



FirstRand Bank

CAPITAL AND FUNDING UPDATE

May 2019

Presentation team

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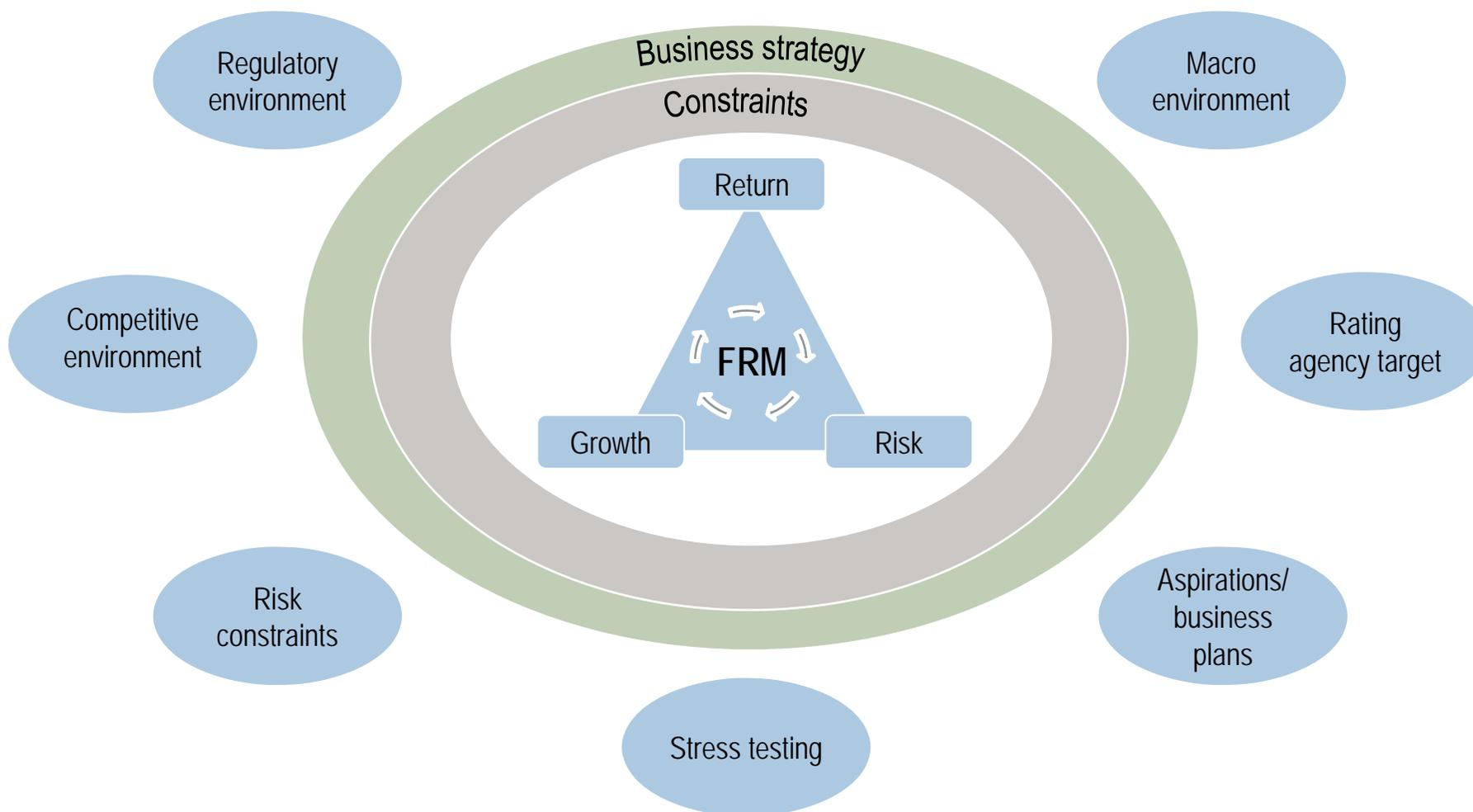


Financial resource management



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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	FUNDING
<ul style="list-style-type: none">• Capital planning performed on a forward-looking basis, not point-in-time• Targets aligned to end-state minimums, including countercyclical buffer requirements• Frequent issuer, managing rollover profile• View Additional Tier 1 (AT1) and Tier 2 as sources of funding, i.e. not used to support economic risk	<ul style="list-style-type: none">• Diversify across business segments, markets, currencies, maturities and instrument types• Flexibility across markets, products and investors• Focus on alignment of funding strategies to asset growth and composition, incorporating risk-adjusted pricing• Continued evolution of funding instruments and mix to reduce regulatory volatility and optimise asset/liability matching

