, faucets and single flush for water closets



92% **less embodied energy** in materials – re-use of existing slabs for floor and roof construction, re-use of existing walls for internal and external walls, and re-use of existing flooring and window frames

## Impact reporting – annual basis until full allocation

Indicative impact indicators:

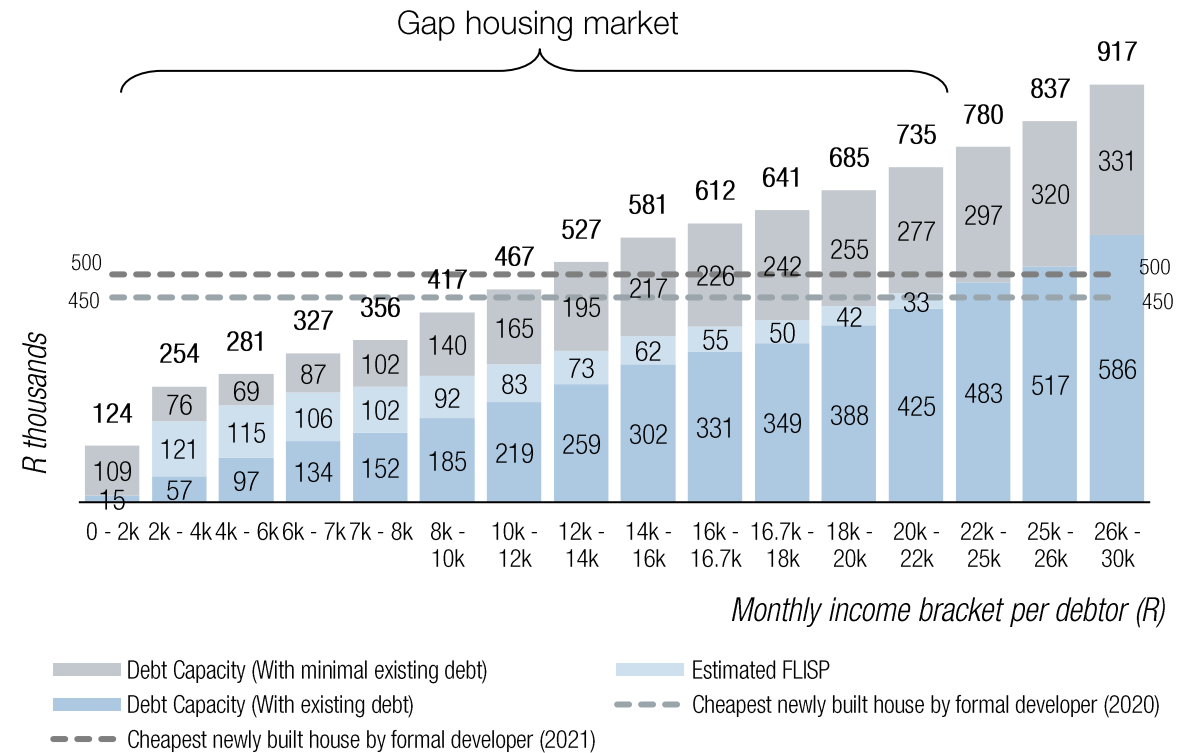
- Number of green buildings funded
- Total m<sup>2</sup> of green buildings funded
- Estimated annual CO<sub>2</sub> equivalent emissions reduction/avoidance (tons CO<sub>2</sub> eq/year)



# Use of proceeds – social assets

## Existing social asset – affordable housing

- **Affordable housing** market (BASA definition) – households earning gross monthly income of <R27 200
- **Gap housing** market – households earning a gross monthly income between R3 501 and R22 000
- Enabled by government's Finance Linked Individual Subsidy Programme (**FLISP**)
  - Make housing finance accessible for **first-time buyers**
  - Either reduce the **initial mortgage amount**, making monthly repayment more affordable, or **augment shortfall** between qualifying amount and property purchase price
- FNB has **integrated FLISP** into its affordable housing lending process to improve affordability for customers
- **FNB the leading bank in terms of FLISP disbursements**, leveraging **R29 million** from June 2020 to May 2021



