FirstRand Bank

group treasury

technical roadshow

3 – 5 June 2024

Presentation team

Bhulesh Singh	FirstRand Group Treasurer
Frederik Kleinhans	Head: Capital Management
Theuns de Wet	Head: Investment Office
Kalai Govender	Deputy Head: Capital Management
Delia Patterson	RMB Debt Capital Markets

FirstRand Bank

macroeconomic themes,

sovereign risk assessment and potential paths

Transmission of global and domestic macro themes into business

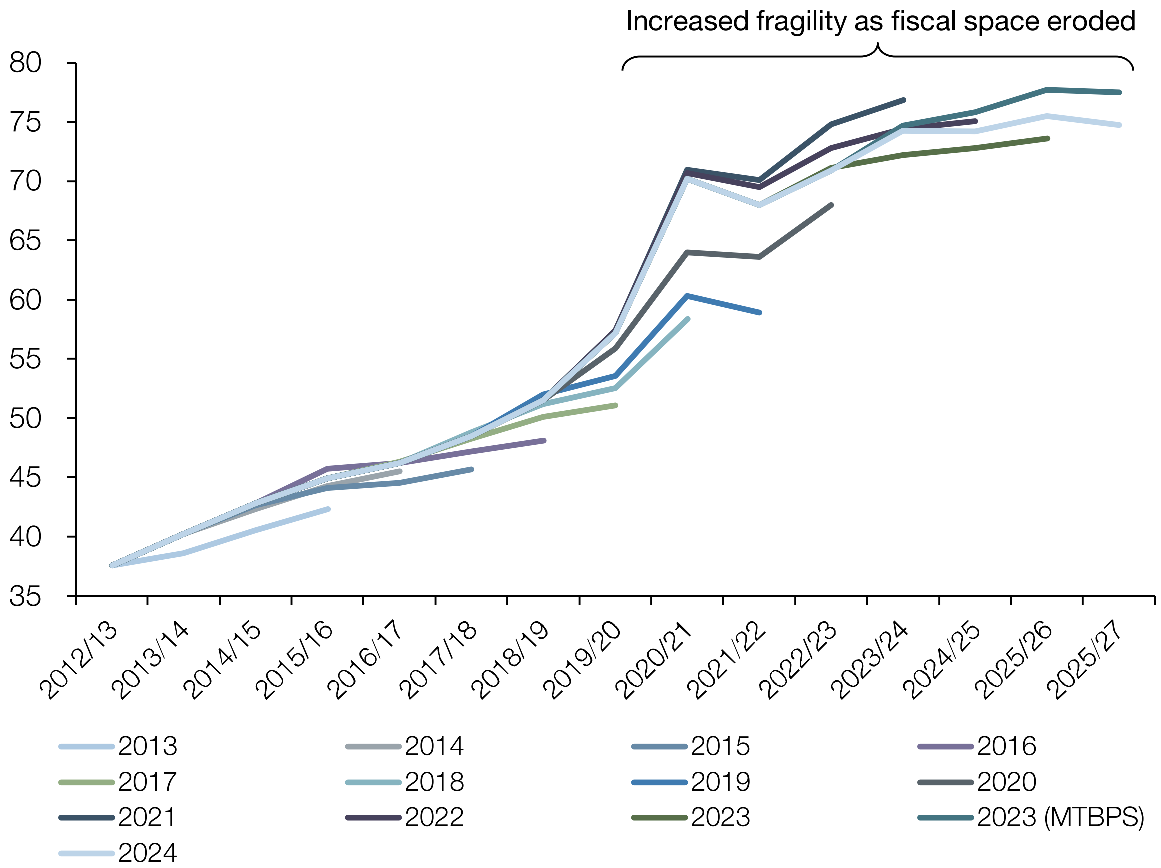
Macro theme
Global fracturing and reduced capital inflows
Structurally higher interest rates and inflation across the globe
Financial repression and sovereign debt sustainability risks across the globe
Risks in the execution of economic growth reforms
Increased demand for infrastructure-related funding

- Increase in sovereign risk premium and lower capital flows
- Widening bond spreads and increasing COE
- Increasingly difficult to access hard currency from traditional sources and more expensive
- Reduced demand for credit for consumptive purposes, changing demand for funding
- Changing savings allocation may direct institutional funding away from banks, leading to higher funding costs
- Developing investment strategies to manage through environment to protect balance sheet and preserve value
- Work on growth vectors, understanding value chains and emerging participants
- Infrastructure funding costs likely to rise as demand outpaces supply – funding requirement is immense, requiring alternative funding models

Source: FirstRand.

Sovereign risk analysis rigorously considers different paths, likelihood and signals

Government debt to GDP forecasts and actual outcomes



- Structurally weak GDP growth constraining the tax base
- Spending on consumptive activities is high
- Inefficiency of spending a concern
- Steep/steepening yield curve
- Reforms to lift economic growth in **the most efficient manner** to deal with sovereign debt constraints
- Efficiency of infrastructure development important

Debt sustainability needs to be actively managed with good policy paths

Sources: National Treasury, FirstRand.

Research on implications of various paths to debt sustainability and different responses

Structural increase in GDP growth (economic reforms)

Fiscal austerity including spending cuts and tax increases, capital controls, offshore limits

Financial repression in various forms and severity, including prescribed assets and exchange

Debt monetisation (inflation)

Debt restructuring together with IMF structural reform programme

Paths **not** mutually exclusive and result in different experiences

Consider the experience of different countries (UK, Brazil, India, China, Argentina, etc.)

Each path, and combinations of paths, require different investment strategies and business responses

Different strategies to preserve value (duration, real assets, inflation, physical assets, hard currencies, commodities, etc.)

Manage through environment to protect balance sheet and preserve value

Source: FirstRand.

