



ACTUARIAL SOCIETY
SOUTH AFRICA

Capital Market Considerations For Banks

August 2024

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1.1 The regulatory landscape continues to evolve



Regulatory Theme		Upcoming regulations			
 Capital		2025 Finalisation of Basel III (Basel IV)	2026 Countercyclical Buffer (PCN CCyB)	2026 Crypto Assets	2024 - 2030 Resolution Framework (including Flac)
 Funding		2023 - 2027 Net Stable Funding Ratio Amendment (NSFR)			
 Financial Stability		2024 Depositor Insurance Scheme (DIS)	2024 & Beyond Climate Risk		
 Benchmark Reform		TBC [2026] Jibar Transition to ZARONIA	TBC [2024Q4] Benchmark Code of Conduct		

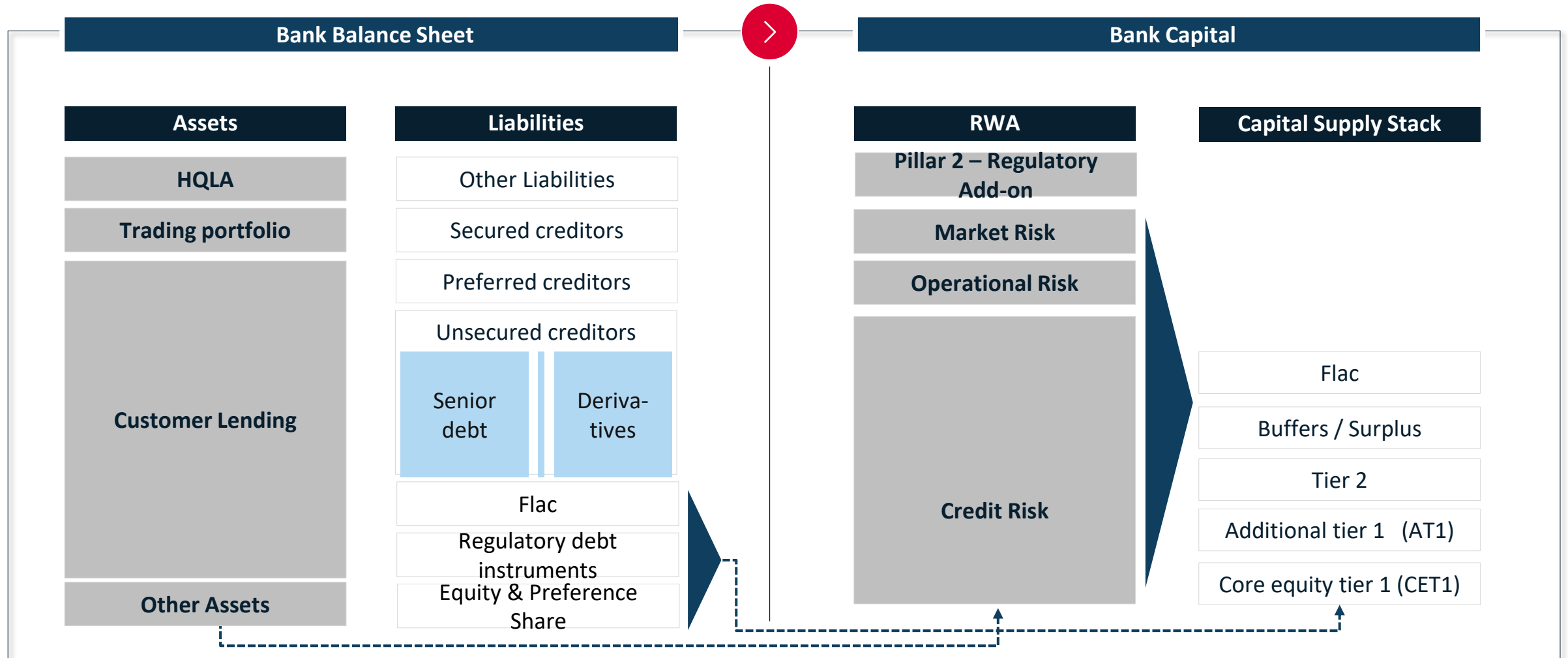
Timing

Banks only impact

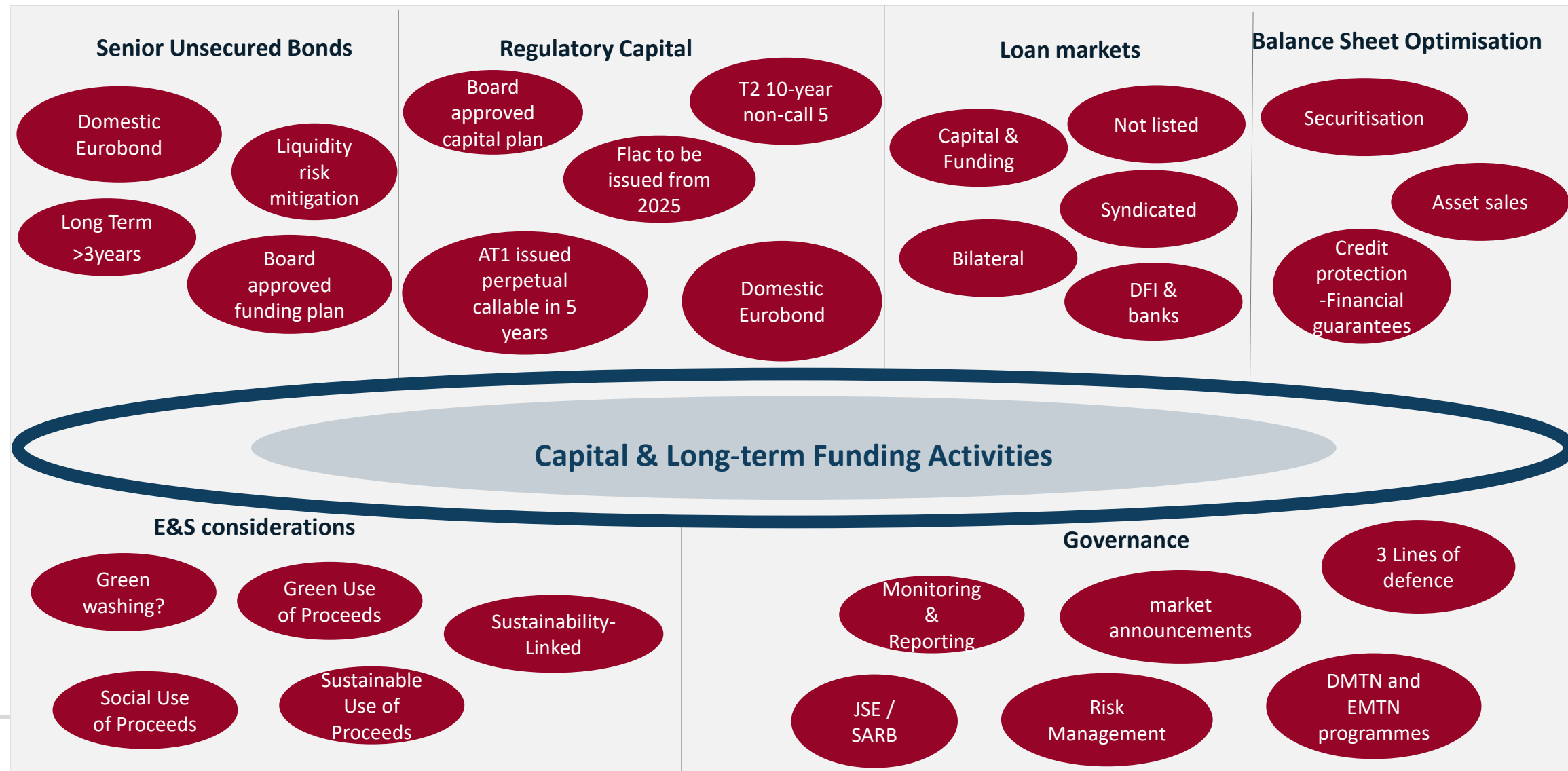
Financial market impact

Topic covered

