



**FIRSTRAND BANK**

**CAPITAL  
AND FUNDING  
UPDATE**

*June 2018*

**'18**

## Presentation team

- Frikkie Kleinhans: Head of Capital Management
- Amit Mohanlal: Head of Funding and Liquidity
- Ivan Ruscic: Funding and Liquidity
- Kalai Govender: Capital Management





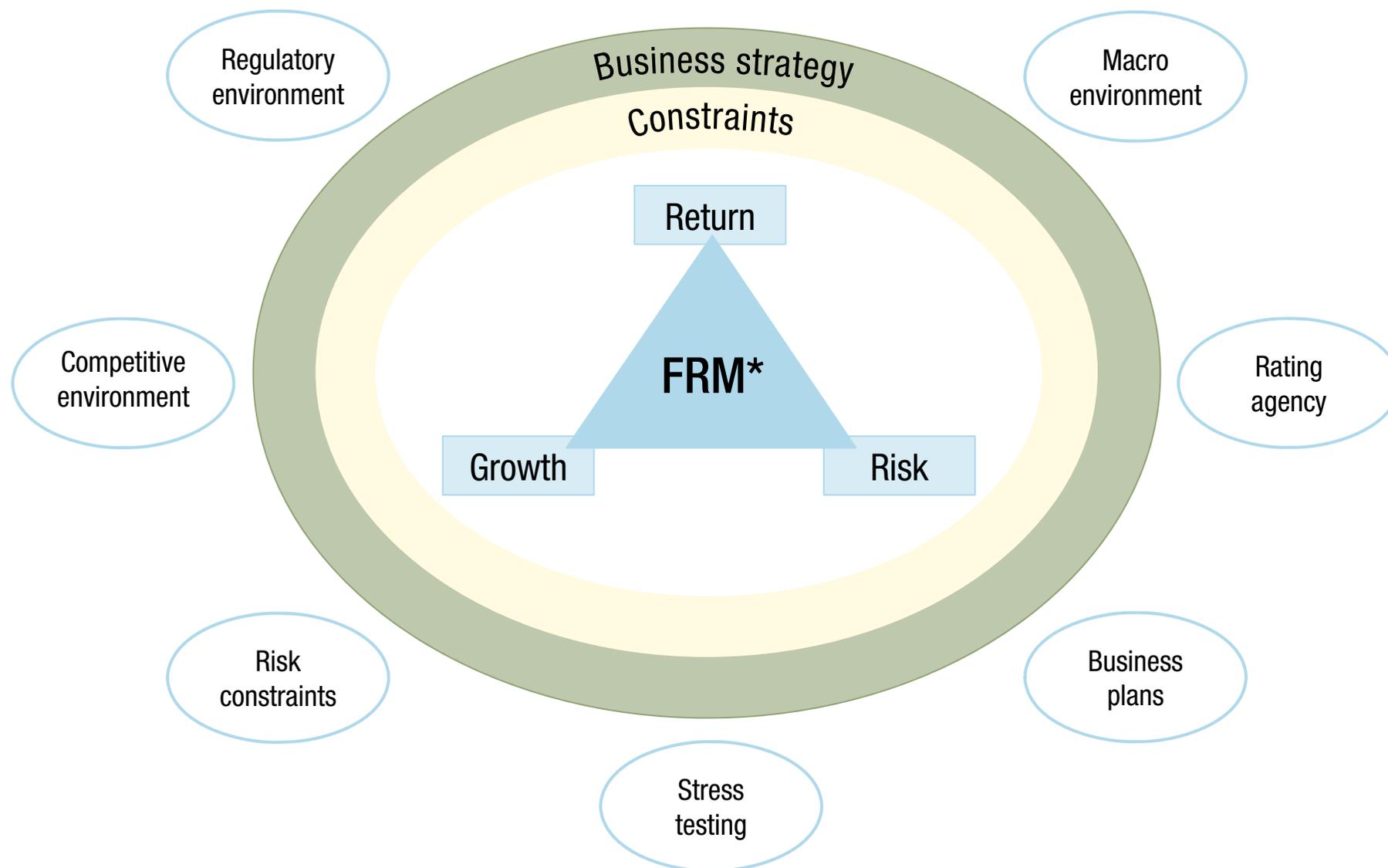
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**Financial resource  
management**

# Disciplined financial resource management supports strategy



\* FRM is defined as capital, funding and liquidity, as well as risk appetite.



# FirstRand philosophy on capital and funding

## CAPITAL

- Capital planning performed on forward-looking basis, not point-in-time
- Targets aligned to end-state minimum requirements
- Raise capital in good times, not in stress
- Frequent issuer, managing its roll-over profile
- View Tier 2 as a funding source, not used to support economic risk

## FUNDING

- Diversify across segments, source, currency, markets, instrument types and maturities
- Flexibility of access across markets, investors, products, investor risk appetite
- Focus on alignment of funding strategies and further granularity in risk-adjusted pricing
- Need to evolve funding instruments and mix to reduce regulatory volatility, better matching of assets and liabilities