## Impact reporting – annual basis until full allocation

Indicative impact indicators:

- Number of people with access to safe, affordable and sustainable housing
- Number of affordable and sustainable housing units built
- Number of mortgages provided for affordable and sustainable housing



# Monitoring and reporting

- FirstRand will publish an annual allocation and impact report on its website
  - Supported by a limited assurance report on the allocation provided by external auditors on an annual basis (until full allocation)
- The allocation and impact report will provide:
  - Total amount of proceeds allocated to eligible loans/assets
  - Number of eligible loans/assets
  - Balance of unallocated proceeds
  - Amount/percentage of new financing and refinancing
  - Annual impact indicators for use of proceeds for green and social assets





# Term sheet



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# Indicative term sheet

<b>Issuer</b>	FirstRand Bank Limited
<b>Credit rating</b>	Aa1.za / zaAA
<b>Rating agency</b>	Moody's / S&P Global Ratings
<b>Authorised programme size</b>	R100 billion, DMTN programme
<b>Listing</b>	Johannesburg Stock Exchange, Sustainability Segment
<b>Indicative target nominal amount</b>	R1.5 billion (with the ability to upsize to R2 billion)
<b>Indicative tenor (years)</b>	5, 7 and 10
<b>Instrument profile</b>	Senior unsecured, listed sustainability bond
<b>Sustainability bond approach</b>	<ul style="list-style-type: none"> <li>• Meets JSE Sustainability Segment Listing requirements</li> <li>• Second party opinion (SPO) from Sustainalytics</li> <li>• FirstRand sustainability bond framework – setting out the relevant principles and guidelines: <ul style="list-style-type: none"> <li>• Use of proceeds</li> <li>• Process for project evaluation and selection</li> <li>• Management of proceeds</li> <li>• Reporting and impact measurement</li> <li>• Framework and SPO available at: <a href="https://www.firststrand.co.za/investors/governance-and-compliance/">https://www.firststrand.co.za/investors/governance-and-compliance/</a></li> </ul> </li> </ul>
<b>Use of proceeds</b>	Green buildings and affordable housing
<b>Auction process</b>	Sealed bid without feedback (Dutch auction)
<b>Contact for further information</b>	Delia Patterson +27 83 676 9595 or <a href="mailto:delia.patterson@rmb.co.za">delia.patterson@rmb.co.za</a>



# Indicative timeline

Event	Date
Investor roadshow	28 – 31 March 2022
Termsheet, draft applicable pricing supplement(s) and auction details released to investors	1 April 2022
Updated termsheet with price guidance	6 April 2022
Proposed auction date	13 April 2022
Settlement date (t+3)	20 April 2022



