FirstRand Bank

2020

CAPITAL AND FUNDING UPDATE

11 – 13 November

investor presentation

FirstRand Bank

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financial resource management

Group crisis response framework to protect shareholder value

- FirstRand implemented **specific actions** in March to weather the storm and ensure the group can **fully capitalise on recovery**

- Anchored business to financial resource management principles for next 18 to 24 months:
  - Carefully **price** for **financial resources**
  - **Appropriately provide** against lending portfolios
  - Strict **cost management** critical
  - Balance sheet must be appropriately **tilted** to **macro-outlook** and **further strengthened**
  - **Accrete capital and NAV** – deployment of capital to reflect revised cost of equity of 15.5%

Objective is to emerge from COVID-19 with limited vulnerabilities and capital for growth

Bank has protected its balance sheet

	ACTUAL	TREND
Assets in marketable format	**>R335 billion**	Increased (improved liquidity)
Liquid assets as % total assets	**23.8%**	Increased (improved liquidity)
LCR and NSFR*	**LCR: 124%** **NSFR: 116%**	The group entered COVID-19 in a strong liquidity position, which has been maintained – ratios remain well above regulatory minimums
Credit quality of assets	**BB-/B+**	Downward shift
Institutional funding term*	**37 months**	Improved duration
Deposit franchise*	**68% core deposit funding**	Increased contribution to overall funding (improved liquidity risk profile)
RWA risk density	**52.9%**	Stable – impacted by growth in derivative assets and optimisation
CET1 ratio	**12.3%**	Decreased but remains above internal target range and well above regulatory minimums
Standalone bank credit rating	**Highest in SA**	Maintained

* *For South African operations only.*

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funding and liquidity

The economic crisis and subsequent response has had a profound effect on funding and liquidity conditions

Economic crisis

Global policy actions have spanned all channels

Economic stability

Monetary stability

Financial stability

Economy, employment, investment, credit and effective markets

Private sector

- Lower credit demand and appetite
- Increased uncertainty

Public sector

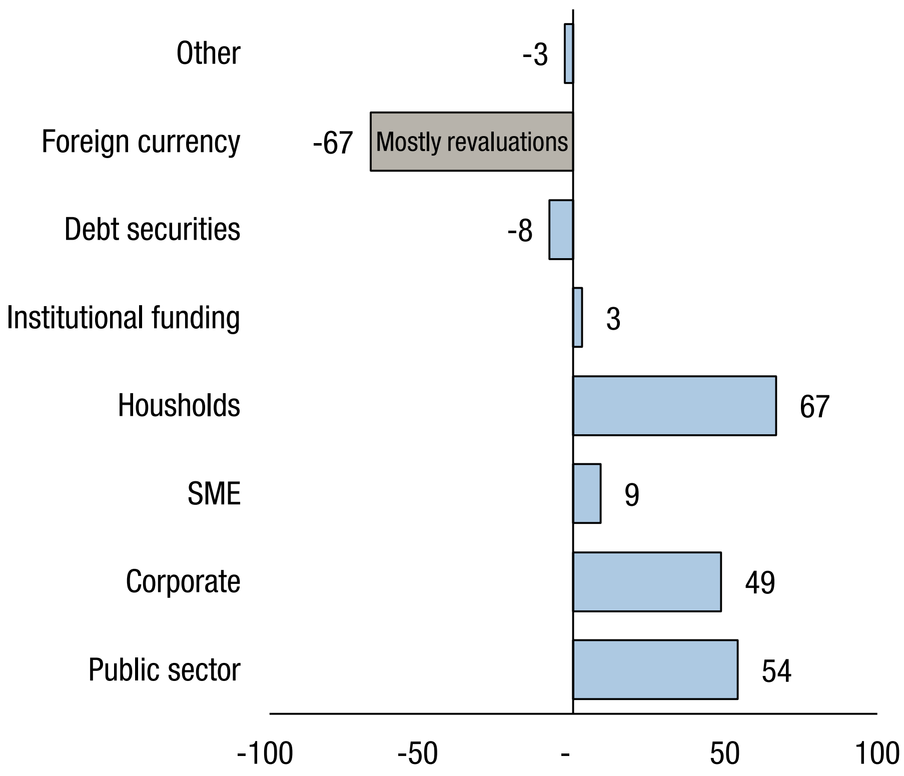
- Increased borrowing requirement and spending
- Increased issuance across the curve
- Increased treasury bill issuance

Liquidity

- Accommodating domestic liquidity conditions in ZAR and FX
- Increased domestic savings and inter-temporal flows