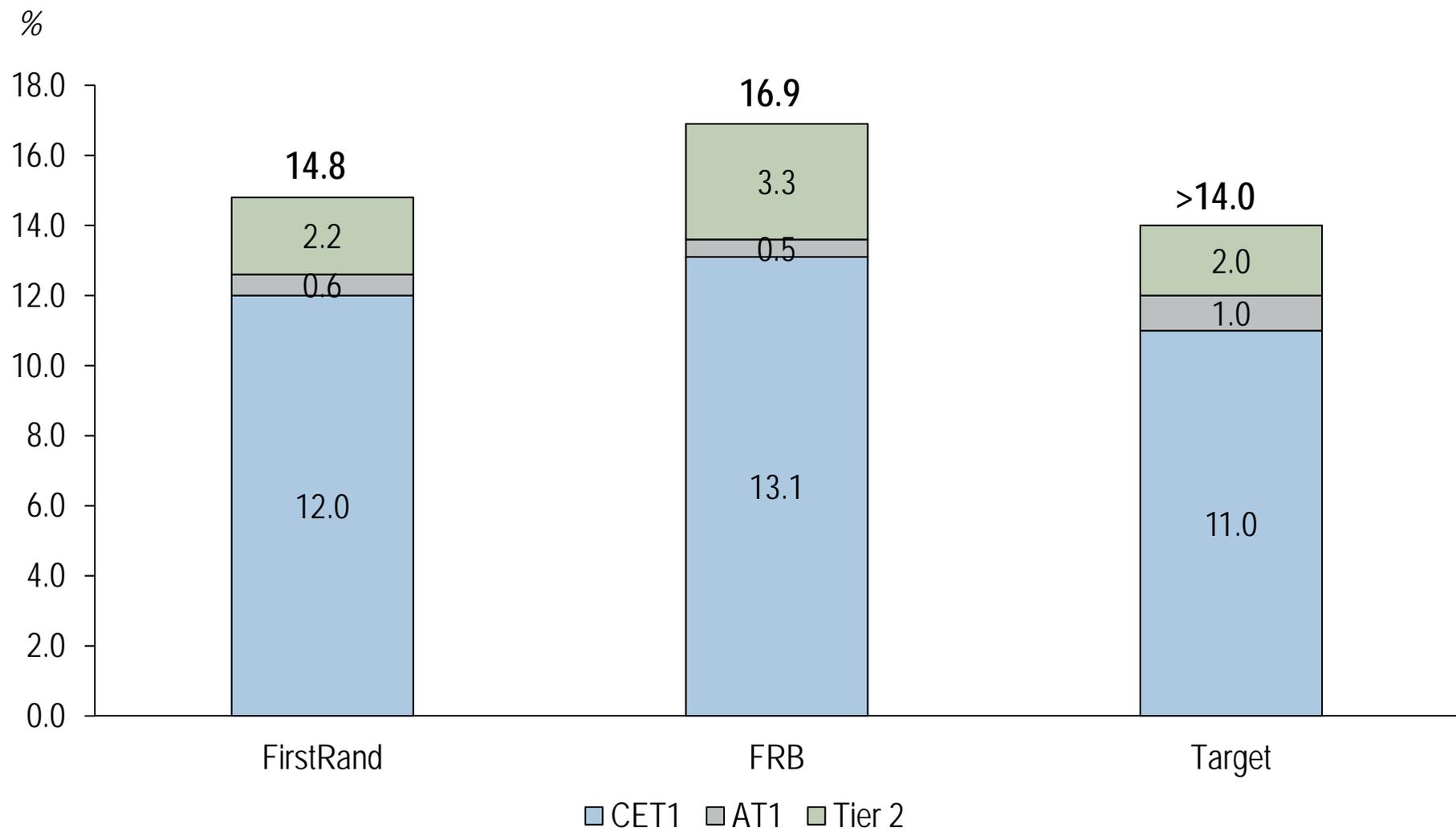


Capital



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Ongoing optimisation of the capital stack



Note: Ratios as at 31 December 2018 including unappropriated profits. FirstRand Bank Limited (FRB) includes foreign branches.

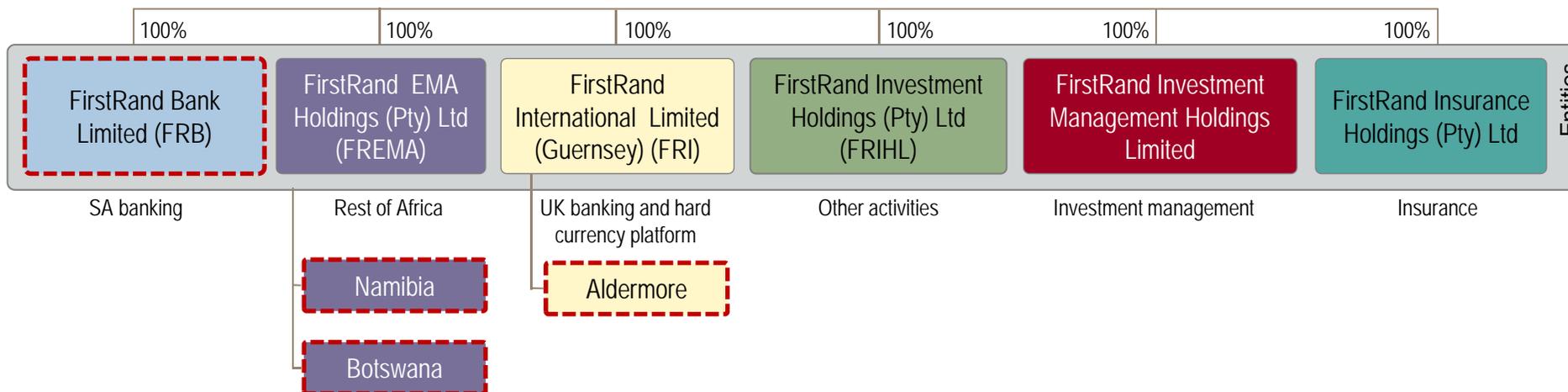


FirstRand favours a 'multiple point of entry' strategy



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Listed holding company (FirstRand Limited, JSE: FSR)



Enabled by flexible issuance platforms – most suitable entity to be considered on a case-by-case basis

Existing platforms



Optimal level of capital issuance for the bank

ADDITIONAL TIER 1	TIER 2								
<ul style="list-style-type: none"> Focus on AT1 issuance in FY2019 <table border="1" data-bbox="280 510 929 821"> <thead> <tr> <th></th> <th>R million</th> </tr> </thead> <tbody> <tr> <td>November 2018</td> <td>2 265</td> </tr> <tr> <td>March 2019</td> <td>2 477</td> </tr> <tr> <td>April 2019</td> <td>223</td> </tr> </tbody> </table> <ul style="list-style-type: none"> Positive from a ratings perspective 		R million	November 2018	2 265	March 2019	2 477	April 2019	223	<ul style="list-style-type: none"> US dollar issuance in April 2018 <ul style="list-style-type: none"> Dollar capital to support cross-border lending and diversify funding base Remaining old-style Tier 2 instruments called in December 2018 Future issuances to manage rollover risk of Basel III-compliant instruments <ul style="list-style-type: none"> IFC dollar Tier 2 redeemed in April 2019, no further instruments with contractual conversion feature
	R million								
November 2018	2 265								
March 2019	2 477								
April 2019	223								