# Appendix

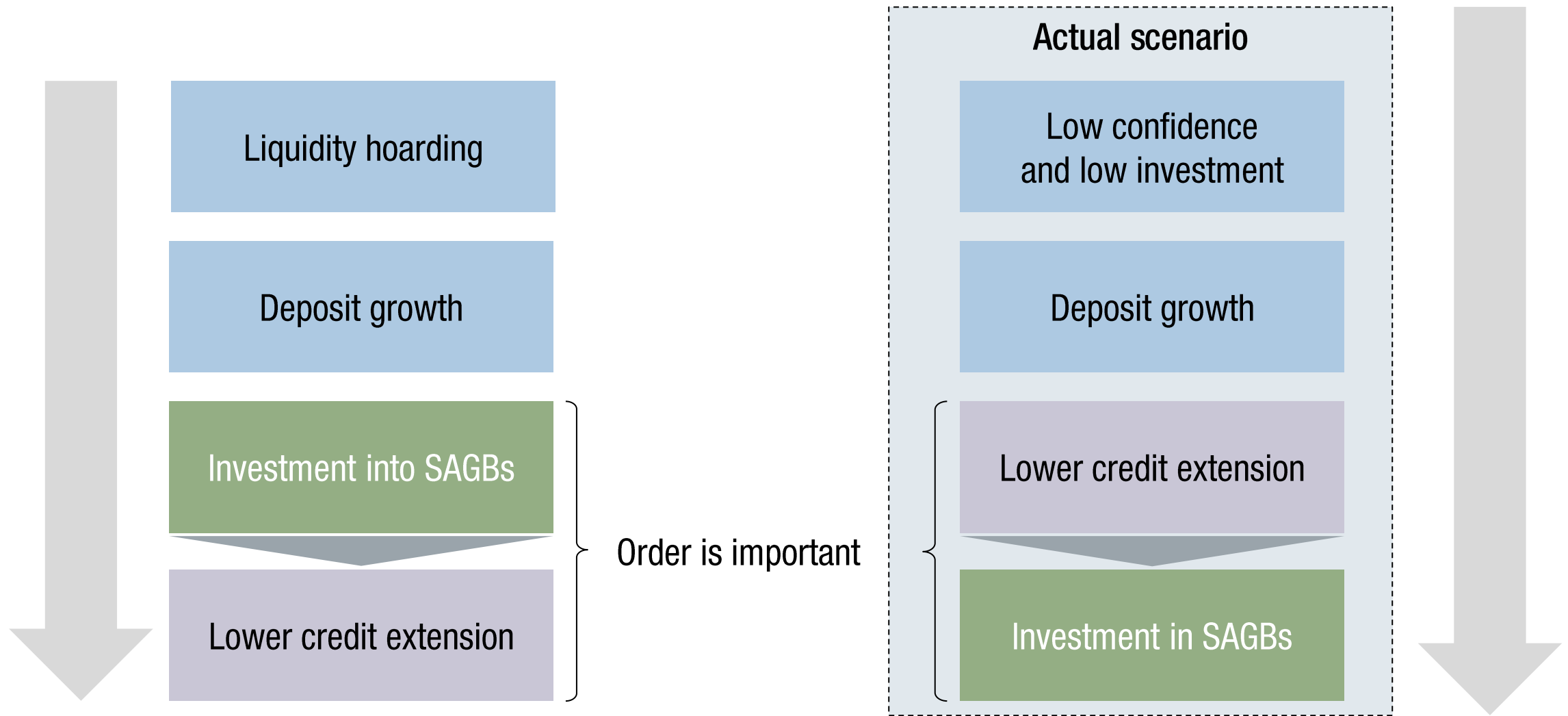


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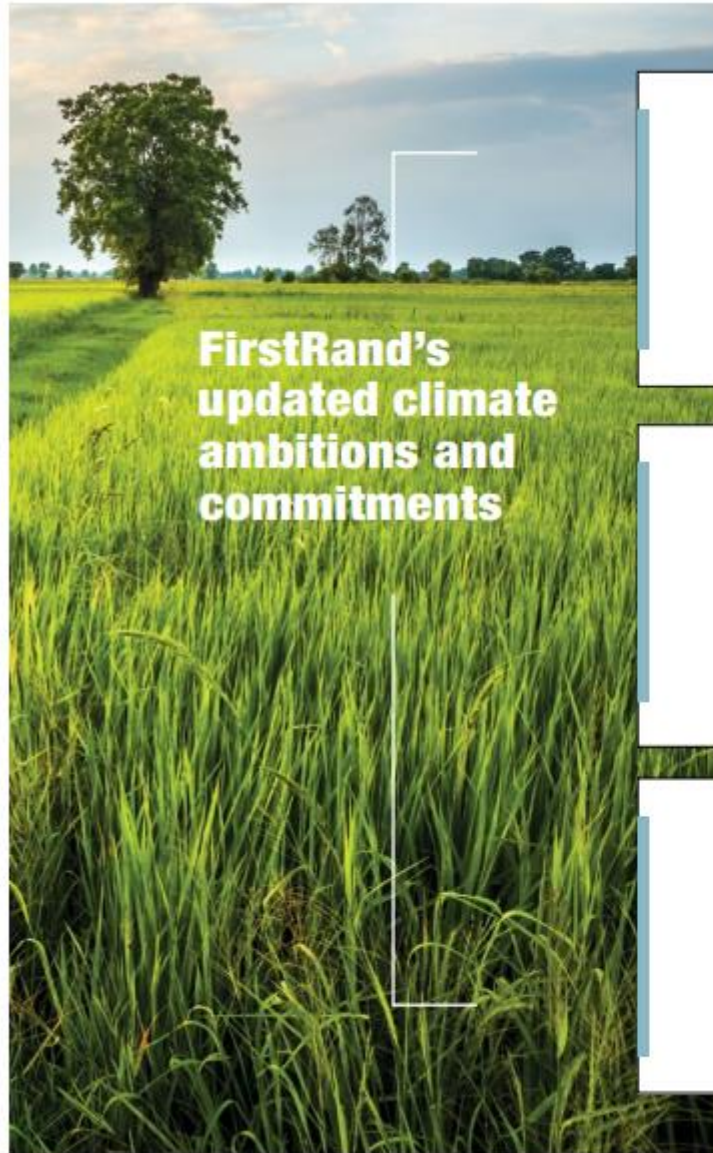
# Bank sector assets: sovereign vs private sector exposure



# Higher holdings of government securities resulted from strong deposit growth and slower advances growth in FY21



# FirstRand's climate ambitions and commitments



## *Own emissions*

- > **Net zero** by 2030  
for South African operations

## *New thermal coal lending*

- > **No financing**  
for new coal-fired power stations

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- > No direct project finance provided to  
new coal mines from 2026

## *Financed emissions*

- > **Net zero** by 2050

## *Existing thermal coal lending*

- > **2% advances limit**  
**reduced to 1.5%** in 2026

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- > and **1%** in 2030

## *Transition finance facilitation\**

- > **R200 billion** by 2026

\*Transaction underwriting, arranging, lending or advisory.

## *Customer engagement*

- > **Top 100** corporates over the  
next 12 months

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- > **3 million** retail clients by 2025



# FirstRand follows best practice and actively participates in key global climate forums

Industry body/forum	FirstRand role/participation
Task Force on Climate-Related Financial Disclosures (TCFD)	<ul style="list-style-type: none"> <li>• Signatory (October 2020)</li> <li>• Published first TCFD report in 2021</li> </ul>