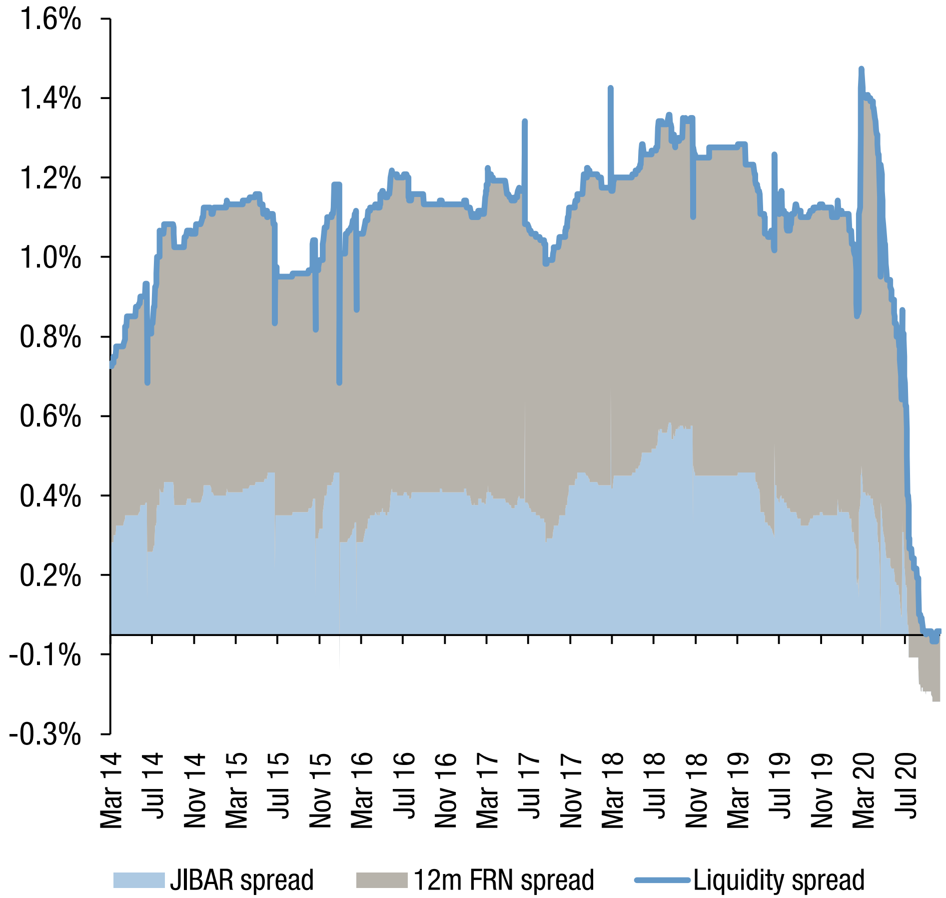
Flows to banking sector reflects precautionary savings amidst uncertainty

Changes in deposits SA banks 6m to Aug 20



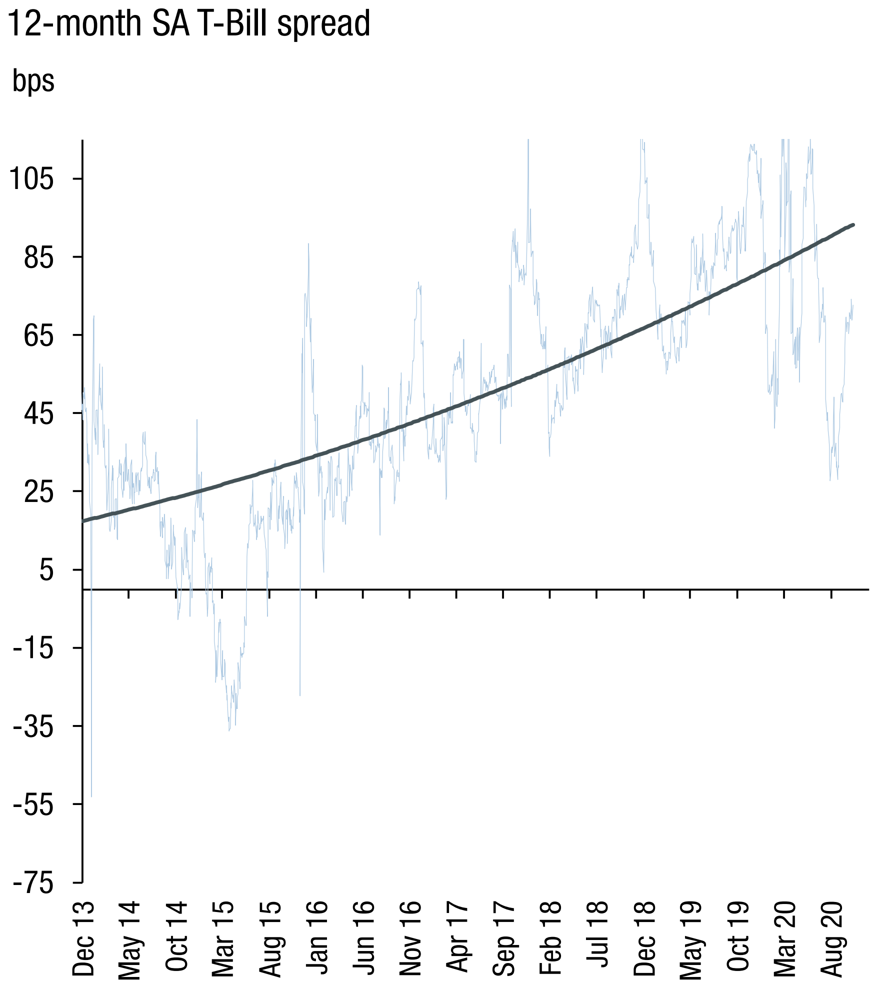
Source: SARB BA900, 6m to August 2020.