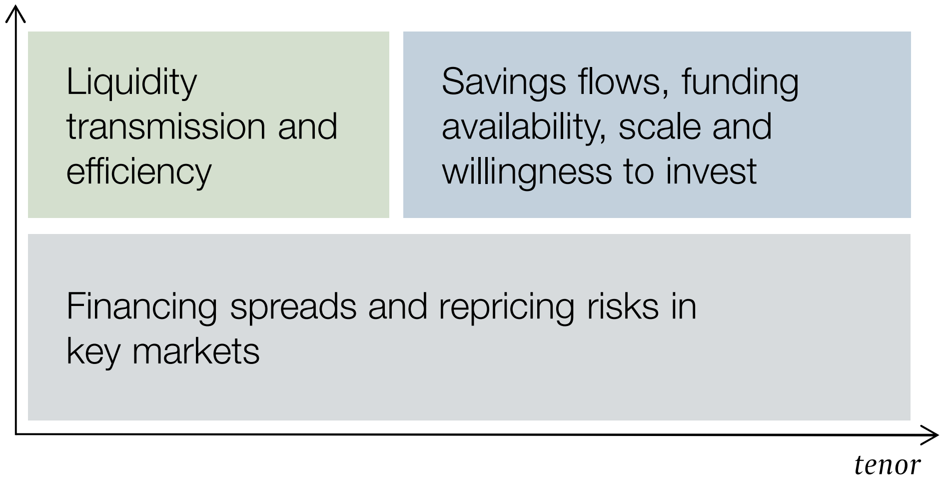
FirstRand Bank

liquidity conditions

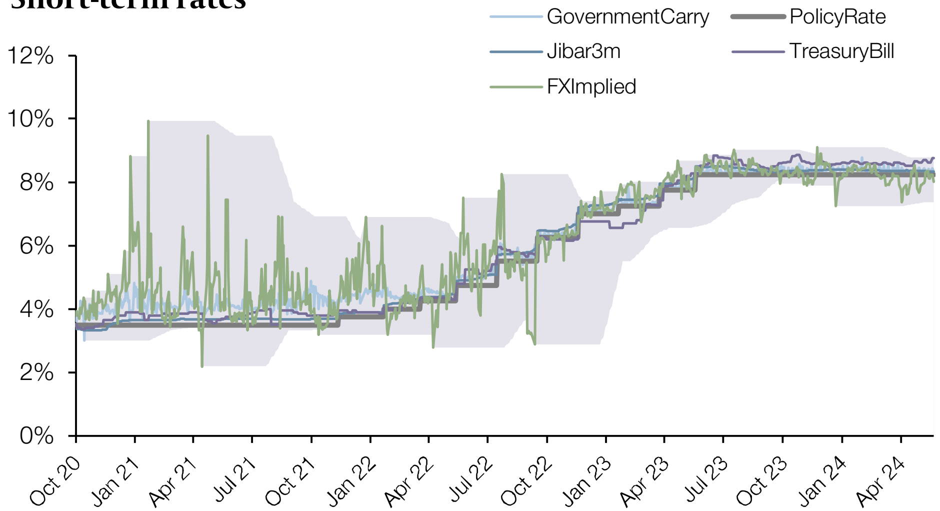
and market developments

Liquidity conditions

Stylised view of liquidity transmission

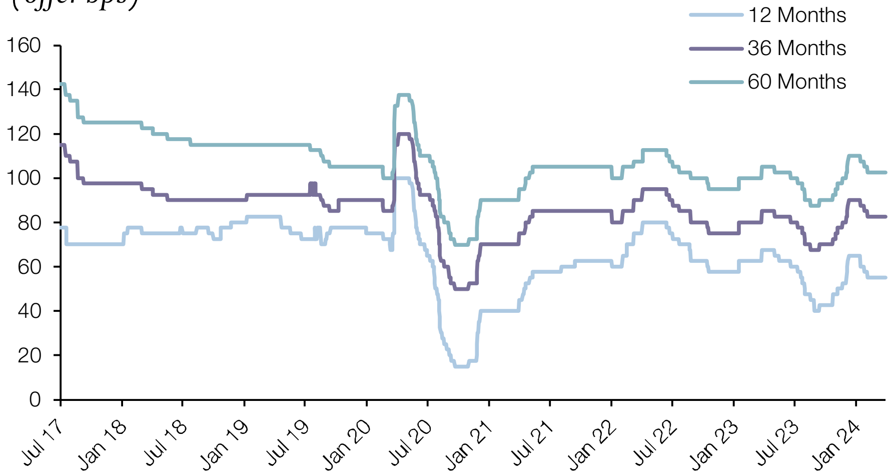


Short-term rates



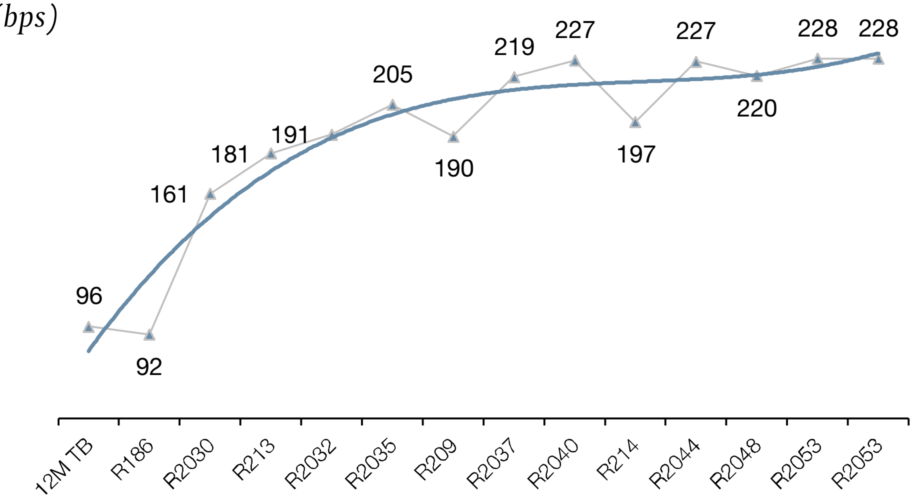
FRB floating-rate note spreads

(offer bps)



SA bond asset swap spreads

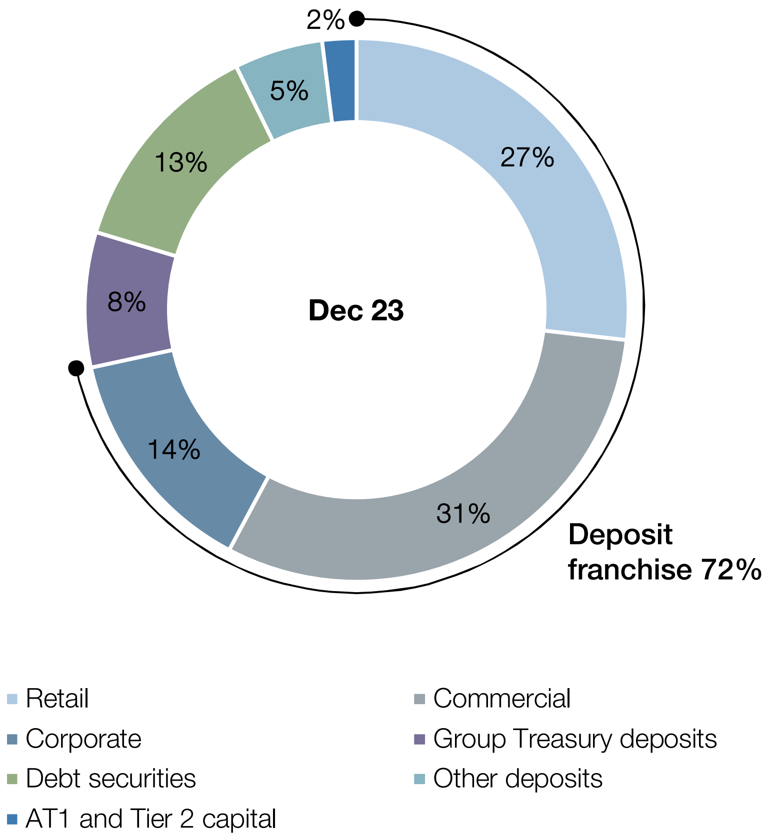
(bps)



Source: FirstRand.