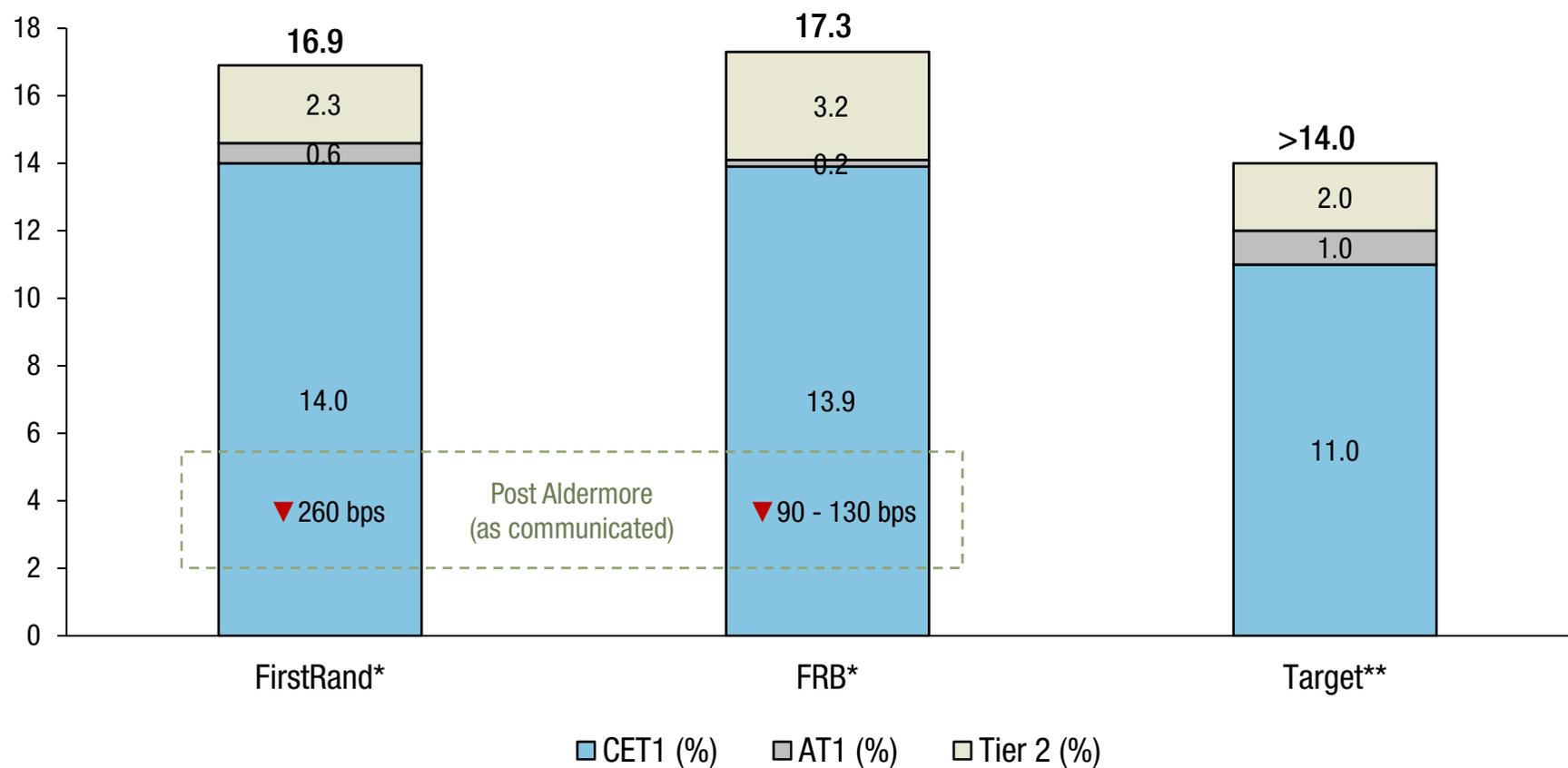


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Capital

# Ongoing optimisation of the capital stack



\* Capital ratios as at 31 December 2017. FRB including foreign branches and subsidiaries.

\*\* Aligned to end-state minimum capital requirements.



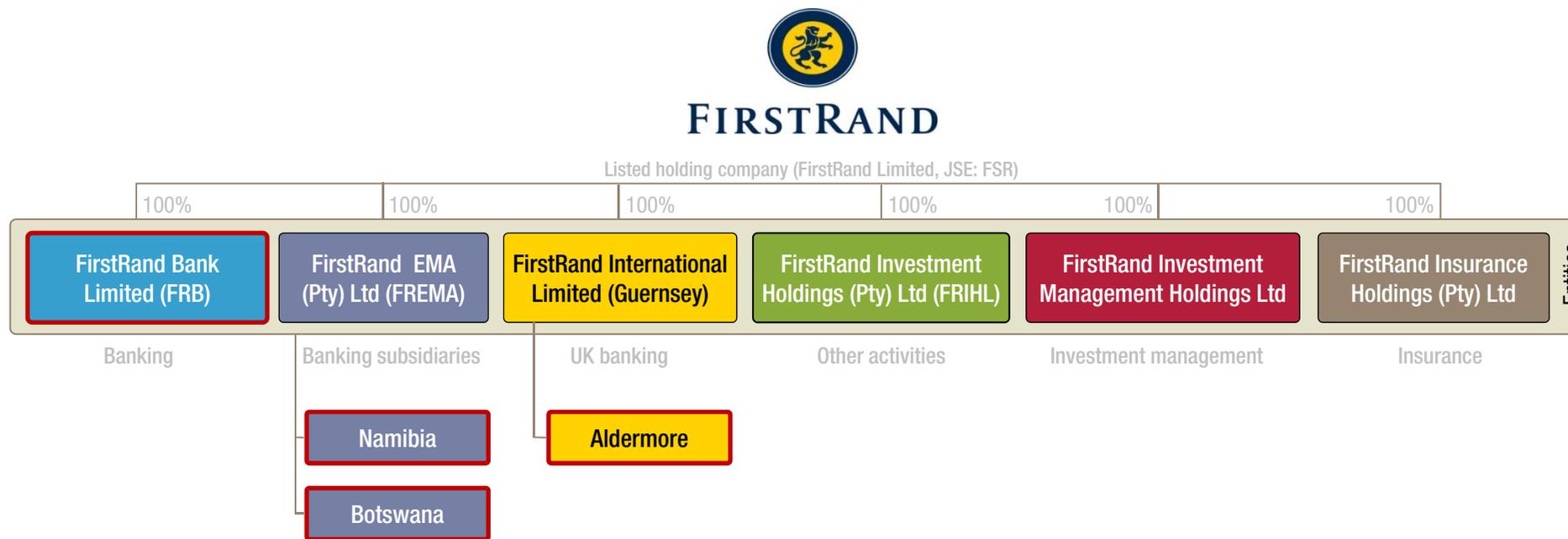
## Optimal level of Tier 2 issuance to date

- Bolstered by USD500 million Tier 2 issuance in April 2018
  - Increase USD capital to support FRB cross-border lending
  - Diversify funding base
    - Internal allocation framework - investor and jurisdiction
  - Manage roll-over risk of USD Tier 2 issuance

Opportunity to shift focus to AT1 issuance



# FirstRand favours a “multiple point of entry” strategy



Preferred strategy enabled by flexible issuance platforms;  
most suitable entity to be considered on a case-by-case basis

Existing platform



# Regulatory update

- Basel IV reforms
  - SARB Directive 3 of 2018
- IFRS 9 transitional arrangements
- Recovery and resolution framework
  - Point-of-resolution (POR) vs point-of-non-viability (PONV)
  - First loss after capital (FLAC)
  - Resolution valuation
- Financial conglomerate framework



# Capital issuance considerations

## TIER 2 CURRENTLY AT OPTIMAL LEVELS

- Old-style instruments
  - Cover Upper and Lower Tier 2 instruments
  - No call date post December 2018
- Basel III compliant instruments
  - Manage roll-over risk for existing instruments

## OPPORTUNITY TO OPTIMISE AT1 LEVELS

- Old-style instruments subject to 60% haircut
- Limited third party recognition in AT1 bucket
- Positive from rating agency perspective





