BASEL PILLAR 3 DISCLOSURE

FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

FIRSTRAND

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FIRSTRAND

1966/010753/06 Sharecode: FSR ISIN: ZAE000066304
Certain entities within the FirstRand Group are Authorised Financial Services and Credit Providers
This document is available on the Group's website: www.firstrand.co.za
Email questions to investor.relations@firstrand.co.za

OVERVIEW

The Group consists of a portfolio of leading financial services franchises; these are First National Bank (FNB), the retail and commercial bank, Rand Merchant Bank (RMB), the corporate and investment bank, WesBank, the instalment finance business and Ashburton Investments, the Group's newly-established investment management business.

FirstRand Limited (FirstRand or the Group) believes that effective risk, capital and performance management are of primary importance to its success and is a key component of the delivery of sustainable returns to its shareholders. It is therefore deeply embedded in the Group's tactical and strategic decision making. The Group aligns its risk management approach to its strategy.

The Group defines risk widely – as any factor that, if not adequately assessed, monitored and managed, may prevent it from achieving its business objectives or result in adverse outcomes, including damage to its reputation.

Risk taking is an essential part of the Group's business and FirstRand explicitly recognises risk identification, assessment, monitoring and management as core competencies and important differentiators in the competitive environment in which it operates.

The Group's vision is to be the African financial services group of choice, create long-term franchise value, deliver superior and sustainable economic returns to shareholders within acceptable levels of volatility and maintain balance sheet strength. FirstRand seeks to achieve this with two parallel growth strategies which are executed through its portfolio of operating franchises within a framework set by the Group.

The growth strategies are:

- become a predominant player in all of the financial services profit pools in South Africa, growing in existing markets and those where it is under-represented; and
- grow its franchise in the broader African continent, targeting those countries expected to show above average domestic growth and which are well positioned to benefit from the trade and investment flows between Africa, India and China.

BASEL PILLAR 3 DISCLOSURE

Regulation 43 of the revised Regulations of the Banks Act, 1990 (Act No. 94 of 1990), requires that a bank shall disclose in its annual financial statements and other disclosures to the public, reliable, relevant and timely qualitative and quantitative information that enables users of that information to make an accurate assessment of the bank's financial condition, including its capital adequacy, financial performance, business activities, risk profile and risk management practice. This disclosure requirement is commonly known as Pillar 3 of the Basel Accord. This is FirstRand's Basel six-monthly Pillar 3 disclosure and complies with the risk disclosure requirements of regulation 43 of the *Regulations relating to Banks*. The composite of pillar 3 capital disclosures can be found on the Group's website.

The Group's financial performance for the six months ended 31 December 2013 is covered in the *Analysis of financial results for the six months ended 31 December 2013* and the *Unaudited interim results and cash dividend declaration for the six months ended 31 December 2013*, which are available on the Group's website, www.firstrand.co.za.

FirstRand Limited is the listed holding company and regulated bank-controlling company. The wholly-owned subsidiaries of FirstRand, which are all regulated, are:

- FirstRand Bank Limited (the Bank or FRB);
- FirstRand EMA Holdings Limited (FREMA);
- FirstRand Investment Holdings Proprietary Limited (FRIHL); and
- Ashburton Investments Holdings Limited (Ashburton Investments).

FRB and FREMA include the banking operations. Ashburton Investments is the Group's investment management business and all other activities are included under FRIHL. A simplified group structure can be found on page 86 of this report.

Some differences exist between the practices, approaches, processes and policies of the Bank and its fellow wholly-owned subsidiaries and these are highlighted by a reference to the appropriate entity, where necessary. This report has been internally verified by the Group's governance processes in line with the Group's public disclosure policy.

MANAGING THE RISK PROFILE

The Group believes a strong balance sheet is key to growth, particularly when entering periods of uncertainty. The Group's focus areas, to manage its risk profile and optimise its portfolio, are:

Earnings resilience and balance sheet strength

- Strong earnings resilience through diversification, growth in client franchise, appropriate risk appetite and positive operating margins.
- Quality of returns through maintaining ROE within the target range, with a focus on ROA (not gearing) and discipline in deployment of capital.
- Maintain balance sheet strength through:
  - appropriate action in new business origination;
  - manage non-performing loans (NPLs) and coverage ratios;
  - grow the deposit franchise and improve liquidity profile; and
  - maintain a strong capital position.

Current targeted capital levels and actual ratios are summarised in the following table.

Capital adequacy position

%	Common Equity Tier 1	Tier 1	Total
Regulatory minimum*	4.5	6.0	9.5
Target	9.5 – 11.0	11.0	12.0 – 13.5
FirstRand actual	**13.7**	**14.8**	**16.2**
FirstRand Bank actual**	**13.4**	**14.1**	**15.7**

* *Excludes the bank-specific individual capital requirement.*
** *Reflects solo supervision, i.e. FRB excluding foreign branches.*

Risk governance

- Balance the Group's overall risk capacity with a bottom-up and consolidated view of the planned risk profile for each business, in line with the board risk appetite principles.
- Strong risk governance with multiple points of control applied consistently throughout the organisation.

TOP AND EMERGING RISKS

Macroeconomic

- Continued improvement in developed market growth combined with tapering of monetary policy in the US, has resulted in emerging market volatility and uncertainty in global financial markets.
- The outlook for growth in the South African economy remains weak assuming the domestic economy will continue to attract sufficient capital to keep the rand within current ranges.
- South Africa remains vulnerable to its reliance on foreign funding. In addition, the economy will likely be adversely affected in view of the anticipated interest rate cycle.
- Negative developments in other emerging markets may result in contagion risk to South Africa. This includes slowdown in China.
- Consumers' disposable income will remain constrained resulting in continued pressure on the retail credit book performance and growth. This may also result in increased levels of NPLs including unsecured lending portfolios, in particular when interest rates and administered prices continue increasing.

Regulatory

- A changing and tougher regulatory landscape (Anti-Money Laundering, Know Your Customer, Financial Intelligence Centre Act, National Credit Act, Treating Customers Fairly, Protection of Personal Information and Basel III) will result in higher compliance costs and increased risk of regulatory fines. This is further exacerbated by international requirements such as the Foreign Account Tax Compliance Act and Office of Foreign Asset Control Sanctions, which do not form part of South African law, but which banks have to apply in order to maintain correspondent banking relationships and secure funding.

Other risks

- With global cybercrime increasing, the Group continues to focus on protective measures against external and internal attacks.
- Focus remains on a number of operational risk initiatives to improve operational process efficiency and strengthen the control environment.

RECENT AND FUTURE REGULATORY CHANGES

The large volume of new regulatory and supervisory standards and requirements issued by international standard-setting bodies such as the Basel Committee on Banking Supervision (BCBS) requires ongoing review of South Africa's banking legislation and regulatory requirements in order to ensure that it aligns appropriately with international standards. Recent amendments to the Banks Act and the *Regulations relating to Banks* included the implementation of the Basel III regulations with effect from 1 January 2013 and the Banks Amendment Act 22 of 2013, which came into effect on 10 December 2013.

Twin peaks

An important development in respect of the regulatory framework was a document issued for public comment in February 2013 by the Financial Regulatory Reform Steering Committee. This provides information on a wide-ranging set of reforms and proposals relating to, amongst others, the implementation of a twin peaks model of financial regulation in South Africa; details of which were initially published during February 2011 in a policy document, *A safer financial sector to serve South Africa better.* In this regard, four policy priorities were identified in order to reform the financial sector, including:

- financial stability;
- consumer protection and market conduct;
- expanding access of financial services through inclusion; and
- combating financial crime.

National Treasury indicated that the achievement of these objectives necessitates a change in the South African regulatory landscape from both a structural and a policy perspective which will include the introduction of a twin-peaks approach to financial sector regulation. The introduction of a twin-peaks approach to financial sector regulation will primarily be aimed at the enhancement of systemic stability, improving market conduct regulation, sound micro- and macro prudential regulation and the strengthening of the operational independence, governance and accountability of regulators.

Financial regulatory reforms will be implemented in two phases, along with the development of necessary legislation to enable the relevant regulators to deliver on revised mandates. The draft Financial Sector Regulation Bill, 2013, the first of a series of bills to be published in order to achieve the financial regulatory objectives of the twin peaks model of financial regulation in South Africa, was published in December 2013. The design and implementation of a twin peaks model of financial regulation is a complex undertaking that requires substantial consultation and the Group will, as a key stakeholder, continue to foster close interaction and cooperation with the authorities and other stakeholders.

HIGHLIGHTS

Below is a high-level overview of strategic, operational and functional outcomes resulting from execution of strategy, and related risk management focus areas.

<table>
<tr><th>Outcomes</th><th>Risk management focus areas</th></tr>
<tr><td colspan="2">Capital management</td></tr>
<tr><td>

During the period under review, the South African Reserve Bank (SARB) issued guidance covering the following:

loss absorbency requirements for capital instruments, including Additional Tier 1 (AT1) and Tier 2 instruments; and
final add-on for domestic systemically important banks (D-SIB), however this add-on is confidential.

The BCBS released various consultative papers over the past six months. These papers cover various topics and are at different stages of testing, finalisation and implementation.

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The Group continues to focus on the most optimal capital mix following guidance from SARB on the loss absorbency requirements for capital instruments, as well as capacity for new issuance in the capital markets.
In addition, the Group will look at

maintaining strong capital levels, with particular focus on the quality of capital; and
optimising the Group's risk-weighted assets (RWA) and capital mix during the transitional period of Basel III implementation.

The Group continues to participate in the SARB quantitative impact studies to assess the impact of Basel III developments on capital adequacy ratios.

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<tr><td colspan="2">Credit risk</td></tr>
<tr><td>

Growth in advances year-on-year was driven by card, secured affordable housing, overdrafts and the FNB Africa subsidiaries. Growth in RMB's core advances was also supported by activities in the rest of Africa. On a rolling six-month basis, growth in certain retail portfolios, such as unsecured lending and vehicle and asset-based finance (VAF), moderated.
Residential mortgages grew 5% as FNB continued to originate only in low-risk categories. Card issuing increased 13% on the back of new customer acquisition. Personal loans declined 2% year-on-year and 5% on a rolling six-month basis, reflecting the ongoing adjustments in credit appetite in that segment.
Bad debts were at 77 bps and all of the Group's portfolios are tracking as anticipated, reflecting origination decisions taken as early as 2011 to exit high-risk segments, particularly in the unsecured lending market.
Overall NPLs continued to trend down, with retail NPLs declining 8% mainly as a result of the continuing significant reductions in residential mortgages NPLs.
Unsecured lending NPLs increased, although all of these loan books are still performing better than expected at this point in the cycle.
Overall FNB's NPLs decreased 12% mainly due to its ongoing proactive workout strategy (particularly in residential mortgages) although, as anticipated, NPLs in the personal loans portfolio remained flat.
WesBank's NPLs % continued to reduce (2.67% at December 2013 compared to 2.76% at June 2013 and 3.14% at December 2012) despite the high proportion of restructured debt review accounts, which are still disclosed as non-performing regardless of repayment behaviour. These accounts are increasing as a proportion of NPLs; in the period under review these accounts represented 22% of NPLs which compares to 18% at June 2013.
Corporate NPLs declined 14% as a result of decreases in the WesBank Corporate and RMB portfolios.

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Retail credit portfolio

Continued focus on limiting credit extension in the unsecured portfolios to existing retail transactional customers.
Ongoing refinement of credit scorecards aligned to risk appetite.
Given worsening macro environment, continue to focus on extending credit to lower-risk customers.
Enhance collection capabilities across the retail portfolios.

Commercial credit portfolio

Credit origination focused on relationship banking with non-banked lending performed only where pricing is appropriate for the increased risk.
Further develop commercial lending skills and product offerings, in support of the Group's rest of Africa and Asian corridors strategy.
Strengthen ongoing risk management and legal recoveries capacity as rising interest rate cycle is expected to increase arrears and NPLs.

Corporate credit portfolio

Monitor credit concentration in industries affected by labour unrest.
Ensure movements in facilities reflect origination strategy, i.e. predominantly to better-rated counterparties, medium and low-volatility industries and the rest of Africa.

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</table>

Outcomes	Risk management focus areas
Counterparty risk	
• Compliance with global regulatory reform requirements. • Improved credit risk mitigation through legal provisions and financial collateral.	• Continued incorporation of the rest of Africa businesses into the counterparty credit risk process. • Extract gains through optimal management of collateral. • Risk management of credit and funding fair value adjustments of derivatives.
Market risk	
Market risk in the trading book	
• Overall levels of and appetite for market risk across the Group remained relatively low compared to previous periods, given recent market volatility and macroeconomic uncertainty. • Notable improvements in defining market risk analytics for the Group's asset management activities.	• Improve the current market risk operational platform, investigate market risk system enhancements, and implement market risk analytics for asset management activities.
Equity investment risk	
• Regular movements in the portfolio including realisations and new investments during the period. • Certain industries presented new investment opportunities for the Group and sector concentrations have been managed in light of the macro environment.	• Ashburton Investments will continue to enhance its profile in the market with a number of new investment offerings.
Interest rate risk in the banking book (IRRBB)	
• South African rates remained at historically low levels during the period under review.	• The endowment book (capital and lazy deposits) is positioned to benefit from rising interest rates. • Improve the quality and frequency of interest rate risk identification, management and analysis throughout the Group. • Changes in the regulatory environment and impact on the management of IRRBB, including the fundamental review of the trading book and the impact this may have on the banking versus trading book split.
Foreign exchange and translation risk in the banking book	
• Continued to strengthen principles regarding the management of foreign exchange positions and funding to the Group's foreign entities. • Net open forward positions in foreign exchange (NOFP) limits were set for each of the foreign entities, together with a reporting and management framework and the foreign exchange market risk framework and limits.	• Management of foreign exchange exposures on the balance sheets of the Group's foreign entities. • Continually assess and review the Group's foreign exchange exposures and enhance the quality and frequency of reporting.

Outcomes	Risk management focus areas
Funding and liquidity risk	
• The liquidity coverage ratio (LCR) was fully adopted by the SARB with the inclusion of a committed liquidity facility (CLF) and will be phased in from 2015 to 2019. The minimum requirement will be for an LCR of 60% at 1 January 2015, with 10% incremental step ups each year to 100% on 1 January 2019. • In order to include the CLF in banks' available liquidity resources, a considerable amount of work is first required to appropriately structure and prepare the bank's assets to access such a facility. The collateral requirements include structuring features, eligibility criteria and haircuts designed to protect all counterparties. • The Group continues to optimise a risk-adjusted diversified funding profile in line with Basel III requirements relating to the LCR and is actively building its deposit franchise through innovative and competitive products and pricing, while improving the risk profile of its institutional funding. • Over the past year the deposit franchise funding grew by 14% and the term structure of institutional funding increased by 3 months.	• The liquidity reforms under Basel III seek to address two aspects of liquidity risk: – The LCR addresses short-term liquidity risk and cash management; and – The net stable funding ratio (NSFR) addresses the structural liquidity risk of the balance sheet. • In January 2013, the BCBS released an amendment to the LCR and finalised LCR requirements and implementation dates. • The BCBS released an update on the NSFR in January 2014. The consultative paper proposes a better alignment between the LCR and NSFR, which will allow for balance sheet improvements between LCR and NSFR. The Group believes that the calibration and LCR alignment has improved. • The Basel III liquidity regime continues to be a focus for the Group with emphasis on both funding and market liquidity risk management and particular attention on the structural funding constraints of the South African market.
Operational risk	
• Rolled out the process-based risk and control identification and assessment methodology for all key products/services across the Group. • Automated all the operational risk tools onto a single platform to enhance efficiencies in operational risk management processes. • Operational risk profiles at Group and franchise level tracked against approved risk appetite levels on a regular basis. • Defined generic key operational risk drivers to improve assessment. • Reviewed key risk indicators for relevance, completeness, appropriateness and predictability. • Enhanced the operational risk scenario methodology to increase objectivity in the scenario analysis process. • Improved efficiency of the internal validation process.	• Create an integrated view of the operational risk profiles across business areas based on risk data available on the single operational risk management platform. • Regularly track the progress of business projects, which address key identified operational risks across the Group. • Embed and improve the process-based risk and control identification and assessment methodology through comprehensive coverage of, inter alia, handover points, information governance, regulatory, legal and IT risks. • Define operational risk appetite at segment/business unit levels. • Update advanced measurement approach (AMA) capital modelling methodology and software.
Regulatory risk	
• The proposed implementation of a twin peaks model of financial regulation in South Africa. • The Banks Amendment Act 22 of 2013, effective from 10 December 2013, serves to, among other, amend banking legislation in line with requirements of the BCBS. • The draft Financial Sector Regulation Bill, 2013, the first of a series of bills to achieve financial regulatory objectives of the twin peaks model of financial regulation in South Africa, was published in December 2013.	• Continued support for regulatory objectives and endorsement of improvements in risk management and governance practices, and cooperation with regulatory authorities and other stakeholders.

IMPROVED DISCLOSURE

An assessment during 2013 of the Group's Basel Pillar 3 disclosure in terms of the Financial Stability Board's (FSB) Report of the Enhanced Disclosure Task Force on risk disclosure of banks identified a number of recommendations which have been included in the Group's disclosure. The Group continues to improve its risk disclosure to address recommendations from regulators, investors, shareholders, the enhanced disclosure report and other users of the Pillar 3 report.

BASEL APPROACHES

The following approaches are adopted by the Group for the calculation of RWA.

Risk type	FRB domestic operations	SARB approval date	Remaining FirstRand subsidiaries and FRB foreign operations	FRIHL entities
Credit risk	Advanced internal ratings-based (AIRB) approach	January 2008	Standardised approach	Standardised approach
Counterparty credit risk	Standardised method	May 2012	Current exposure method	Current exposure method
Market risk	Internal model approach	July 2007	Standardised approach	Standardised approach
Equity investment risk	Market-based approach: simple risk-weighted method	June 2011	Market-based approach: simple risk-weighted method	Market-based approach: simple risk-weighted method
Operational risk*	Advanced measurement approach (AMA)	January 2009	The standardised approach (TSA)	Basic indicator approach (BIA), TSA, AMA*
Other assets	Standardised approach	January 2008	Standardised approach	Standardised approach

* *All entities on the AMA and TSA for operational risk were included in the approval for use of AMA and TSA from January 2009; some entities were moved to FRIHL with a subsequent legal entity restructure. All other entities in FRIHL are on the BIA approach.*

BASIS OF CONSOLIDATION

Consolidation of all entities for accounting purposes is in accordance with International Financial Reporting Standards (IFRS) and for regulatory purposes in accordance with the requirements of Basel, the Banks Act and accompanying regulations. There are some differences in the manner in which entities are consolidated for accounting and regulatory purposes. The following table provides the basis on which the different types of entities are treated for regulatory purposes.

Regulatory consolidation treatment

<table>
<tr><th>Shareholding</th><th>Banking, security firm or financial entity</th><th>Insurance entity</th><th>Commercial entity</th></tr>
<tr><td>Between 10% and 20%</td><td colspan="2">› refer to threshold rules*.</td><td>Internal ratings-based approach risk weight up to maximum of 1250%.</td></tr>
<tr><td>Between 20% and 50%</td><td>Legal or de facto support:
› proportionately consolidate.
No other significant shareholder:
› refer to threshold rules*.</td><td rowspan="2">Refer to threshold rules*.</td><td rowspan="2">Individual investment greater than 15% of CET1, AT1, Tier 2:
› risk weight at 1250%.
Individual investment up to 15% of CET1, AT1 and Tier 2:
› risk weight at no less than 100%.</td></tr>
<tr><td>Greater than 50%</td><td>Entity conducting trading activities/other bank, security firm or financial entity:
› consolidate.</td></tr>
</table>

* *As per regulation 38(5) of the Regulations relating to Banks.*

DEFINITIONS

The Group is exposed to a number of risks that are inherent in its operations. Identifying, assessing, pricing for and managing these risks appropriately are core competencies of the individual business areas. Individual risk types are commonly grouped into three broad categories; strategic and business risks, financial risks and operational risks.