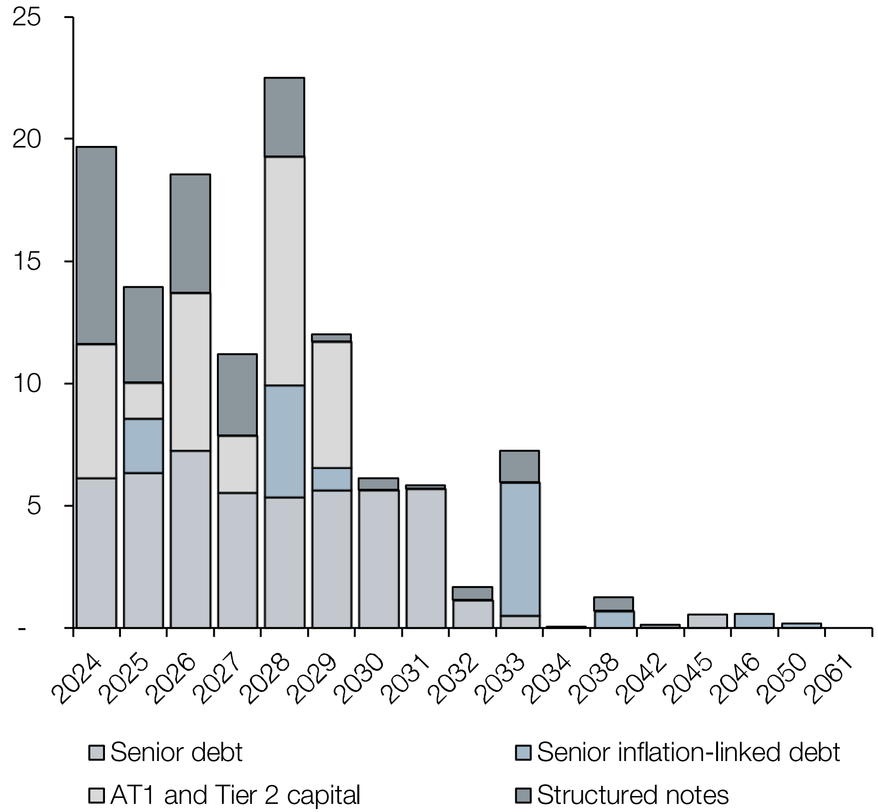
Liquidity management

FRB funding composition



FRB maturity profile

R billion



- Diversified funding profile anchored in customer value propositions provides strong deposit franchise
- Managed debt profile limits refinancing risk
- Focus on thematic issuance (green, social, sustainable)

Source: FirstRand Bank analysis of financial results for the six months ended 31 December 2023.

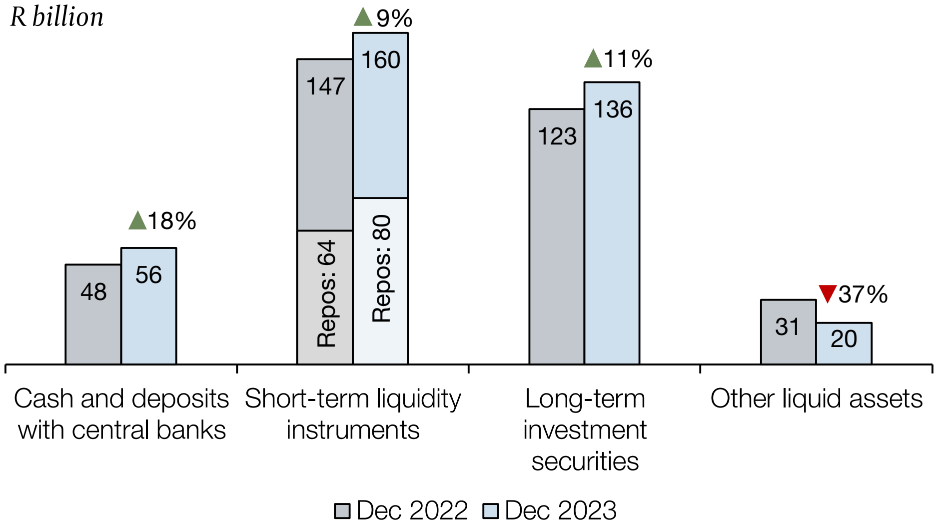
FRB comfortably exceeds LCR and NSFR minimum requirements

%	**Dec 2023**	Dec 2022
LCR		
Regulatory minimum	**100**	100
Actual	**123**	124
Average available HQLA (R billion)	**372**	349
NSFR		
Regulatory minimum	**100**	100
Actual	**118**	117