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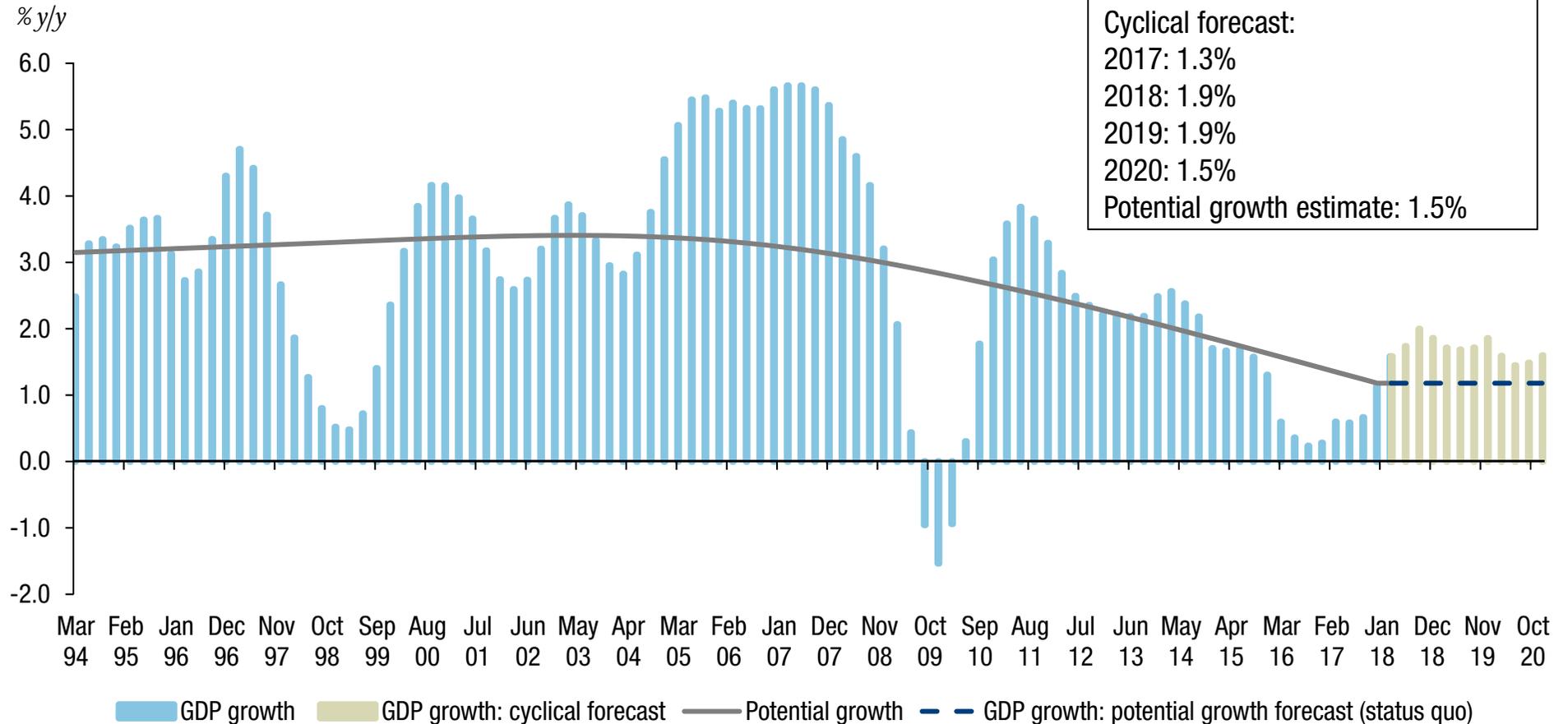
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**Funding and liquidity**

# Expect a cyclical lift in economic growth (use of savings)

South African real GDP growth: cycle vs trend



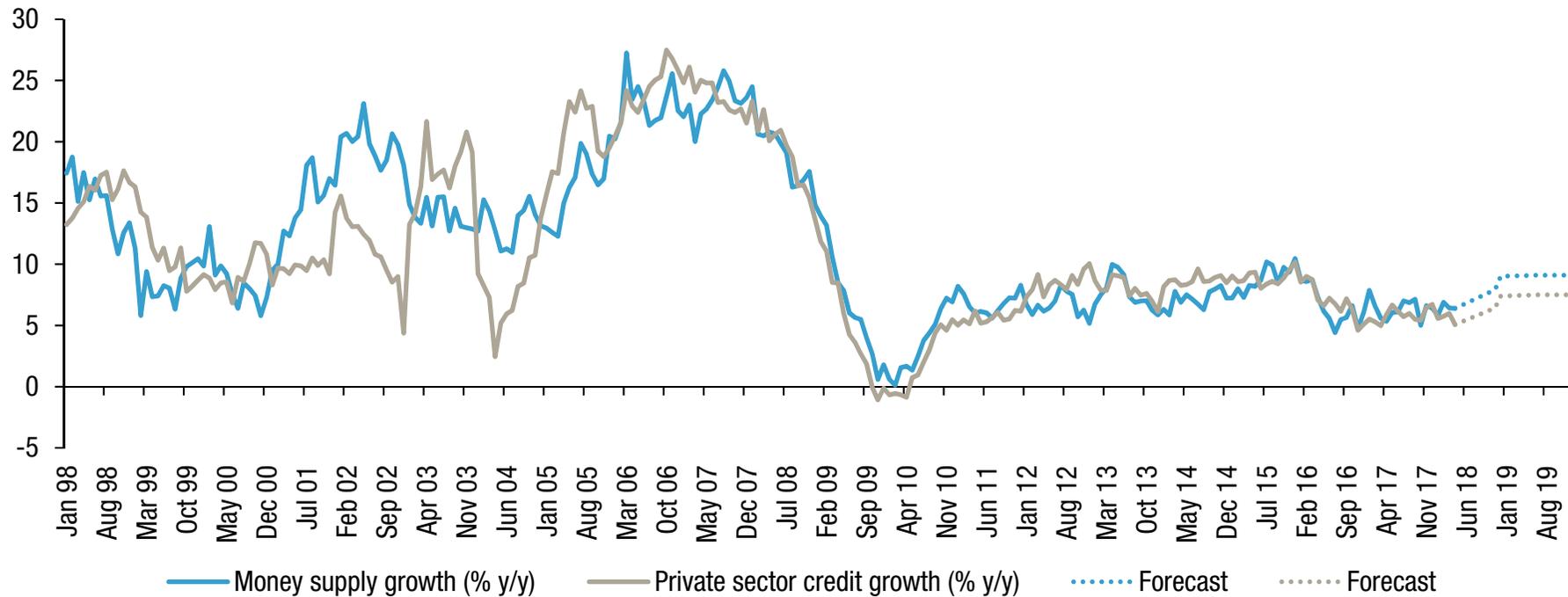
Growth factors will be impacted by consumer and investment spending

Sources: SARB, FirstRand.