Risk category reference	Risk components	Definition
Strategic and business risks	Includes strategic risk, business risk, volume and margin risk, reputational risk, and environmental, social and governance (ESG) risks.	Strategic risk is the risk to current or prospective earnings arising from inappropriate business decisions or the improper implementation of such decisions.
		Business risk is the risk to earnings and capital from potential changes in the business environment, client behaviour and technological progress. Business risk is associated with volume and margin risk and relates to the Group's ability to generate sufficient levels of revenue to offset its costs.
		Reputational risk is the risk of reputational damage due to compliance failures, pending litigation, underperformance or negative media coverage.
		ESG risks focus on the environmental, social and governance issues which impact the Group's ability to successfully and sustainably implement business strategy.
Financial risks	Credit risk	The risk of loss due to the non-performance of a counterparty in respect of any financial or other obligation. For fair value portfolios, the definition of credit risk is expanded to include the risk of losses through fair value changes arising from changes in credit spreads. Credit risk also includes credit default risk, pre-settlement risk, country risk, concentration risk and securitisation risk. Securitisation is the structured process whereby loans and other receivables are packaged, underwritten and sold in the form of asset-backed securities.
	Counterparty credit risk	The risk of a counterparty to a contract, transaction or agreement defaulting prior to the final settlement of the transaction's cash flows.
	Market risk in the trading book	The risk of adverse revaluation of any financial instrument as a consequence of changes in market prices or rates.
	Equity investment risk	The risk of an adverse change in the fair value of an investment in a company, fund or any other financial instrument, whether listed, unlisted or bespoke.
	Interest rate risk in the banking book	The sensitivity of a bank's financial position and earnings to unexpected, adverse movements in interest rates.
	Foreign exchange and translation risk in the banking book	Foreign exchange risk is the risk of losses occurring or a foreign investment's value changing due to movements in foreign exchange rates. A bank is exposed to currency risk in its NOFP and foreign investments. Translation risk is the risk associated with banks that deal in foreign currencies or hold foreign assets. The greater the proportion of asset, liability and equity classes denominated in foreign currencies, the greater the translation risk.
	Funding and liquidity risk	Funding liquidity risk is the risk that a bank will not be able to meet current and future cash flow and collateral requirements (expected and unexpected) without negatively affecting its reputation, daily operations and/or financial position. Market liquidity risk is the risk that market disruptions or lack of market liquidity will cause the bank to be unable (or able, but with difficulty) to trade in specific markets without affecting market prices significantly.
Operational risks	Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes fraud and criminal activity (internal and external), project risk, legal risk, business continuity, information and IT risk, process and human resources risk. Strategic, business and reputational risks are excluded from the definition.
	Regulatory risk	The risk of statutory or regulatory sanction and material financial loss or reputational damage as a result of failure to comply with any applicable laws, regulations or supervisory requirements.

RISK APPETITE AND FINANCIAL RESOURCE MANAGEMENT

The Group's risk appetite and financial resource management process frames all organisational decision making and is fully integrated with the Group's strategic objectives. The Group's risk appetite is not equal to its absolute risk capacity. When setting risk appetite, the Group takes into consideration the following:

- growth expectations;
- operating environment;
- targeted return profile, capital levels, liquidity position and credit ratings; and
- acceptable volatility in earnings through different economic cycles.

Risk capacity is quantified in terms of the following:

- level, growth and mix of earnings;
- regulatory capital requirements; and
- level of liquidity buffers and diversification of funding sources.

The financial resource management process sets minimum targets for these resources. Business and strategic decisions and the setting of risk appetite are aligned to these targets to ensure they are met during a normal cyclical downturn. Therefore, at a business unit level, strategy and execution are managed through the availability and price of financial resources, earnings volatility limits and required hurdle rates.

The Group's balance sheet and return targets under normal economic cycles are outlined in the table below.

Balance sheet and return targets

Description	Target
Common Equity Tier 1 ratio	9.5% to 11%
ROE	18% to 22%
Liquidity coverage ratio	60%
Credit rating	Sovereign rating

RISK APPETITE

When setting risk appetite, the Group considers the requirements of key stakeholders, namely, regulators, debt holders (including depositors) and shareholders. Business units are ultimately tasked with the generation of sustainable returns within risk appetite limits. These limits act as a constraint on the assumption of increasing risk in the pursuit of profits – both quantum and type. The financial resource management process would, for example, prevent a marginal increase in return in exchange for disproportionately more volatile earnings. Certain types of risk, such as reputational, fall outside risk appetite.

The board has established risk appetite principles against which business is measured. These include:

- the balance sheet should not be excessively geared;
- off-balance sheet exposure should be limited relative to own capital funding base;
- ensure true risk transfer and avoid accounting or regulatory arbitrage;
- diversify sources of income across business entities, products, market segments, investments, financial and commodity markets and regions;
- identify, measure and contain the potential impact of severe downturn and stress conditions in accordance with capital preservation and earnings volatility parameters;
- limit concentration in higher risk asset classes;
- diversify sources of funding;
- hold sufficient buffers for capital and liquidity purposes; and
- contain losses arising from operational process breakdowns.

In setting the risk appetite, the executive committee (Exco) and the board balance the organisation's overall risk profile with a bottom-up view of the planned risk profile for each business. It is in this process that the Group ultimately seeks to achieve an optimal trade-off between its ability to take on risk and the sustainability of the returns delivered to shareholders.

The board assumes responsibility for ensuring that risks are adequately managed and controlled through the risk, capital management and compliance committee and subcommittees, as described in the *Risk governance* section.

Risk appetite measures, and stress and scenario results are included in risk and management reports across the businesses and at board level and are continually refined.

SCENARIO PLANNING

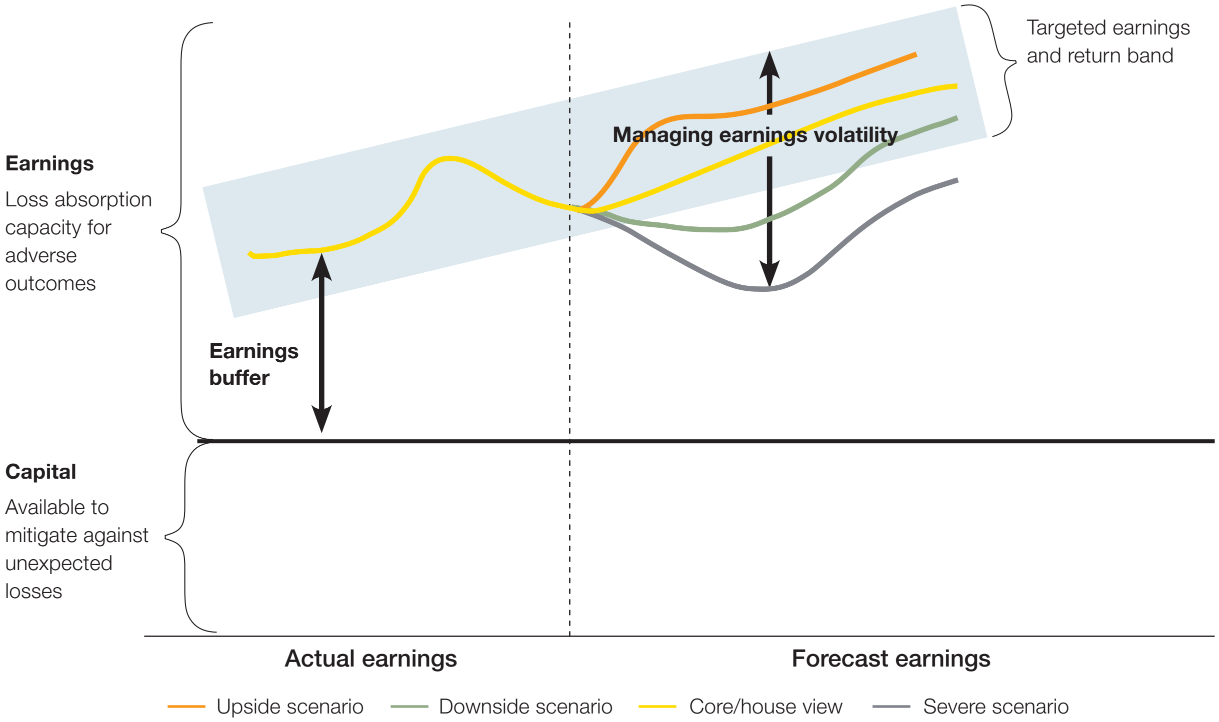
The Group offers value to its shareholders by undertaking to deliver sustainable earnings within a desired risk profile. The ability to deliver this profile is regularly evaluated with stress and scenario planning. The value of the franchises is ultimately supported by the Group's financial strength, quality of its earnings and a management approach that seeks to deliver the desired risk and return profile.

Shifts in the macro environment are critical to any strategic adjustments. FirstRand manages its business based on the Group's house view which is used for budgeting, forecasting and credit origination strategies. The house view focuses on the key macroeconomic variables that impact the balance sheet and income statement. The macro outlook is reviewed on a monthly basis and spans a three-year forecast horizon. The business plan for the next three years is included in the budget and forecasting process. Scenario planning is then used to assess whether the desired profile can be delivered and whether the business stays within the constraints it has set itself. The scenarios are based on changing macroeconomic variables, plausible event risks and regulatory and competitive changes.

The Group employs a comprehensive, consistent and integrated approach to stress testing and scenario planning. The impact of risk scenarios on the business is evaluated and the need for adjustment to origination is considered and appropriate actions are taken. More severe scenarios are run less frequently but are critical to inform the buffers, capital and liquidity planning, validate existing quantitative risk models and to understand required management action.

The Group views earnings as the primary defence against adverse outcomes. The earnings buffer and capital base provide protection against unexpected events for stakeholders. FirstRand's capacity to absorb earnings volatility and fluctuations is therefore supported by the generation of sustainable profits, as illustrated in the following chart.

Managing earnings volatility through the cycle



FINANCIAL RESOURCE MANAGEMENT

The strategy, risk and financial resource management processes described above influence the capital and funding plans of the Group. The capital position provides the final buffer against adverse business performance under extremely severe economic conditions. Thorough analysis and understanding of value drivers, markets and macro environment will also affect portfolio optimisation decisions and the price and allocation of financial resources.

To be successful in allocating financial resources, a common understanding of the implications for the balance sheet and income statement is needed.

The Group's stress testing, capital and earnings volatility analyses provide a comprehensive view of financial performance, liquidity, capital adequacy and risk. Additionally, this provides valuable forward-looking insight on the Group's performance under pre-defined risk and severe stress scenarios.

The purpose of these analysis is to ensure that capital and liquidity-related decisions can be taken in a coordinated manner using a consistent, integrated view incorporating both financial and risk considerations.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

ICAAP outlines how the Group ensures that it can achieve its capital management objectives. The Group needs to:

- ensure that at least the minimum amount of regulatory capital is held at all times for the SARB to allow the Group to operate;
- hold sufficient capital that will instil confidence in its ongoing solvency and status as a creditworthy counterparty for all stakeholders;
- allocate capital to businesses based on an understanding of the risk and reward drivers of the income streams and to ensure that appropriate returns are earned on deployed capital;
- ensure that the buffer over the minimum regulatory capital requirement is sufficient to cater for income and capital volatility and economic risk which may manifest through business disruption, regulatory intervention or credit downgrades, where applicable;
- consider the returns on a risk-adjusted basis to assess business performance; and
- ensure that its capital adequacy ratios and other limits remain within approved thresholds through different economic and business cycles.

The optimal level and composition of capital is determined after taking into account business units' organic growth plans as well as investor expectations, targeted capital ratios, future business plans, planned issuance of additional capital instruments, appropriate buffers in excess of minimum requirements, rating agencies' considerations, proposed regulatory changes and the board and management's risk appetite.

Additionally, this requires that the Group develops and maintains a capital plan that incorporates, among others, the following:

- anticipated capital utilisation;
- planned issuance of capital instruments;
- stress tests and scenario analysis;
- appropriation of profits and dividend payments;
- desired level of capital, inclusive of a buffer;
- expansion and strategic initiatives; and
- general contingency plan for dealing with divergences and unexpected events.

ICAAP is an integral tool in meeting the above capital management objectives and is key to the Group's risk and capital management processes. ICAAP allows and facilitates:

- the link between business strategy, risk introduced and capital required to support the strategy;
- the establishment of frameworks, policies and procedures for the effective management of material risks;
- the embedding of a responsible risk culture at all levels in the organisation;
- the effective allocation and management of capital in the organisation;
- the development of recognised stress tests to provide useful information which serve as early warnings/triggers, so that contingency plans can be implemented; and
- the determination of the capital management strategy and how the Group will manage its capital (including during periods of stress).

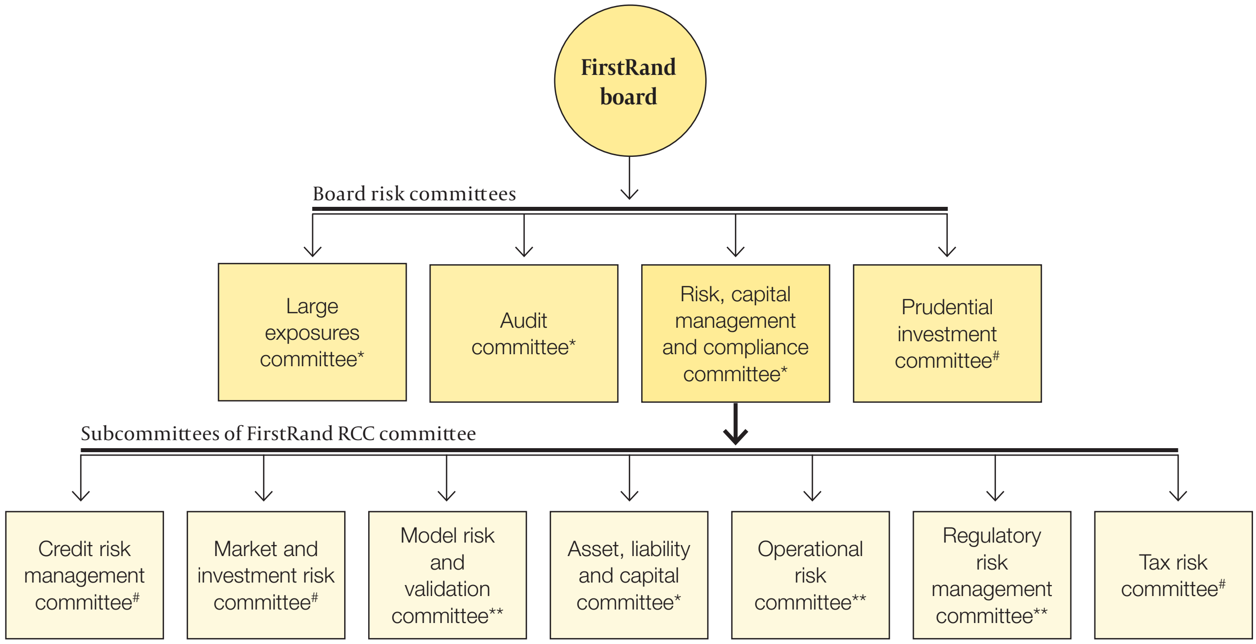
RISK GOVERNANCE

The Group believes that effective risk management is based on effective governance structures and policy frameworks as well as a risk-focused culture. Strong governance structures and policy frameworks foster the embedding of risk considerations in existing business processes and ensure that consistent standards exist across the Group. In line with the Group's corporate governance framework, the board retains ultimate responsibility for providing strategic direction and ensuring that risks are adequately identified, measured, monitored, managed and reported on.

RISK GOVERNANCE STRUCTURE

The risk management structure is set out in the Group's business performance and risk management framework (BPRMF). As a policy of both the board and Exco, it delineates the roles and responsibilities of key stakeholders in business, support and control functions across the various franchises and the Group.

Risk governance structure



* *Chairperson is an independent non-executive board member.*
** *Chairperson is external.*
\# *Chairperson is a member of senior executive management. The credit risk management committee has non-executive board representation.*

The primary board committee overseeing risk matters across the Group is the FirstRand risk, capital management and compliance (RCC) committee. It has delegated responsibility for a number of specialist topics to various subcommittees. The RCC committee submits its reports and findings to the board and highlights control issues to the audit committee. The responsibilities of the board risk committees and the subcommittees of the RCC committee are included in the following tables. Further detail on the roles and responsibilities of the RCC committee and its subcommittees relating to each particular risk type is provided in the major risk sections of this report.

Responsibilities of the board risk committees

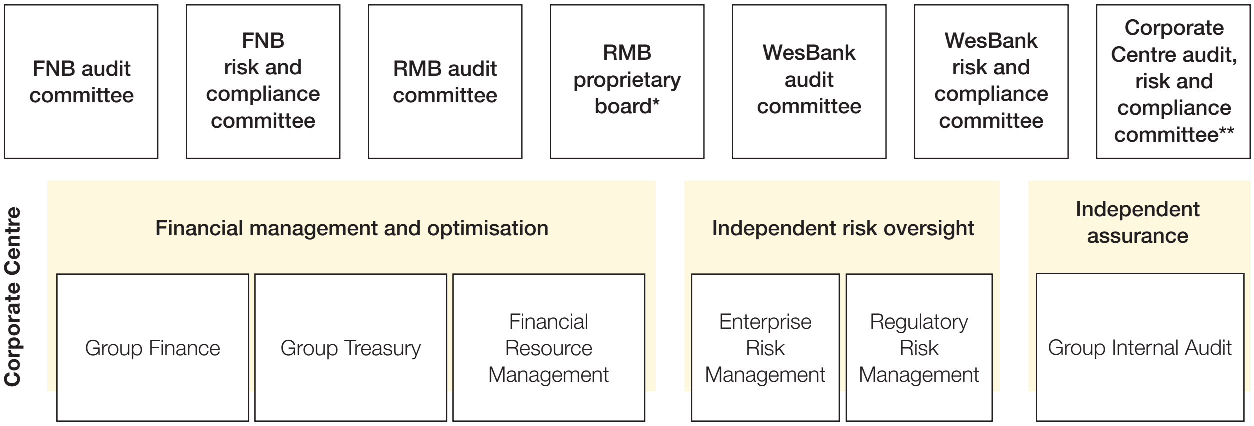
Committee	Responsibility
Large exposures committee	▸ approves credit exposures in excess of 10% of the Group's capital; ▸ approves credit applications or renewals in excess of 25% of the Group's capital and reserves prior to submission to the Registrar of Banks for formal approval; and ▸ delegates the mandate for the approval of group and individual facilities to the FirstRand wholesale credit, commercial credit and retail credit committees, as appropriate.
Audit committee	▸ assists the board with its duties relating to the safeguarding of assets, operation of adequate systems and controls, assessment of going concern status and ensuring that relevant compliance and risk management processes are in place; ▸ ensures that a combined assurance model is applied to provide a coordinated approach to all assurance activities (by management, internal and external assurance providers); ▸ oversees and reviews work performed by the external auditors and internal audit function; and ▸ oversees financial risks and internal financial controls including the integrity, accuracy and completeness of the integrated report, which are provided to shareholders and other stakeholders.
Risk, capital management and compliance committee	▸ approves risk management policies, standards and processes; ▸ monitors Group risk assessments; ▸ monitors effectiveness of risk management and high priority corrective actions; ▸ monitors Group's risk profile; ▸ initiates and monitors corrective action, where appropriate; ▸ monitors that the Group takes appropriate action to manage its regulatory and supervisory risks and complies with applicable laws, rules, codes and standards; and ▸ approves regulatory capital models, risk and capital targets, limits and thresholds, and ensures that a sound capital management process exists.
Prudential investment committee	▸ ensures that the investment risk and transactions are carefully assessed prior to approval; and ▸ ensures investment exposures comply with FirstRand's prudential investment guidelines.

Responsibilities of the subcommittees of the RCC committee

Committee	Responsibility
Credit risk management committee	• approves credit risk management and risk appetite policies; • independent analysis, evaluation and ongoing oversight of credit portfolio quality and performance relative to credit risk appetite thresholds; • monitors quality of the in-force business and new business origination, and underlying assets in the securitisation process; • monitors scenario and sensitivity analysis, stress tests, credit economic capital utilisation, credit pricing and credit concentrations; • ensures uniform interpretation of credit regulatory requirements and acceptable standards of credit reporting; and • reviews credit economic conditions outlook as described in the Group's house view and ensures that business units align credit origination strategies accordingly.
Market and investment risk committee	• approves market and investment risk management policies, standards and processes; • monitors the effectiveness of market and investment risk management processes; • monitors the market and investment risk profile; and • approves market and investment risk-related limits.
Model risk and validation committee	• approves or recommends for approval to the RCC committee, all material aspects of model validation work including credit ratings and estimations, internal models for market risk and advanced measurement operational risk models for the calculation of regulatory capital.
Asset, liability and capital committee (ALCCO)	• approves and monitors effectiveness of management policies, assumptions, limits and processes for liquidity and funding risk, capital risk and market risk in the banking book (interest rate risk and foreign exchange and translation risk); • monitors the management of funding of the Group's balance sheet; • provides governance and oversight of the level and composition of capital, and considers the supply and demand of capital across the Group; • approves buffers over regulatory capital and monitors capital adequacy ratios; and • approves frameworks and policies relating to internal funds transfer pricing (FTP) for the Group.
Operational risk committee	• provides governance, oversight and coordination of relevant operational risk management practices and initiates corrective action where required; • monitors the Group's operational risk profile; • mandates the FirstRand operational risk management committee to approve operational risk related methodologies, processes, guidelines and relevant documentation; • reviews and recommends for approval to RCC committee, the Group's the operational risk appetite; • approves the operational risk management framework and all its sub-policies/frameworks used in the management of operational risk in the specialist areas including fraud risk, legal risk, business resilience, information governance, information technology and physical security; • monitors the implementation of the operational risk management framework across the Group; and • reports on material operational risk items to the RCC committee.
Regulatory risk management committee	• approves regulatory risk management principles, frameworks, plans, policies and standards; and • monitors the effectiveness of regulatory risk management across the Group and initiate corrective action where required.
Tax risk committee	• sets the tax strategy and tax risk appetite; • approves the tax management frameworks and policies; and • monitors tax risk assessments and profiles, compliance tax risks, corrective actions and escalation to the RCC committee, where required.