** LCR and NSFR reflect South African operations only.*

Liquid assets

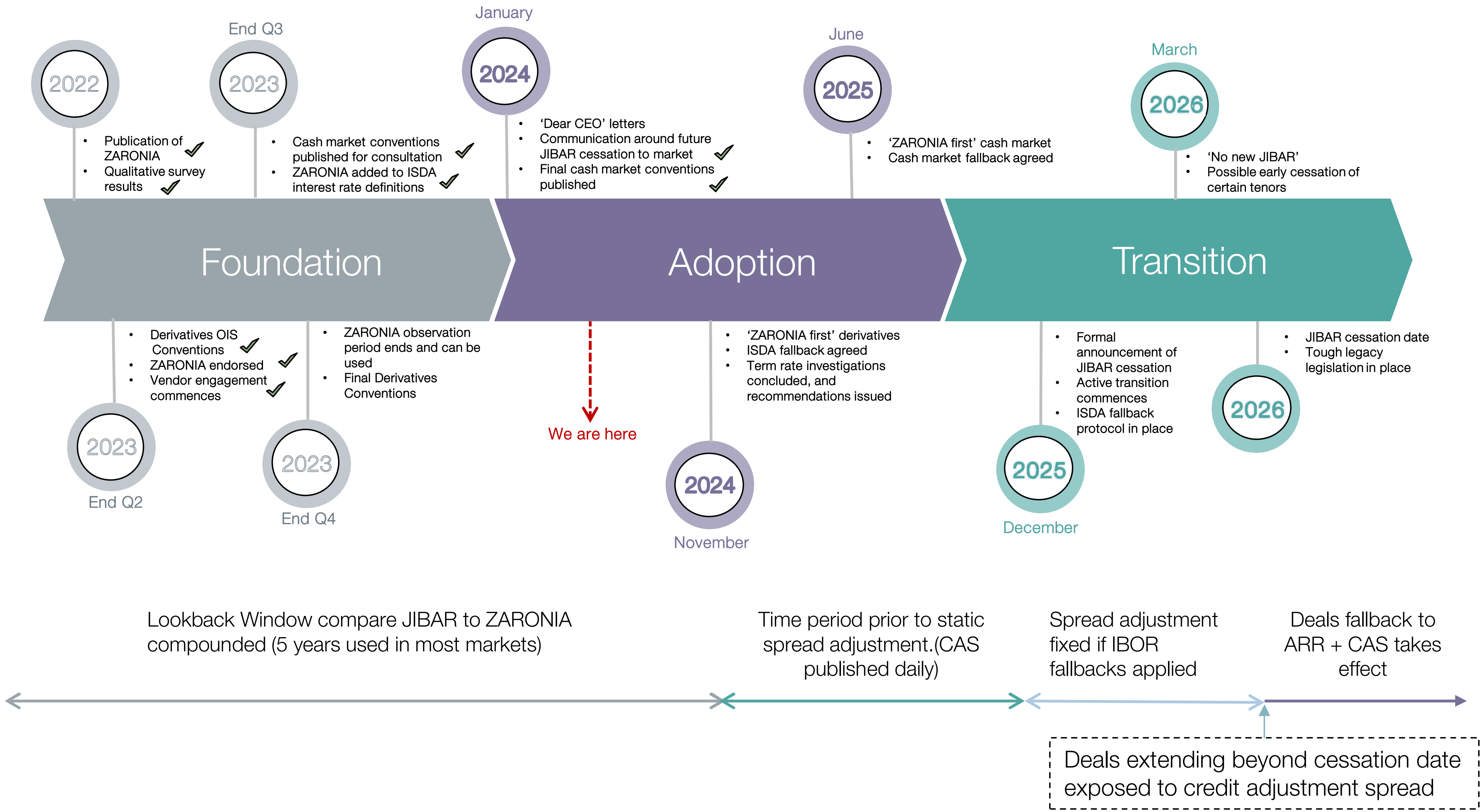
R billion



- FRB manages excess liquidity using a combination of cash, central bank deposits, treasury bills, government bonds and repos
- The group utilises an IMF-based framework for the assessment and monitoring of sovereign risk by jurisdiction
- Informs the composition and duration of liquid assets held, varying between central bank reserves, treasury bills and bonds
- Increase in central bank deposits from reserves following monetary policy implementation framework (MPIF) and introduction of deposit quotas at the policy rate
- Liquidity buffers reviewed and optimised continuously

Source: FirstRand Bank analysis of financial results for the six months ended 31 December 2023.

SARB market practitioners group (MPG) timeline (published 6 May 2024)



Source: https://www.resbank.co.za/en/home/publications/publication-detail-pages/Financial-Markets/Committees/MPG/MPG-Related-pages/2024/update-on-the-jibar-transition-plan.

FirstRand Bank

regulatory developments

Regulatory update

Final Basel reforms – proposed 1 July 2025:

- Revised approaches for credit risk
  - Standardised and internal-ratings based approaches, and credit valuation adjustment
- Revised approaches for operational and market risk
- Revised exposure definition for the leverage ratio

Output floor:

1 July 2025:	60%
1 January 2026:	65%
1 January 2027:	70%
1 January 2028:	72.5%

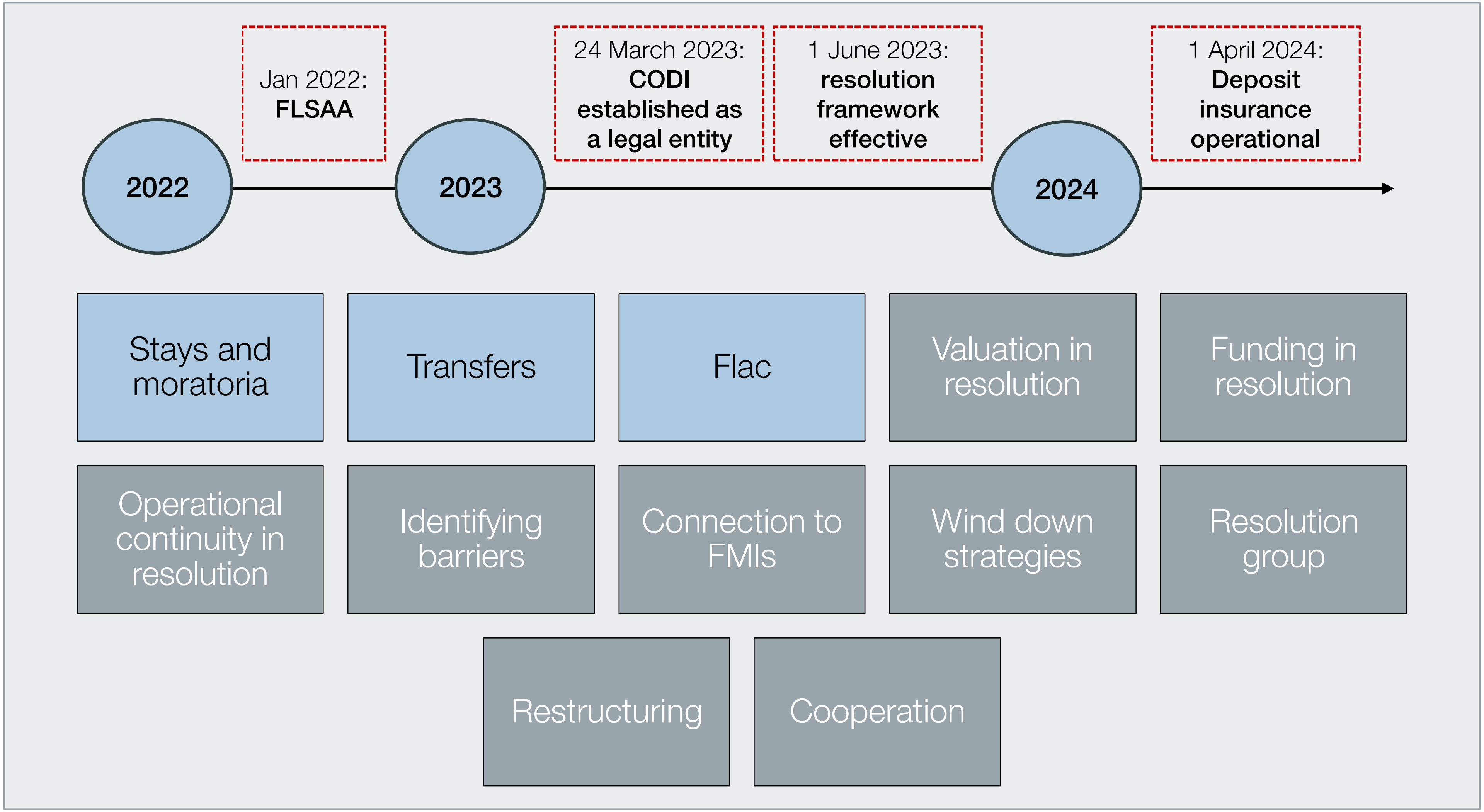
Proposed cycle neutral countercyclical buffer for South Africa – proposed 1 January 2026

Resolution framework:

- Depositor insurance – effective 1 April 2024
- Flac – proposed January 2025

Source: SARB's Prudential Authority.