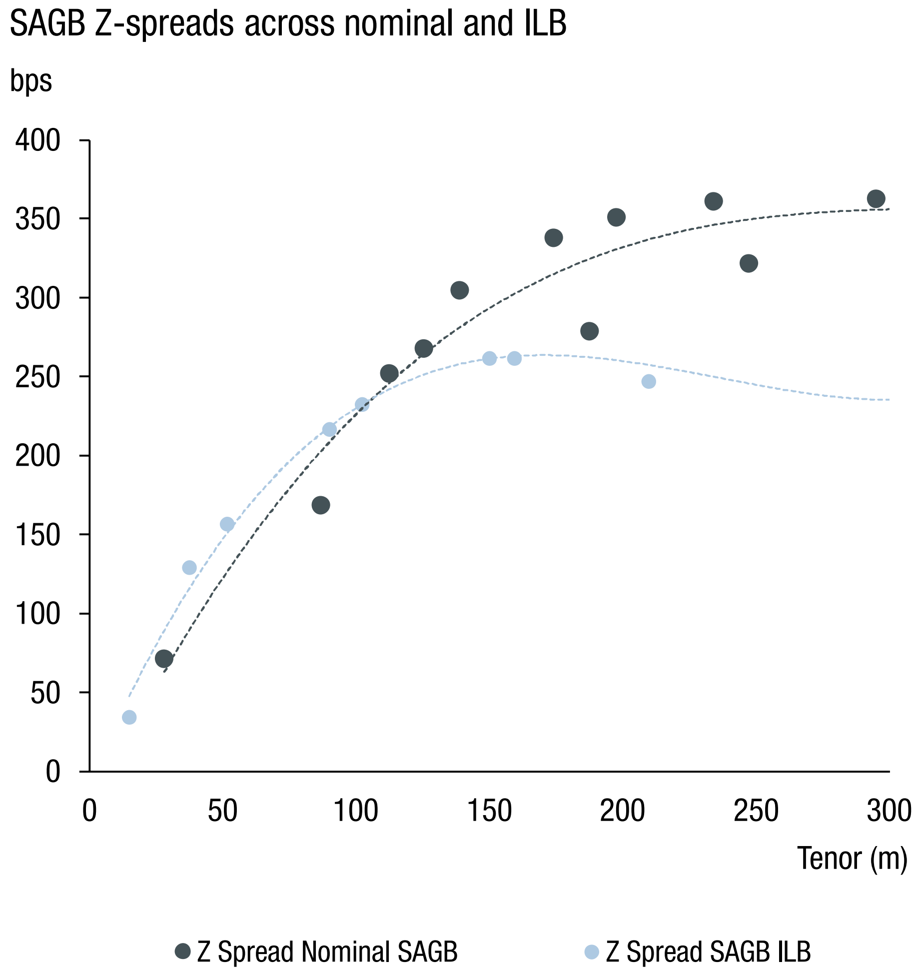
All-in cost of 12m NCDs



Source: Bloomberg, 9 November 2020.