Franchise risk governance structure

Additional risk, audit and compliance committees exist in each franchise; the governance structures of which align closely with that of the Group, as illustrated in the previous chart. The board committees are staffed by members of the respective committees of the individual franchise boards so as to ensure a common understanding of the challenges business faces and how these are addressed across the Group.



* *The risk and regulatory committee for RMB.*
** *The Ashburton audit, risk and compliance committee is a subcommittee of the Corporate Centre audit, risk and compliance committee.*

RISK GOVERNANCE FRAMEWORK

Effective risk management also requires multiple points of control or safeguards that should be consistently applied at various levels throughout the organisation. There are three primary lines of control across the Group's operations, which are recognised in the BPRMF:

- first line of risk control – risk ownership;
- second line of risk control – risk control; and
- third line of risk control – independent assurance.

In the first line (risk ownership), risk taking is inherent in the individual businesses' activities. Management carries the primary responsibility for risks in its business, in particular identifying and managing risk appropriately. Business owners, the board and Exco are supported in these responsibilities by Group Treasury and Financial Resource Management (FRM) in the Corporate Centre.

In the second line (risk control), business heads are supported by deployed divisional and segment risk management functions that are involved in all business decisions and are represented at an executive level across all franchises. Franchise heads of risk have a direct reporting line to the Group chief risk officer (CRO) and relevant franchise CEOs. Franchise and segment risk managers are responsible for risk identification, measurement and control.

Divisional and segment risk management activities are overseen by the independent, central risk control functions, Enterprise Risk Management (ERM) and Regulatory Risk Management (RRM). ERM is headed by the Group CRO who is a member of Exco and provides independent oversight and monitoring across the Group on behalf of the board and relevant committees.

In the third line, Group Internal Audit (GIA) and external advisors provide independent and objective assurance to the board, audit committee and regulators. The assurance is provided on the overall adequacy and effectiveness of governance, risk management and control within the Group as established by the first (management oversight) and second (management of risk) lines of control. GIA is headed by the chief audit executive and reports to the board through the audit committee chairman. The chief audit executive has direct, unrestricted access to the Group CEO and executives, and franchises as well as to all FirstRand business unit functions, records, property and personnel.

GIA conducts work in accordance with international internal audit standards and practices and its activities are assessed annually by the external auditors.

Responsibilities in the lines of risk control

First line

Heads of business

- act in accordance with mandates approved by the board or its delegated authority;
- identify, quantify and monitor key risks to business under normal and stress conditions;
- implement strategy within approved risk appetite;
- design business and risk management processes that will ensure that risks are appropriately managed;
- specify and implement early warning measures, associated reporting, management and escalation processes through governance structures;
- implement risk mitigation strategies;
- implement timeous corrective actions and loss control measures as required; and
- ensure staff understand responsibilities in relation to risk management.

Financial Resource Management

- provides an integrated approach to financial resource management;
- optimises the Group's portfolio to deliver sustainable returns within an acceptable level of risk; and
- performs scenario analysis and stress testing.

Group Treasury

- manages the Group's capital, liquidity, funding, interest rate risk in the banking book and foreign exchange mismatch.

Second line

Deployed risk management

- ensures that risk policies and tools are implemented and adhered to;
- approves the design of business and risk management processes that will ensure that risks are appropriately managed;
- identifies process flaws and risk management issues and initiates and monitors implementation of corrective action; and
- compiles, analyses and escalates risk reports on performance, risk exposures and corrective actions, through governance structures in appropriate format and frequency.

Enterprise Risk Management

- maintains risk frameworks and governance structures;
- develops and communicates risk management strategy and challenges risk profiles;
- reports risk exposures and performance to management and governance structures;
- ensures appropriate risk skills and risk management culture for risk taking;
- performs risk measurement validation; and
- manages regulatory relationships with respect to risk matters.

Regulatory Risk Management

- monitors that business practices, policies, frameworks and approaches are consistent with applicable laws.

Third line

Group Internal Audit

Determines whether the Group's processes and controls are adequate to ensure:

- risks are appropriately identified, quantified and controlled by approved business and risk procedures; if not, initiates corrective action;
- management and financial information systems incorporate sound controls;
- financial reports, accounting records and operating information are accurate, valid, complete, reliable and timeous;
- employees execute duties in compliance with policies, standards, applicable laws and regulations;
- resources are acquired economically, used efficiently and effectively; and
- adequate processes are implemented to ensure protection of assets.

Combined assurance

Formal enterprise-wide governance structures for enhancing the practice of combined assurance at Group and franchise levels are overseen by the audit committee. The primary objective of the Group and assurance forums is for the assurance providers to work together with management to deliver the appropriate assurance cost effectively. The assurance providers in this model include GIA, senior management, ERM, RRM and external auditors. The combined outcome of independent oversight, validation and audit tasks performed by the assurance providers ensure a high standard across methodological, operational and process components of the Group's risk and capital management.

Combined assurance results in a more efficient assurance process through the elimination of duplication, more focused risk-based assurance against key control areas and heightened awareness of emerging issues resulting in the implementation of appropriate preventative and corrective action plans.

Regular risk reporting and challenging of current practices

As part of the reporting, challenge, debate and control process, ERM drives the implementation of more sophisticated risk assessment methodologies through the design of appropriate policies and processes, including the deployment of skilled risk management personnel in each of the franchises.

ERM, together with GIA, ensures that all pertinent risk information is accurately captured, evaluated and escalated appropriately and timeously. This enables the board and its designated committees to retain effective control over the Group's risk position at all times.

RISK CULTURE

The Group and its shareholders, debt holders and regulators recognise that effective risk management requires the maintenance of a proper risk culture, in addition to appropriate risk governance structures, policy frameworks and effective risk and capital methodologies.

ERM, in conjunction with the Group's Ethics Office, collaborate closely to identify and manage risk culture.

The Group believes its risk culture is influenced by the interaction of the following:

- competent and ethical leadership in setting strategy, risk appetite and a positive attitude towards appropriate risk practices;
- robust risk governance structures to ensure risk policy frameworks are visible and implemented, and that appropriate committee memberships and structures exist;
- best practice risk and capital methodologies for the appropriate identification, measurement, monitoring, management and reporting of risk and allocation of capital;
- accurate assessment of the broader organisational culture which determines business ethics practices, and supports or detracts from risk goals; and
- a people risk profile that provides a balance between skills and ethical values and the appropriate allocation of resources and accountability for performance.

The Group has established four parameters as the dominant drivers impacting the risk rating of its culture, outlined in the following table.

Risk culture parameters

Parameters	Activities
Leadership living good values	ensure that leaders set the appropriate tone in terms of responsible business conduct.
Setting risk goals	ensure risk management goals are set and properly communicated throughout the organisation; and ensure that ethics and accountability to risk management parameters are considered as important as efficiency, innovation and profit.
Providing resources	ensure risk management goals are attainable by adequately resourcing risk management functions; and apply fit and proper tests for key risk roles.
Aligning measurement and rewards	ensure risk metrics are incorporated into measurements and the way business rewards performance.

RISK AND CAPITAL METHODOLOGIES

Best practice risk and capital management methodologies have been developed in and for the relevant business areas. The detailed sections covering each major risk type in this report, provide in-depth descriptions of the approaches, methodologies, model and processes used in the identification and management of each major risk. Each section also describes:

- the applicable governance and policy framework;
- an analysis of the relevant portfolios;
- the risk profile with respect to the type of risk under consideration; and
- the capital position.

STRATEGIC AND BUSINESS RISK

INTRODUCTION AND OBJECTIVES

Any business runs the risk of choosing an inappropriate strategy or failing to execute its strategy appropriately. The Group's objective is to minimise this risk in the normal course of business.

Business risk is considered in the strategic planning process and as a part of regular stress testing and scenario analyses carried out across the Group. The objective is to develop and maintain a portfolio that delivers sustainable earnings and minimises the chance of adverse outcomes.

In an environment of continued weakness in the South African economy and the risks imposed by the weak global economy, FirstRand continues to focus on cost containment whilst pursuing growth opportunities both locally and in target markets in the rest of Africa.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

The development and execution of business level strategy is the responsibility of the strategic executive committee and the individual business areas, subject to approval by the board. This includes the approval of any subsequent material changes to strategic plans, budgets, acquisitions, significant equity investments and new strategic alliances.

Business unit and Group executive management, as well as Group Treasury, FRM and ERM review the external environment, industry trends, potential emerging risk factors, competitor actions and regulatory changes as part of strategic planning. Through this review, as well as regular scenario planning and stress-testing exercises, the risk to earnings and level of potential business risks faced are assessed. Reports on the results of these exercises are discussed at various business, risk and board committees and are ultimately taken into account in the setting of risk appetite and in potential revisions to existing strategic plans.

ASSESSMENT AND MANAGEMENT

Strategic risk is not readily quantifiable and is not a risk that an organisation can or should hold a protective capital buffer against. The risk to earnings on the other hand can be assessed and this forms an explicit part of the Group's risk and financial resource management.

Volume and margin risk

Volume and margin risk is considered part of strategic planning and is regularly assessed through the Group's management and governance processes. Volume and margin risk relates to the Group's ability to generate sufficient levels of revenue to offset its costs.

Reputational risk

As a financial services provider, the Group's business is inherently built on trust and close relationships with its clients. Reputational risk can arise from environmental, social and governance issues or as a consequence of financial or operational risk events.

The Group's reputation is built on the way in which it conducts business and it protects its reputation by managing and controlling risks across its operations. It seeks to avoid large risk concentrations by establishing a risk profile that is balanced within and across risk types. In this respect, potential reputational risks are also taken into account as part of stress-testing exercises. The Group aims to establish a risk and earnings profile within the constraints of its risk appetite and seeks to limit potential stress losses from credit, market, liquidity or operational risks that may otherwise introduce an undesirable degree of volatility in its financial performance and adversely affect its reputation.

Environmental, social and governance risk management

FirstRand has formal governance processes for managing ESG risks affecting the Group's ability to successfully implement business strategy. These processes involve the generation of ESG management reports at Group and franchise level, which detail ESG performance on a quarterly basis.

Each franchise defines tolerances for its principal ESG risks and action plans for addressing these in line with particular circumstances and risk appetite. Tolerances and mitigating actions are defined at Group and franchise level, and progress in respect of these is tracked through existing risk reporting structures. Provision is made for the escalation of significant ESG issues to the board via Exco, audit committee and social and ethics committee structures.

The likelihood and impact of these risks are evaluated taking into account measures for management, mitigation and avoidance.

CAPITAL MANAGEMENT

INTRODUCTION AND OBJECTIVES

The Group seeks to establish and manage a portfolio of businesses and associated risks that will deliver sustainable returns to its shareholders by targeting a particular earnings profile that will generate returns within appropriate levels of volatility.

Sustainability also refers to the capacity to withstand periods of severe stress characterised by very high levels of unexpected financial and economic volatility, which cannot be mitigated by earnings alone. Capitalisation ratios appropriate to safeguarding operations and interests of stakeholders are therefore maintained. In this respect, the overall capital management objective is to maintain sound capital ratios and a strong credit rating to ensure confidence in the solvency and quality of capital in the Group during calm and turbulent periods in the economy and financial markets.

The optimal level and composition of capital is determined after taking into account business units' organic growth plans – provided financial targets are met. In addition, other factors taken into consideration are:

- targeted capital ratios;
- future business plans;
- issuance of additional capital instruments;
- stress testing scenarios;
- appropriate buffers in excess of minimum requirements;
- rating agencies' considerations;
- investor expectations;
- proposed regulatory changes; and
- risk appetite of management and board.

Allocating resources effectively, including capital and risk capacity, in terms of the risk appetite targets and in a manner that maximises value for shareholders is a core competence and key focus area. Sound capital management practices, therefore, form an important component of its overall business strategy.

The effectiveness of capital allocation decisions and the efficiency of its capital structure are important determinants of the ability to generate returns for shareholders. The Group seeks to hold limited excesses above the capital required to support its medium-term growth plans (including appropriate buffers for stresses and volatility) and future regulatory changes.

The total capital plan includes a dividend policy, which is set to ensure sustainable dividend cover based on sustainable normalised earnings. The plan also takes into account volatile earnings brought on by fair value accounting, anticipated earnings yield on capital employed, organic growth requirements and a safety margin for unexpected fluctuations in business plans.

CAPITAL ADEQUACY AND PLANNING

Period under review

The capital planning process ensures that the total capital adequacy and Common Equity Tier 1 (CET1) ratios remain within approved ranges or above target levels across economic and business cycles. The Group is appropriately capitalised under a range of normal and severe scenarios as well as a range of stress events.

Throughout the period under review, the Group operated above its targeted capitalisation range, reporting a total capital adequacy ratio of 16.2% and a solid CET1 ratio of 13.7% at 31 December 2013. Similarly, the Bank (FirstRand Bank excluding foreign branches) comfortably exceeded its target ranges with a total capital adequacy ratio of 15.7% and CET1 ratio of 13.4%.The Group continues to follow a conservative approach to capital levels and prefers to maintain capital ratios at the higher end of its targeted capitalisation range, particularly given the current macro conditions, ongoing regulatory developments and African expansion initiatives.

The targeted capital levels as well as the actual ratios at 31 December 2013 are summarised in the following table.

Capital adequacy position

%	CET1	Tier 1	Total
Regulatory minimum*	4.5	6.0	9.5
Target	9.5 – 11.0	11.0	12.0 – 13.5
FirstRand actual	**13.7**	**14.8**	**16.2**
FRB actual**	**13.4**	**14.1**	**15.7**

* *Excludes the bank-specific individual capital requirement.*
** *Reflects solo supervision, i.e. FRB excluding foreign branches.*

The board-approved capital plan is reviewed annually as part of the Group's ICAAP, with the stress-testing framework an extension of the process. ICAAP assists in the allocation of capital in proportion to the risks inherent in the respective businesses with reference to normal economic circumstances and times of potential stress, which may lead to the realisation of risks not previously considered. These processes are under continuous review and refinement, and continue to inform the targeted buffer over the minimum capital requirement.

The Group aims to back all economic risk with CET1 capital adjusted for volatile reserves and remains well capitalised in the current environment.

Basel III

Under Basel III, the definitions of qualifying capital were revised. The following diagram illustrates the main elements of CET1, Tier 1 and total qualifying capital and reserves.

Qualifying capital components

Total qualifying capital and reserves =

Tier 1 capital

CET 1 capital

- ordinary share capital and premium;
- retained earnings;
- other reserves; and
- non-controlling interests.

Less
- goodwill and intangibles;
- deferred tax assets (other than temporary differences);
- investment in own shares;
- shortfall of expected losses over provisions;
- cash flow reserve; and
- investments in financial institutions.

AT1 capital

- NCNR preference shares; and
- instruments issued out of subsidiaries to third parties.

Less
- investments in financial institutions (AT1 instruments).

\+

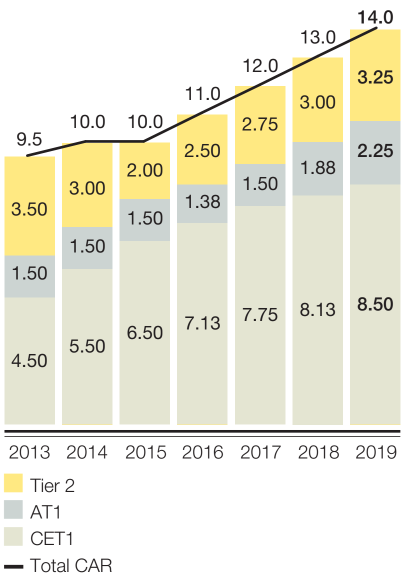
Tier 2 capital

- subordinated loans;
- general provisions under standardised method; and
- instruments issued out of subsidiaries to third parties.

Deductions
- investment in financial institutions (Tier 2 instruments).

Given the transitional period to comply with the final Basel III capital framework, the Group remains focused on meeting the end-state CET1 requirement, while looking at ways to optimise the overall capital mix. The final add-on for domestic systemically important banks (D-SIB) in South Africa has been communicated, however, this remains confidential. The graph below demonstrates the minimum capital requirements assuming a maximum D-SIB add-on.

Minimum capital requirements (%)



The BCBS has issued a number of consultative documents over the past six months. These papers cover various topics and are at different stages of testing, finalisation and implementation.

The Group continues to participate in the SARB's quantitative impact studies to assess the effect of Basel III developments on capital adequacy ratios, as well as to monitor the impact of leverage for the industry. The Group's current leverage ratio continues to comfortably exceed the SARB's minimum requirement of 4% (capital measure as a percentage of total exposures).

CAPITAL ADEQUACY

Composition of capital

The following tables show the composition of regulatory capital for the Group and the Bank.

Composition of qualifying capital

	FirstRand		
	December 2013	December 2012*	June 2013*
R million	**Basel III**	Basel 2.5	Basel III
Ordinary share capital and premium	**5 626**	5 442	5 452
Retained income	**63 894**	56 489	60 786
Accumulated other comprehensive income and reserves	**5 221**	–	5 947
Non-controlling interests	**676**	2 705	1 347
Less: total regulatory deductions	**(1 956)**	(3 260)	(1 663)
Total CET1 capital	**73 461**	61 376	71 869
NCNR preference share capital	**4 067**	4 519	4 067
Instruments issued by subsidiaries to third parties	**1 555**	–	1 276
Less: total regulatory deductions	**–**	(400)	–
Total AT1 capital	**5 622**	4 119	5 343
Total Tier 1 capital	**79 083**	65 495	77 212
Tier 2 capital	**–**	8 228	–
Instruments issued by subsidiaries to third parties	**7 332**	–	7 237
Other reserves	**259**	201	241
Less: total regulatory deductions	**–**	(883)	–
Total Tier 2 capital	**7 591**	7 546	7 478
Total qualifying capital and reserves	**86 674**	73 041	84 690

	FRB**		
	December 2013	December 2012*	June 2013*
R million	**Basel III**	Basel 2.5	Basel III
Ordinary share capital and premium	**15 308**	15 308	15 308
Retained income	**39 682**	32 337	34 332
Accumulated other comprehensive income and reserves	**1 849**	–	2 463
Less: total regulatory deductions	**(2 745)**	(2 156)	(1 930)
Total CET1 capital	**54 094**	45 489	50 173
NCNR preference share capital	**2 700**	3 000	2 700
Total AT1 capital	**2 700**	3 000	2 700
Total Tier 1 capital	**56 794**	48 489	52 873
Tier 2 capital	**6 856**	7 642	6 856
Less: total regulatory deductions	**(164)**	(276)	(157)
Total Tier 2 capital	**6 692**	7 366	6 699
Total qualifying capital and reserves	**63 486**	55 855	59 572

* *Comparative numbers have not been restated for IFRS changes.*
** *Reflects solo supervision, i.e. FRB excluding foreign branches.*

Supply of capital – Tier 1

CET 1 capitalisation ratios benefited from strong internal capital generation through earnings. All profits were appropriated at 31 December 2013.

Supply of capital – Tier 2

Given recent SARB guidance on the loss absorbency requirements for AT1 and Tier 2 capital instruments, the Group continues to focus on the most optimal capital mix and pricing.

Demand for capital

The table below shows the breakdown of RWA per risk type as per current SARB regulations.