Elements of resolution framework gaining traction



Issued or proposed standard | Standard yet to be issued

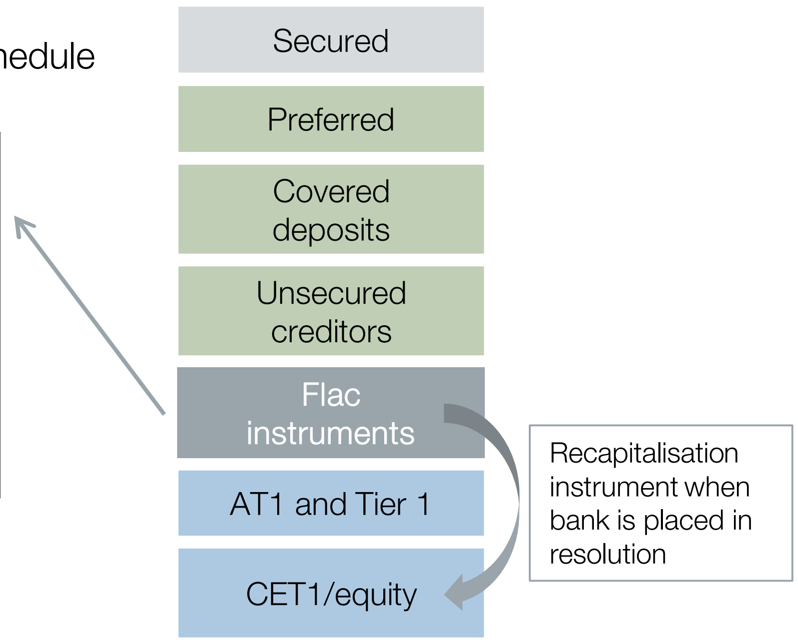
Flac – new class of instruments subject to bail-in after regulatory capital

What is Flac?

- New instrument class, ranking ahead of Tier 2 and behind unsecured
- Applicable to domestic systemically important financial institutions with open resolution plans
- To provide sufficient loss absorbing and recapitalisation capacity

Proposed effective date: 1 January 2025; with 4-year transition schedule

	Base minimum (bMFR)	Minimum Flac (33.33%)
Dec 27	60%	20%
Dec 28	80%	27%
Dec 29	90%	30%
Dec 30	100%	33.33%



Source: Draft Prudential Standard RA03 – Flac Instrument Requirements for Designated Institutions, SARB.

Proposed level requirement and composition

Requirement (MFR)*	bMFR	**Base minimum CAR (8%) + Pillar 2A (1%)** – consistent for all SA banks • Base CAR excludes combined buffers (capital conservation, domestic systemically important bank and countercyclical (CCyB) buffers) • Function of resolution risk-weighted assets (RWA) • FRB ≈ R70 billion (bMFR) in 2030
	iMFR	**MinCAR (Pm – Pr)** + Pillar 2B (confidential)** • MinCAR = base minimum CAR (8%) + Pillar 2A (1%) + Pillar 2B • Informed by resolvability assessment
Composition	Total loss absorbing capacity (LAC)	**Minimum capital (MinCAR) + MFR** • 33% minimum Flac requirement; FRB ≈ R30 billion in 2027 • Top-up Flac requirement • Can be met with excess capital, capital instruments or Flac

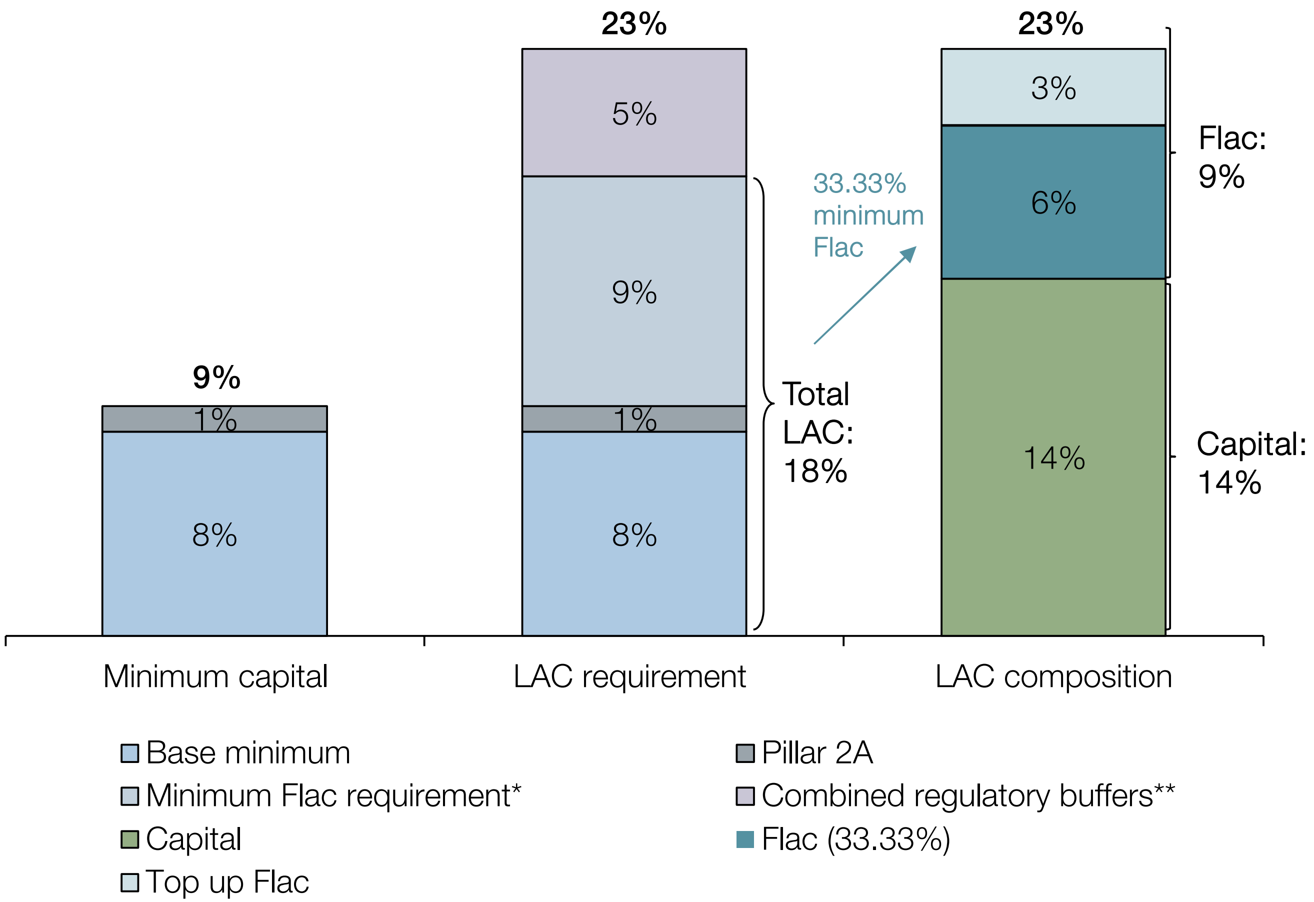
* *Applied to post resolution balance sheet risk-weighted assets (RWA).*

** *Pm = market premium up to 25%; Pr = resolvability rebate up to 15%.*

Source: Draft Prudential Standard RA03 – Flac Instrument Requirements for Designated Institutions, SARB.