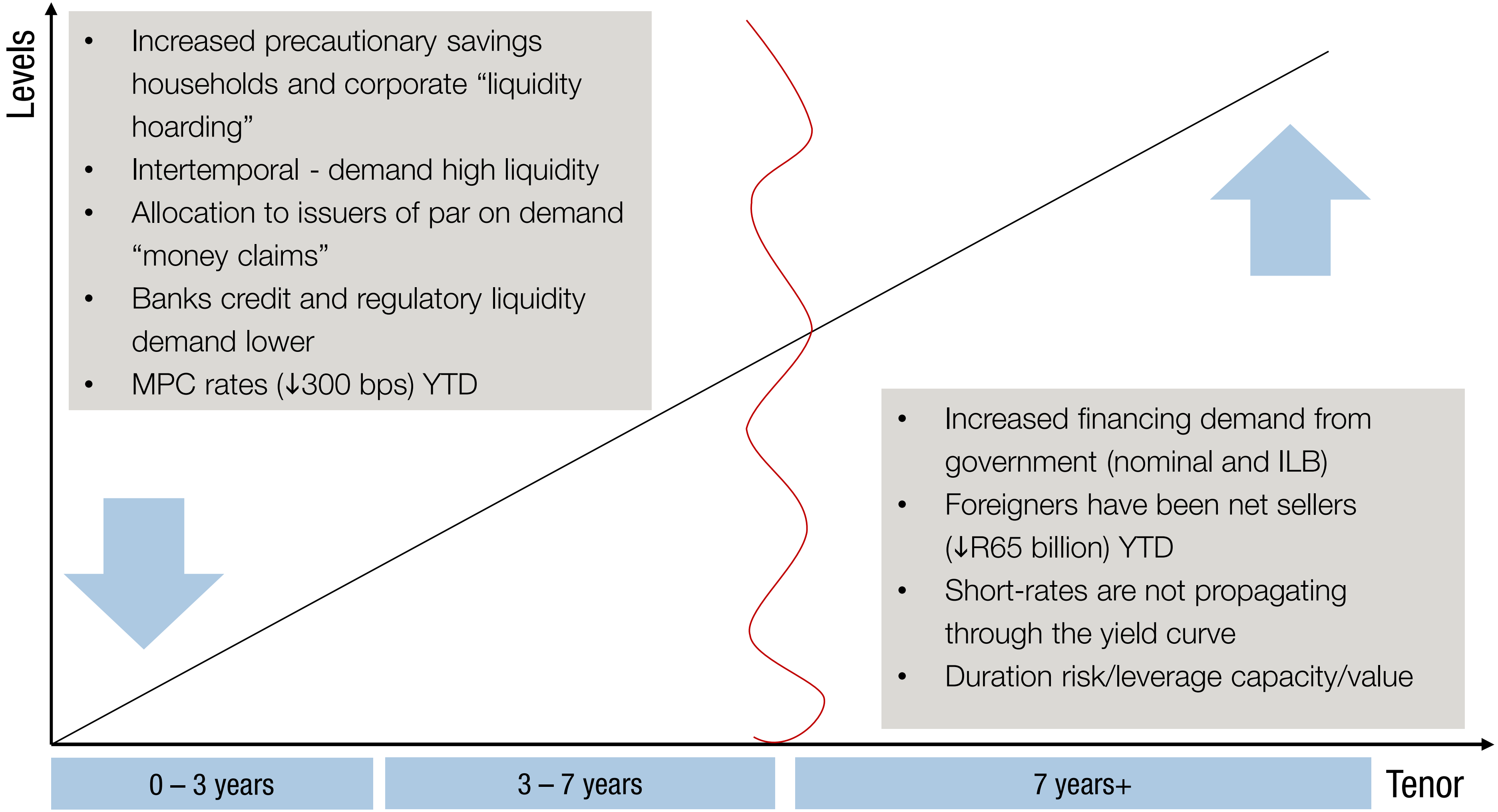
Elevated government financing spreads across bonds and treasury bills





Source: Bloomberg, 9 November 2020.