RWA and capital requirements

	FirstRand					
	December 2013				December 2012	June 2013
	RWA					
R million	Advanced approach	Standardised approach	Total	Capital† requirement	RWA	RWA
Credit risk	**299 200**	**76 904**	**376 104**	**35 730**	336 901	358 133
– Corporate, banks and sovereigns	**123 626**	**21 673**	**145 299**	**13 803**	125 881	138 931
– Small and medium enterprises (SMEs)	**41 331**	**18 279**	**59 610**	**5 663**	54 606	54 242
– Residential mortgages	**45 846**	**5 111**	**50 957**	**4 841**	54 548	53 226
– Qualifying revolving retail	**20 262**	**235**	**20 497**	**1 947**	15 437	18 581
– Other retail	**65 470**	**9 715**	**75 185**	**7 143**	62 753	69 767
– Securitisation exposure	**2 443**	**–**	**2 443**	**232**	8 502	4 642
– Other	**222**	**21 891**	**22 113**	**2 101**	15 174	18 744
Counterparty credit risk*	**952**	**–**	**952**	**90**	–	2 548
Total credit risk	**300 152**	**76 904**	**377 056**	**35 820**	336 901	360 681
Operational risk**	**66 271**	**18 784**	**85 055**	**8 080**	73 795	83 219
Market risk	**9 466**	**1 780**	**11 246**	**1 068**	13 191	9 785
Equity investment risk	**31 174**	**–**	**31 174**	**2 962**	42 110	38 190
Other assets#	**–**	**30 879**	**30 879**	**2 934**	24 376	28 085
Total RWA	**407 063**	**128 347**	**535 410**	**50 864**	490 373	519 960

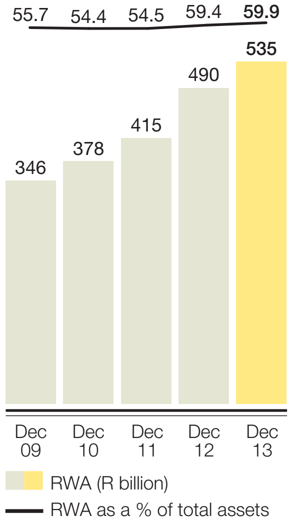
* *Excludes default risk. Balance for 2012 included in credit risk.*
** *Exposures subject to the basic indicator approach are included under the standardised method.*
# *Includes the investment in financial, banking and insurance entities.*
† *Capital requirement calculated at 9.5% of RWA.*

Overall movement in RWA from June 2013 to December 2013 can be attributed to the following:

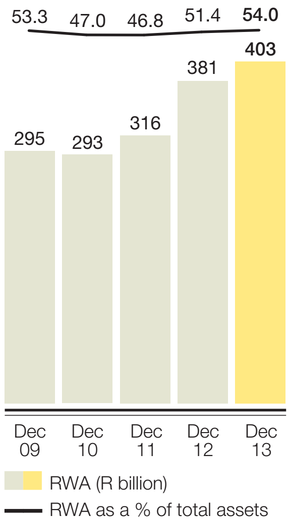
- credit risk – increase in organic growth was partly offset by model risk recalibrations. Counterparty credit risk decreased due to higher collateralisation and improved internal methodologies;
- operational risk – movement due to recalibrations of risk scenarios and increase in gross revenue for entities reported on the standardised approach;
- market risk – increase in general risk capital requirement as a result of a higher capital multiplier; and
- equity investment risk – decrease mainly due to the change in the IFRS reporting for post-retirement assets.

The graphs below show the increase in the demand of capital, taking into account regulatory changes over time.

RWA history – FirstRand



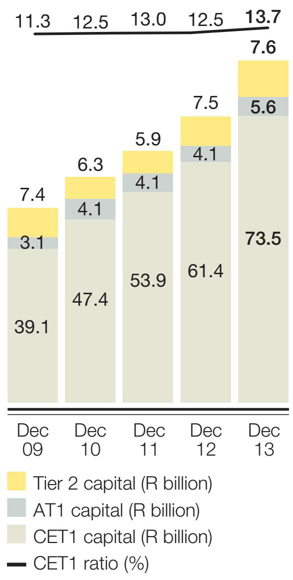
RWA history – FRB



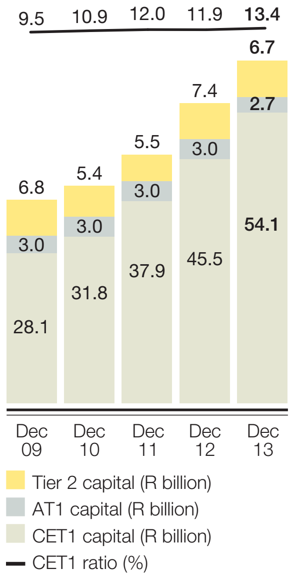
Historical overview of capital adequacy

The following graphs provide a historical overview of the capital adequacy.

Capital adequacy – FirstRand



Capital adequacy – FRB



Capital adequacy position for FirstRand, its subsidiaries and foreign branches

The registered banking subsidiaries of FirstRand must comply with the SARB regulations and those of the respective in-country regulators, with primary focus placed on Tier 1 capital and total capital adequacy ratios. Based on the outcome of detailed stress testing, each entity targets a capital level in excess of the regulatory minimum. Adequate controls and processes are in place to ensure that each entity is adequately capitalised to meet local regulatory requirements. Capital generated by subsidiaries/branches in excess of targeted levels is returned to FirstRand, usually in the form of dividends/return of profits. During the period under review, no restrictions were experienced on the repayment of such dividends or profit to the Group.

The capital adequacy positions of FirstRand, its subsidiaries and foreign branches are set out below.

RWA and capital adequacy positions for FirstRand, its subsidiaries and foreign branches

	December 2013			December 2012	June 2013
	RWA	**Tier 1**	**Total capital adequacy**	Total capital adequacy	Total capital adequacy
	R million	**%**	**%**	%	%
Basel III*					
FirstRand	**535 410**	**14.8**	**16.2**	14.9	16.3
FirstRand Bank South Africa	**403 464**	**14.1**	**15.7**	14.6	14.9
FirstRand Bank London	**17 258**	**13.2**	**13.2**	17.2	11.3
FirstRand Bank India	**1 360**	**32.1**	**32.7**	34.0	36.0
RMB Australia	**9 394**	**14.2**	**14.2**	12.8	11.5
FNB Namibia**	**17 185**	**11.7**	**15.7**	16.1	16.2
Basel I**					
FNB Botswana	**12 817**	**14.7**	**20.7**	20.2	17.4
FNB Swaziland	**1 868**	**24.1**	**25.3**	26.5	28.1
FNB Lesotho	**533**	**13.3**	**17.9**	20.6	18.1
FNB Mozambique	**2 063**	**10.2**	**10.7**	15.0	12.7
FNB Zambia	**2 614**	**32.8**	**39.0**	20.2	26.6
FNB Tanzania	**280**	**39.0**	**39.0**	89.4	26.7
FNB Nigeria[#]	**268**	**>100**	**>100**		>100

* *Ratios for December 2012 based on Basel 2.5 rules.*
** *Ratios based on local rules.*
\# *Opened offices on 7 February 2013.*

The following disclosure templates, as required by *SARB Directive 8 of 2013*, as part of the Pillar 3 disclosure for the period ended 31 December 2013, are available on www.firstrand.co.za/investorcentre/pages/capitaldisclosures.aspx:

- composition of capital; and
- main features of qualifying capital instruments.

Scan with your smart device's QR code reader to access additional capital disclosures on the Group's website.

CREDIT RISK

INTRODUCTION AND OBJECTIVES

Credit risk is defined as the risk of loss due to the non-performance of a counterparty in respect of any financial or performance obligation. For fair value portfolios, the definition of credit risk is expanded to include the risk of losses through fair value changes arising from changes in ratings and loss given default. Credit exposures are classified as direct, contingent, pre-settlement or settlement risk and the definition of credit risk also includes concentration and securitisation risks.

The goal of credit risk management is to maximise the Group's risk-adjusted return, i.e. net income after cost of capital (NIACC), within acceptable levels of earnings volatility by maintaining credit risk exposure within acceptable parameters.

Credit risk is one of the core risks assumed as part of achieving the Group's business objectives. It is the most significant risk type in terms of regulatory and economic capital requirements. Credit risk management objectives are two-fold:

- **Risk control:** Appropriate limits are placed on the assumption of credit risk and steps are taken to ensure the accuracy of credit risk assessments and reports. Deployed and central credit risk management teams fulfil this task.
- **Management:** Credit risk is taken within the constraints of the risk appetite framework. The credit portfolio is managed at an aggregate level to optimise the exposure to this risk. Business units and deployed risk functions, overseen by the Group Credit Risk Management function in ERM and relevant board committees, fulfil this role.

Credit risk management across the Group is split into three distinct portfolios: retail, commercial and corporate. These portfolios are aligned to customer profiles. As advances are split across the operating franchises, default risk is allocated to the income-receiving portfolio.

Based on the Group's risk appetite for credit risk, as measured on a ROE, NIACC and volatility-of-earnings basis, credit risk management principles include appropriate holding levels of capital and pricing for risk on an individual and portfolio basis. The scope of credit risk identification and management practices across the Group therefore spans the credit value chain, including credit origination strategy, risk appetite, risk quantification and measurement and collection and recovery of delinquent accounts.

Credit risk is managed through comprehensive policies and processes that ensure adequate identification, measurement, monitoring, control and reporting of credit risk exposure. The objective is to ensure a sound credit risk management environment with appropriate credit granting, administration, measurement and monitoring through the implementation of adequate risk management controls.

Retail credit

FNB's secured retail products include mortgage finance with property as security for the loan and pension-backed loans, where lending is secured by the client's pension fund to facilitate home improvements or the acquisition of property. WesBank's secured retail credit exposure arises mainly from instalment sale agreements for motor vehicle financing.

Unsecured products in both FNB and WesBank include:

- personal loans ranging from small short-term loans to larger loans;
- revolving loans, overdrafts, temporary loans and device loans offered mainly to FNB clients; and
- credit cards with revolving credit limits and either straight or budget period repayment facilities.

Commercial credit

The commercial credit portfolio strategy is focused on tailoring credit products for commercial customers. FNB (primary relationship owner) and WesBank both provide products, which include:

- revolving overdraft facilities linked to transactional demand deposit accounts;
- traditional VAF and fleet petrol cards;
- dealer funding solutions to selected vehicle dealerships secured by trade stock;
- guarantees and letters of credit to assist in the facilitation of transactions;
- forward exchange contracts and interest rate swaps;
- secured term loans;
- property finance includes owner-occupied and multi-tenanted properties as well as finance for residential developments secured by the properties;
- leveraged finance provides specialised business financing to fund, amongst others, business acquisitions, management buy-outs, management buy-ins, BEE transactions and balance sheet restructuring; and
- working capital facilities secured against debtors books and selective invoice discounting.

Corporate credit

Offered by RMB to large corporate multi-banked customers, including the following products:

- all-inclusive financing packages for investment banking clients;
- funding of corporate businesses, government and parastatals through debt capital market instruments;
- structured asset finance for client funding requirements in local and cross-border strategic African jurisdictions;
- structuring, raising and underwriting of equity capital and structured equity solutions;
- infrastructure and project finance;
- leveraged finance;
- real estate investment banking; and
- resource finance.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

The Group has a comprehensive credit governance committee structure with the responsibility to approve, monitor and oversee credit risk management and exposures of the Group. Additional management committees within the business assist in strengthening credit risk management.

The RCC committee and franchise Excos regularly receive and review reports on the adequacy and robustness of credit risk identification, management and control processes, as well as on the current and projected credit risk profile across the Group. The credit risk management governance structures, related roles and responsibilities as well as lines of accountability are set out in the credit risk management framework. Approved by the RCC committee and the FirstRand credit risk management committee (a subcommittee of the RCC committee), the credit risk management framework is board-approved policy and a subframework of the BPRMF, discussed in the *Risk governance* section.

The Large exposures committee (a board committee) and the FirstRand credit risk management committee support the RCC committee in its tasks. The model risk and validation committee, also a subcommittee of the RCC committee, supports the RCC committee specifically with respect to risk capital models. For a description of the role and responsibilities of these committees refer to the *Risk governance* section.

The Group credit risk management function

The Group credit risk management function in ERM provides independent oversight of the credit risk management practices of the Group's operating franchises to ensure effective and holistic credit risk management process. It is responsible for the credit risk management framework and related policies and monitors the implementation of credit risk-related frameworks. In addition, its responsibilities include:

- reporting an independent view of the Group's credit risk profile and potential areas of concern via the risk committees to the board;
- challenging the risk profile, providing advice or guidance on credit risk management matters as requested, setting standards for credit risk reporting and providing additional reporting where required;
- maintaining and overseeing the Group credit governance structures and credit measurement process;
- performing independent validations of regulatory capital credit rating systems;
- acting as key contact to the SARB on credit risk matters, including credit BA returns;
- ensuring completeness of credit risk identification;
- advancing credit risk methodologies and capabilities across the Group; and
- facilitating and managing credit risk appetite processes across the Group.

The Group credit risk management function is supported by credit risk functions within the franchises, which are managed by portfolio heads (Retail, Commercial and Corporate).

Specific credit responsibilities lie with each credit portfolio head, including:

- accountability to the Group's governance forums and liaison with regulators;
- maintain high competency levels/skills, in each credit function;
- alignment of credit origination strategy and appetite;
- implement and assess credit governance frameworks and policy compliance;
- streamline and consolidate functions, systems and mandates; and
- calculate of volatility profile for aggregate portfolios.

ASSESSMENT AND MANAGEMENT

Calculation of internal ratings and rating process

The assessment of credit risk across the Group relies on internally-developed quantitative models for regulatory purposes under the *Banks Act Regulations* (Basel), as well as addressing business needs.

Credit risk models are widely employed in the assessment of capital requirements, pricing, impairment calculations and stress testing of the credit portfolio. All of these models are built on a number of client and facility rating models, in line with Basel AIRB approach requirements and the Group's model building frameworks. The credit risk approaches across the Group are shown in the following table.

Basel approach	FirstRand Bank	Remaining FirstRand subsidiaries
AIRB	✓	
Standardised approach		✓

Even though the remaining subsidiaries do not have regulatory approval to use the AIRB approach, the same or similar models are applied for the internal assessment of credit risk on the standardised approach. The models are used for the internal assessment of the following three primary credit risk components discussed in the following sections:

- probability of default (PD);
- exposure at default (EAD); and
- loss given default (LGD).

Management of the credit portfolio is reliant on these three credit risk measures. PD, EAD and LGD are inputs into the portfolio and Group-level credit risk assessment where the measures are combined with estimates of correlations between individual counterparties, industries and portfolios to reflect diversification benefits across the portfolio.

Probability of default

PD is defined as the probability of a counterparty defaulting on any of its obligations over the next 12 months and is a measure of the counterparty's ability and willingness to repay facilities granted. A default, in this context, is defined along two dimensions:

- time-driven: the counterparty is in arrears for more than 90 days or three instalments; and
- event-driven: there is reason to believe that the exposure will not be recovered in full and has been classified as such.

This definition of default is consistently applied across all credit portfolios as well as in the recognition of NPLs for accounting purposes.

The Group employs a granular, 100-point master rating scale, which has been mapped to the continuum of default probabilities, as illustrated in the following table.

Mapping of FirstRand (FR) grades to rating agency scales

FR rating	Midpoint PD	International scale mapping*
FR 1 – 14	0.06%	AAA, AA, A
FR 15 – 25	0.29%	BBB
FR 26 – 32	0.77%	BB+, BB
FR 33 – 39	1.44%	BB-
FR 40 – 53	2.52%	B+
FR 54 – 83	6.18%	B
FR 84 – 90	13.68%	B-
FR 91 – 99	59.11%	Below B-
FR 100	100%	D (defaulted)

* *Indicative mapping to the international rating scales of Standard and Poor's. These mappings are reviewed and updated on a regular basis.*

FR 1 is the lowest PD and FR 100 is the highest. External ratings have also been mapped to the master rating scale for reporting purposes. In line with international best practice, the Group distinguishes between the two measures of PD, both used for the management of exposure to credit risk:

- Through-the-cycle (TTC) PD measures reflect long-term, average default expectations over the course of the economic cycle. TTC PDs are inputs in economic and regulatory capital calculations.
- Point-in-time (PIT) PD measures reflect default expectations in the current economic environment and thus tend to be more volatile than TTC PDs. PIT PDs are used in credit portfolio management, including risk appetite and portfolio monitoring.

Exposure at default

The EAD of a particular facility is defined as the expected exposure to a counterparty through a facility should the counterparty default over the next 12 months. It reflects commitments made and facilities granted that have not been paid out and that may be drawn over the period under consideration (i.e. off-balance sheet exposures). It is also a measure of potential future exposure on derivative positions.

Tailored to the respective portfolios and products employed, a number of EAD models are in use across the Group. These have been developed internally and are calibrated to historical default experience.

Loss given default

LGD is the third major credit risk component estimated on the basis of internal models. It is defined as the economic loss on a particular facility upon default of the counterparty. It is expressed as a percentage of exposure outstanding at the time of default. In most portfolios, LGD is dependent on:

- type, quality, and level of subordination;
- value of collateral held compared to the size of overall exposure; and
- effectiveness of the recovery process and timing of cash flows received during the workout or restructuring process.

A number of models are used to assess LGDs across various portfolios. These models were developed internally and the outputs are calibrated to reflect both the internal loss experience, where available, and external benchmarks, where appropriate.

Typically, a distinction is made between the long-run expected LGDs (long-run LGDs) and LGDs reflective of downturn conditions. The latter is a more conservative assessment of risk, which incorporates a degree of interdependence between PD and LGD that can be found in a number of portfolios (i.e. instances where deteriorating collateral values are also indicative of higher default risk). It is this more conservative measure of LGD, which is used in the calculation of regulatory capital estimates.

Expected loss (EL)

EL, the product of the primary risk measures PD, EAD and LGD, is a forward-looking measure of portfolio or transaction risk. It is used for a variety of purposes along with other risk measures. EL is not directly comparable to impairment levels, as EL calculations are based on the regulatory parameters TTC PD and downturn LGD, and impairment calculations are driven by IFRS requirements.

Slotting approach

Specialised lending relates mainly to project and commodity finance. In terms of the slotting approach, the exposure is rated after assessing the risks and mitigations applied to reduce/eliminate the risk and mapped to one of four supervisory categories. This will apply where the Group finances an entity created to finance and/or operate physical assets where the primary source of repayment of the obligation is the income generated by the assets (i.e. specialised lending specifically in project and commodity finance).

Rating process

The Group employs a consistent rating process differentiated by the type of counterparty and the type of model employed for rating purposes. For example, retail portfolios are segmented into homogeneous pools in an automated process. Based on the internal product level data, PDs are then estimated (and continuously updated) for each pool. The following table summarises the processes and approaches employed and provides an overview of the types of exposures within each of the portfolios.

Credit portfolio rating process

Portfolio and type of exposures	Description of rating system
Large corporate portfolios (Corporate: RMB, WesBank Corporate and Corporate Centre) Exposures to private sector counterparties including corporates and securities firms and public sector counterparties. A wide range of products give rise to credit exposure, including loan facilities, structured finance facilities, contingent products and derivative instruments.	The default definitions applied in the rating systems are aligned to Basel requirements. **Rating process:** - rating assignment to corporate credit counterparties is based on a detailed individual assessment of the counterparty's creditworthiness; - this assessment is performed through a qualitative analysis of the business and financial risks of the counterparty and is supplemented by internally developed statistical rating models; - rating models were developed using internal and external data covering more than ten years; qualitative analysis is based on the methodology followed by international rating agencies; - the rating assessment is reviewed by the wholesale credit committee or delegated subcommittee and the rating (and associated PD) is approved by these committees; - no overrides of the ratings or PDs are possible after approval by these committees; and - LGD and EAD estimates are based on modelling of a combination of internal and suitably adjusted international data with the same committee process responsible for reviewing and approving these measures.
Low default portfolios: sovereign and bank exposures (Corporate: RMB and Corporate Centre) Exposures to sovereign and bank counterparties.	The default definitions applied in the rating systems are aligned to Basel requirements. **Rating process:** - expert judgment models are used in combination with external rating agency ratings as well as structured peer group analyses which form a key input in the ratings process – the analysis is supplemented by internally developed statistical models; - the calibration of PD and LGD ratings is based on a mapping to external default data as well as credit spread market data; - the rating assessment is reviewed by the wholesale credit committee or delegated subcommittee and the rating (as well as the associated PD) is approved by these committees; and - no overrides of the ratings or PDs are possible after approval by these committees.
Specialised lending portfolios (Corporate: RMB, FNB Commercial and Wealth (RMB Private Bank and FNB Private Clients)) Exposures to private-sector counterparties for the financing of income-producing real estate.	The default definitions applied in the rating systems are aligned to Basel requirements. **Rating process:** - rating system is based on hybrid models using a combination of statistical cash flow simulation models and qualitative scorecards calibrated to a combination of internal data and external benchmarks; - the rating assessment is reviewed by the wholesale credit committee, commercial credit committee or delegated subcommittee and the rating (as well as the associated PD) is approved by these committees; and - no overrides of the ratings or PDs are possible after approval by these committees.
Commercial portfolio (SME corporate and SME retail counterparties in FNB Commercial and WesBank) Exposures to SME clients. A wide range of products give rise to credit exposure, including loan facilities, contingent products and term lending products.	The default definitions applied in the rating systems are aligned to Basel requirements. **SME retail rating process:** - the SME retail portfolio is segmented into homogeneous pools and subpools through an automated scoring process using statistical models that incorporate product type, customer behaviour and delinquency status; - PDs are estimated for each subpool based on internal product level history associated with the respective homogeneous pools and subpools; and - LGD and EAD estimates are applied on a portfolio level, estimated from internal historical default and recovery experience. **SME corporate rating process:** - PD: counterparties are scored using Moody's RiskCalc™ in addition to other internal risk drivers, the output of which is calibrated to internal historical default data; - LGD: recovery rates are largely determined by collateral type and these have been set with reference to internal historical loss data, external data (Fitch) and Basel guidelines; and - EAD: portfolio level credit conversion factors are estimated on the basis of the Group's internal historical experience and benchmarked against international studies.