1.2 Balance Sheet and Capital Stack



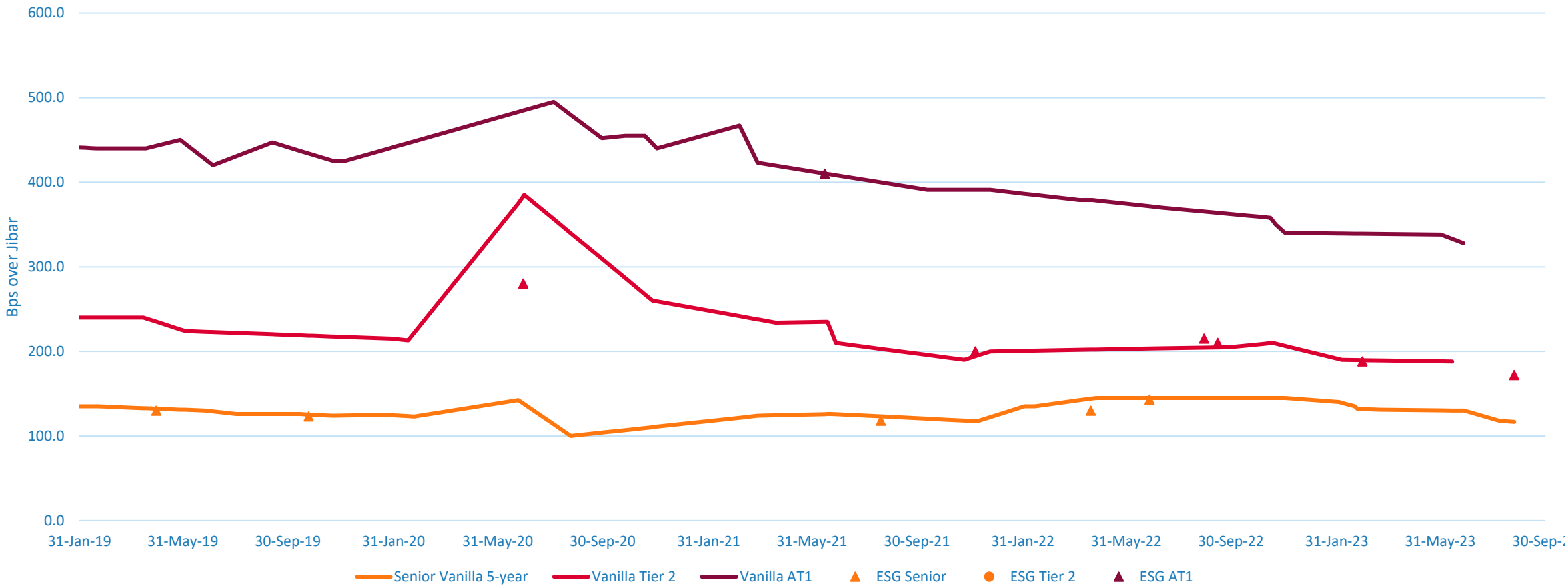
2. Market Considerations



3. Pricing



ESG vs Vanilla

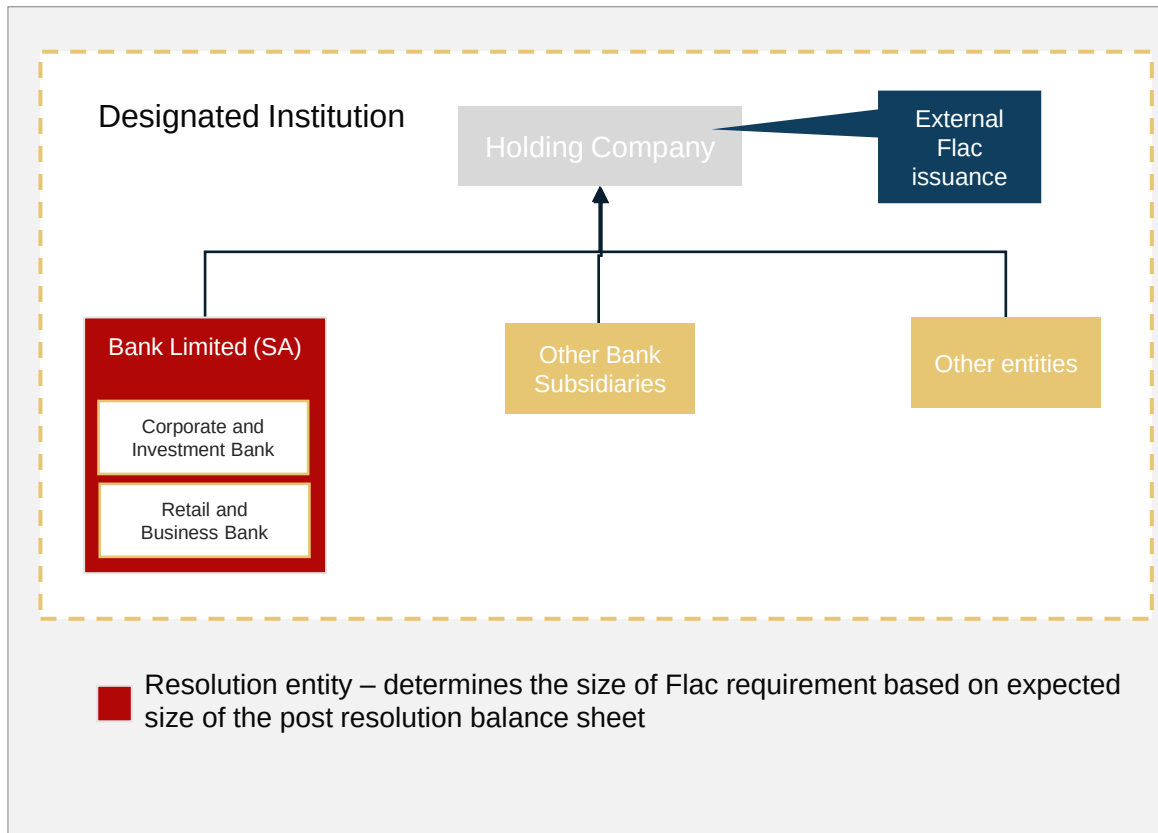


4.1 Flac Issuance



South African Bank is expected to be the driver for the Flac calibration in Bank Group