Economic forces have not cleared – reflected in a very steep yield curve



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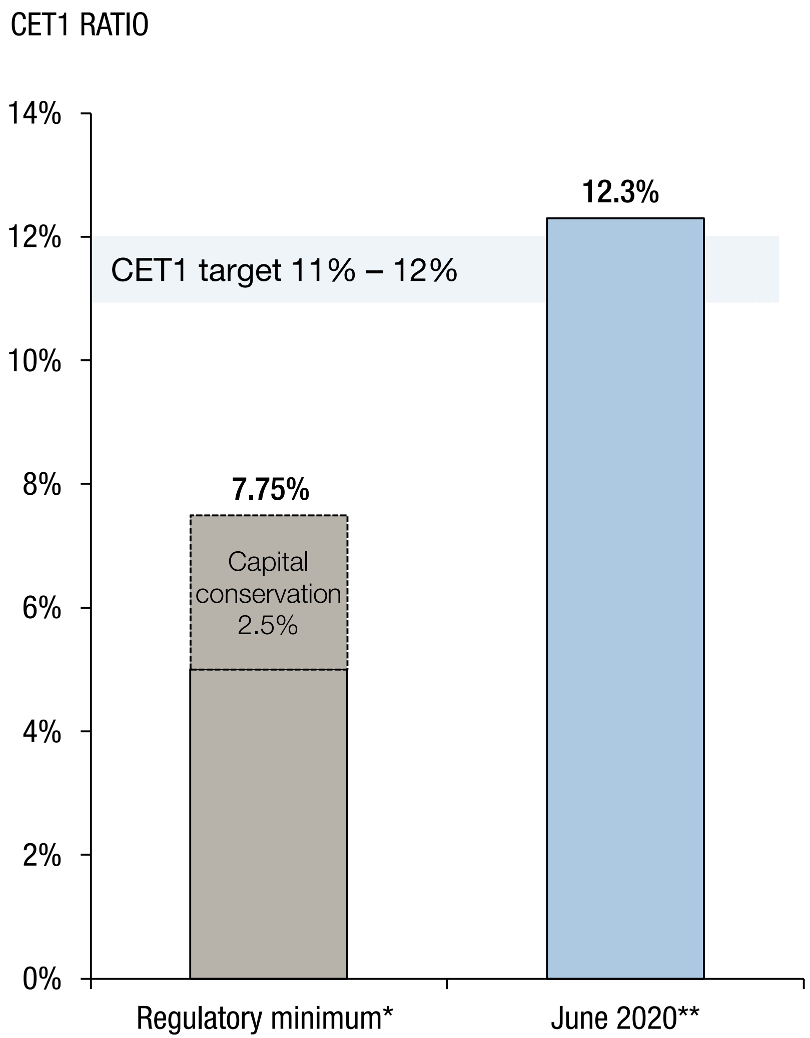
capital

Healthy capital position



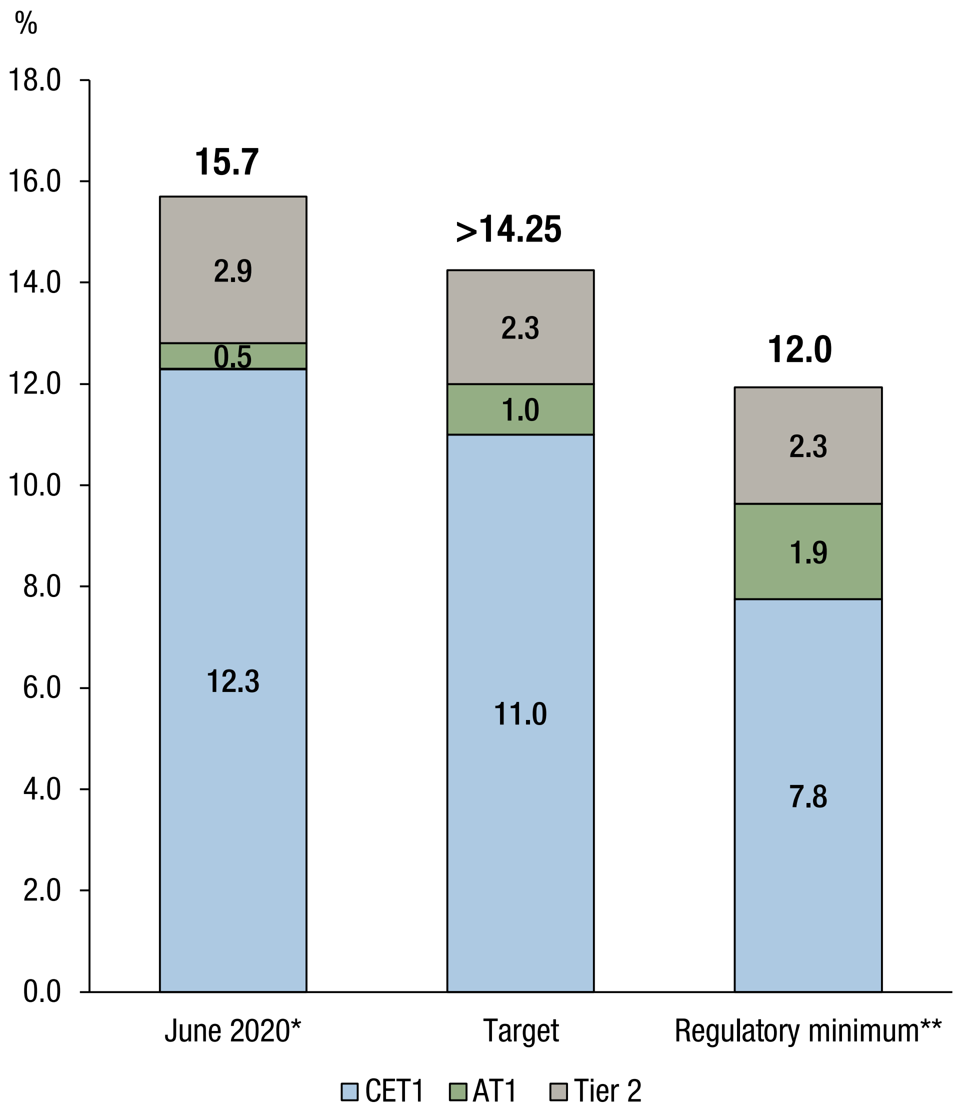
Current **CET1 capacity** above capital conservation: **R34.3 billion**