# Domestic funding demand and supply, and associated costs

## Credit and money supply growth



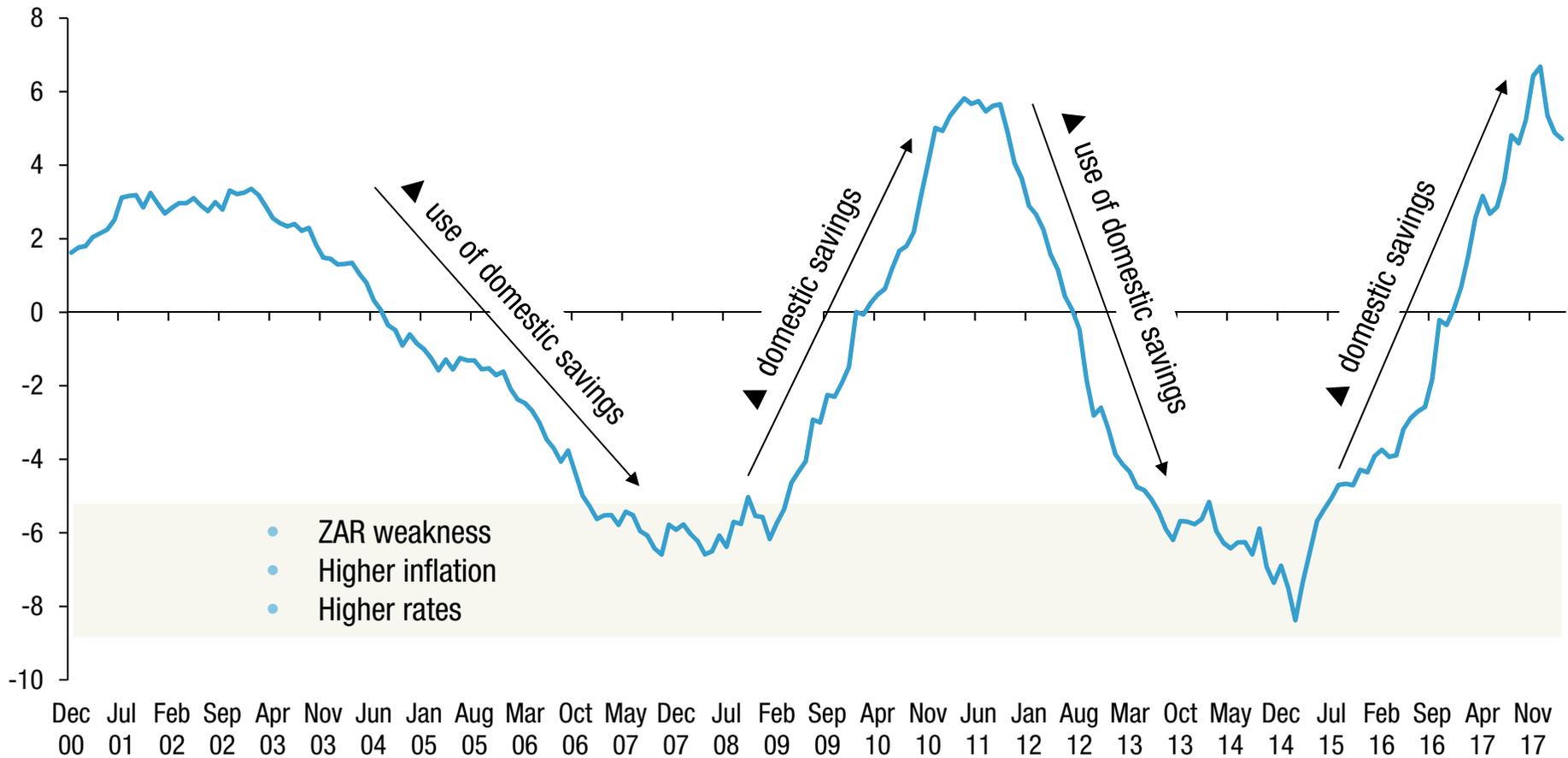
- Expect credit demand to increase - improved confidence and lift in growth
- Money supply
  - Foreign savings (more expensive)
  - Government dissaving at slower pace: state-owned enterprises and government
  - Household and corporate savings rate to fall



# Increase in the use of domestic savings

12-month rolling trade balance

R billion

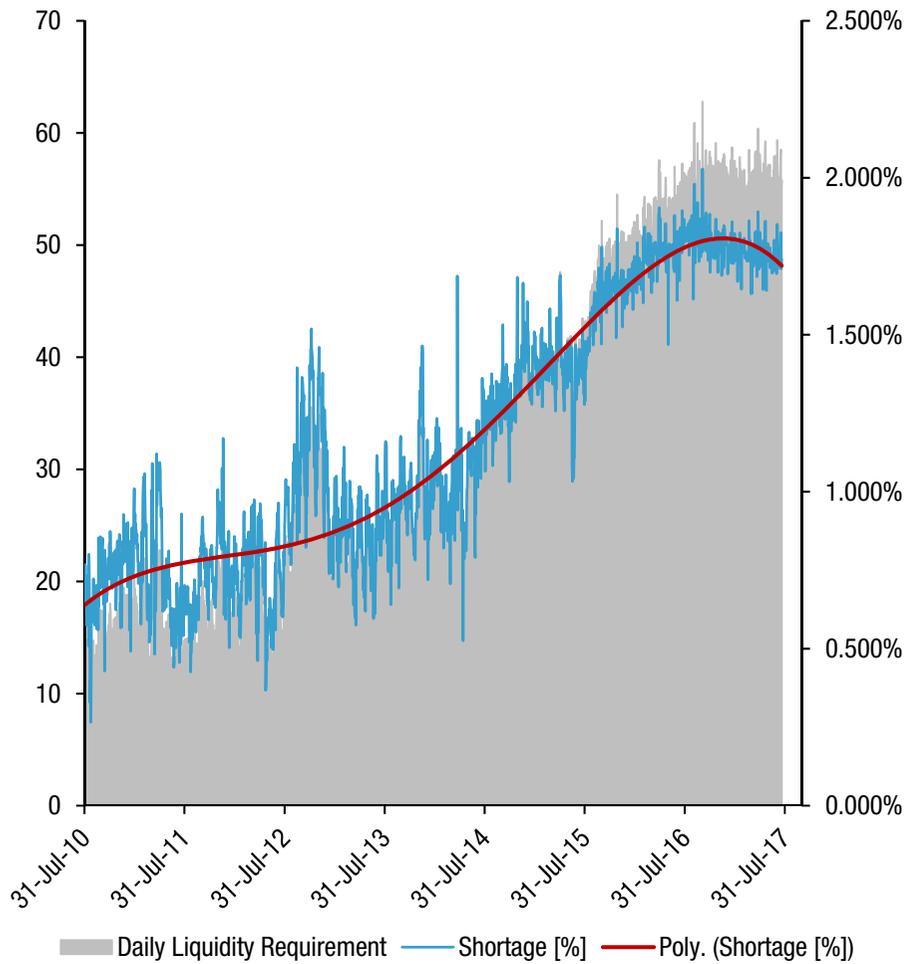


Sources: National Treasury, FirstRand.