Planned Tier 2 issuance to coincide with FRB12 redemption



Regulatory update

- Basel IV reforms
 - Guidance note 6 of 2018 – *Proposed implementation dates for specified regulatory reforms*
- Draft Financial Sector Laws Amendment Bill published for comment by National Treasury in October 2018
 - Proposed amendments to various acts to support and empower the resolution regime
 - Insolvency Act, South African Reserve Bank Act, Banks Act, Mutual Banks Act, Competition Act, Financial Markets Act and Insurance Act
 - More specifically, new chapter (12A – *Resolution of Designated Institutions*) builds on the draft resolution framework released to the banking industry in January 2018
 - Establishment of the Corporation of Deposit Insurance
 - Designed to protect depositors' funds and enhance financial stability (also covered in chapter 12A)
- Financial conglomerate framework



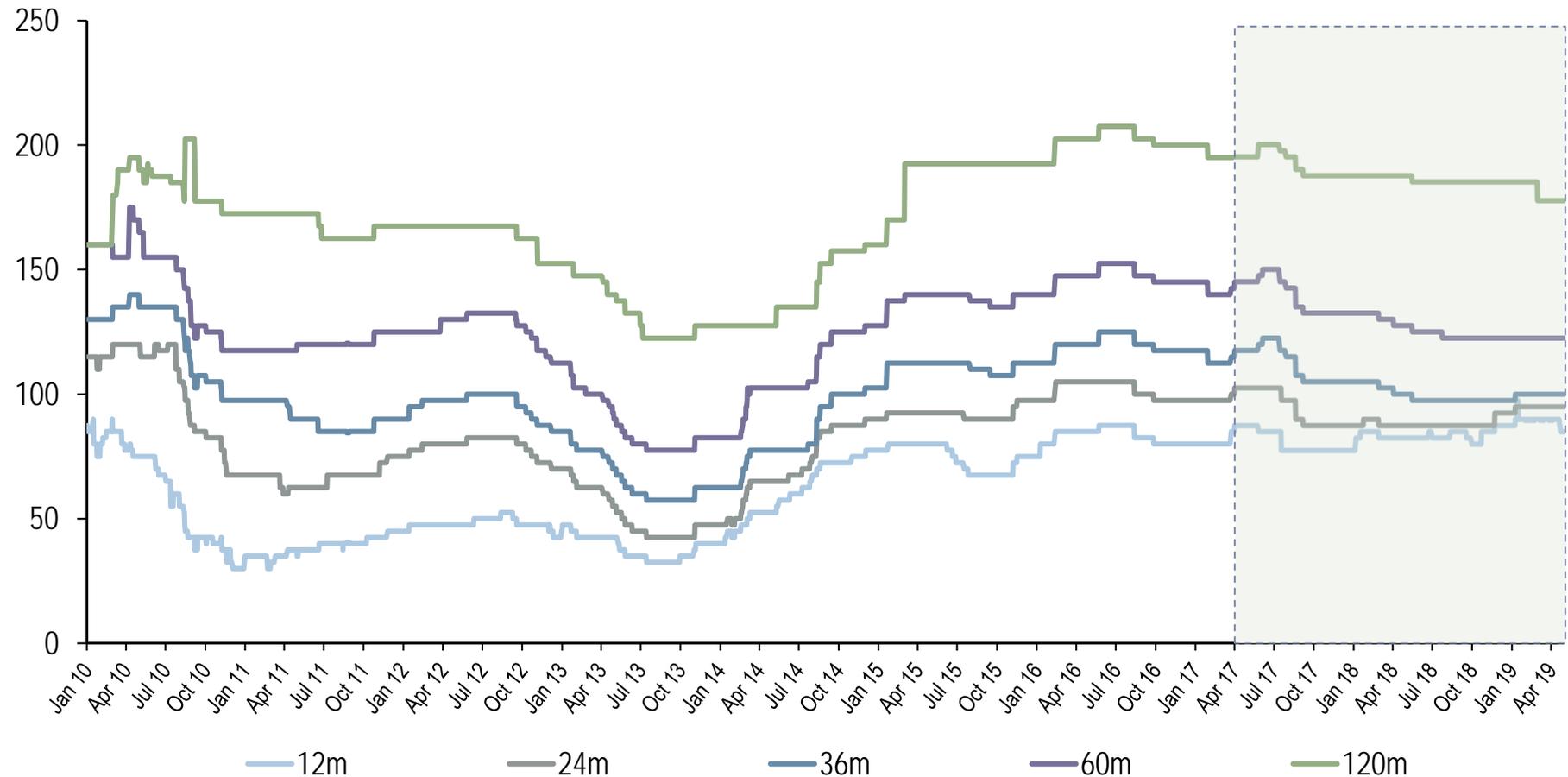
Funding and liquidity



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Funding spreads remain elevated, with minor curve flattening