Portfolio and type of exposures	Description of rating system
Residential mortgages (Retail portfolios in FNB HomeLoans, Wealth (RMB Private Bank and FNB Private Clients) and mortgage exposures in the FNB Smart segment) Exposures to individuals for the financing of residential properties. **Qualifying revolving retail exposures (Retail portfolios in FNB Card, FNB Core Banking Solutions and Wealth)** Exposures to individuals providing a revolving limit through a credit card or overdraft facility. **Other retail exposures (Retail portfolios in FNB Loans, FNB Smart segment, WesBank VAF and WesBank Loans)**	The default definitions applied in the rating systems are aligned to Basel requirements. **Rating process and approach:** - retail portfolios are segmented into homogeneous pools and subpools through an automated scoring process using statistical models that incorporate product type, loan characteristics, customer behaviour, application data and delinquency status; - PDs are estimated for each subpool based on internal product level history associated with the respective homogeneous pools and subpools; - no overrides of the PDs are possible. The only potential override is not that of the PD, but rather of the automated decision to lend or not. Such overrides may be on the basis of the credit manager's judgement in a structured process supported by valid business reasons; and - LGD and EAD estimates are based on subsegmentation with reference to the collateral or product type as well as associated analyses and modelling of historical internal loss data. **Additional notes on qualifying revolving retail exposures:** - these exposures are unsecured and, therefore, only the efficiency of recovery processes impacts on the level of LGD; and - EAD measurement plays a significant role in the assessment of risk due to the typically high level of undrawn facilities that are characteristic of these product types. EAD estimates are based on actual historic EAD, segmented appropriately (e.g. straight versus budget in the case of credit cards).

Model validation

Rating models are recalibrated and independently validated on an annual basis to ensure validity, efficacy and accuracy. Rating models across portfolios incorporate an appropriate degree of conservatism, achieved through prudent choice of model parameters and inclusion in the calibration of downturn periods such as 2001 and 2007 to 2009.

Independent validation of rating systems is carried out by the Group credit risk management function in ERM. It is responsible for reviewing all rating systems and an annual comprehensive revalidation of all material rating systems. The model risk audit team in GIA carries out sample revalidations of the rating systems. The results of these reviews are reported to and approved by the model risk and validation committee and the RCC committee, depending on materiality. As part of this process, extensive documentation covering all steps of the model development lifecycle from inception through to validation is maintained, including:

- Developmental evidence, detailing processes followed and data used to set parameters for the model. These documents are updated at least annually by the model development teams.
- Independent validation reports, documenting the process followed during the annual validation exercise and results obtained from these analyses.
- Model build and development frameworks, which are reviewed and, where required, updated annually. These frameworks provide guidance, principles and minimum standards which the model development teams are required to adhere to.

Credit risk mitigation

Since taking and managing of credit risk is core to its business, the Group aims to optimise the amount of credit risk it takes to achieve its return objectives. Mitigation of credit risk is an important component of this process, beginning with the structuring and approval of facilities for only those clients and within those parameters that fall within risk appetite.

Although, in principle, credit assessment focuses on the counterparty's ability to repay the debt, credit mitigation instruments are used where appropriate to reduce the Group's lending risk, resulting in security against the majority of exposures. These include financial or other collateral, netting agreements, guarantees or credit derivatives. The collateral types are driven by portfolio, product or counterparty type:

- mortgage and instalment sale finance portfolios in FNB HomeLoans, FNB Wealth and WesBank are secured by the underlying assets financed;
- personal loans, overdrafts and credit card exposures are generally unsecured or secured by guarantees and sureties;
- FNB Commercial credit exposures are secured by the assets of the SME counterparties and commercial property finance deals are secured by the underlying property and associated cash flows;
- working capital facilities in RMB Corporate Banking are unsecured;
- structured facilities in RMB are secured as part of the structure through financial or other collateral, including guarantees, credit derivative instruments and assets; and
- credit risk in RMB is mitigated through the use of netting agreements and financial collateral.

The Group employs strict policies governing the valuation and management of collateral across all business areas. Collateral is managed internally to ensure that title is retained over collateral taken over the life of the transaction. Collateral is valued at the inception of the credit agreement and subsequently where necessary through physical inspection or index valuation methods. For corporate and commercial counterparties, collateral is reassessed during the annual review of the counterparty's creditworthiness to ensure that proper title is retained over collateral. For mortgage portfolios, collateral is revalued on an ongoing basis using an index model and physical inspection is performed in the event of default at the beginning of the recovery process.

The concentrations within credit risk mitigation types, such as property, are monitored and managed in the three credit portfolios. FNB HomeLoans, Housing Finance and Wealth monitor exposure to a number of geographical areas, as well as within loan-to-value bands.

Collateral is taken into account for capital calculation purposes through the determination of LGD. Collateral reduces LGD, and LGD levels are determined through statistical modelling techniques based on historical experience of the recovery processes.

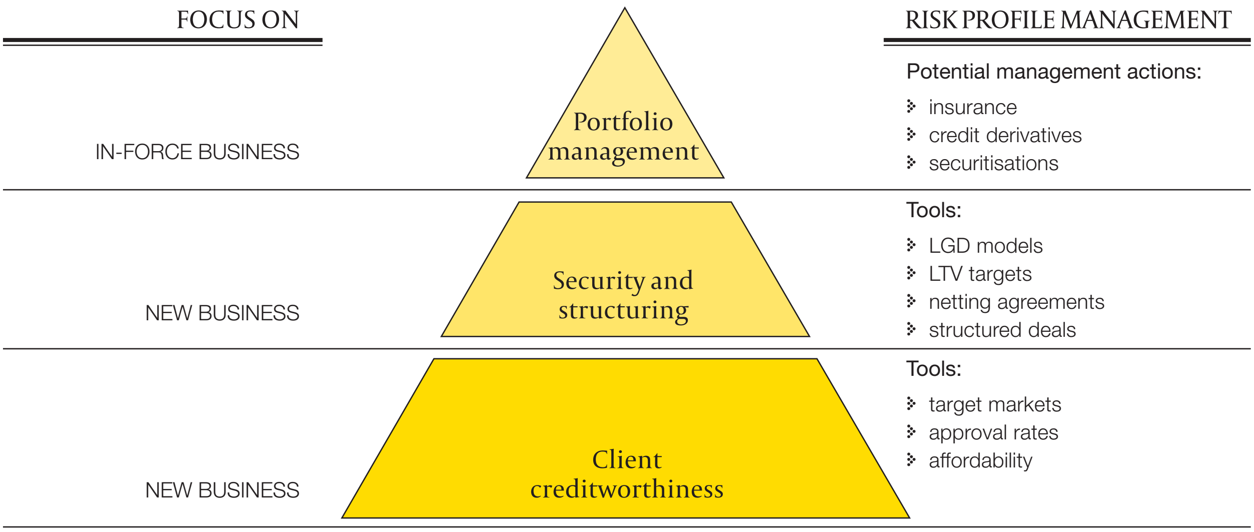
Monitoring of weak exposures

Credit exposures are actively monitored throughout the life of transactions. Portfolios are formally reviewed by portfolio committees either monthly or quarterly to assess levels of individual counterparty risk, portfolio risks and to act on any early warning indicators. The performance and financial condition of borrowers are monitored based on information from internal performances, credit bureaus, borrowers and publicly-available information. The frequency of monitoring and contact with the borrower is determined from the borrower's risk profile. Reports on the overall quality of the portfolio are monitored at a business unit level, portfolio level and in aggregate for the Group.

Use of credit risk tools and measures

Credit risk measures are used in assessing impairments and provisioning, determining capitalisation levels, business strategy, risk appetite and the establishing appropriate return targets. Credit risk tools and measures are used extensively in the determination of the Group's current credit risk profile and appetite.

Use of credit risk tools and measures



The following table describes the use of credit risk concepts and measures across a number of key areas and business processes related to the management of the credit portfolio.

Use of credit measures in the credit lifecycle

	Corporate	Retail
Determination of portfolio and client acquisition strategy	- assessment of overall portfolio credit risk determined by PD, EAD and LGD; and - acquisition and overall strategy set in term of appropriate limits and Group risk appetite.	- see corporate; and - credit models determine loss thresholds used risk appetite setting.
Determination of individual and portfolio limits	- industry and geographical concentrations; - ratings; - risk-related limits on the composition of portfolio; and - Group credit risk appetite.	- see corporate; and - modelled versus actual experience is evaluated in setting risk appetite.
Profitability analysis and pricing decisions	- PD, EAD and LGD used to determine pricing; and - economic profit used for profitability.	- see corporate.
Credit approval	- consideration of applicant's ratings; - credit risk appetite limits; and - projected risk-adjusted return on economic capital (PD, EAD and LGD are key inputs in these measures).	- automated based on application scorecards (scorecards are reflective of PD, EAD and LGD); and - assessment of client's affordability.
Credit monitoring and risk management	- risk assessment based on PD, EAD and LGD; - counterparty FR grades updated based on risk assessment; and - portfolio model apportions and additional capital to large transactions that will increase concentration risk.	- see corporate; and - monthly analysis of portfolio and risk movements used in portfolio management and credit strategy decisions.
Impairments	- PD and LGD used in assessment of impairments and provisioning; and - judgemental assessment to determine adequacy of provisions.	- loss identification period PD LGD and roll rates used for specific, portfolio and incurred-but-not-reported provisions.
Regulatory and economic capital calculation	- primary credit risk measures – PD, EAD and LGD are the most important inputs.	- see corporate.
Reporting to senior management and board	- portfolio reports discussed at franchise and business unit risk committee meetings; and - quarterly portfolio reports submitted to credit risk management and RCC committees.	- see corporate.

CREDIT RISK PORTFOLIO

Credit strategy is managed as part of the broader balance sheet management process and is aligned with the Group's view of trends in the wider economy. The Group's total gross advances increased 12% year-on-year underpinned by 12% growth in both retail and corporate portfolios.

NPLs have continued to trend down since the peak in June 2009. Retail NPLs declined 8% mainly as a result of a sizable decrease in residential mortgages but with unsecured lending NPLs increasing as expected. Corporate and Commercial NPLs declined 14% as a result of decreases in WesBank Corporate and RMB Investment Banking.

Retail credit portfolios

NPLs as a percentage of advances continue to trend downwards and were 3.50% at December 2013 compared to 4.25% at December 2012. As expected, VAF and unsecured lending NPLs are contributing a higher proportion of the NPLs balance.

The impairment charge as a percentage of average advances for Retail was 1.24% (December 2012: 1.34%). The absolute charge for the portfolio reflects a higher proportion of specific impairments emanating mainly from the Retail other portfolio (overdrafts and revolving loans), VAF and personal loans. The FNB Card impairment charge remains low and continues to benefit from good post write-off recoveries.

Corporate credit portfolios

NPLs in the Corporate and Commercial portfolios declined to 1.62% from 2.12% year-on-year with a significant reduction in the WesBank Corporate portfolio.

Credit assets

The following table provides a breakdown of the Group's credit assets by segment, including off-balance sheet exposures.

Credit assets by type and segment

R million	**December 2013**	December 2012*	June 2013*
Cash and short-term funds	**40 347**	43 506	42 639
– Money at call and short notice	**22 204**	27 053	26 005
– Balances with central banks	**18 143**	16 453	16 634
Gross advances	**645 055**	574 698	610 498
FNB**	**282 728**	257 087	271 395
– FNB Retail**	**201 352**	188 993	195 841
– FNB Commercial#	**44 902**	39 300	42 834
– FNB Africa	**36 474**	28 794	32 720
WesBank	**154 225**	130 068	142 158
RMB Investment Banking	**198 700**	179 329	186 314
RMB Corporate Banking**	**6 425**	3 512	5 101
Corporate Centre	**2 977**	4 702	5 530
Derivatives	**44 221**	56 251	52 277
Debt investment securities (excluding non-recourse investments)	**91 115**	79 446	96 099
Accounts receivable	**7 349**	6 955	7 804
Reinsurance assets	**396**	846	394
Credit risk not recognised on the balance sheet	**128 507**	108 639	122 748
– Guarantees	**33 463**	22 363	30 137
– Acceptances	**278**	285	270
– Letters of credit	**7 703**	8 688	8 925
– Irrevocable commitments	**81 411**	73 059	78 783
– Credit derivatives	**5 652**	4 244	4 633
Total	**956 990**	870 341	932 459

* *December 2012 and June 2013 balances have been restated to reflect IFRS changes.*
** *The comparative information for certain portfolios has been restated to reflect the current segmentation of the business.*
\# *Includes public sector.*

Credit quality

Advances are considered past due in the following circumstances:

- loans with a specific expiry date (e.g. term loans) and consumer loans repayable by regular instalments (e.g. mortgage loans and personal loans) are treated as overdue where one full instalment is in arrears for one day or more and remains unpaid as at the reporting date; or
- loans payable on demand (e.g. overdrafts) are treated as overdue where a demand for repayment was served on the borrower but repayment has not been made in accordance with the stipulated requirements.

In these instances, the full outstanding amount is considered overdue even if part is not yet due.

A past due analysis is performed for advances with specific expiry or instalment repayment dates. The analysis is not applicable to overdraft products or products where no specific due date is determined. The level of risk on these types of products is assessed and reported with reference to the counterparty ratings of the exposures. The following tables provide the age analysis of loans and advances for the Group.

Age analysis of advances

	December 2013					
			Past due but not impaired			
R million	Neither past due nor impaired	Renegotiated but current	One full instalment past due	Two full instalments past due	Impaired	Total
– FNB Retail	**189 334**	**617**	**2 341**	**1 266**	**7 794**	**201 352**
– FNB Commercial*	**43 293**	**14**	**54**	**18**	**1 523**	**44 902**
– FNB Africa	**34 717**	**87**	**710**	**252**	**708**	**36 474**
FNB	**267 344**	**718**	**3 105**	**1 536**	**10 025**	**282 728**
WesBank	**144 775**	**–**	**3 806**	**1 532**	**4 112**	**154 225**
RMB Investment Banking**	**196 316**	**–**	**587**	**542**	**1 255**	**198 700**
RMB Corporate Banking	**6 417**	**–**	**–**	**–**	**8**	**6 425**
Corporate Centre	**2 977**	**–**	**–**	**–**	**–**	**2 977**
Total	**617 829**	**718**	**7 498**	**3 610**	**15 400**	**645 055**

* *Includes public sector.*
** *Impaired advances for RMB Investment Banking are net of cumulative credit fair value adjustments on the non-performing book.*

	December 2012*					
			Past due but not impaired			
R million	Neither past due nor impaired	Renegotiated but current	One full instalment past due	Two full instalments past due	Impaired	Total
– FNB Retail	176 212	294	2 072	1 135	9 280	188 993
– FNB Commercial**	37 559	1	37	19	1 684	39 300
– FNB Africa	26 605	–	1 379	344	466	28 794
FNB#	240 376	295	3 488	1 498	11 430	257 087
WesBank	121 775	–	3 122	1 081	4 090	130 068
RMB Investment Banking†	177 638	–	51	79	1 561	179 329
RMB Corporate Banking#	3 504	–	–	–	8	3 512
Corporate Centre	4 702	–	–	–	–	4 702
Total	547 995	295	6 661	2 658	17 089	574 698

* *Balances have been restated to reflect IFRS changes.*
** *Includes public sector.*
# *Certain portfolios have been restated to reflect the current segmentation of the business.*
† *Impaired advances for RMB Investment Banking are net of cumulative credit fair value adjustments on the non-performing book.*

	June 2013*					
			Past due but not impaired			
R million	Neither past due nor impaired	Renegotiated but current	One full instalment past due	Two full instalments past due	Impaired	Total
– FNB Retail	182 868	507	2 457	1 394	8 615	195 841
– FNB Commercial**	41 260	101	29	15	1 429	42 834
– FNB Africa	30 922	82	688	351	677	32 720
FNB#	255 050	690	3 174	1 760	10 721	271 395
WesBank	134 271	–	2 830	1 127	3 930	142 158
RMB Investment Banking†	184 026	–	112	800	1 376	186 314
RMB Corporate Banking#	5 091	–	1	–	9	5 101
Corporate Centre	5 530	–	–	–	–	5 530
Total	583 968	690	6 117	3 687	16 036	610 498

* *Balances have been restated to reflect IFRS changes.*
** *Includes public sector.*
# *Certain portfolios have been restated to reflect the current segmentation of the business.*
† *Impaired advances for RMB Investment Banking are net of cumulative credit fair value adjustments on the non-performing book.*

Renegotiated advances

Financial assets that would otherwise be past due or impaired that have been renegotiated, are separately classified as neither past due nor impaired assets.

Renegotiated advances are advances where, due to deterioration in the counterparty's financial condition, the Group grants a concession whereby the original terms and conditions of the facility are amended and the counterparty is within the new terms of the advance.

Advances are only classified as renegotiated if the terms of the renegotiated contract have not yet expired and remain classified as such until the terms of the renegotiated contract expire. Where the advances are reclassified as neither past due nor impaired, adherence to the new terms and conditions is closely monitored. Renegotiated advances exclude advances which are extended or renewed as part of the ordinary course of business on similar terms and conditions as the original advances.

Non-performing loans cannot be reclassified as renegotiated unless the arrears balance has been repaid. Renegotiated but current financial assets are considered as part of the collective evaluation of impairment where financial assets are grouped on the basis of similar credit risk characteristics.

As part of the risk management and recoveries approach, the Group enters into arrangements with clients where concessions are made on payment terms (e.g. a reduction in payments for a specified period, changes in the payment profile or debt counselling payment plans). There are formally defined eligibility criteria appropriate for individual products to determine when clients are eligible for such arrangements. These accounts are monitored in a separate portfolio in each product segment and the performance is tracked for management and impairment purposes. Retail accounts which have been renegotiated and classified as NPLs cannot be reclassified to performing until all arrears have been paid up as per the Group's policy.

Past due but not impaired

Advances are considered past due in the following circumstances:

- loans with a specific expiry date (e.g. term loans etc.) and consumer loans repayable by regular instalments (e.g. mortgage loans and personal loans) are treated as overdue where one full instalment is in arrears for one day or more and remains unpaid at the reporting date; or
- loans payable on demand (e.g. overdrafts) are treated as overdue where a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction.

In these instances, the full outstanding amount is considered overdue even if part is not yet due.

The past due analysis is only performed for advances with specific expiry or instalment repayment dates or demand loans that have been demanded. The analysis is not applicable to overdraft products or products where no specific due date is determined. The level of risk on these types of products is assessed with reference to the counterparty ratings of the exposures and reported as such.

Advances past due but not impaired in the tables above include accounts in arrears by one or two full repayments. For the six months ended 31 December 2013 exposures to technical and partial arrears of R5.3 million (December 2012: R5.2 billion; June 2013: R4.2 billion) were classified as neither past due nor impaired in accordance with FirstRand's impairment methodology, primarily driven by retail exposures.

Detailed information on the in-force portfolio and on the movements at asset class level is provided in the PD, EAD and LGD profiles section. The following tables provide an overview of the credit quality of other financial assets that are neither past due nor impaired.

