



Stanbic Bank

Global Markets Client Solutions: Institutional Investors

*Alternative investment instruments should be created or developed, locally,
even if non-conventional in nature
Investment ideas for Pula investors*

Botswana Pension Society 2017 Annual Conference

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Introduction

- Well understood that the Pula market has a shortage of assets
- Can we be creative in finding new assets or investment instruments?
- Yes and no
 - Yes: Instruments like commodity ETFs provide new investment opportunities
 - No: We shouldn't compromise common sense principles just to find new assets
- New investment instruments should be local assets that become available on the back of broad-based economic growth
- These assets will provide the most sustainable long term, locally generated returns for pensioners
- In the meantime, exporting capital abroad and repatriating over time is not a bad thing for as long as it protects pensioners' retirement nest eggs
- In addition to corporate bonds and equities, what new products can we expect from banks in particular?

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Introduction to Structured Notes

Structured notes are bank investments with bespoke return profiles

Returns linked to performance of various underlying assets

For example: Equities, Credit, Inflation, Commodities and Currencies

Provide investors with opportunities to earn an enhanced returns, where returns are driven by performance of underlying assets / financial instruments

Investment considerations:

Liquidity

Can you commit to invest to maturity?

Liabilities

What is the nature of your liabilities?

Risks

Do you have the risk appetite for the product?

View

What is your view on the underlying market?

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Introduction to Structured Notes

Benefits

- Simplicity: Tailored profiles
- Listed on exchange
- Enhanced Yield: Opportunity to earn superior returns relative to fixed term deposits
- Diversification: Broadens exposure to other financial instruments in a measured way
- No fees