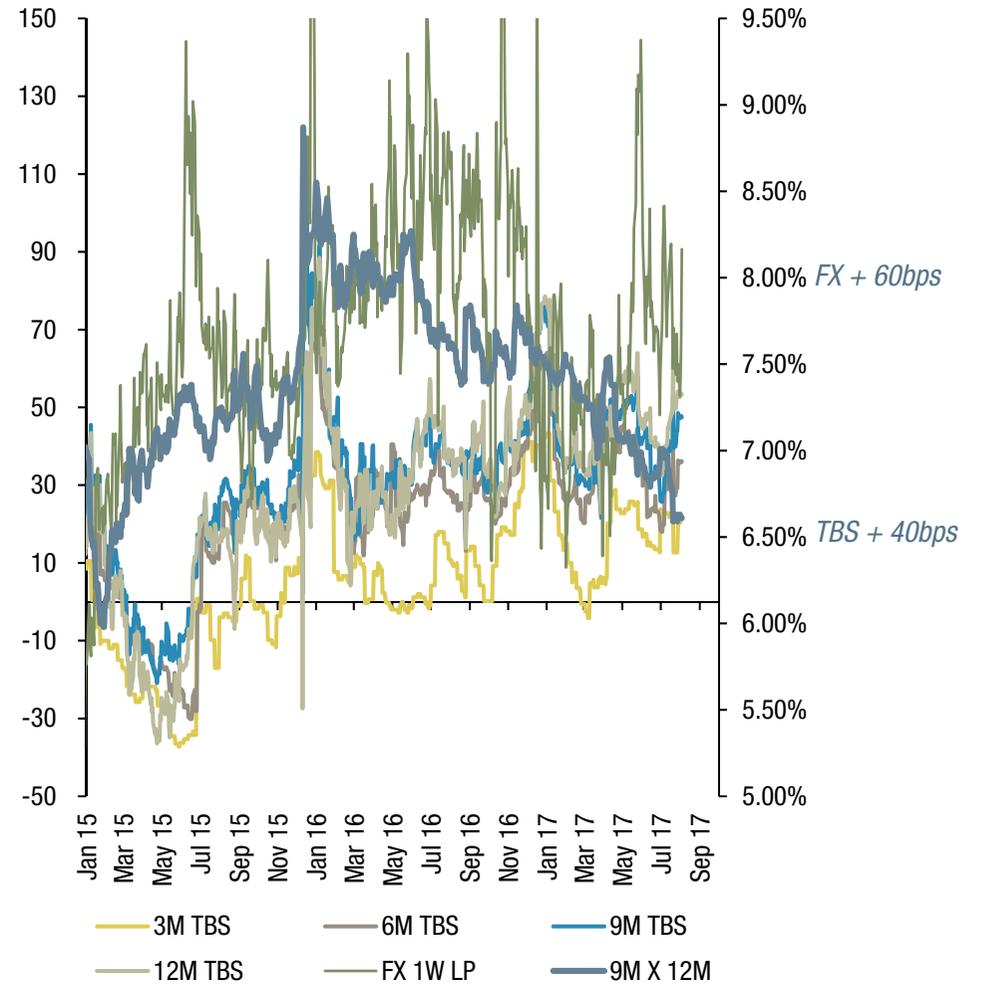


# Shortage has stabilised; ZAR liquidity costs still reflect pressures and inefficiencies

### Shortage has stabilised

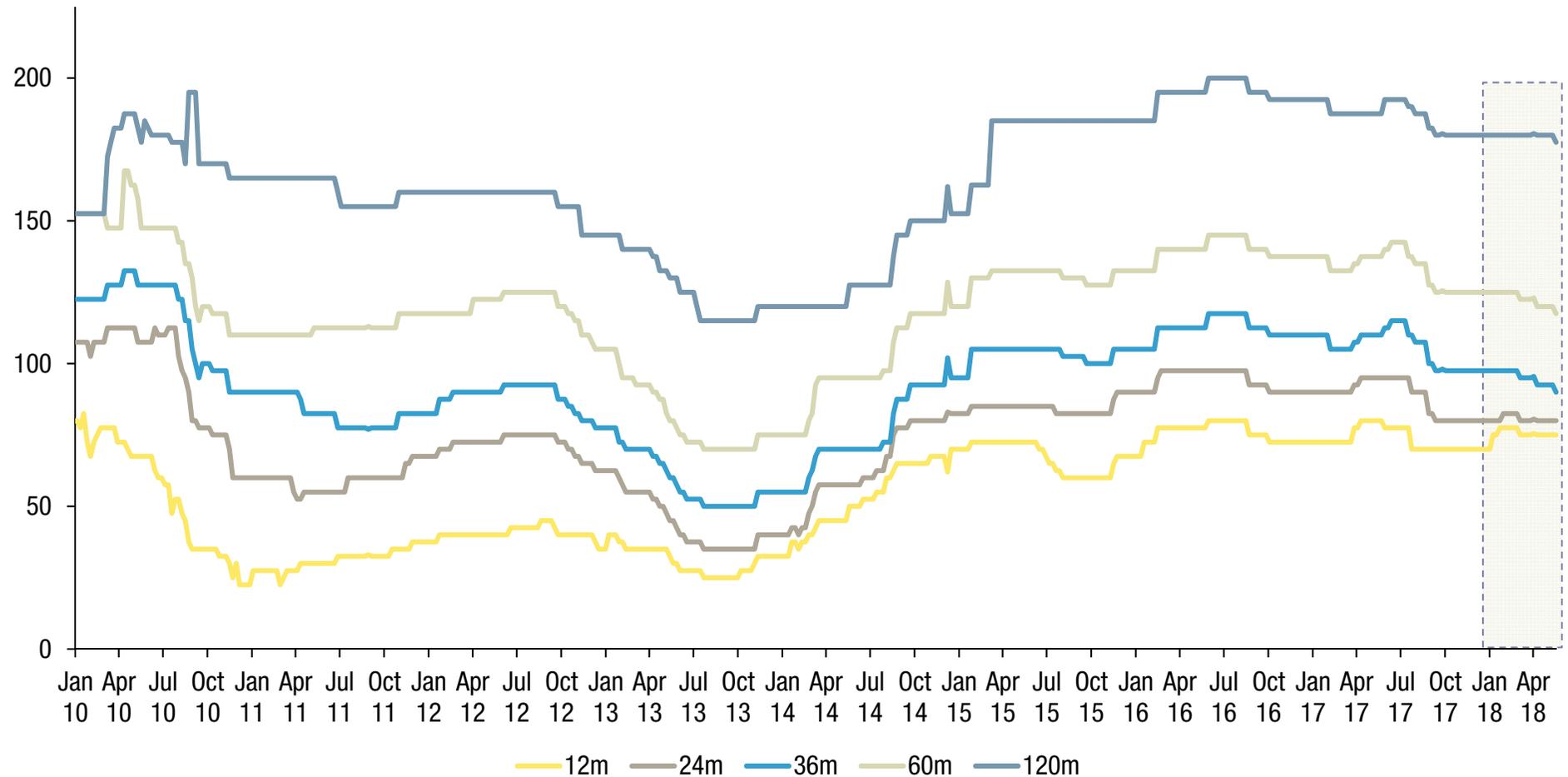


### Liquidity spread in ZAR remains high



# Funding spread pressures have not abated post December 2017

FirstRand funding spreads [mid bps]