Total loss absorbing stack – capital and Flac to be managed holistically

For illustrative purposes, excludes bank-specific requirements and management buffer



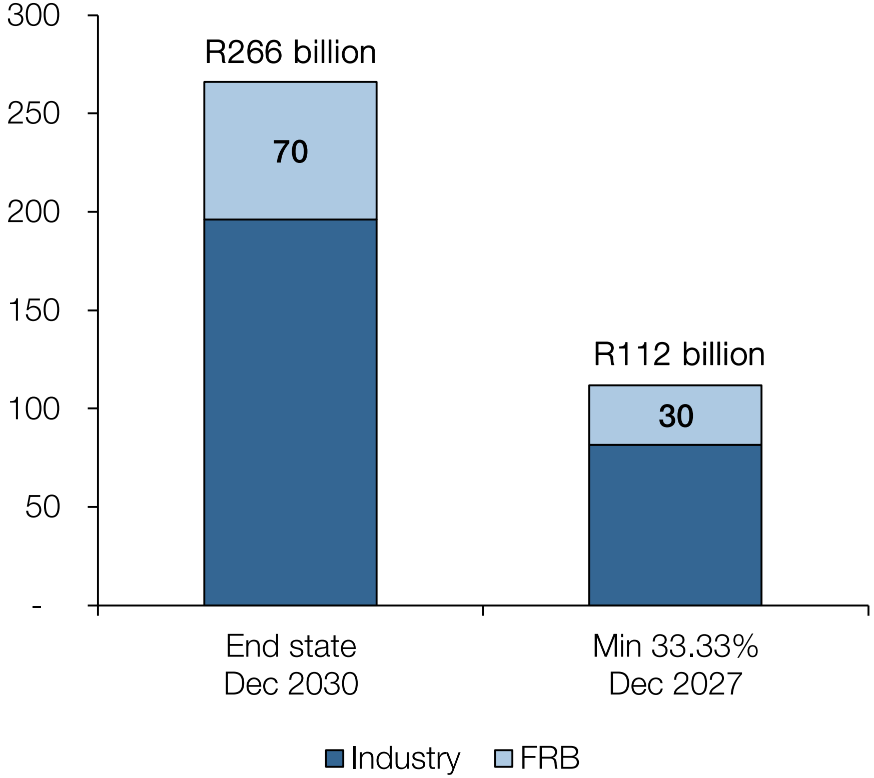
- Flac requirement anchored to RWA
- Management buffer and Pillar 2B impacts iMFR
- Flac will impact overall capital planning
- Capital and Flac stack to be balanced optimally

** Includes the bMFR of 9%.*

*** Assumes DSIB (1.5%), capital conservation buffer (2.5%) and proposed SA CCyB (1%).*

Flac across the industry – reliance on resolution plans critical

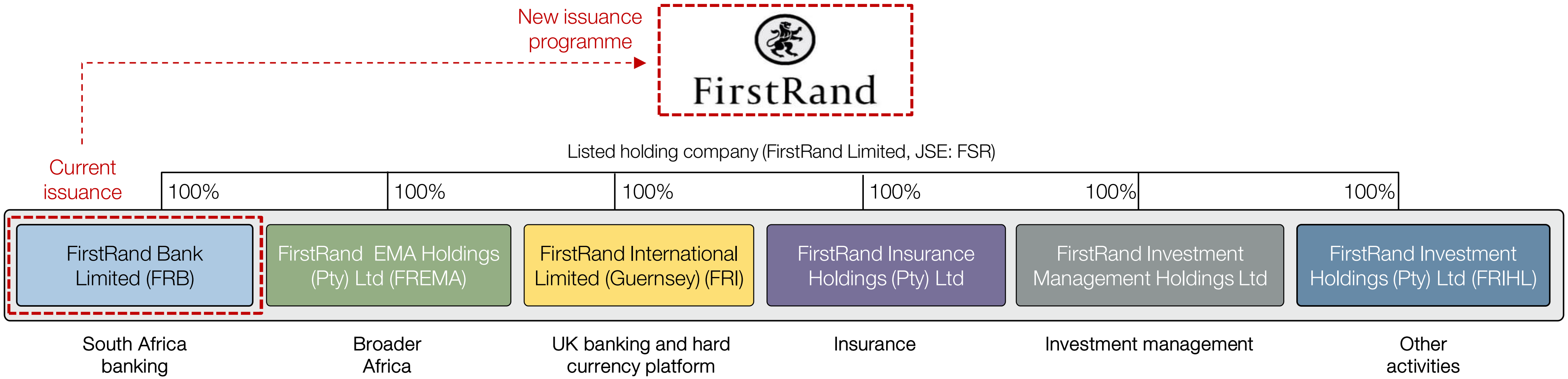
Estimated Flac issuance
R billion



- Flac issuance required for designated institutions subject to open resolution
- Issuance programme amendments to cater for Flac from issuance entity (holding company)
- Resolvability assessments required, resolution plans critical
- Moody's credit rating upgrades following revised bank methodology update and loss given failure analysis

Source: FirstRand.