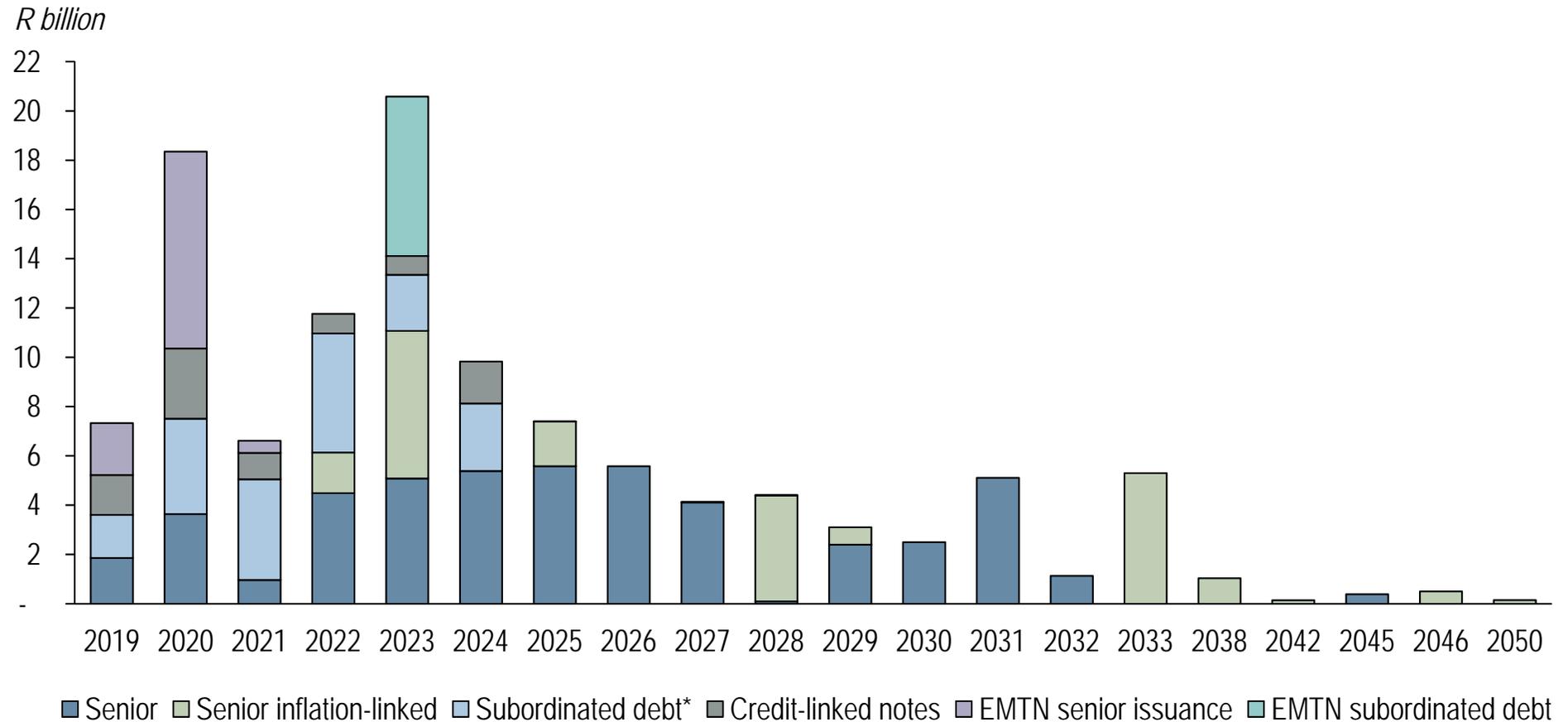
FRB floating rate note spreads (offer bps, transaction size \leq R100 million)



Spreads have drifted lower (\pm 20 bps over the 36m to 120m) since April 2017, shorter-dated spreads remain high relative to historical levels



Maturity profile of capital market instruments



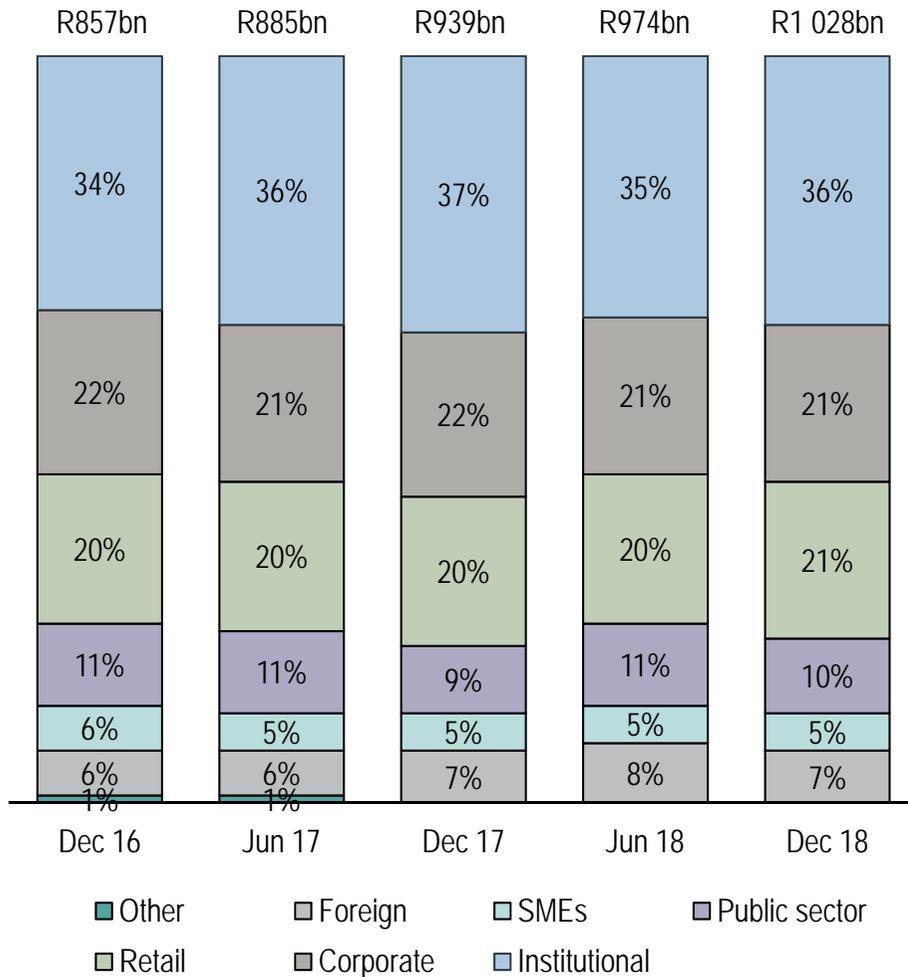
R1.8 billion maturing in November 2019 – provides issuance flexibility for remainder of the calendar year

* Includes Tier 2 and AT1 capital instruments.