- **Surplus above target: R10.0 billion**
  - Demonstrates dividend affordability for the group
  - Surplus sufficient to support ongoing regulatory changes, organic expansion and IFRS 9 transition
- **No change to long-term board targets**
  - Sufficient capital to absorb lengthy period of stress
  - Informed by robust risk management and stress testing; economic capital assessment
- **Protect standalone credit rating**

* *Capital conservation of 2.5%, Pillar 2A of 0%, and D-SIB of 1.5% of which only 0.75% is required to be met with CET1. Pillar 2B is confidential and not included.*

** *Includes unappropriated profits.*

Ongoing optimisation of the capital stack



- **D-SIB disclosure of 1.5%** provides additional transparency around minimum requirements
- **Optimisation of Additional Tier 1 (AT1)**
  - To meet internal targets
  - Support proposed large exposure framework
- **Limited Tier 2** issuance
  - Actual aligns with target levels
  - Issuance to manage roll-over of existing instruments
- Capital issuance to **support growth** in group entities

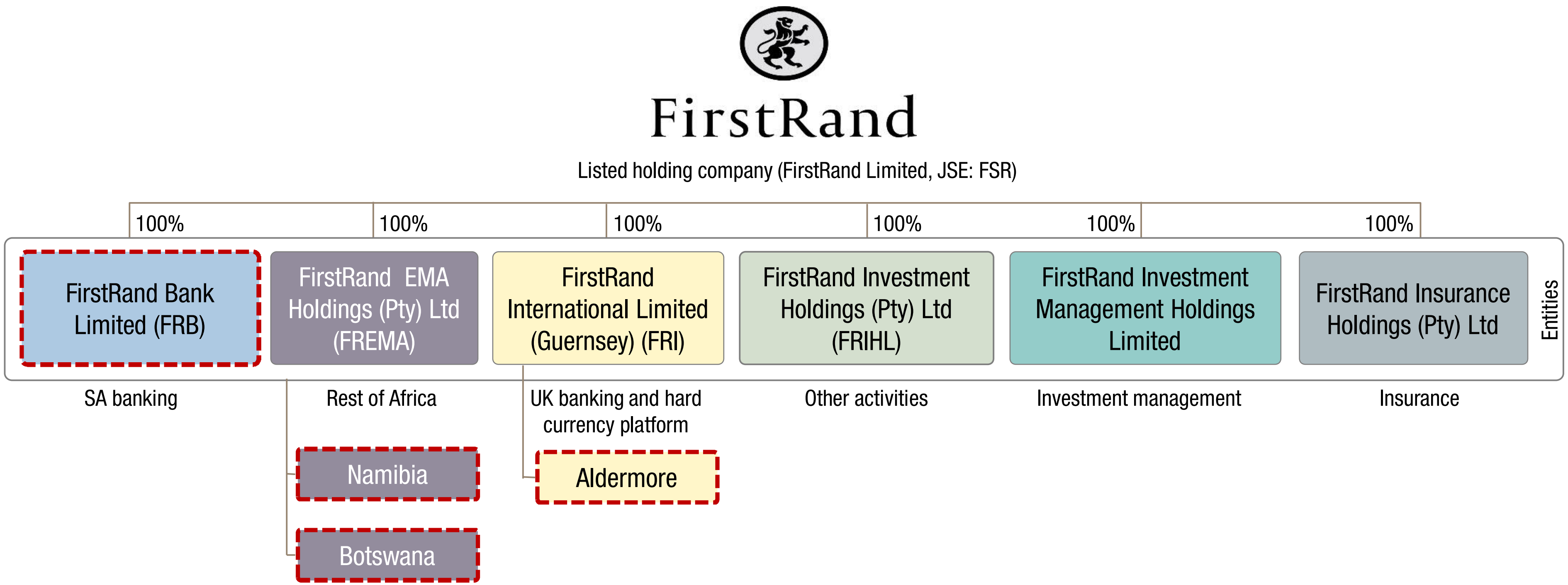
* *Includes unappropriated profits.*

** *Capital conservation of 2.5%, Pillar 2A of 0%, and D-SIB of 1.5%. Pillar 2B is confidential and not included.*

Regulatory update

- Finalisation of Basel III reforms
  - *Guidance note 7/2020* – proposed implementation dates for specified regulatory reforms
- Discussion paper, *South Africa's intended approach to bank resolution (July 2019)*
  - Objectives of the resolution framework, and planning and conducting a resolution
  - New tranche of loss-absorbing instruments (flac instruments)