Principles for Responsible Banking	<ul style="list-style-type: none"> <li>• Founding member</li> <li>• Signatory</li> </ul>
Principles for Responsible Investing	<ul style="list-style-type: none"> <li>• Signatory (2015)</li> </ul>
Partnership for Carbon Accounting Financials (PCAF)	<ul style="list-style-type: none"> <li>• Member of the core team of PCAF and the regional lead for Africa</li> </ul>
UNEP Finance Initiative	<ul style="list-style-type: none"> <li>• Participating in phase three of the TCFD project work</li> </ul>
Carbon Disclosure Project (CDP)	<ul style="list-style-type: none"> <li>• Submits annual disclosures and scored a “B” for 2021</li> </ul>





# Relevant links

- FirstRand sustainability bond framework
  - <https://www.firststrand.co.za/media/investors/governance/firststrand-sustainability-bond-framework.pdf>
- Second-party opinion – FirstRand sustainability bond framework
  - <https://www.firststrand.co.za/media/investors/governance/second-party-opinion-firststrand-sustainability-bond-framework.pdf>
- FirstRand 2021 report to society
  - <https://www.firststrand.co.za/media/investors/reports/FirstRand-report-to-society-2021.pdf>
- FirstRand 2021 TCFD report
  - <https://www.firststrand.co.za/media/investors/annual-reporting/FirstRand-TCFD-report-2021.pdf>



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