Credit quality of other financial assets (excluding advances) neither past due nor impaired

	December 2013				
R million	**Debt investment securities***	**Derivatives**	**Cash and short-term funds**	**Reinsurance assets**	**Total**
AAA to BBB	**83 010**	**34 068**	**37 938**	**396**	**155 412**
BB+ to B-	**7 481**	**10 084**	**2 029**	**–**	**19 594**
CCC	**539**	**54**	**298**	**–**	**891**
Unrated	**85**	**15**	**82**	**–**	**182**
Total	**91 115**	**44 221**	**40 347**	**396**	**176 079**

* *Excludes non-recourse investments.*

	December 2012*				
R million	Debt investment securities**	Derivatives	Cash and short-term funds	Reinsurance assets	Total
AAA to BBB	74 524	38 347	41 269	846	154 986
BB+ to B-	4 443	17 813	1 972	–	24 228
CCC	300	70	225	–	595
Unrated	179	21	40	–	240
Total	79 446	56 251	43 506	846	180 049

* *Balances have been restated to reflect IFRS changes.*
** *Excludes non-recourse investments.*

	June 2013*				
R million	Debt investment securities**	Derivatives	Cash and short-term funds	Reinsurance assets	Total
AAA to BBB	89 062	34 154	40 944	394	164 554
BB+ to B-	6 443	18 078	1 417	–	25 938
CCC	517	36	207	–	760
Unrated	77	9	70	–	156
Total	96 099	52 277	42 638	394	191 408

* *Balances have been restated to reflect IFRS changes.*
** *Excludes non-recourse investments.*

Policy for impairment of financial assets

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

Assets carried at amortised cost

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets are impaired and impairment losses are incurred if, and only if, there are objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event), and that loss event(s) has an adverse impact on the estimated future cash flows of the financial asset or group of financial assets and the impact can be reliably estimated.

Objective evidence that a financial asset or group of financial assets is impaired includes observable data that comes to the attention of the Group about the following events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments of principal or interest;
- high probability that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties or adverse changes in the market, economic or legal environment in which the entity operates; or
- observable data indicating a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be allocated to the individual financial assets in the group, including:
  - adverse changes in the payment status of issuers or debtors in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and performs a collective assessment for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether the Group elects to foreclose or not.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such financial assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the financial assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of financial assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are regularly reviewed by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance account. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

Analysis of movement in impairment advances

R million	As at 31 December 2013	As at 31 December 2012*	% change	As at June 2013*
Opening balance	**5 713**	5 574	2	5 574
Reclassifications and transfers	**(19)**	43	(>100)	158
Acquisitions	**–**	(3)	–	–
Exchange rate difference	**34**	7	>100	30
Unwinding and discounted present value on NPLs	**(89)**	(105)	(15)	(168)
Bad debts written off	**(2 872)**	(2 431)	18	(5 277)
Net new impairments created	**2 727**	2 510	9	5 396
Closing balance – specific impairment	**5 494**	5 595	(2)	5 713
Closing balance – portfolio impairment	**4 118**	3 654	13	3 720
Total impairment	**9 612**	9 249	4	9 433

* *December 2012 and June 2013 balances have been restated to reflect IFRS changes.*

NPLs and impaired advances

The adequacy of impairments is assessed through the ongoing review of the quality of the credit exposures. Although credit management and workout processes are similar for amortised cost advances and fair value advances, impairments for these differ.

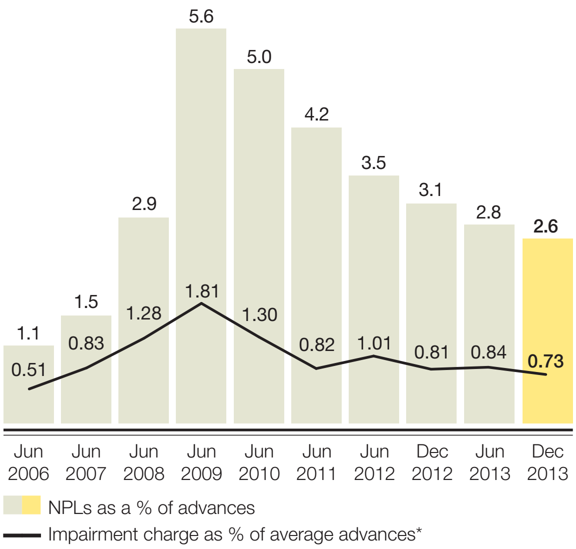
For amortised cost advances, impairments are recognised through the creation of an impairment reserve and an impairment charge in the income statement. For fair value advances, the credit value adjustment is charged to the income statement through trading income and recognised as a change to the carrying value of the asset.

Specific impairments are created for non-performing advances where there is objective evidence that an incurred loss event will have an adverse impact on the estimated future cash flows from the asset. Potential recoveries from guarantees and collateral are incorporated into the calculation of the impairment figures.

All assets not individually impaired, as described, are included in portfolios with similar credit characteristics (homogeneous pools) and collectively assessed. Portfolio impairments are created with reference to these performing advances based on historical patterns of losses in each part of the performing book. Points of consideration for this analysis are the level of arrears, arrears roll rates, PIT PDs, LGDs and the economic environment. Loans considered uncollectable are written off against the reserve for loan impairments. Subsequent recoveries against these facilities decrease the credit impairment charge in the income statement in the year of recovery.

The following graph shows the history of the credit losses reflected by the impairment charge and NPLs percentages.

NPLs and impairments history (%)



Impairment charges are reflected before insurance proceeds where applicable.
* *The impairment charge is calculated on an IFRS basis.*

The following tables provide an analysis of NPLs by class, sector and geographical area, respectively.

NPLs by class

	NPLs as a % of advances			NPLs		
%/R million	**December 2013**	December 2012*	June 2013*	**December 2013**	December 2012*	June 2013*
FNB**	**3.55**	4.45	3.95	**10 025**	11 430	10 721
FNB Retail	**3.87**	4.91	4.40	**7 794**	9 280	8 615
FNB Commercial	**3.39**	4.28	3.34	**1 523**	1 684	1 429
FNB Africa	**1.94**	1.62	2.07	**708**	466	677
WesBank*	**2.67**	3.14	2.76	**4 112**	4 090	3 930
RMB Investment Banking**	**1.22**	1.40	1.38	**2 419**	2 515	2 571
RMB Corporate Banking**	**0.12**	0.23	0.18	**8**	8	9
Corporate Centre	**–**	–	–	**–**	–	–
Total NPLs	**2.57**	3.14	2.82	**16 564**	18 043	17 231

* *December 2012 and June 2013 balances have been restated to reflect IFRS changes.*
** *The comparative information for certain portfolios has been restated to reflect the current segmentation of the business.*

NPLs by sector

	NPLs as a % of advances			NPLs		
%/R million	**December 2013**	December 2012*	June 2013*	**December 2013**	December 2012*	June 2013*
Agriculture	**2.76**	3.30	2.99	**616**	568	617
Financial services	**0.30**	0.51	0.34	**233**	401	247
Building and property development	**6.57**	8.01	7.66	**2 036**	2 460	2 540
Government, Land Bank and public authorities	**0.68**	0.29	0.80	**109**	46	145
Individuals	**3.44**	4.16	3.75	**11 597**	12 590	11 946
Manufacturing and commerce	**1.32**	1.51	0.99	**1 100**	969	741
Mining	**0.22**	0.50	0.46	**51**	91	105
Transport and communication	**0.59**	1.30	0.88	**119**	220	138
Other	**2.13**	2.31	2.23	**703**	698	752
Total NPLs	**2.57**	3.14	2.82	**16 564**	18 043	17 231

* *December 2012 and June 2013 balances have been restated to reflect IFRS changes.*

NPLs by geographical area

	NPLs as a % of advances			NPLs		
%/R million	**December 2013**	December 2012*	June 2013*	**December 2013**	December 2012*	June 2013*
South Africa	**2.73**	3.30	2.96	**15 216**	16 990	16 041
Other Africa	**1.36**	1.23	1.48	**775**	471	678
UK	**0.35**	0.32	0.31	**71**	44	50
North America	**2.94**	20.44	3.32	**35**	28	34
South America	**91.44**	81.25	84.68	**331**	273	315
Australasia	**7.13**	14.74	5.53	**78**	203	75
Asia	**5.25**	1.40	2.64	**58**	34	38
Total NPLs	**2.57**	3.14	2.82	**16 564**	18 043	17 231

* *December 2012 and June 2013 balances have been restated to reflect IFRS changes.*

Management of concentration risk

Credit concentration risk is the risk of loss to the Group arising from an excessive concentration of exposure to a single counterparty, industry, market, product, financial instrument or type of security, country or region, or maturity. This concentration typically exists when a number of counterparties are engaged in similar activities and have similar characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

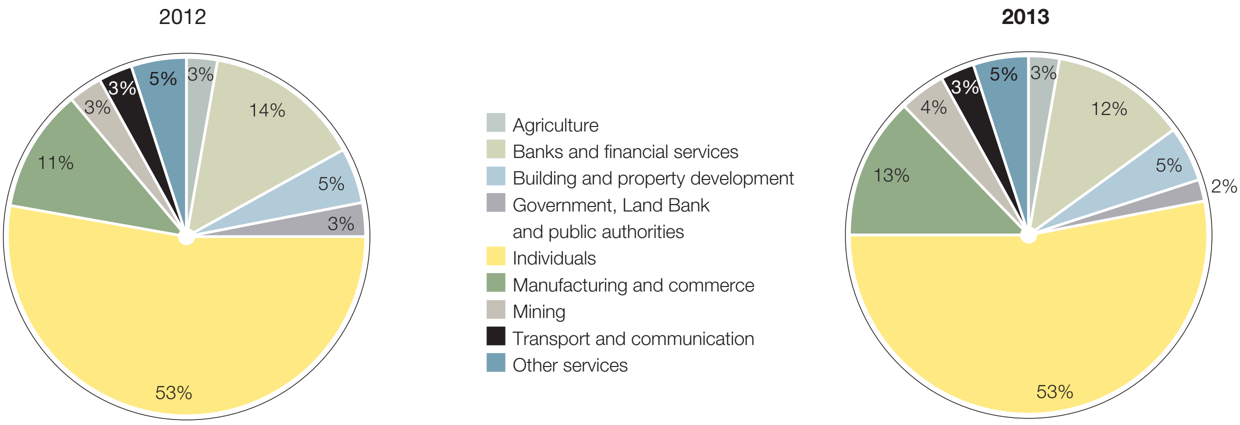
Concentration risk is managed in the credit portfolios, based on the nature of the credit concentration within each portfolio. The Group's credit portfolio is well diversified. Diversification is achieved through setting maximum exposure guidelines to individual counterparties. The Group constantly reviews its concentration levels and sets maximum exposure guidelines to these. Excesses are reported to the RCC committee.

Geographic and industry concentration risk

Geographically, most of the Group's exposures are in South Africa. The following charts provide the geographical and industry split of gross advances after deduction of interest in suspense.

Geographical split by exposure

Industry split by exposure



The Group seeks to establish a balanced portfolio profile and closely monitors credit concentrations. The following tables provide a breakdown of credit exposure across geographical areas.

Concentration of significant credit exposure

R million	December 2013								
	South Africa	**Rest of Africa**	**United Kingdom**	**Other Europe**	**North America**	**South America**	**Australasia**	**Asia**	**Total**
Advances	**558 292**	**56 918**	**20 399**	**5 697**	**1 189**	**362**	**1 094**	**1 104**	**645 055**
Derivatives	**25 919**	**349**	**15 303**	**1 768**	**709**	**–**	**16**	**157**	**44 221**
Debt investment securities*	**73 814**	**7 145**	**2 236**	**1 909**	**2 101**	**–**	**–**	**3 910**	**91 115**
Guarantees, acceptances and letters of credit**	**29 786**	**7 393**	**64**	**228**	**2 440**	**–**	**52**	**1 481**	**41 444**
Irrevocable commitments**	**72 933**	**6 307**	**547**	**959**	**67**	**253**	**–**	**345**	**81 411**

* *Excludes non-recourse investments.*
** *Significant off-balance sheet exposures.*

R million	December 2012*								
	South Africa	Rest of Africa	United Kingdom	Other Europe	North America	South America	Australasia	Asia	Total
Advances	514 502	38 189	13 936	3 792	137	336	1 377	2 429	574 698
Derivatives	34 908	99	16 645	3 553	981	–	2	63	56 251
Debt investment securities*	67 036	6 023	481	–	5 315	–	–	591	79 446
Guarantees, acceptances and letters of credit**	27 160	3 469	–	105	–	–	–	602	31 336
Irrevocable commitments**	65 261	6 708	454	184	168	23	–	261	73 059

* *Balances have been restated to reflect IFRS changes.*
** *Excludes non-recourse investments.*
# *Significant off-balance sheet exposures.*

R million	June 2013*								
	South Africa	Rest of Africa	United Kingdom	Other Europe	North America	South America	Australasia	Asia	Total
Advances	541 337	45 644	15 949	3 374	1 024	372	1 357	1 441	610 498
Derivatives	29 865	298	18 673	2 194	833	7	–	407	52 277
Debt investment securities*	73 583	6 491	624	–	10 002	–	–	5 399	96 099
Guarantees, acceptances and letters of credit**	27 981	7 666	82	150	7	–	14	3 432	39 332
Irrevocable commitments**	68 411	7 312	1 485	517	530	124	–	404	78 783

* *Balances have been restated to reflect IFRS changes.*
** *Excludes non-recourse investments.*
# *Significant off-balance sheet exposures.*

Average advances per major risk type

R million	**December 2013**	December 2012*	June 2013*
Retail credit	**339 085**	303 271	321 625
FNB Africa credit	**32 752**	26 339	29 276
Wholesale credit	**188 922**	158 862	175 068
Commercial credit	**42 751**	35 908	39 718

* *December 2012 and June 2013 balances have been restated to reflect IFRS changes.*

The average amount of gross credit exposure during the reporting period is calculated on a monthly average basis.

BASEL DISCLOSURE

Credit rating systems and processes used for Basel

The Group uses the AIRB approach for exposures of the Bank and the standardised approach for all other legal entities and offshore branches in the Group for regulatory capital purposes. Due to the relatively smaller size of the subsidiaries and the scarcity of relevant data, the Group plans to continue using the standardised approach for the foreseeable future for the majority of these portfolios.

The following table provides a breakdown of credit exposure by type, segment and Basel approach. The figures are based on IFRS and differ from the exposure figures used for regulatory capital calculations, which reflect the recognition of permissible adjustments such as the netting of certain exposures.

Credit exposure by type, segment and Basel approach

		AIRB	Standardised approach subsidiaries	
R million	**December 2013**	FirstRand Bank (SA)	Regulated bank entities within FNB Africa	Other subsidiaries
Cash and short-term funds	**40 347**	32 950	5 572	1 825
– Money at call and short notice	**22 204**	18 025	2 412	1 767
– Balances with central banks	**18 143**	14 925	3 160	58
Gross advances	**645 055**	567 383	36 474	41 198
FNB	**282 728**	246 001	36 474	253
– FNB Retail	**201 352**	201 352	–	–
– FNB Commercial*	**44 902**	44 649	–	253
– FNB Africa	**36 474**	–	36 474	–
WesBank	**154 225**	136 057	–	18 168
RMB Investment Banking	**198 700**	177 132	–	21 568
RMB Corporate Banking	**6 425**	6 319	–	106
Corporate Centre	**2 977**	1 874	–	1 103
Derivatives	**44 221**	43 684	113	424
Debt investment securities (excluding non-recourse investments)	**91 115**	80 413	7 462	3 240
Accounts receivable	**7 349**	3 632	1 325	2 392
Loans due by holding company and fellow subsidiaries	**–**	24 281	4 774	(29 055)
Reinsurance assets	**396**	–	–	396
Credit risk not recognised on the balance sheet	**128 507**	118 365	7 899	2 243
– Guarantees	**33 463**	30 350	2 537	576
– Acceptances	**278**	278	–	–
– Letters of credit	**7 703**	7 005	671	27
– Irrevocable commitments	**81 411**	75 080	4 691	1 640
– Credit derivatives	**5 652**	5 652	–	–
Total	**956 990**	**870 708**	**63 619**	**22 663**

* *Includes public sector.*

For portfolios using the standardised approach, rating scales from Fitch Ratings, Moody's and Standard & Poor's are used. External ratings are not available for all jurisdictions and for certain parts of the portfolio other than corporate, bank and sovereign counterparties. Where applicable, the Group uses its internally developed mapping between FR grades and rating agency grades.

The following table provides the breakdown of exposures rated through the standardised approach in FNB Africa by risk bucket after taking risk mitigation into account.

FNB Africa exposures by risk bucket

Risk bucket	Exposure (R million)
0%	–
10%	–
20%	4 691
35%	12 852
50%	3 948
75%	3 946
100%	37 910
Specific impairments	272
Total	**63 619**

PD, EAD and LGD profiles

A summary of credit risk parameters as reported for regulatory capital purposes is shown in the following tables for each significant AIRB asset class. The parameters reflect TTC PDs and downturn LGDs. The Group uses EAD-weighted PDs based on the FR master rating scale which are then mapped to Basel rating buckets (1 – 25) for regulatory reporting purposes.

The tables provide a summary of the EAD distribution by prescribed counterparty risk bands (Basel risk buckets). The EAD-weighted downturn LGD, EAD-weighted PD and average risk weight for the performing and total book are also shown as well as comparatives for the prior year.

Year-on-year trends will be impacted by the risk migration in the existing book (reflecting changes in the economic environment), quality of new business originated and any model recalibrations implemented during the course of the period.

The risk profile reflects the credit origination strategy that selectively targets segments providing an appropriate risk/return profile in the current economic environment.

The following tables include the EAD% distribution and nominal EAD per Basel risk bucket for different asset classes.