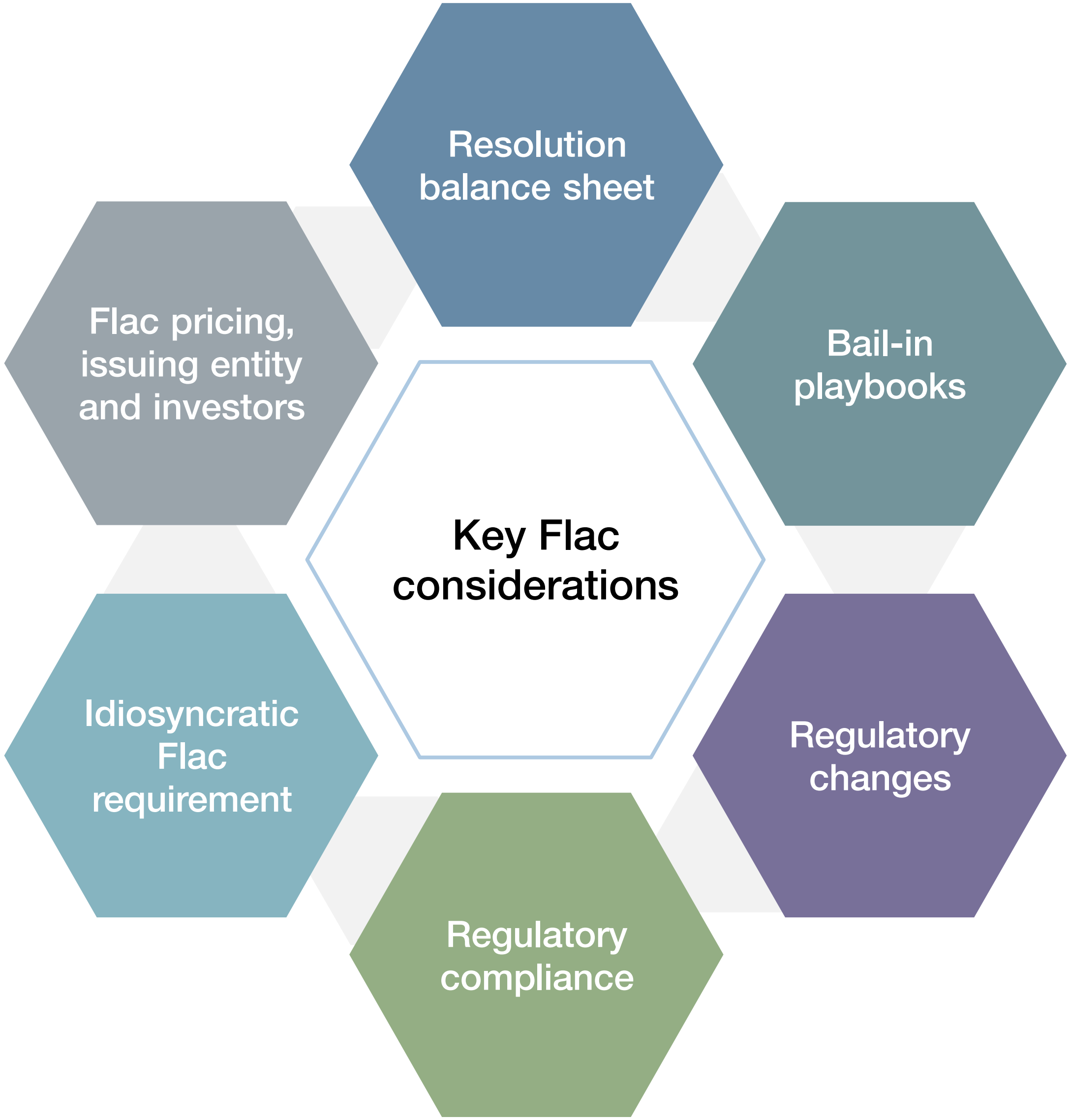
Way forward



- External Flac to be issued by a holding company
  - Work under way to set up a FirstRand Limited programme
- Continue to issue capital instruments from FRB
- In the longer term, an intermediate bank holding company may be more optimal for Flac issuance to support resolvability

Source: FirstRand.

Key Flac considerations



Source: FirstRand.

appendix

Bank has strengthened its balance sheet

	ACTUAL	TREND
Assets in marketable format	**R479 billion**	Marketable liquid assets grew marginally
Liquid assets as % of total assets	**28.5%***	Higher following increase in liquid assets
LCR and NSFR	**LCR: 123%** **NSFR: 118%**	The bank's liquidity position remains healthy, with prudential ratios well above regulatory minimums
Credit quality of assets	**BB-/B**	Stable
Institutional funding term**	**31 months**	Lower due to increased money market funding relative to long-dated senior issuance
Deposit franchise**	**72% of core deposit funding**	Funding strategy favours client deposits, creating an improved liquidity risk profile coupled with deeper client engagement
RWA risk density	**51.8%**	Higher given balance sheet mix
CET1 ratio#	**12.9%**	Above internal target range
Standalone bank credit rating	**Highest in SA**	Maintained
Return on equity	**26.0%**	Improved

* *Reflects internal economic view.*

** *For South African operations only.*

Including foreign branches and unappropriated profits.

Source: FirstRand Bank analysis of financial results for the six months ended 31 December 2023.

FRB credit ratings

	SOUTH AFRICA SOVEREIGN RATINGS	FIRSTRAND BANK LIMITED CREDIT RATINGS		
	FOREIGN CURRENCY	COUNTERPARTY RATING*		
	Long term/ outlook	Long term/ outlook	Long-term national scale	Standalone credit rating**
S&P Global	BB-/Stable	BB-/Stable	zaAA	bbb-
Moody's	Ba2/Stable	Baa3/Stable	Aaa.za	ba2

* *Relates to the issuer credit rating for S&P, and bank deposits ratings for Moody's.*

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

Credit ratings at 3 June 2024.

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

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

Qualifying criteria for Flac instruments

Issuer	Other features
• External Flac instruments issued by holding company • Internal Flac instruments issued by designated institution to holding companies	• Fully paid and unsecured • Not subject to set-off or netting • Minimum initial maturity of 24 months but minimum remaining maturity of 12 months • Ranking in line with the creditor hierarchy (Insolvency Act) • Does not contain any derivative-linked features • No early redemption unless instrument ceases to qualify as Flac or following written approval from SARB • No acceleration clauses • Subject to South African law • SARB approval for initial terms and conditions
Funding	
• External issuance not funded by holding company of the designated institution or other group entity • Internal Flac instruments must be fully funded by holding company	

Source: Draft Prudential Standard RA03 – Flac Instrument Requirements for Designated Institutions, SARB.