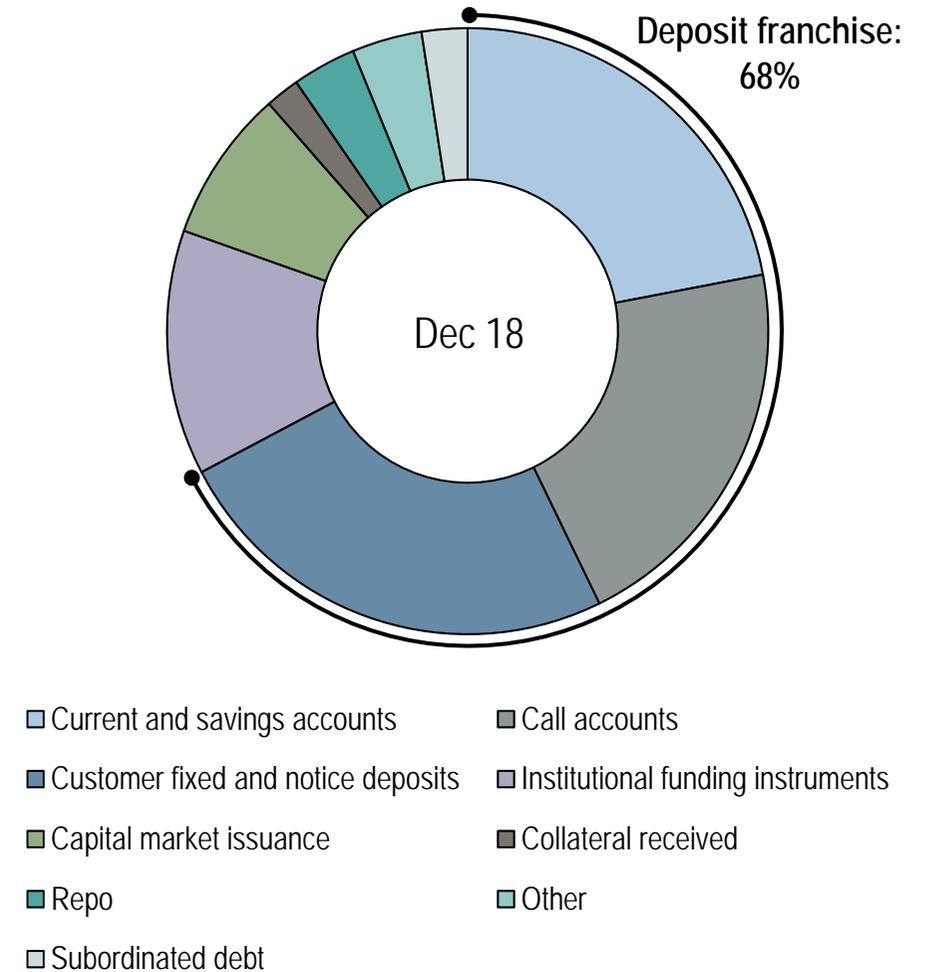


The bank's focus remains on building a diversified funding base

Sources of funding

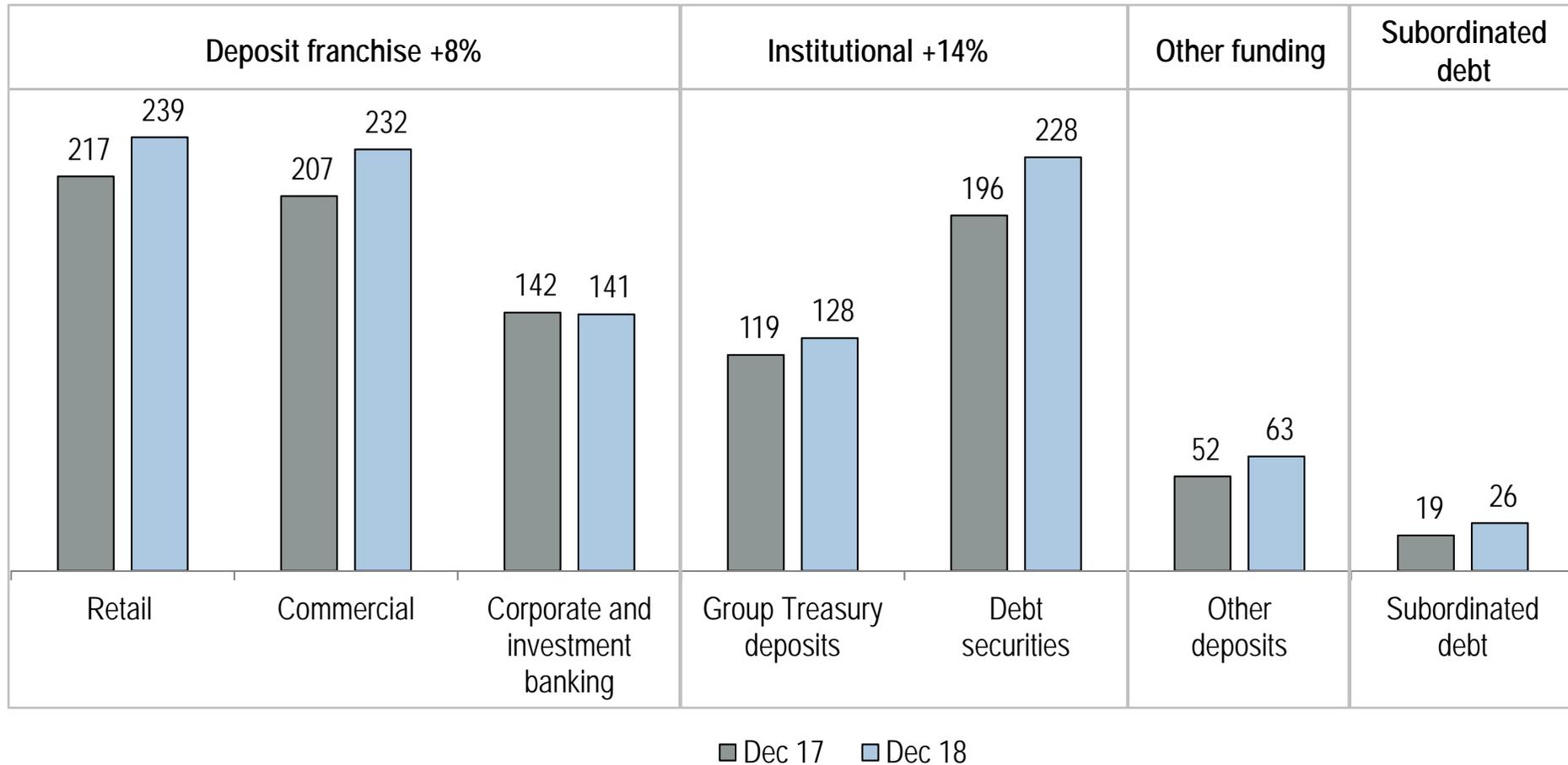


Funding instruments