Risk profile per asset class: EAD% distribution per Basel risk bucket

%	EAD					
	FRB*			Corporate		
Basel PD risk buckets	**Dec 2013**	Dec 2012	Jun 2013	**Dec 2013**	Dec 2012	Jun 2013
1 – 5	**8.36**	8.27	9.27	**0.24**	0.54	0.41
6 – 10	**15.94**	15.67	15.99	**34.21**	33.00	33.76
11 – 15	**39.38**	37.08	36.91	**53.15**	53.63	53.35
16 – 20	**30.26**	32.02	31.22	**11.67**	11.36	10.32
21 – 25	**4.10**	4.40	4.53	**0.51**	1.29	2.04
NPLs	**1.97**	2.38	2.08	**0.22**	0.17	0.13

%	EAD					
	SME corporate			SME retail		
Basel PD risk buckets	**Dec 2013**	Dec 2012	Jun 2013	**Dec 2013**	Dec 2012	Jun 2013
1 – 5	**–**	0.08	2.04	**0.05**	–	–
6 – 10	**0.72**	0.80	0.75	**15.36**	14.97	13.71
11 – 15	**53.82**	53.48	56.02	**24.14**	24.56	24.77
16 – 20	**40.15**	40.00	37.73	**52.84**	53.32	54.33
21 – 25	**3.49**	3.21	3.52	**4.89**	3.91	4.35
NPLs	**1.82**	2.36	1.97	**2.70**	3.23	2.85

* *The movements from December 2012 to December 2013 are explained in each separate asset class. Distributions are stable with NPLs reducing in line with the benign environment over the period under review.*
** *The main contributor to the improvement in the risk profile is due to origination of business in higher quality risk buckets.*
# *The shift in risk profile is due to strong business growth in the overdrafts space.*
† *The improvement in risk profile is largely due to a slowdown in origination in the high risk unsecured lending buckets coupled with strong growth in the WesBank motor space.*

Risk profile per asset class: Nominal EAD per Basel risk bucket

R million	Nominal EAD					
	FRB*			Corporate		
Basel PD risk buckets	**Dec 2013**	Dec 2012	Jun 2013	**Dec 2013**	Dec 2012	Jun 2013
1 – 5	**61 878**	56 715	67 222	**402**	769	621
6 – 10	**117 962**	105 273	111 135	**56 391**	47 011	51 741
11 – 15	**291 505**	249 101	267 689	**87 625**	76 398	81 772
16 – 20	**223 958**	215 092	226 451	**19 232**	16 177	15 818
21 – 25	**30 334**	29 560	32 860	**844**	1 843	3 124
NPLs	**14 553**	16 002	15 073	**366**	244	199
Total	**740 190**	671 743	720 430	**164 860**	142 442	153 275

R million	Nominal EAD					
	SME corporate			SME retail		
Basel PD risk buckets	**Dec 2013**	Dec 2012	Jun 2013	**Dec 2013**	Dec 2012	Jun 2013
1 – 5	**–**	55	9	**22**	–	–
6 – 10	**317**	303	314	**6 061**	4 908	–
11 – 15	**23 575**	20 317	23 392	**9 526**	8 054	8 797
16 – 20	**17 588**	15 198	15 753	**20 848**	17 486	19 297
21 – 25	**1 530**	1 221	1 469	**1 931**	1 283	1 544
NPLs	**797**	898	821	**1 065**	1 060	1 011
Total	**43 807**	37 992	41 758	**39 453**	32 791	30 649

* *The movements from December 2012 to December 2013 are explained in each separate asset class. Distributions are stable with NPLs reducing in line with the benign environment over the period under review.*
** *The main contributor to the improvement in the risk profile is due to origination of business in higher quality risk buckets.*
# *The shift in risk profile is due to strong business growth in the overdrafts space.*
† *The improvement in risk profile is largely due to a slowdown in origination in the high risk unsecured lending buckets coupled with strong growth in the WesBank motor space.*

EAD								
Sovereign			Specialised lending**			Banks and securities firms		
Dec 2013	Dec 2012	Jun 2013	**Dec 2013**	Dec 2012	Jun 2013	**Dec 2013**	Dec 2012	Jun 2013
81.94	78.80	83.07	**0.16**	0.18	0.11	**8.53**	4.29	3.94
14.48	15.51	13.46	**13.91**	17.65	14.82	**70.08**	71.02	67.73
2.34	4.13	2.29	**65.14**	42.85	54.73	**17.32**	19.17	22.56
1.00	0.83	0.58	**14.75**	32.47	22.97	**3.49**	0.50	4.90
0.22	0.30	0.20	**1.68**	0.79	2.20	**0.57**	0.69	0.87
0.02	0.43	0.41	**4.36**	6.06	5.18	**–**	–	–

EAD								
Retail mortgages			Retail revolving#			Other retail†		
Dec 2013	Dec 2012	Jun 2013	**Dec 2013**	Dec 2012	Jun 2013	**Dec 2013**	Dec 2012	Jun 2013
0.35	–	–	**2.51**	–	–	**0.02**	–	–
0.61	0.55	2.24	**14.14**	22.87	20.76	**0.05**	–	–
56.72	55.27	53.58	**34.75**	32.09	32.48	**14.95**	7.10	7.34
35.41	35.94	36.47	**38.10**	33.97	34.90	**68.57**	75.80	76.60
4.06	4.65	4.52	**8.44**	9.04	9.76	**12.47**	13.02	12.37
2.84	3.58	3.19	**2.07**	2.02	2.11	**3.94**	4.05	3.66

Nominal EAD								
Sovereign			Specialised lending**			Banks and securities firms		
Dec 2013	Dec 2012	Jun 2013	**Dec 2013**	Dec 2012	Jun 2013	**Dec 2013**	Dec 2012	Jun 2013
55 752	52 087	64 718	**65**	67	41	**4 024**	3 737	1 833
9 851	10 250	10 489	**5 809**	6 627	5 709	**33 045**	28 291	31 518
1 590	2 727	1 782	**27 205**	16 085	21 087	**8 168**	7 237	10 500
683	550	448	**6 161**	12 189	8 848	**1 648**	1 414	2 280
150	196	157	**701**	298	848	**270**	429	406
14	287	317	**1 820**	2 275	1 994	**–**	–	–
68 040	66 097	77 911	**41 761**	37 541	38 527	**47 155**	41 108	46 537

Nominal EAD								
Retail mortgages			Retail revolving#			Other retail†		
Dec 2013	Dec 2012	Jun 2013	**Dec 2013**	Dec 2012	Jun 2013	**Dec 2013**	Dec 2012	Jun 2013
645	–	–	**942**	–	–	**26**	–	–
1 121	1 008	4 226	**5 312**	6 850	7 108	**55**	25	30
103 565	101 565	101 273	**13 059**	9 609	11 121	**17 192**	7 109	7 965
64 652	66 049	68 918	**14 317**	10 172	11 952	**78 829**	75 857	83 137
7 407	8 549	8 543	**3 170**	2 708	3 341	**14 331**	13 033	13 428
5 186	6 584	6 036	**778**	606	721	**4 527**	4 048	3 974
182 576	183 755	188 996	**37 578**	29 945	34 243	**114 960**	100 072	108 534

The following tables include the PD%, LGD%, EL/EAD and RWA/EAD ratio per asset class.

PD%, LGD%, EL/EAD and RWA/EAD per asset class

	FRB*			Corporate		
%	**Dec 2013**	Dec 2012	Jun 2013	**Dec 2013**	Dec 2012	Jun 2013
Average performing PD	**2.39**	2.56	2.50	**0.90**	1.12	1.18
Average performing LGD	**28.92**	28.31	28.30	**34.45**	35.10	34.54
Performing EL/EAD	**0.85**	0.85	0.84	**0.30**	0.46	0.52
Performing RWA/EAD	**39.91**	41.82	39.87	**53.73**	54.66	57.48
Average total book PD	**4.29**	4.92	4.51	**1.11**	1.28	1.31
Average total book LGD	**29.18**	28.59	28.71	**34.46**	35.16	34.54
Total book EL/EAD	**1.60**	1.71	1.63	**0.42**	0.58	0.61
Total book RWA/EAD	**40.39**	42.47	41.23	**53.61**	54.58	57.42

	SME corporate			SME retail		
%	**Dec 2013**	Dec 2012	Jun 2013	**Dec 2013**	Dec 2012	Jun 2013
Average performing PD	**2.45**	2.62	2.45	**2.96**	2.70	2.87
Average performing LGD	**27.68**	29.31	26.49	**32.58**	31.23	30.68
Performing EL/EAD	**0.71**	0.72	0.62	**0.93**	0.81	0.83
Performing RWA/EAD	**56.92**	63.37	53.91	**36.80**	39.61	37.68
Average total book PD	**4.22**	4.92	4.37	**5.62**	6.26	5.70
Average total book LGD	**27.95**	29.99	27.41	**33.03**	31.75	30.98
Total book EL/EAD	**1.85**	2.04	1.73	**1.99**	1.99	2.04
Total book RWA/EAD	**56.16**	66.91	56.25	**42.40**	45.34	40.44

* *The movements from December 2012 to December 2013 are explained in each separate asset class. Distributions are stable with NPLs reducing in line with the benign environment over the year under review.*
** *Includes public sector entities, local government and municipalities and sovereign exposures (including central government and central bank).*
# *Includes high volatility commercial real estate, income-producing real estate, object finance, commodities finance and project finance exposures. The main contributor to the improvement in the risk profile is due to origination of business in higher quality risk buckets.*

The following tables include the nominal value of the credit extended, drawn exposure and EAD per asset class.

Nominal credit extended, drawn exposure and EAD per asset class

	FRB*			Corporate		
R million	**Dec 2013**	Dec 2012	Jun 2013	**Dec 2013**	Dec 2012	Jun 2013
Total book credit extended	**926 690**	873 638	919 707	**212 645**	187 864	205 107
Total book drawn exposure	**624 364**	557 586	601 736	**129 755**	114 850	118 854
Total book nominal EAD	**740 190**	671 743	720 430	**164 860**	142 442	153 275

	SME corporate			SME retail		
R million	**Dec 2013**	Dec 2012	Jun 2013	**Dec 2013**	Dec 2012	Jun 2013
Total book credit extended	**52 024**	45 310	49 445	**41 086**	34 176	36 735
Total book drawn exposure	**36 327**	31 714	35 338	**30 806**	25 496	28 174
Total book nominal EAD	**43 807**	37 992	41 758	**39 453**	32 791	30 649

* *The movements from December 2012 to December 2013 are explained in each separate asset class. Distributions are stable with NPLs reducing in line with the benign environment over the year under review.*
** *Includes public sector entities, local government and municipalities and sovereign exposures (including central government and central bank).*
# *Includes high volatility commercial real estate, income-producing real estate, object finance, commodities finance and project finance exposures. The main contributor to the improvement in the risk profile is due to origination of business in higher quality risk buckets.*

Sovereign**			Specialised lending#			Banks and securities firms		
Dec 2013	Dec 2012	Jun 2013	**Dec 2013**	Dec 2012	Jun 2013	**Dec 2013**	Dec 2012	Jun 2013
0.13	0.15	0.12	**1.36**	2.24	1.84	**0.36**	0.42	0.49
28.50	28.87	28.40	**22.92**	22.09	23.20	**27.49**	29.45	30.18
0.07	0.07	0.05	**0.40**	0.52	0.68	**0.10**	0.14	0.15
8.74	7.99	8.04	**47.89**	61.96	55.09	**21.56**	23.31	26.94
0.15	0.58	0.53	**5.66**	5.59	6.87	**0.36**	0.42	0.49
28.50	28.87	28.39	**23.76**	23.28	25.04	**27.49**	29.45	30.18
0.07	0.19	0.07	**2.49**	2.95	3.14	**0.10**	0.14	0.15
8.73	7.96	8.00	**45.80**	58.71	52.45	**21.56**	23.31	26.94

Retail mortgages			Retail revolving			Other retail		
Dec 2013	Dec 2012	Jun 2013	**Dec 2013**	Dec 2012	Jun 2013	**Dec 20133**	Dec 2012	Jun 2013
2.75	2.98	2.92	**3.80**	3.79	4.10	**6.08**	6.24	5.97
13.78	14.18	13.86	**65.55**	65.07	65.18	**33.99**	33.34	32.84
0.41	0.48	0.44	**2.50**	2.47	2.67	**2.83**	2.67	2.52
25.38	27.60	26.16	**53.29**	48.95	53.23	**54.62**	53.67	53.07
5.51	6.46	6.01	**5.79**	5.73	6.21	**9.78**	10.03	9.41
14.02	14.51	14.15	**65.63**	65.26	65.34	**34.88**	34.22	33.65
1.05	1.29	1.17	**3.66**	3.78	4.13	**4.48**	4.45	4.20
25.11	27.46	26.04	**53.92**	51.16	54.61	**56.95**	55.62	54.43

Sovereign**			Specialised lending#			Banks and securities firms		
Dec 2013	Dec 2012	Jun 2013	**Dec 2013**	Dec 2012	Jun 2013	**Dec 2013**	Dec 2012	Jun 2013
77 022	67 242	83 334	**42 128**	37 646	39 252	**139 457**	169 662	155 387
65 679	58 309	72 680	**40 914**	33 856	37 524	**27 156**	27 993	29 123
68 040	66 097	77 911	**41 761**	37 541	38 527	**47 155**	41 108	46 537

Retail mortgages			Retail revolving			Other retail		
Dec 2013	Dec 2012	Jun 2013	**Dec 2013**	Dec 2012	Jun 2013	**Dec 2013**	Dec 2012	Jun 2013
196 123	190 237	195 405	**50 697**	41 208	46 262	**115 508**	100 293	108 780
158 359	150 267	153 618	**20 621**	16 243	19 278	**113 863**	98 858	107 147
182 576	183 755	188 996	**37 578**	29 945	34 243	**114 960**	100 072	108 534

Maturity breakdown

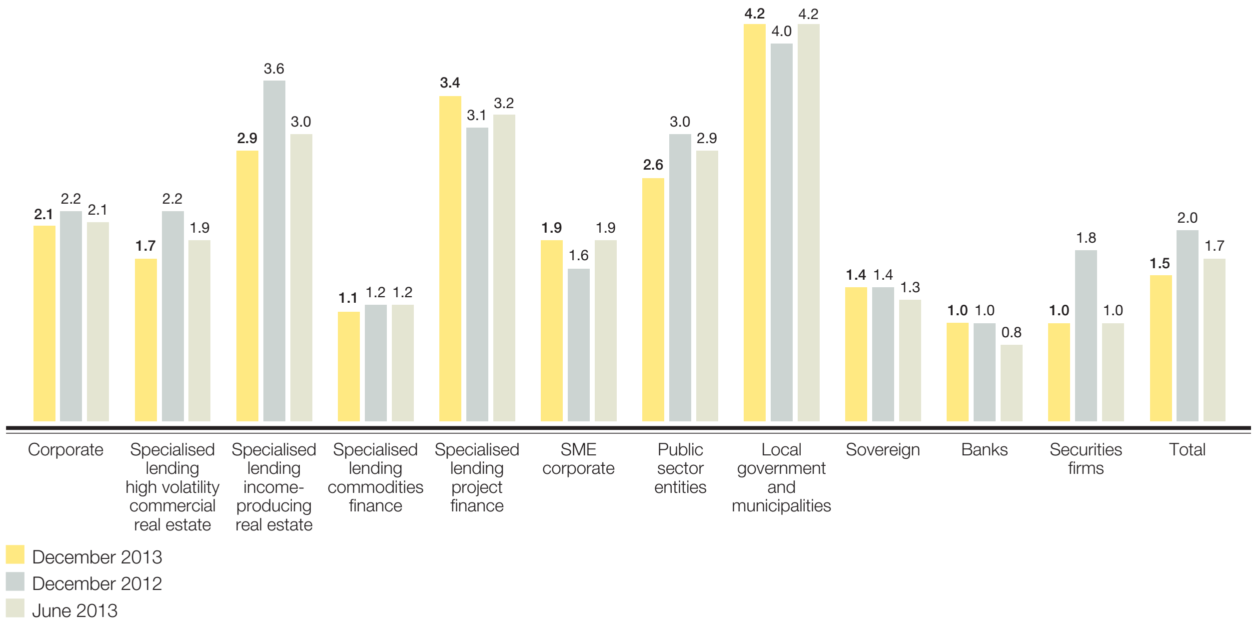
Maturity is defined as the average time at which a bank will receive its contractual payments (cash flows), calculated for each account or exposure weighted by the size of each of the cash flows.

Maturity is used as an input in the AIRB regulatory capital calculation for wholesale portfolios. These are aggregated on an asset class basis for review and reporting purposes. The longer the maturity of a deal, the greater the uncertainty, and all else being equal, the larger the regulatory capital requirement will be.

Maturity breakdown of AIRB asset classes within the wholesale credit portfolio is disclosed in the following chart.

Maturity breakdown per wholesale AIRB asset class

(Maturity in years)



Actual versus expected loss analysis

To provide a meaningful assessment of the effectiveness of internal ratings-based models, expected loss is compared against actual losses during the calendar year. This is performed for all significant AIRB asset classes.

Expected loss here refers to regulatory expected loss. This provides a one-year forward looking view, based on information available at the beginning of the period (i.e. 1 January 2013). Risk parameters include:

- PDs, which are calibrated to long-run default experience to avoid regulatory models being skewed to a specific part of the credit cycle;
- LGDs, which are calibrated to select downturn periods to reflect depressed asset prices during economic downturns; and
- EADs.

Actual losses during the year consist of the level of specific impairments at the start of the period (1 January 2013) and the net specific impairment charge recorded through the income statement for the period as determined by IFRS. It excludes the effect of post-write off recoveries which would reduce the actual loss number. The calculation is based on the assumption that the specific provisions raised are a fair estimate of what final losses on defaulted exposures would be, although the length of the workout period creates uncertainty in this assumption.

The measure of actual losses includes specific impairments raised for exposures which defaulted during the period, but which did not exist at 1 January 2013. These exposures are not reflected in the expected loss value described.

The following table provides the comparison of actual loss to regulatory expected loss for each significant AIRB asset class of the Group. PDs used for regulatory capital purposes are based on long run experience and are expected to underestimate actual defaults at the top of the credit cycle and overestimate actual defaults at the bottom of the credit cycle, under normal circumstances.

It should also be noted that the regulatory expected loss shown is based on the expected loss derived from the regulatory capital models that were applied as at 31 December 2012. This comparison is supplemented with more detailed analyses in the following tables, comparing actual and expected outcomes for each risk parameter (PD, LGD and EAD) over the period under review.

Expected values are based on regulatory capital models applied as at 31 December 2012. For PDs, this is applied to the total performing book as at 31 December 2012. For LGDs and EADs, it is applied to all facilities that defaulted over the subsequent 12 months.

Actual values are based on actual outcomes over the 12-month period, January 2013 to December 2013. Due to the length of the workout period, there is uncertainty in the measure provided for actual LGDs as facilities that default during the year would only have had between one and twelve months to recover – depending on when the default event occurred.

The estimated EAD to actual EAD ratio is derived as the ratio of expected nominal exposure at default (for all accounts that defaulted during the 12-month period January 2013 to December 2013) to the actual nominal exposure at default for the same accounts.

Actual versus expected loss per portfolio segment

	For the year ended*			
	December 2013		December 2012	
R million	**Expected loss**	**Actual loss**	Expected loss	Actual loss
Corporate (corporate, banks and sovereign)**	**1 811**	**67**	1 488	324
SMEs (SME corporate and SME retail)#	**1 164**	**1 001**	1 345	1 116
Residential mortgages#	**2 552**	**2 110**	2 628	2 880
Qualifying revolving retail†	**1 110**	**1 126**	1 021	961
Other retail	**2 069**	**2 694**	1 177	2 153
WesBank†	**2 950**	**3 435**	3 059	3 431
Total	**11 656**	**10 433**	10 718	10 865

	For the year ended			
	June 2013		June 2012	
R million	Expected loss	Actual loss	Expected loss	Actual loss
Corporate (corporate, banks and sovereign)**	1 621	70	1 499	313
SMEs (SME corporate and SME retail)#	1 146	989	1 507	1 094
Residential mortgages	2 674	2 470	2 793	2 961
Qualifying revolving retail†	1 126	973	1 179	808
Other retail	1 718	2 413	904	1 990
WesBank†	2 780	3 236	3 160	3 371
Total	11 065	10 151	11 042	10 537

* *The composition used above differs slightly from that used in the remainder of this section, due to impairment charges reflected at business unit level as opposed to AIRB asset class level.*

** *The expected losses for the corporate portfolio are much higher than the actual losses due to it being a low default portfolio. As a result, the models use conservative data inputs.*

\# *SMEs and residential mortgages actual losses are below expected losses which is expected given the current point in the economic cycle and the fact that the expected loss parameters are based on long run and downturn conditions.*

† *Qualifying revolving retail and WesBank have experienced high levels of growth during the year, although it is not reflected in the expected losses, which are based on accounts that are in-force at the start of the period. However, these new accounts will contribute to the actual losses as a result of additional provisions that will be raised. As a result, actual losses are expected to exceed the expected losses.*

Risk parameters used to determine regulatory expected loss

	December 2013				
	PD		LGD		Estimated EAD to actual EAD ratio
Asset class	**Estimated %**	**Actual %**	**Estimated %**	**Actual %**	**%**
Corporate, banks and sovereign*	**0.74**	**0.12**	**20.08**	**29.72**	**99.32**
Specialised lending – property finance	**2.11**	**1.11**	**28.69**	**2.51**	**115.39**
SME corporate	**2.24**	**1.67**	**27.33**	**14.51**	**108.07**
SME retail	**2.66**	**2.51**	**29.18**	**21.82**	**109.75**
Residential mortgages	**3.01**	**2.12**	**16.72**	**11.58**	**102.57**
Qualifying revolving retail	**3.84**	**3.17**	**65.44**	**68.79**	**102.06**
Other retail	**6.27**	**5.85**	**47.26**	**45.64**	**106.01**
Total	**2.60**	**1.94**	**26.76**	**26.44**	**105.01**

* *Corporate, banks and sovereign are shown as one asset class to align with the respective asset class in the actual versus expected loss table.*

	December 2012				
	PD		LGD		Estimated EAD to actual EAD ratio
Asset class	Estimated %	Actual %	Estimated %	Actual %	%
Corporate, banks and sovereign*	0.62	0.08	35.21	11.40	111.41
Specialised lending – property finance	2.11	1.61	31.13	22.08	105.43
SME corporate	4.54	1.95	26.92	24.23	126.31
SME retail	3.11	3.01	28.82	22.88	108.36
Residential mortgages	3.29	2.45	15.54	10.74	104.16
Qualifying revolving retail	3.38	2.67	67.17	62.03	100.82
Other retail	6.26	5.81	47.06	45.37	105.84
Total	2.57	1.86	32.76	28.69	106.21

* *Corporate, banks and sovereign are shown as one asset class to align with the respective asset class in the actual versus expected loss table.*

	June 2013				
	PD		LGD		Estimated EAD to actual EAD ratio
Asset class	Estimated %	Actual %	Estimated %	Actual %	%
Corporate, banks and sovereign*	0.94	0.28	15.78	34.61	107.88
Specialised lending – property finance	2.12	1.16	31.01	3.32	102.73
SME corporate	2.26	1.33	29.28	28.38	109.93
SME retail	2.94	2.81	32.13	26.32	111.63
Residential mortgages	3.45	2.63	15.65	12.57	104.73
Qualifying revolving retail	3.63	2.63	67.65	63.33	91.85
Other retail	6.31	5.56	33.43	33.26	104.12
Total	2.75	2.02	22.15	28.53	106.04

* *Corporate, banks and sovereign are shown as one asset class to align with the respective asset class in the actual versus expected loss table.*

The corporate, banks and sovereign regulatory capital models remain conservative as these are low default portfolios with actual default rates remaining lower than expected.