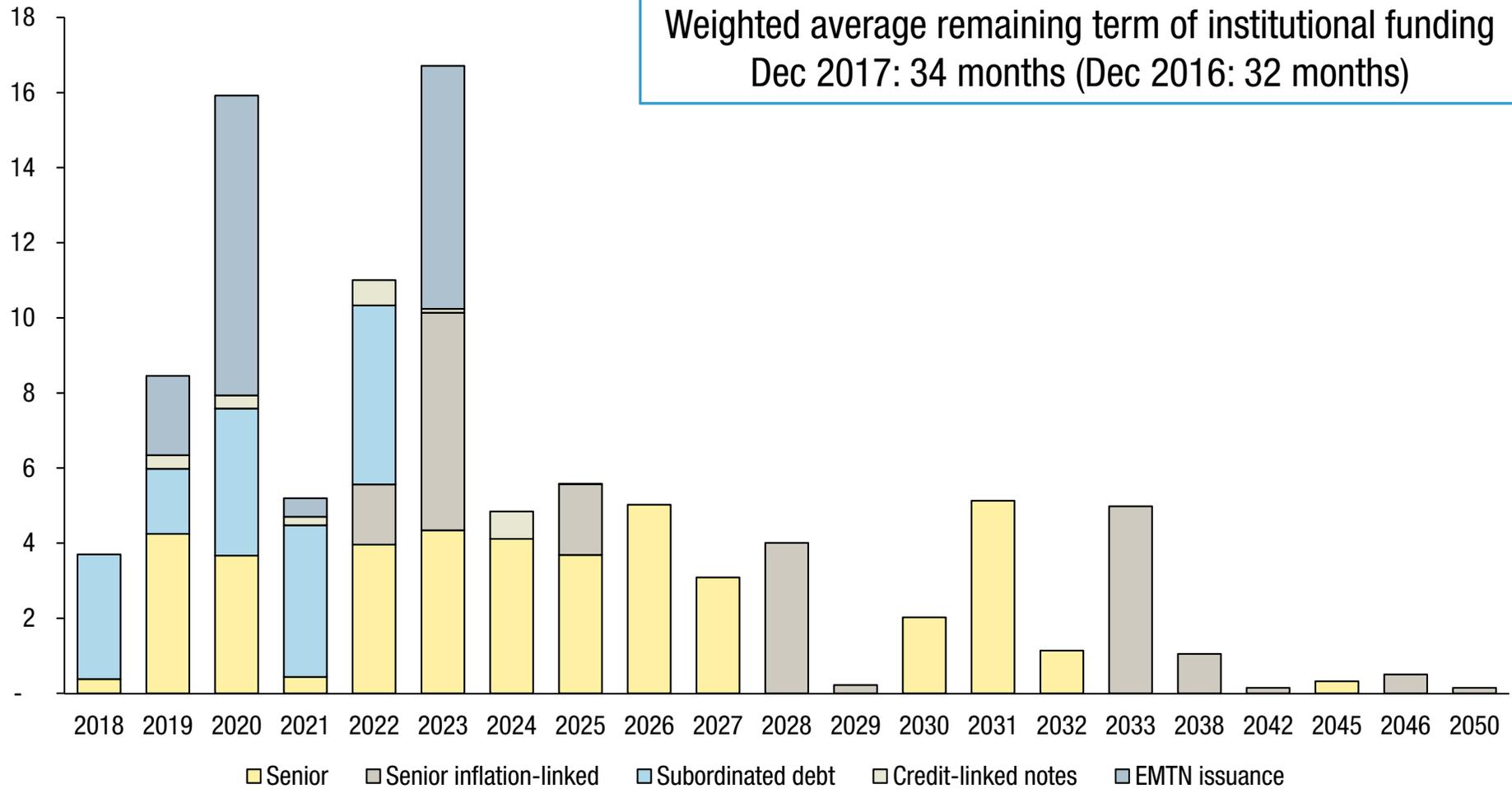
Source: Bloomberg <RMBP3>



# Maturity profile of capital market instruments

R billion

Weighted average remaining term of institutional funding  
Dec 2017: 34 months (Dec 2016: 32 months)

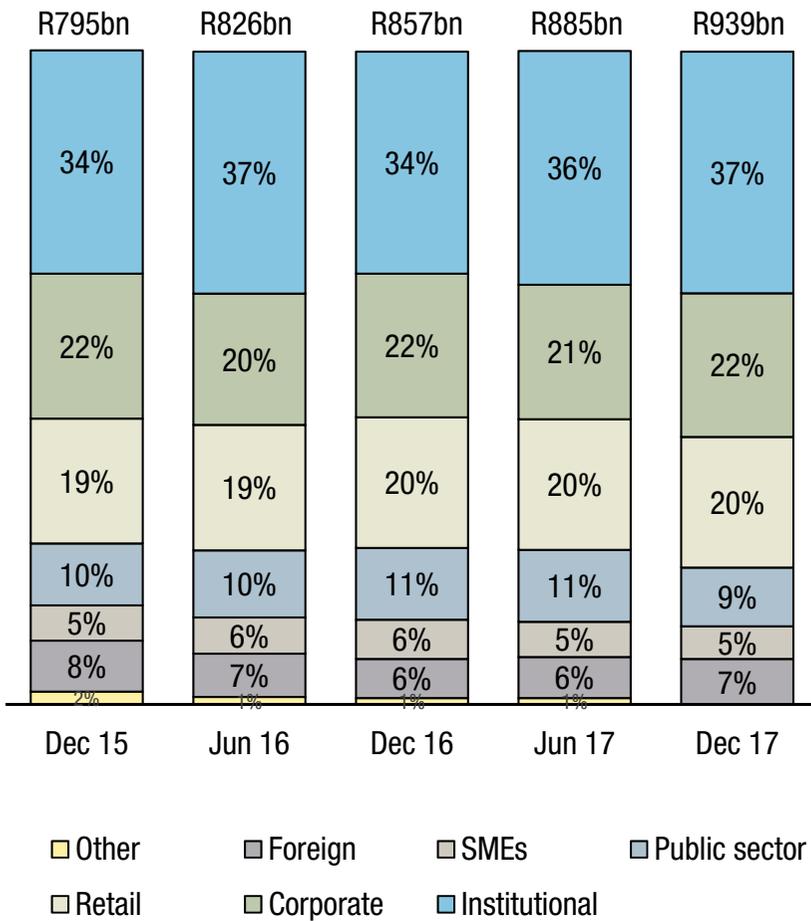


Maturity profile as at May 2018.