Funding strategy continues to be anchored in the deposit franchise...

R billion

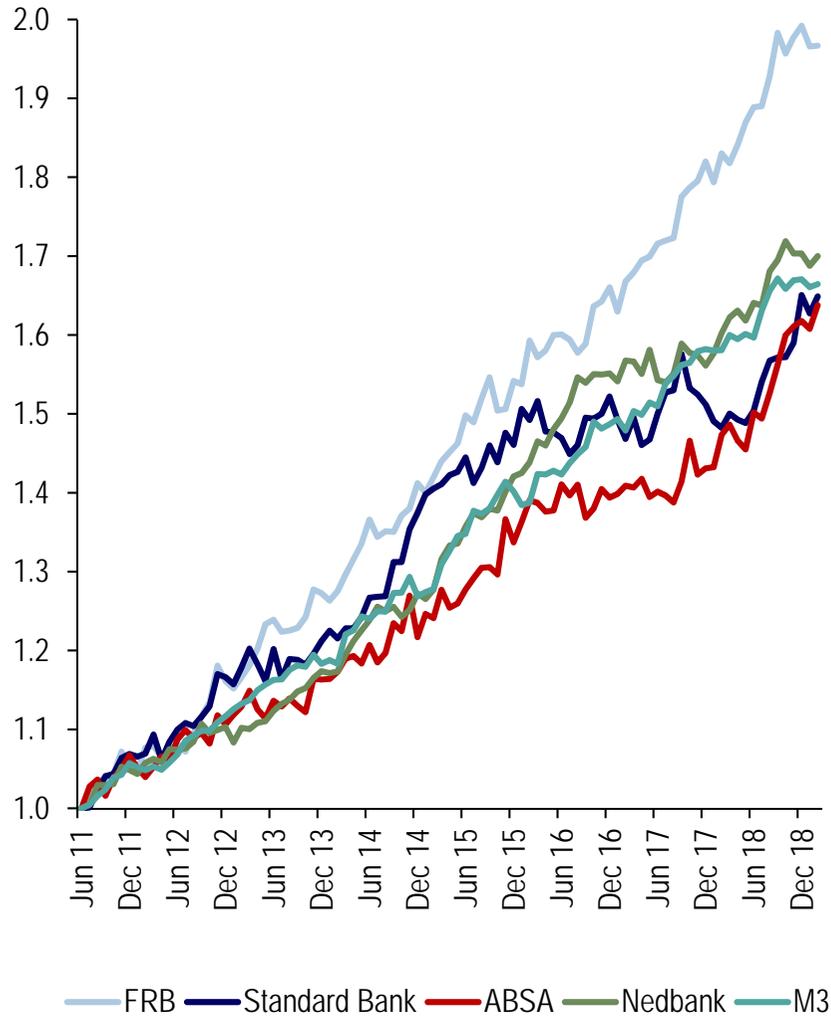


Seek to protect and grow the deposit franchise across all segments, with increased emphasis on savings and investment products