  - Discussion paper, *Group structure reporting requirements for resolution planning (October 2020)* for comment
- Financial Sector Laws Amendment Bill tabled by the Minister of Finance on 20 August 2020
  - Established Corporation of Deposit Insurance – designed to protect depositors' funds and enhance financial stability
    - Discussion documents released: *Coverage and reporting rules for deposit insurance in South Africa* and *The deposit insurance funding model and the implication for banks*
- Financial conglomerate framework
  - Draft standards released for comment in October 2020; <u>exclude capital standards</u>
  - *Financial conglomerate designation criteria (September 2020)* published

Issuance anchored to a ‘multiple point of entry’ strategy



Enabled by flexible issuance platforms; alignment to financial conglomerate framework and group strategy

Existing platforms

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appendix

FRB exceeds LCR and NSFR requirement

Liquidity coverage ratio (LCR)

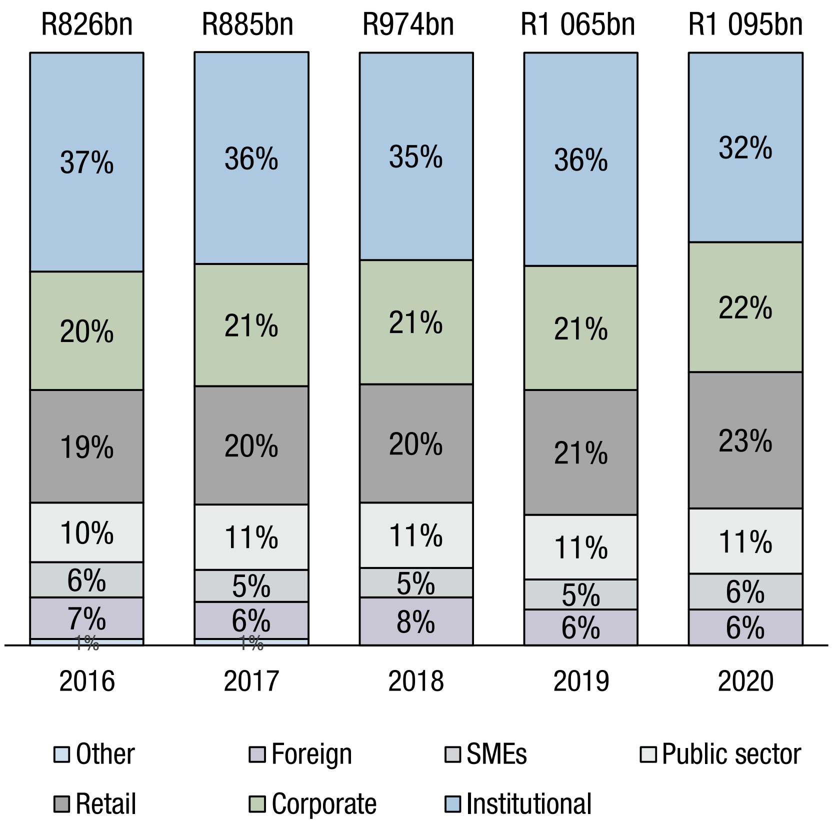
- June 2020: 124%
- Effective 1 April 2020, temporary COVID-19 relief measures introduced, reducing the LCR minimum to 80% from 100%
- Liquidity relief measures will be withdrawn gradually as the post-COVID recovery continues
- Despite the liquidity relief, FRB continues to hold appropriate buffers to withstand liquidity stresses
- Committed liquidity facility (CLF) will be withdrawn by December 2021
- PA has introduced the restricted CLF (RCLF), forming part of level 2B HQLA and allowing for the same collateral as the CLF
- RCLF will be available from 1 December 2020
- Continuous engagement between industry and PA to develop and improve market liquidity

Net stable funding ratio (NSFR)