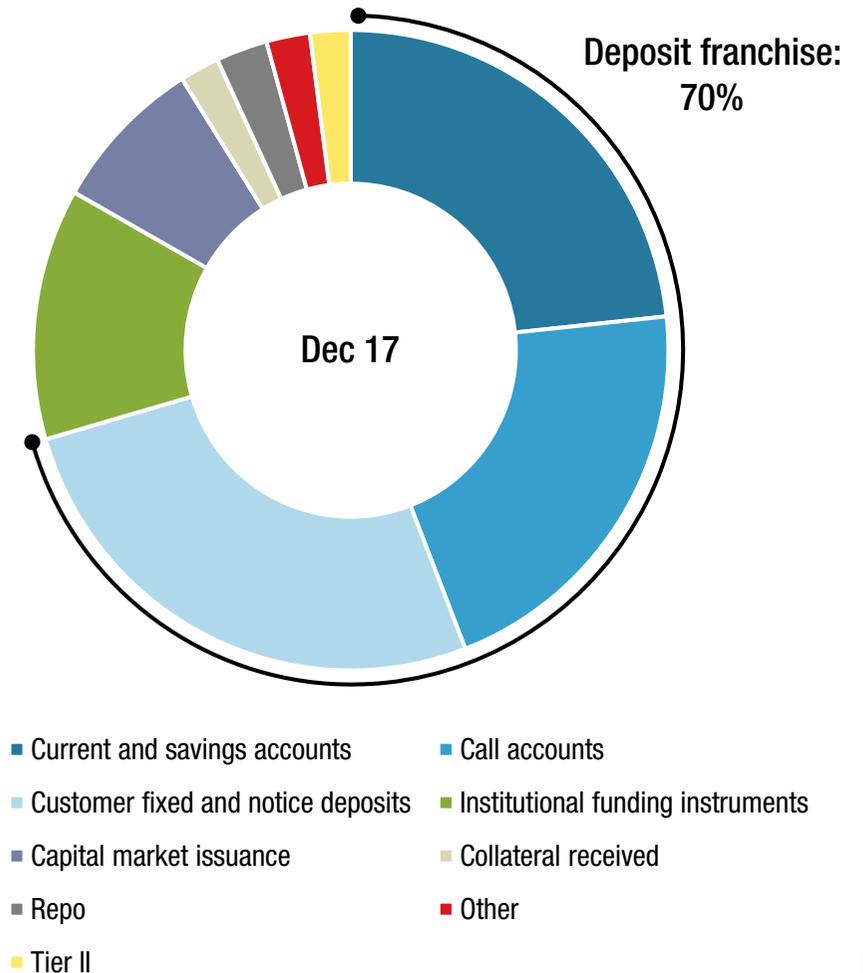


# Strong focus on building a diversified funding base

Sources of funding



Funding instruments

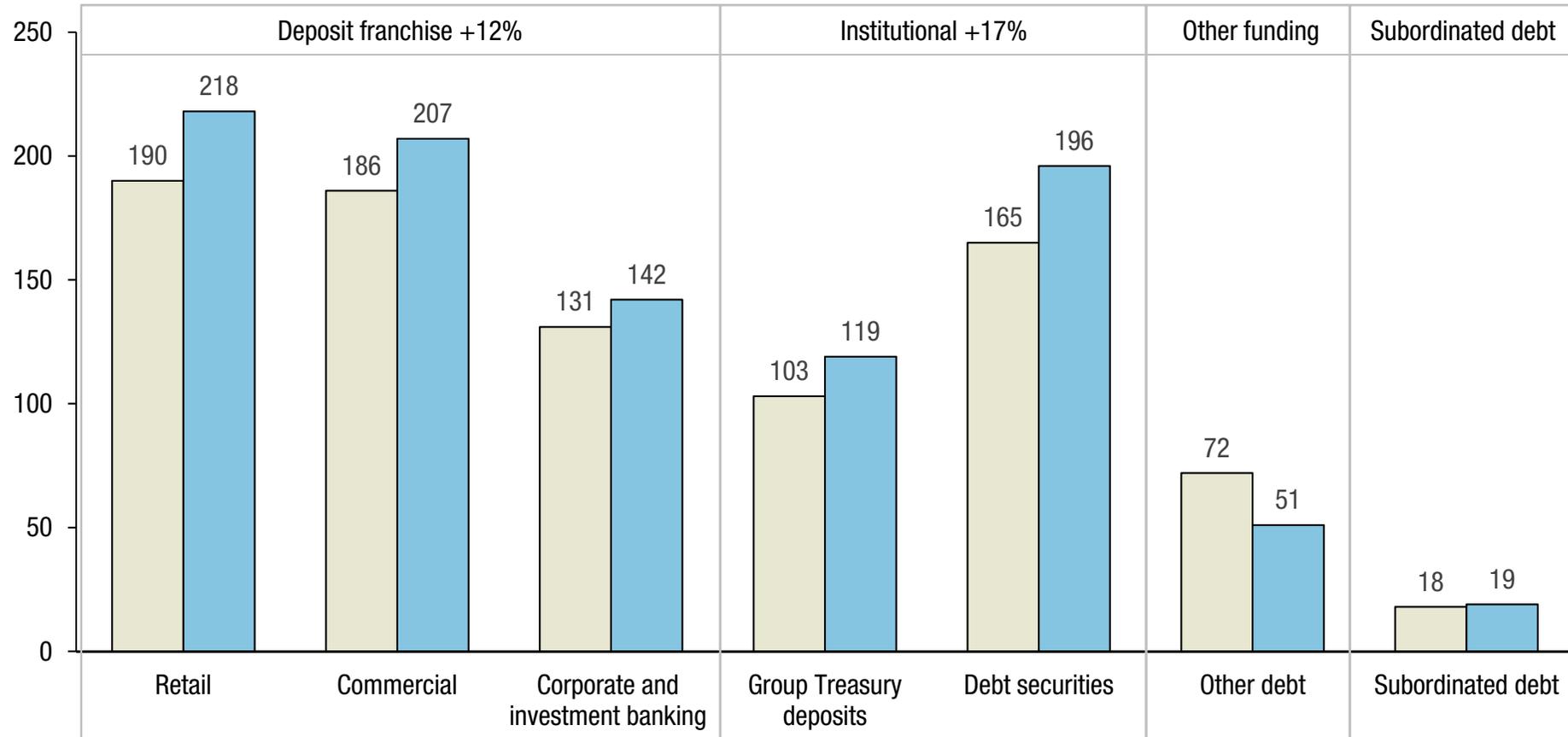


Source: FRB SARB BA900, BA100, December 2017.



# Funding strategy continues to be anchored in the deposit franchise

R billion



□ Dec 16 ■ Dec 17

Ongoing focus on growth of the deposit franchise across all segments, increased emphasis on savings and investment products



# Funding issuance considerations

- Expect to exceed the minimum NSFR
  - Focus on optimisation
- Funding levels in the SA market remain elevated
  - Further exacerbated by regulatory pressures and sub-investment grade ratings
- Areas of focus:
  - Senior issuance
  - Secured notes programme
  - Simple, transparent and comparable securitisations



# FRB on track to comply with 2019 end-state liquidity requirements

## Liquidity Coverage Ratio (LCR)

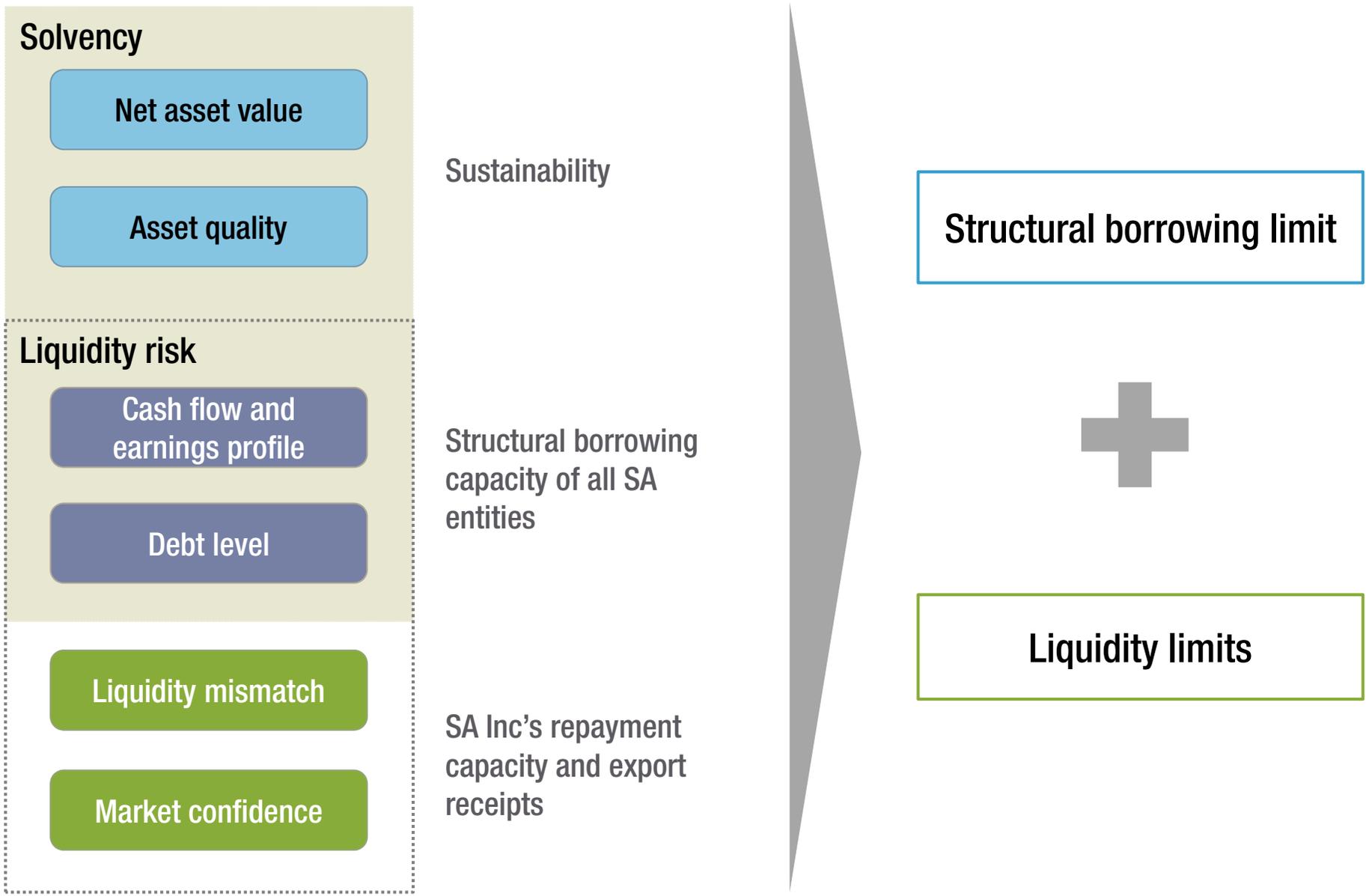
- March 2018 actual: 105%
- LCR phase-in of minimum requirements continues
  - 2018: 90% and 2019: 100%
- Exceed minimum requirements incorporating a management range for seasonal volatility
- Industry work groups to improve reporting consistency to enable fair and efficient market