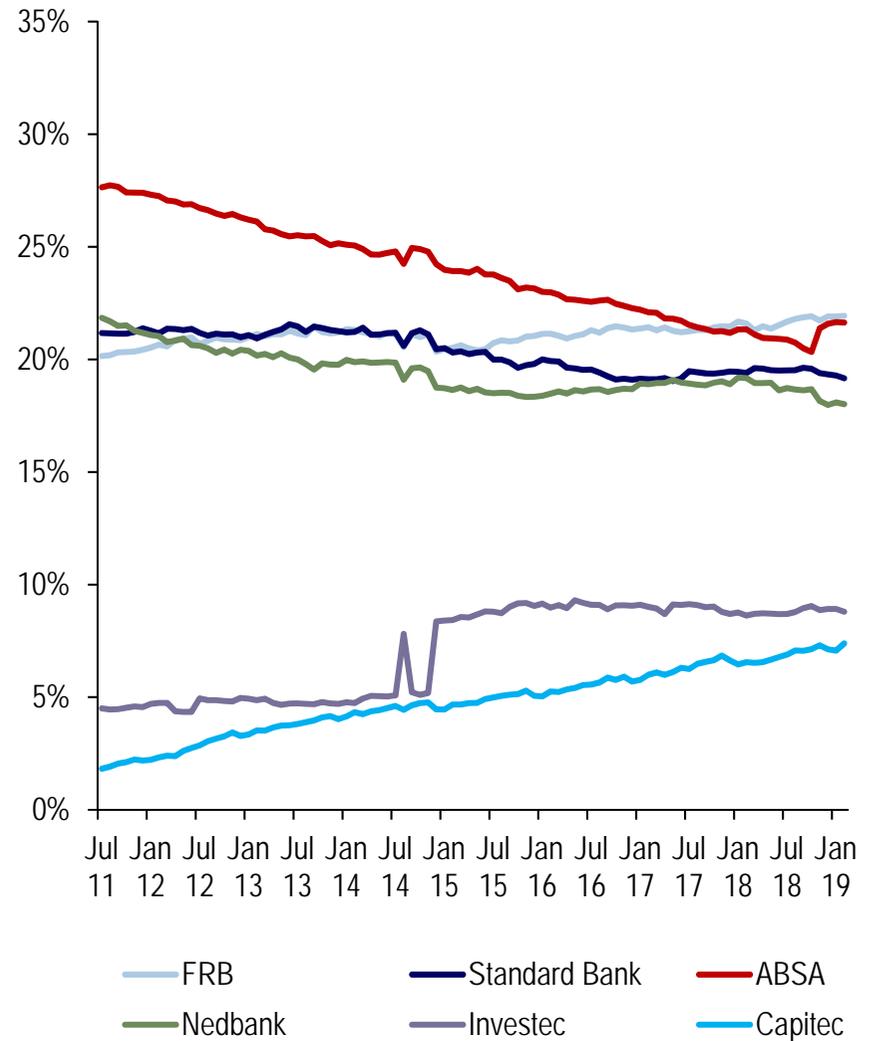


...enabling robust deposit growth and market performance

Deposit growth vs money supply



Market share of retail deposits



Source: SARB BA900 – South Africa operations only, February 2019.



Funding issuance considerations

- Continued focus on optimisation of maturity and liquidity profile to ensure regulatory compliance and efficient funding of the business
- Funding levels in the SA market remain elevated
- Areas of focus:
 - Senior issuance
 - Simple, transparent and comparable securitisations, e.g. Nitro 7
 - Institutional funding, e.g. prime-linked notes, fixed deposits, floating-rate notes and negotiable certificate of deposits



Annexures



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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
S&P Global	BB/Stable	BB/Stable	zaAA+	bbb-
Moody's	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 15 May 2019.

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



Resolution planning - key elements

- Legal obligation on the SARB/Resolution Authority (RA) to develop resolution plans for all banks and non-bank systemically important financial institutions (SIFIs)
- Standards and information requirements are being developed
 - More detailed standards and directives for industry/public comment expected once the Financial Sector Laws Amendment Bill (Bill) is promulgated, as well as the establishment of the RA

Key elements of resolution planning

Identification of resolution groups and resolution entities	Interconnectedness
Critical functions and services (for financial stability) – <i>operational continuity</i>	Liability structure and loss-absorbing capacity per institution – new first loss after capital (FLAC) requirements
Asset structure and valuations (liquidation/resolution values for no creditor worse off in liquidation (NCWOL))	Resolution strategies (MPE/SPE*, open vs closed)
Funding in resolution	Cross-border regulation

* MPE – multiple point of entry, SPE – single point of entry.

Detailed and mature recovery plan sets foundation for a resolution plan

Note: the above is dependent on final promulgation of the Bill and still subject to finalisation.



Resolution blueprint expected in second half of 2019

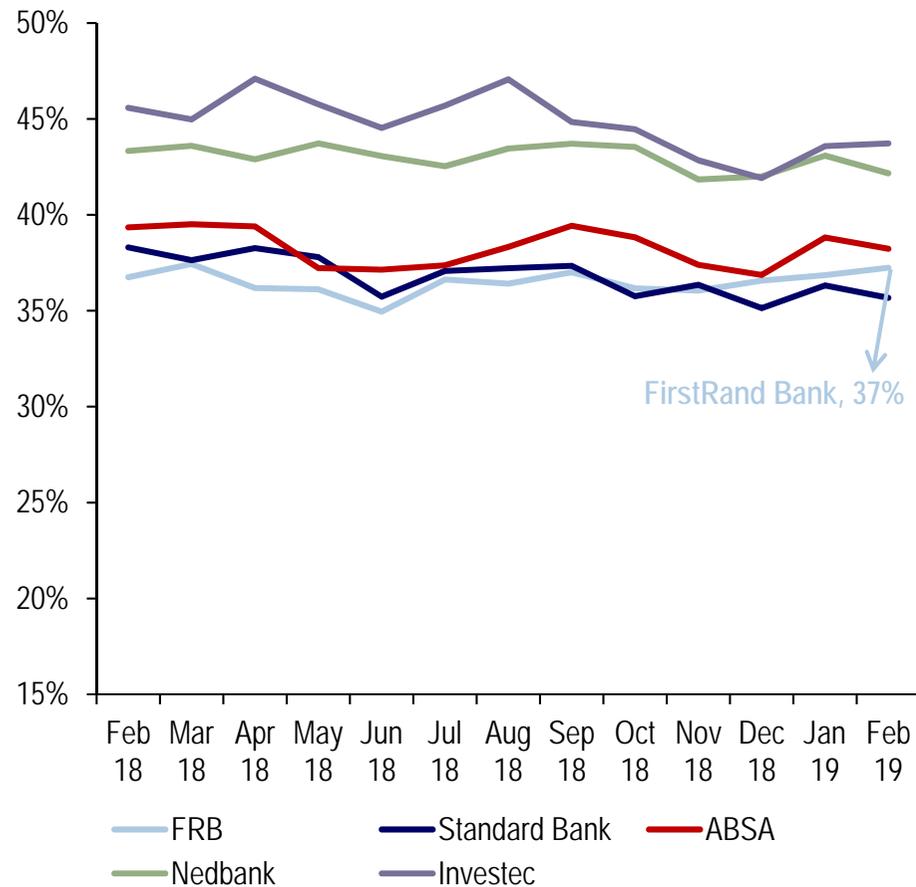
- Bill awaiting promulgation
- SARB is working on the completion of a “resolution blueprint” with engagement from international consultants and likely to cover, amongst others:
 - More context and detail around the elements included in future resolution standards/directives
 - Definition of resolution strategies and SARB/RA requirements to create individual resolution strategies
 - Key criteria to be considered to determine most appropriate strategy
 - Multiple vs single point of entry, open vs closed market resolution
 - FLAC
 - Instrument criteria to qualify as FLAC
 - Resolvability methodology to determine level of FLAC for designated institutions
 - Early indications point to a small base minimum requirement
 - Bank-specific add-on imposed on larger banks based on individual resolvability
 - Point of resolution/point of non-viability - amendment suggested to FSR Act
- Resolution blueprint expected to be released for public comment in third quarter of 2019 calendar year
 - To be followed by a public workshop hosted by RA