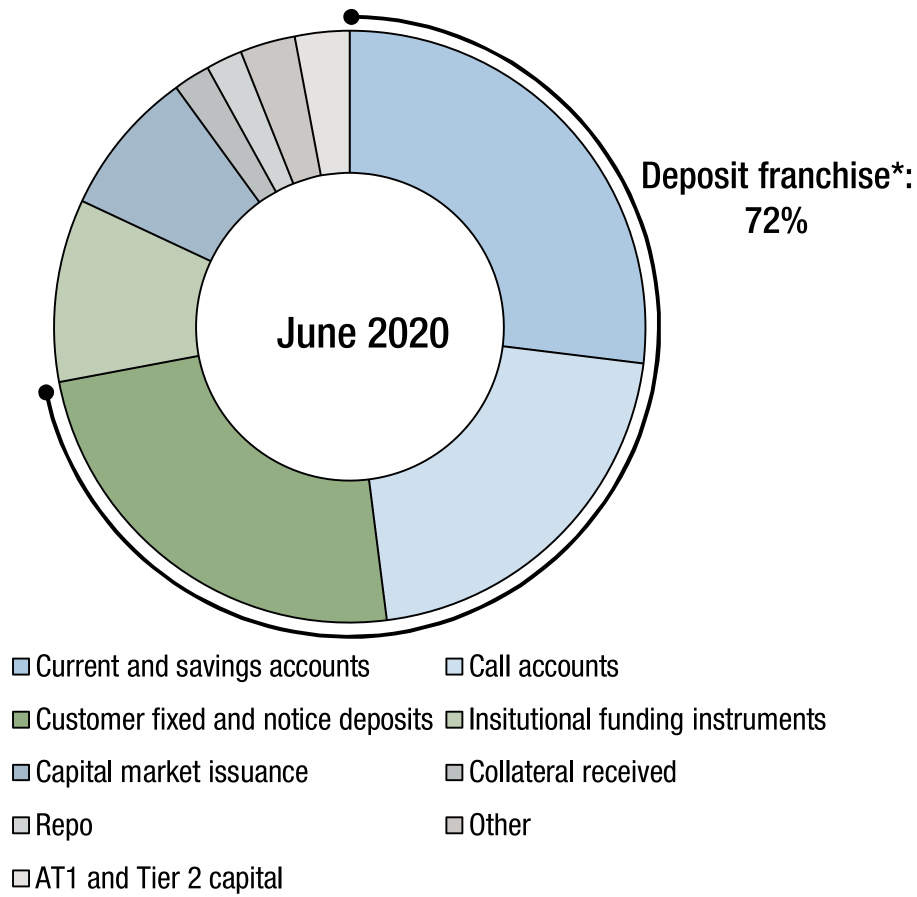
- June 2020: 116%
- In addressing the LCR, the bank adopted strategies to reduce structural liquidity risk, as well as meeting NSFR compliance
- Taking into consideration the regulatory and economic barriers to ZAR liquidity flowing out of the domestic economy, the SARB applies national discretion to financial institution deposits <6 months by adopting a 35% available stable funding factor, rather than 0%
- PA assigns a 5% required stable funding factor to CLF collateral whereas RCLF will attract the standard required stable funding factors for level 2B assets

Continued focus on optimising the funding base

SOURCES OF FUNDING



FUNDING INSTRUMENTS



Weighted average remaining term of domestic institutional funding ± 37 months

** Includes Group Treasury deposits.*
Source: FRB BA900 and financial reports at 30 June 2020.

Resolution blueprint – key elements

Key elements of resolution planning	
Identification of resolution groups and resolution entities	Interconnectedness
Critical functions and services (for financial stability) – operational continuity	Liability structure and loss-absorbing capacity per institution – new flac requirements
Asset structure and valuations • Liquidation/resolution values for no creditor worse off in liquidation)	Resolution strategies • MPE/SPE* and open vs closed
Funding in resolution	Cross-border regulation

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.

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

Resolution blueprint - key considerations for banks

- Flac calibration/requirement
  - Awaiting finalisation of PwC/World Bank flac survey
  - Level, cost and timeframes
- Structure changes and its effect on new issuance
  - Finalisation of financial conglomerate framework
- Preparing for operational continuity in resolution
  - Testing, mapping of critical and shared services, and resolution MIS
- Resolution valuation capabilities
  - Resolution MIS to provide detailed resolution valuation data and crisis MI

FRB 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	Ba1/Negative	Ba1/Negative	Aa1.za	ba1

* *S&P Global's standalone credit profile and Moody's baseline credit assessment.*

Credit ratings as at 11 November 2020.

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

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

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