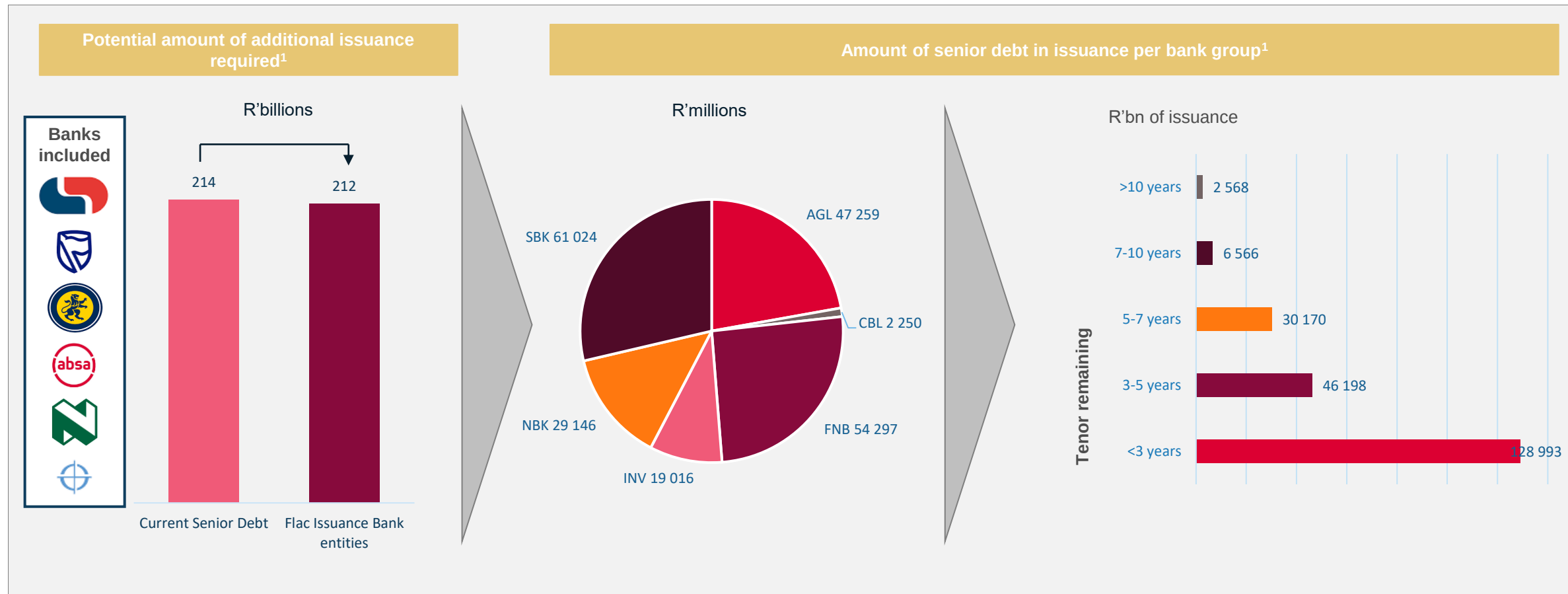
Flac characteristics



Flac issuances need to:

- 1) Be issued out of the holding company
- 2) Governing law of the bail-in clauses is South Africa
- 3) Be fully paid
- 4) Be unfunded by the issuing designated institution
- 5) Be unsecured
- 6) Not be subject to set-off
- 7) Have a minimum initial maturity of 24 months
- 8) Have a minimum remaining maturity of 12 months
- 9) Set out the ranking of the instruments in line with the creditor hierarchy
- 10) Not contain derivative-linked features
- 11) Not contain acceleration clauses
- 12) Be for sum equal to or more than the prescribed minimum denomination when converted to South African rand
- 13) Deduct Flac holdings issued by other designated institutions
- 14) Terms and conditions of the instrument are to be approved by the SARB
- 15) No early redemption unless:
 - i. The instrument ceases to qualify as Flac; or
 - ii. Demonstration to the SARB that redemption will not result in minimum requirements being breached

4.2 Flac issuances are expected to replace senior



¹Figures represented as at 30 June 2024.

Assumptions:

Market incorporates the same assumptions as Absa, including Asset/RWA growth, using the respective peer's balance sheet

minCAR: 8% Capital adequacy ratio, 1% Pillar 2A, 0.5% Pillar 2B

Fully phased in, Flac is required to at least 1/3 of total loss absorbing capital (minCAR + MFR).

5. ESG Considerations



Banks published sustainable finance issuance frameworks under which it intends to issue thematic instruments such as green, social and/or sustainability bonds, loans and/or deposits, earmarked specifically for use of proceeds.

Sustainable Issuance Framework to guide

Aligned to international best practices and guidance as issued by the International Capital Markets Association (ICMA) and the Loan Market Association guidelines (LMA)

ICMA/LMA Core Components

Use of proceeds

Develop the Bank's Taxonomy based on ICMA principles and national guidelines. Taxonomy mapped to group's priority SDG's

Process for project evaluation and selection

Group applies a 3-step approach i.e.: categorisation, screening and approval of eligible assets
Sustainable Asset Register (SAR) has been developed to track eligible assets

Management of proceeds

Proceeds of issuances are held in a sub portfolio and earmarked for financing and refinancing of green and social assets

Allocation and impact reporting

Banks will prepare publish annual allocation and impact reports which will be verified by external auditors

A Second Party Opinion (SPO) is provided on the framework. The framework, SPO and annual reports are made available on the Bank's website

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