Note: the above is dependent on final promulgation of the Bill and still subject to finalisation.

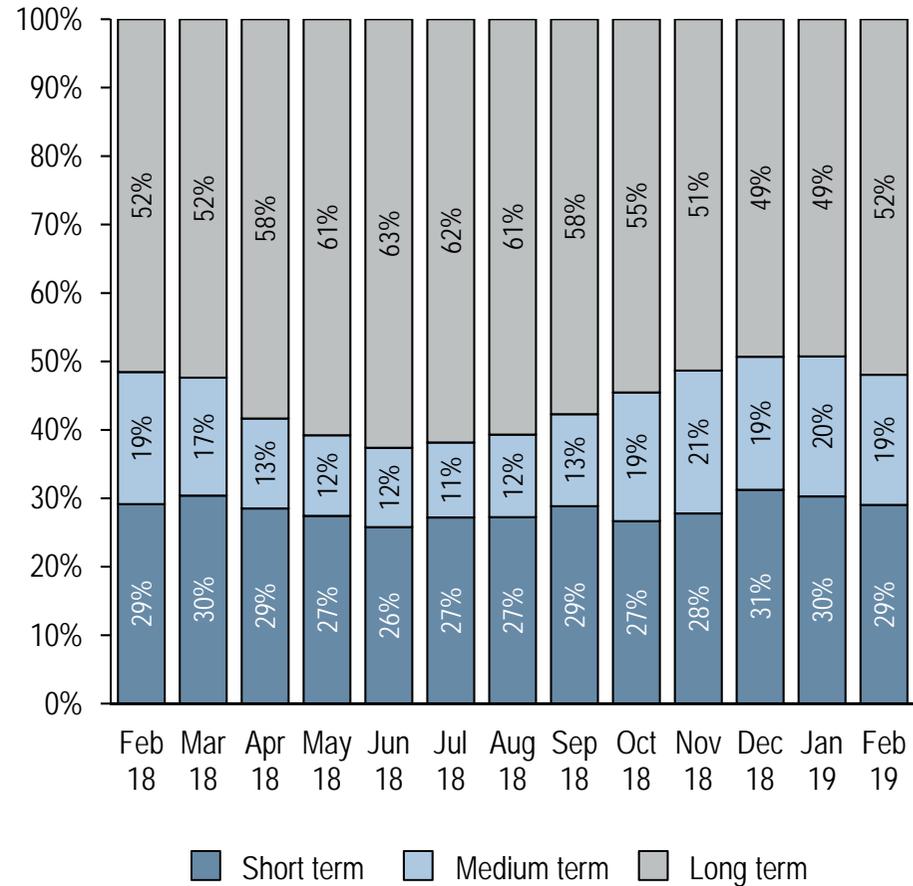


Optimise institutional funding

Institutional funding as a % of total funding



Institutional funding by term



Strategy to maintain low market share of institutional funding provides greater flexibility, better risk-adjusted profile and increased borrowing capacity

Source: SARB BA900 – South Africa operations only, February 2019.



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

LIQUIDITY COVERAGE RATIO (LCR)	NET STABLE FUNDING RATIO (NSFR)
<ul style="list-style-type: none"> • December 2018 actual: 130% • LCR regulatory minimum requirement effective 1 January 2019: 100% • FRB aims to exceed the minimum regulatory requirements incorporating a management buffer for seasonal volatility • Guidance Note 4/2018 published <ul style="list-style-type: none"> • Industry notification from the SARB's Prudential Authority (PA) of its intention to phase out the committed liquidity facility (CLF) by 1 December 2021 • PA will, in consultation with banks, investigate possible alternatives to the CLF 	<ul style="list-style-type: none"> • December 2018 actual: 110% • PA adopted an available stable funding (ASF) factor for financial institution deposits <6 months of 35%, considering regulatory and economic barriers that prevent liquidity from flowing out of the domestic economy • PA includes the CLF in the NSFR with a 5% required stable funding (RSF) factor • In addressing the LCR, the bank adopted strategies to improve structural liquidity risk and assist with NSFR compliance



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