## Net Stable Funding Ratio (NSFR)

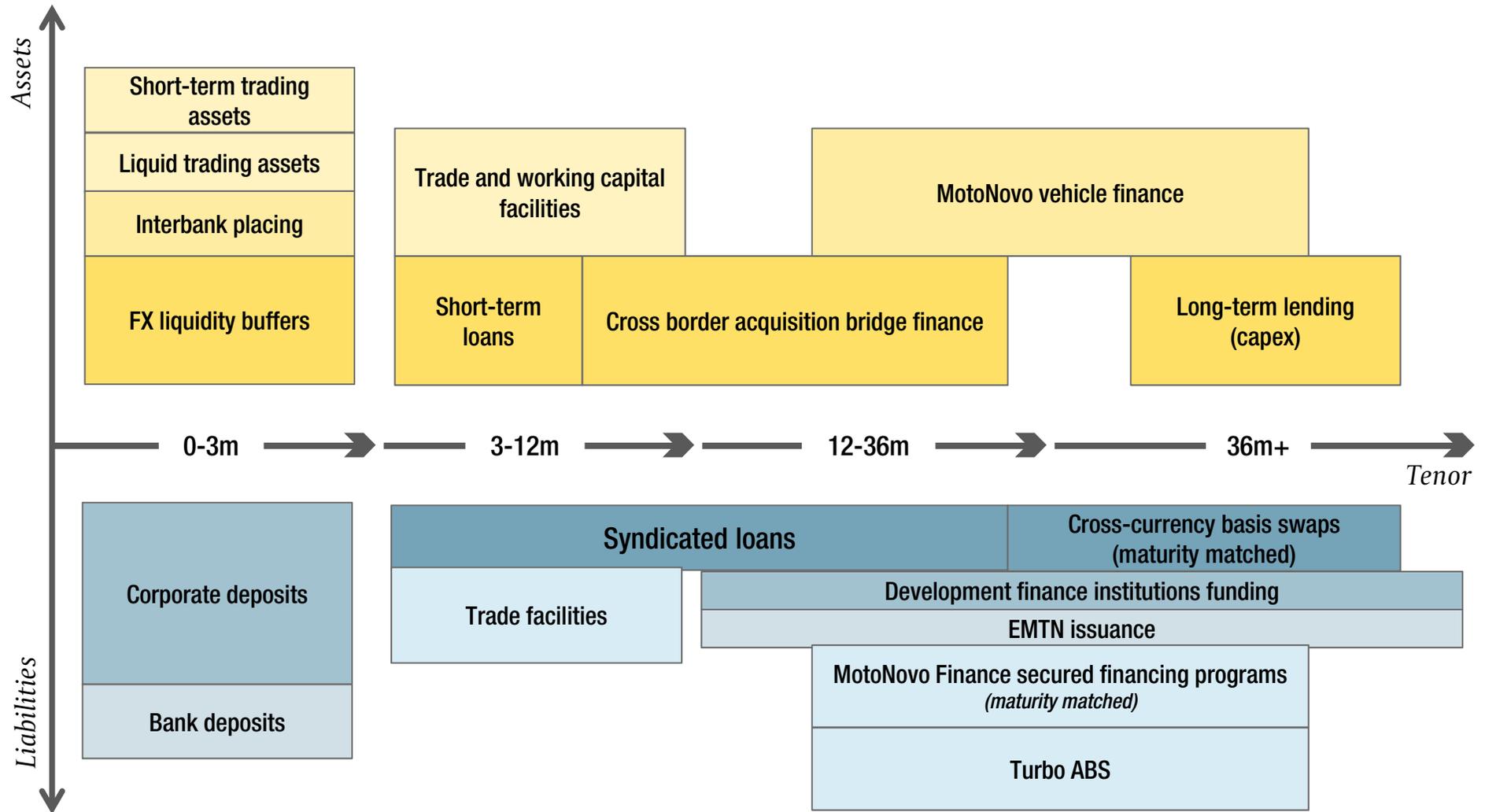
- Implementation – January 2019
- SARB adopted an available stable funding (ASF) for financial institution deposits <6 months of 35%, considering regulatory and economic barriers that prevent liquidity from flowing out of the domestic economy
- SARB includes the committed liquidity facility (CLF) in NSFR with a 5% required stable funding (RSF)
- In addressing the LCR, the bank adopted strategies that improve structural liquidity risk, as well as meeting NSFR compliance
- Initial assessment on *pro forma* basis indicates compliance with the minimum requirement



# FirstRand's external debt philosophy...



# ...which results in a sustainable FX balance sheet structure





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**Annexures**

# FirstRand Bank's credit ratings

	SOUTH AFRICA SOVEREIGN RATINGS	FIRSTRAND BANK LIMITED CREDIT RATINGS		
	FOREIGN CURRENCY	LOCAL AND FOREIGN CURRENCY		
	Long term/ outlook	Long term/ outlook	Long term national scale	Standalone credit rating
<b>S&amp;P Global</b>	BB/Stable	BB/Stable	zaAA-	bbb-
<b>Moody's</b>	Baa3/Stable	Baa3/Stable	Aaa.za*	baa3

\* Highest rated in South Africa.

Sovereign rating is a ceiling to standalone credit rating and credit profile

Credit ratings as at 19 June 2018.

Sources: S&P Global Ratings and Moody's Investors Service.



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