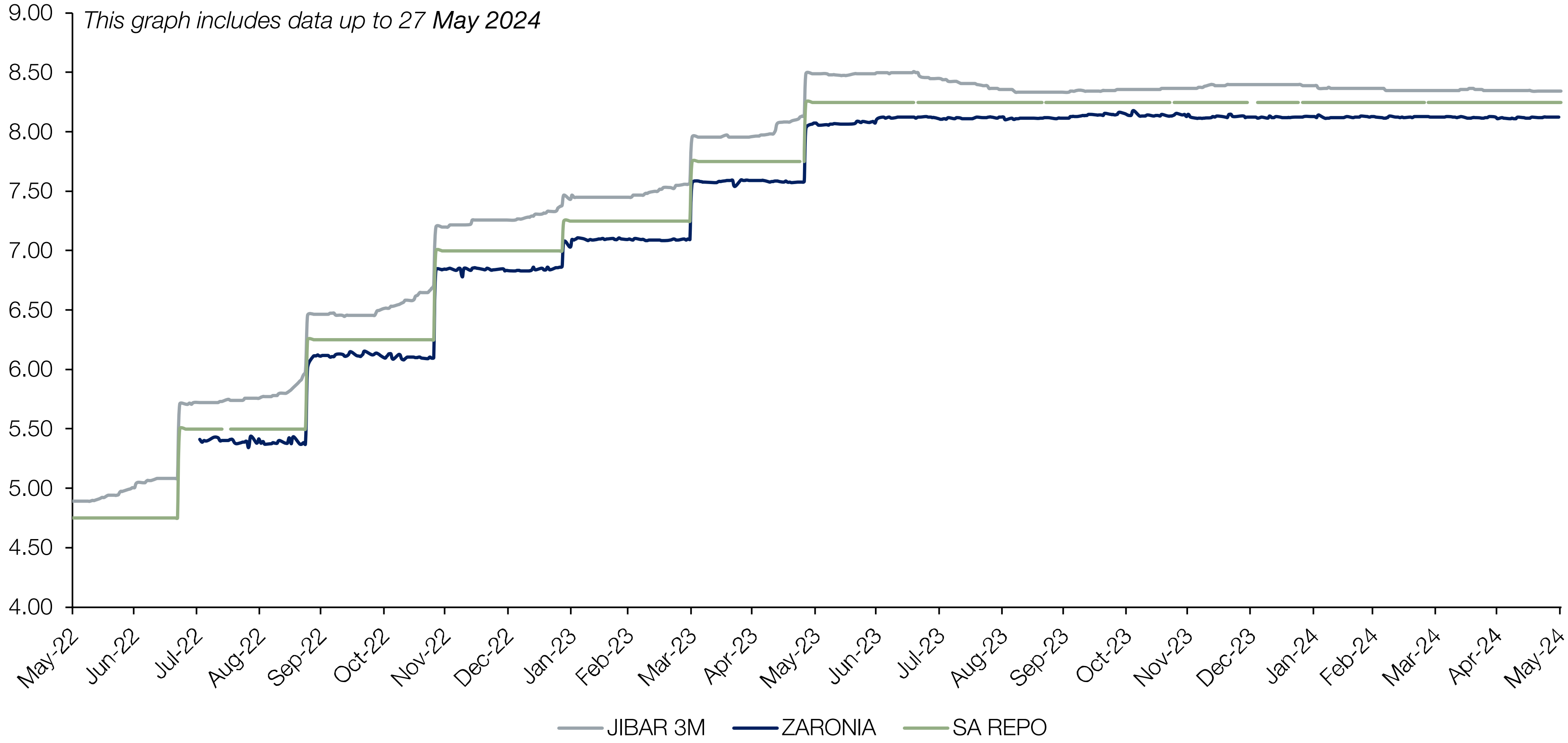
Liquidity risk regulatory update

- PA published Directive 11/2022 on 14 December 2022 addressing items of national discretion relating LCR
  - Inclusion of foreign currency denominated level 1 HQLA for purposes of domestic currency LCR, withdrawn as of **31 December 2024**
- PA published Directive 1/2023 on 23 January 2023, addressing items of national discretion relating to NSFR
  - At inception, the PA amended the NSFR framework to assign a 35% available stable funding (ASF) factor to funding received from financial corporates, excluding banks, that will mature within six months
  - To be fully compliant with the NSFR framework as stipulated in global regulations, the 35% ASF will be phased out as set out below:

ASF for funding from financial corporates* maturing within six months	
1 June 2023 to 31 Dec 2023	30%
1 Jan 2024 to 31 Dec 2024	**20%**
1 Jan 2025 to 31 Dec 2027	10%
1 Jan 2028 onwards	0%

** Excluding banks.*

ZARONIA vs repo vs 3m Jibar



ZARONIA observation ended at the beginning of November 2023 – the rate is available for use in the market

Sources: Bloomberg and https://www.resbank.co.za/en/home/.

Summary of recommended ZARONIA conventions

Convention	Derivatives market	Money market	Bond market	Loan market
Calculation usage and method	Daily overnight rate is compounded over the interest period	Daily overnight rate is compounded over the interest period	Daily overnight rate is compounded over the interest period	Daily overnight rate is compounded over the interest period
Lookback	0-business day lookback	1-business day lookback	5-business day lookback	5-business day lookback
Observation	Not applicable	Without observation shift	Without observation shift	Without observation shift
Expression and rounding of the rate	Simple Rounded to 6dp (4dp if expressed as a percentage)	Simple Rounded to 6dp (4dp if expressed as a percentage)	Simple Rounded to 6dp (4dp if expressed as a percentage)	Simple Rounded to 6dp (4dp if expressed as a percentage)
Day count convention	Actual/365 Fixed	Actual/365 Fixed	Actual/365 Fixed	Actual/365 Fixed
Margin/spread	Simple added to the compounded rate	Simple added to the compounded rate	Simple added to the compounded rate	Simple added to the compounded rate
Interest rounding	2 dp	2 dp	2 dp	2 dp
Settlement lag	2-business day	Not applicable	Not applicable	Not applicable
Credit adjustment spread (CAS)	To be determined	To be determined	To be determined	To be determined
Floor (negotiable)	Not applicable	Not applicable	Not applicable	New agreements floor ZARONIA Existing agreements floor ZARONIA + CAS

Disclaimer

This presentation is supplied to you solely for your information and may not be reproduced, redistributed, referenced, expanded upon, interpreted or passed on to any other person or published in whole or in part for any other purpose.

This presentation does not constitute an offer or invitation to subscribe for or purchase any securities and nothing contained herein shall form the basis of any contract or commitment whatsoever. Any decision to purchase securities in the context of a proposed offering of securities, if any, should be made solely on the basis of information contained within an offering circular, programme memorandum or prospectus published in relation to such an offering.

This presentation is being communicated only to persons who have professional experience in matters relating to investments and to persons to whom it may be lawful to communicate it to (all such persons being referred to as relevant persons). This presentation is only directed at relevant persons and any investment or investment activity to which this presentation relates is only available to relevant persons or will be engaged in only with relevant persons. Solicitations resulting from this presentation will only be responded to if the person concerned is a relevant person. Other persons should not rely or act upon this presentation or any of its contents.

No independent verification of the statements and information set out in this presentation has been made. FirstRand Bank Limited (FRB), its directors, officers, employees, representatives and agents do not make or give any representation, warranty or guarantee (express or implied) as to the accuracy, reliability or completeness of the statements and information contained in this presentation or subsequently provided to any relevant persons. Accordingly, FRB, its directors, officers, employees, representatives and agents will not be liable for any direct, indirect, punitive, incidental, special and/or consequential damages, loss or harm arising out of or in any way connected with the use and/or reliance of the information set out in this presentation and such responsibility is expressly hereby disclaimed and excluded.

Nothing in this presentation should be construed as legal, financial, accounting, tax or other advice and relevant persons should determine for themselves the relevance of the information contained in this presentation.

FRB or its associates, directors, officers or employees may have interests in the financial products referred to in this presentation by acting in various capacities and may receive fees, brokerage or commissions for acting in those capacities.

By participating in this presentation or by accepting any copy of the slides presented, you agree to be bound by the foregoing limitations.