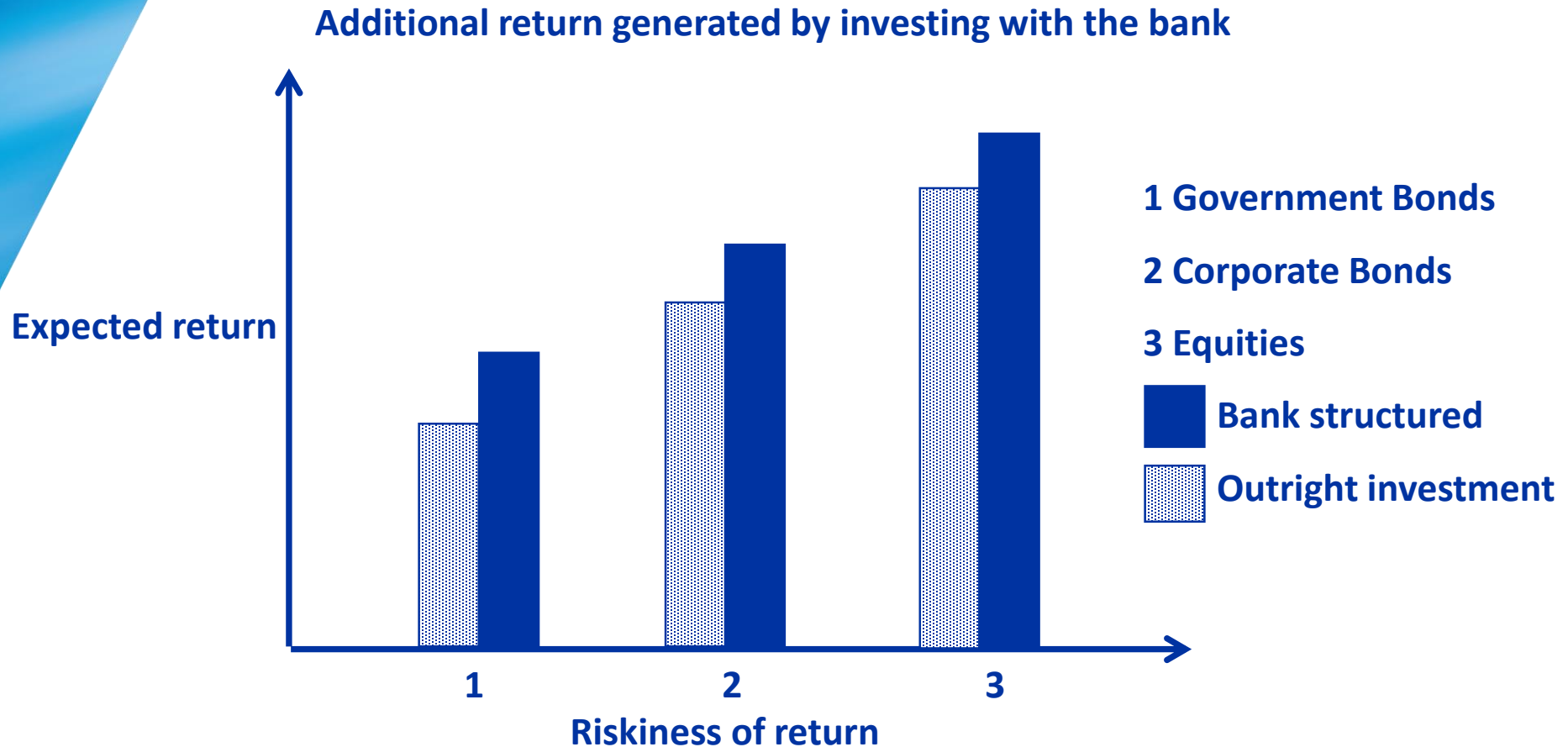
Risks

- Liquidity Risk : Designed to be held to maturity. Early unwind may come at a cost
- Market or investment risk : The return is linked to the performance of an underlying asset, and as such the asset may underperform
- Issuer / Credit Risk : The bank is the issuer of the product, so the investor takes bank credit risk

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Pushing out the efficient frontier?



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Bond Replica Notes

Description

- Notes issued by banks that replica payoff of Government Bond. So, in short, they have the **same coupon rate and maturity date as Govi bond**
- Because they are issued by banks, they are available at higher yields than Government Bonds
- Useful tool for fixed income portfolios. Same future cash flows at cheaper price

Example tradable levels

- Underlying RSA Government Bonds = R100mln nominal R186
- Yield on bond = 8.70%
- Price of Government Bonds = **ZAR 113,681,240.00**
- Yield on Bond Replica Note = 10.10%
- Price of Bond Replica Notes = **ZAR 104,414,040**

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Credit Linked Notes

Description

- A Credit Linked Note (CLN) is a note that:
 - Pays an enhanced yield as well as final principal repayment at maturity (provided no credit event occurs on underlying credit referenced in the CLN)
- Payments contingent on creditworthiness of underlying reference entity (E.g. Eskom)
- The investor receives **excess return for taking credit risk to underlying entity**
- If credit event occurs, coupon payments are suspended and investor receives a recovery amount. Amount is **similar to recovery on corporate bond** of underlying reference entity
- **Example levels**
- 8yr ZAR CLN on power utility Eskom yields RSA Government + 300 basis points = 11.50% nacs

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Equity Linked Notes

Description

- Equity linked notes provide upside exposure to JSE TOP40 Index, up to return of the equity cap. **No downside exposure to equity index.**
- Deposits structured to include a minimum guaranteed return at maturity
- **Zero tracking error** to the positive return of the equity index and Stanbic Bank does not charge performance fees
- **At maturity, the investor receives:** 100% of the nominal amount, **plus** Guaranteed return, **plus** simple average growth of the TOP40 Index. Average growth determined by fixing the index in the last three months of the note, capped at a specified level

Indicative pricing

Tenor	Guaranteed return	Min return at maturity	Max return at maturity	Max return IRR (p.a.)	Upside Participation
5yr	15.00%	115%	201.21%	15.00%	100.00%

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What about the currency – BWP is 55% SDR after all?



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What about the currency – BWP is 50% SDR after all?

- Stanbic Bank offers the ability to hedge BWPZAR via cross currency swaps
- For a ZAR investment, it makes sense to hedge 50% of the notional
- The Pula investors pays a rate in ZAR to plus the initial ZAR principal at maturity
- The Pula investor receives a rate in BWP plus the initial BWP Principal at maturity

Indicative pricing

Term = 3 years

Pula investors pays ZAR Government Bond yield

Pula investor receives 4.75% in BWP

Term = 5 years

Pula investors pays ZAR Government Bond yield

Pula investor receives 5.25% in BWP

All trades must be done under ISDA and CSA, with collateral transferred both ways to cater for market movements

A dramatic sunset over a savanna landscape. The sky is filled with large, dark, billowing clouds that are illuminated from below by the setting sun, creating a fiery orange and yellow glow. Sunbeams (crepuscular rays) are visible breaking through the clouds. In the foreground, a large elephant stands in a field of dry, golden-brown grass. To the left, two more elephants are visible in the distance. The horizon is marked by a line of acacia trees and distant hills under the colorful sky.

Africa is our Home, we drive her Growth

Questions?



Stanbic Bank Moving Forward™