Differences between the actual and expected LGDs for corporates, banks and sovereigns as well as specialised lending – property finance are due to the low default volumes where individual default loss experience can dominate the result. The difference in the outputs as compared to prior years is primarily as a result of actual and expected LGD being based only on counterparties which defaulted during the respective years. Differences in the loss characteristics of accounts which default over time can be significant, particularly in the corporate and commercial portfolios where defaults are sparse.

The qualifying revolving retail asset class LGD models applied for regulatory capital at December 2012 underestimated LGDs and reflect the model in use at the time. The high actual LGDs were as a result of new clients in the consumer overdrafts which were originated as part of the strong new business growth and subsequently defaulted with higher losses than has typically been experienced. An updated model is in the pipeline and will predict LGDs at a more appropriate level.

Deviations in the actual versus expected EADs can be seen where the estimated EAD to actual EAD ratio deviated from 100%. A ratio above 100% indicates an overprediction and a ratio below 100% indicates an underprediction of EAD.

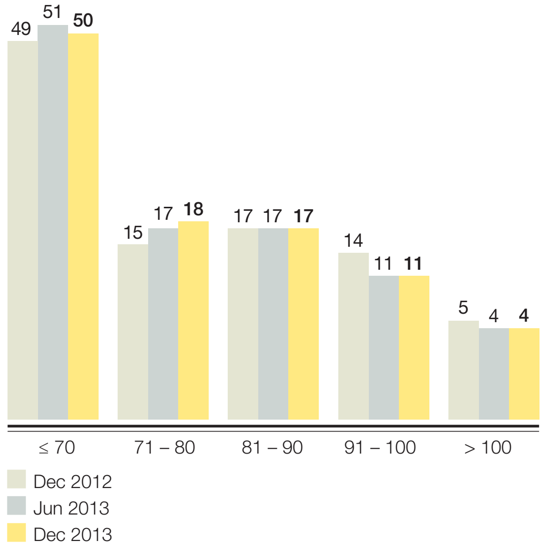
SELECTED RISK ANALYSES

This section provides further information on selected risk analyses of the credit portfolios.

The focus on loan-to-value ratios for new business forms part of a broader strategy which places more emphasis on counterparty creditworthiness as opposed to only on the underlying security. The stability of the distribution based on original value reflects the conservative lending strategy that has been in place over the last five years. Pressures on property market values have negatively impacted the balance-to-market value distribution. Approximately 85% of the loan book has a loan-to-value (market value) below 90%.

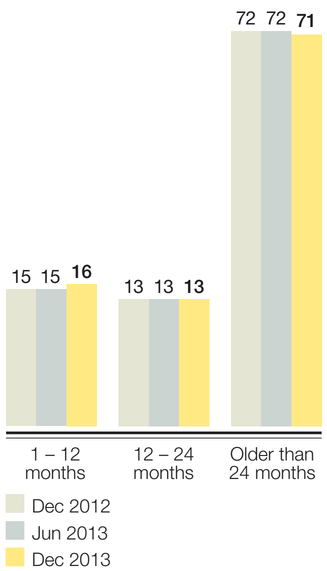
Residential mortgages balance-to-original value (%)

Residential mortgages balance-to-market value (%)



The increase in the twelve-month age category reflects the 5% advances growth.

Residential mortgages age distribution (%)



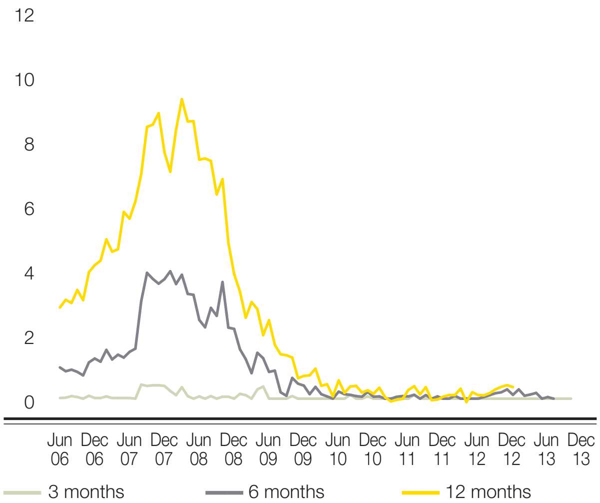
The following graph provides the arrears in the FNB HomeLoans portfolio. It includes arrears where more than one full payment is in arrears, expressed as a percentage of total advances balance.

FNB HomeLoans arrears (%)

The following graphs provide the vintage analysis for FNB HomeLoans and WesBank retail. Vintage graphs provide the default experience three, six and twelve months after each origination date. It indicates the impact of origination strategies and the macroeconomic environment.

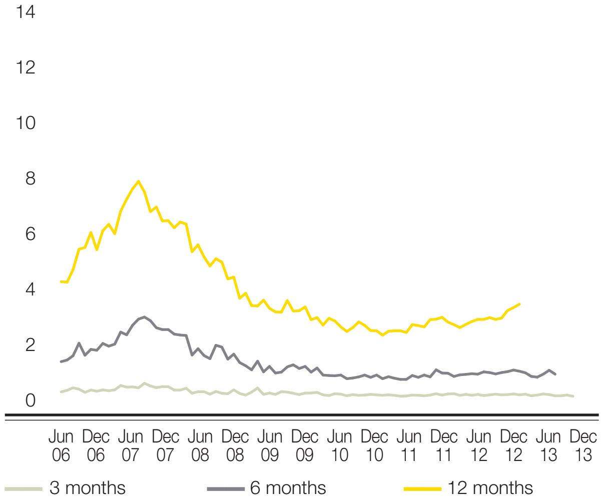
For FNB HomeLoans, the three, six and twelve month cumulative vintage analysis illustrates a marked improvement in the quality of business written since mid-2008 despite further deterioration in macro conditions in the succeeding period. The default experience for all vintages is positive and impairments remain at very low levels.

FNB HomeLoans vintage analysis (%)



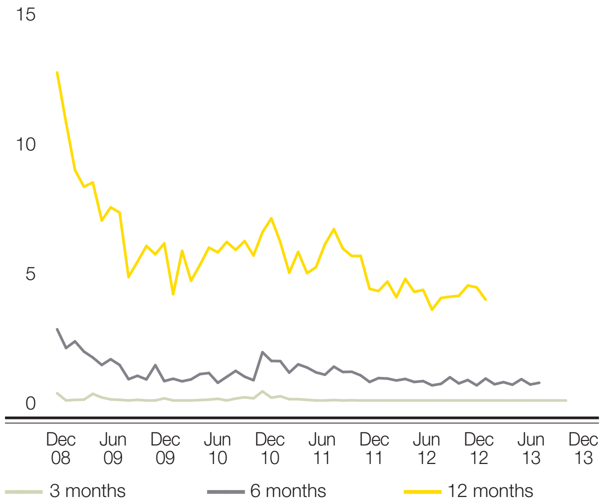
Retail VAF vintages reflect a positive response to credit loss mitigation actions taken from May 2008. The bulk of defaults usually occur between 18 to 24 months after origination, hence the higher level of default in the twelve month vintage. Further credit loss mitigation actions were implemented in 2013.

WesBank retail VAF vintage analysis (%)



Despite 13% growth year-on-year, FNB Card new business continues to perform well with low levels of defaults. Credit loss mitigation actions were implemented in 2011/12.

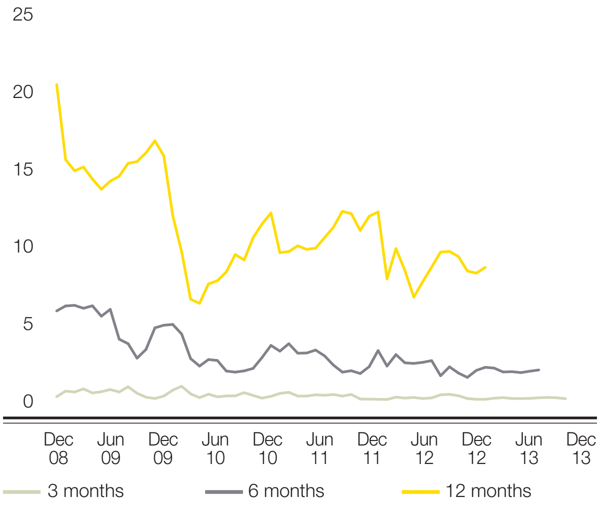
FNB Card vintage analysis (%)



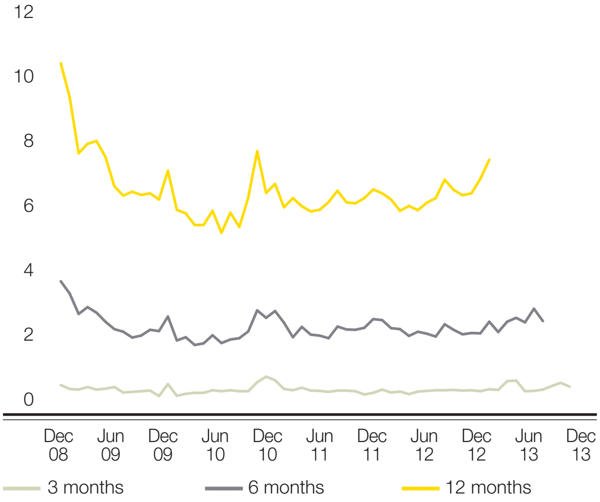
The default experience of the FNB and WesBank unsecured portfolios is within risk appetite.

The trend in the twelve month vintage analysis shown above has moderated compared to past experience. This is due to the implementation of a more conservative credit origination strategy during the current period, however, new business strain is still being seen. The three and six month vintages reflect a positive response to the credit tightening actions taken in the portfolios. Ongoing actions are undertaken to ensure these portfolios remain within risk appetite.

FNB personal loans vintage analysis (%)



WesBank personal loans vintage analysis (%)



The Group took a decision to write off the carrying value of SA retail properties in possession. At December 2013, 221 properties were part of the Group's SA portfolio (December 2012: 391).

SECURITISATIONS AND CONDUITS

INTRODUCTION AND OBJECTIVES

Securitisation is the process whereby interests in loans and other receivables are packaged, underwritten and sold in the form of asset-backed securities to capital market investors.

Asset securitisations enable the Group to access funding markets at debt ratings higher than its own corporate rating, which generally provides access to diversified funding sources at more favourable rates. By removing of the assets and supporting funding from the balance sheet, the Group is able to reduce some of the costs of on-balance sheet financing and manage potential asset-liability mismatches and credit concentrations.

The Group continues to use securitisation as a tool to achieve one or more of the following objectives:

- improve the Group's liquidity position through diversification of funding sources;
- match the cash flow profile of assets and liabilities;
- reduce balance sheet credit risk exposure;
- reduce capital requirements; and
- manage credit concentration risk.

Securitisation transactions

R million	Asset type	Year initiated	Expected close	Rating agency	Assets securitised
Traditional securitisations**					19 167
Nitro 4	Retail: Auto loans	2007	2016	Moody's	3 982
Turbo Finance 2	Retail: Auto loans	2012	2015	Moody's and Fitch	4 037
Turbo Finance 3	Retail: Auto loans	2012	2015	Moody's and Fitch	4 570
Turbo Finance 4	Retail: Auto loans	2013	2021	Moody's and Fitch	6 578
Synthetic securitisations**					20 000
Fresco 2	Corporate receivables	2007	2013	Fitch	20 000
Total					39 167

** Does not include cash reserves.*
*** This table includes transactions that have been structured by the Group and therefore excludes third-party transactions.*

Rating distribution of retained and purchased securitisation exposures

R million	AAA(zaf)	AA(zaf)	AA–(zaf)	A+(zaf)	A(zaf)	BBB+(zaf)	BBB(zaf)	BB(zaf)	B+(zaf)	Not rated	Total
Traditional											
At 31 December 2013	**1 399**	**–**	**–**	**323**	**–**	**–**	**247**	**–**	**–**	**1 401**	**3 370**
At 31 December 2012	1 073	–	–	81	–	–	–	–	–	1 214	2 368
At 30 June 2013	98	–	–	81	–	–	–	–	–	1 300	1 479
Synthetic											
At 31 December 2013	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 31 December 2012	–	–	12 840	–	–	–	–	180	52	190	13 262
At 30 June 2013	–	–	–	–	–	3 020	–	52	–	123	3 195
Third-party											
At 31 December 2013	**504**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**504**
At 31 December 2012	503	–	–	–	–	–	–	–	–	–	503
At 30 June 2013	503	–	–	–	–	–	–	–	–	–	503

While national scale ratings have been used in this table, global-scale equivalent ratings are used for internal risk management purposes.

TRADITIONAL AND SYNTHETIC SECURITISATIONS

The following tables show the traditional and synthetic securitisations currently in issue, the rating distribution of any exposures retained and a breakdown of the various roles undertaken by the Group. Whilst national scale ratings have been used in this table, global scale equivalent ratings are used for internal risk management purposes and regulatory capital reporting.

	Assets outstanding*			Notes outstanding			Retained exposure		
	December 2013	December 2012	June 2013	**December 2013**	December 2012	June 2013	**December 2013**	December 2012	June 2013
	11 161	8 900	7 019	**12 536**	9 925	7 823	**3 370**	2 368	1 479
	932	1 966	1 453	**1 125**	2 360	1 747	**359**	1 034	589
	1 545	2 798	2 200	**1 838**	2 976	2 402	**467**	893	409
	2 552	4 136	3 366	**2 991**	4 589	3 674	**549**	441	481
	6 132	–	–	**6 581**	–	–	**1 995**	–	–
	–	15 000	5 000	**–**	15 000	5 000	**–**	13 262	3 195
	–	15 000	5 000	**–**	15 000	5 000	**–**	13 262	3 195
	11 161	23 900	12 019	**12 536**	24 925	12 823	**3 370**	15 630	4 674

The Group's role in securitisation transactions

Transaction	Originator	Sponsor	Servicer	Investor	Liquidity provider	Credit enhancement provider	Swap counterparty
Fresco 2	✓	✓	✓	✓		✓	
Nitro 4	✓	✓	✓	✓			✓
Turbo Finance 2	✓	✓	✓	✓			
Turbo Finance 3	✓	✓	✓	✓			
Turbo Finance 4	✓	✓	✓	✓			

Third-party securitisations

Transaction	Originator	Sponsor	Servicer	Investor	Liquidity provider	Credit enhancement provider	Swap provider
Homes obligor mortgage enhanced securities					✓		
Private residential mortgages 2					✓		
Superdrive investments				✓			
Torque securitisation					✓		

RESECURITISATIONS

A resecuritisation exposure is a securitisation exposure in which the risk associated with an underlying pool of exposures is tranched and at least one of the underlying exposures is a securitisation exposure. Securitisation paper is, on occasion, acquired by the Group's asset-backed commercial paper conduits and managed as part of the underlying portfolio. This makes up a minimal portion of the total portfolio. This is accounted for as a resecuritisation exposure for regulatory capital purposes.

Resecuritisation exposure

	December 2013**		June 2013	
Programme*	**Resecuritisation exposure (R million)**	**% of total programme**	Resecuritisation exposure (R million)	% of total programme
iVuzi	**12.0**	**0.26**	47.5	1.1

* *Excludes distributions relating to iNguza underlying exposure as this is driven by note holders and does not impact third parties.*
** *Resecuritisation exposure included from June 2013 onwards.*

OVERSIGHT AND CREDIT RISK MITIGATION

The Group monitors retained securitisation exposures in a number of ways:

- proposed securitisations follow a rigorous internal approval process and are reviewed for approval by ALCCO, the RCC committee and the board;
- the performance of the Group and third-party off-balance sheet transactions are discussed and monitored at a bi-monthly meeting of Group Treasury's off-balance sheet forum;
- changes to retained exposures (as result of ratings, reviews, note redemptions, and credit losses) are reflected in the monthly BA 500 regulatory return; and
- transaction investor reports, alignment with special purpose vehicle (SPV) financial reporting and the impact of underlying asset performance are reviewed on the quarterly BA501 regulatory return.

The Group does not employ credit risk mitigation techniques to hedge credit risk on retained securitisation tranches. The Group determines the applicable capital requirements for retained exposures according to the Basel securitisation framework.

SECURITISATION ACCOUNTING POLICIES

From an accounting perspective, traditional securitisations are treated as sales transactions. At inception, the assets are sold to the special purpose vehicle (SPV) at carrying value and no gains or losses are recognised. For synthetic securitisations, the credit derivatives used in the transaction are recognised at fair value, with any fair value adjustments reported in profit or loss.

Securitisation entities are consolidated into FRIHL for financial reporting purposes. Any retained notes are accounted for as available-for-sale investment securities within the banking book. Liabilities as a result of securitisations vehicles are accounted for in line with Group accounting policies for liabilities, provisions and contingent liabilities.

The Group does not currently employ any form of warehousing prior to structuring a new securitisation transaction.

SUMMARY OF SECURITISATION ACTIVITY

Issuance of Turbo Finance 4

In November 2013, the Group closed its fourth UK traditional auto loan securitisation, Turbo Finance 4 plc (Turbo Finance 4). Turbo Finance 4 is a revolving cash securitisation of fixed rate auto loans extended to obligors by MotoNovo Finance. The note issuance of GBP378.7 million is rated by both Fitch and Moody's.

The incorporation of a 12-month revolving period has enabled FRB to extend the term of funding by and additional year. Despite the increase in the weighted average life of the transaction, the Class A note was issued 7 bps inside the Turbo 3 Class A note. The performance of past and existing Turbo Finance transactions has helped to further improve the rating assumptions used by the rating agencies, allowing for an additional reduction in the level of subordination required for the Aaa/AAA Class A notes (13% as compared to 18% for Turbo 3 and 28% for Turbo 1). The following table provides further detail regarding the notes:

Turbo Finance 4 notes issued

Tranche	Rating (Moody's/ Fitch)	Amount (GBP million)	Credit enhance-ment* (%)	Coupon
A	Aaa/AAA	328.90	13.14	1m Libor + 58
B	A1/A+	33.60	4.27	1m Libor + 115
C	Ba1/BBB	11.30	1.28	6%
D	NR/NR	4.86	0.00	20%
Total		**378.66**		

* *Calculated including the class D notes/cash component.*

The Bank however, was required to retain GBP18m of the Class B tranche. FirstRand, acting through its London branch, continues to act as servicer for the transaction. The transaction is compliant with Article 122a of the EU Capital Requirement Directive where FRB chose to use the on-balance sheet retention method to meet the 5% retained interest requirements of Article 122a.

Maturity of Fresco 2

Launched on 2 August 2007, Fresco 2 represented the Group's second synthetic securitisation of wholesale corporate credit exposures. Scheduled amortisation of Fresco 2 commenced in November 2012 and on 2 August 2013, the transaction matured with final redemption of all outstanding notes.

During its lifetime, the Fresco 2 securitisation provided both funding and credit risk mitigation against the Group's wholesale credit exposures. The transaction's performance since closing has remained in line with expectations.

Nitro Securitisation 4 Issuer Trust (Nitro 4) ratings affirmed

In July 2013, Moody's Investor Services affirmed the Baa2 (sf)/A1.za (sf) and Ba2 (sf) /Baa1.za(sf) ratings of the Class B and Class C notes, respectively. At the same time, the rating agency affirmed the A1 (sf)/Aaa.za (sf) ratings on the outstanding Class A8 to A14 notes. The rating actions reflect the adequate credit enhancement, which protects against sovereign risk and counterparty risk.

EXPOSURES INTENDED TO BE SECURITISED OR RESECURITISED IN THE FUTURE

FirstRand uses securitisation primarily as a funding tool. The ability to securitise FirstRand assets is dependent on availability of assets to securitise, investor appetite for securitisation paper and comparison with alternative sources of funding. All assets on the FirstRand balance sheet are considered as possible exposures that could be securitised within the market constraints mentioned above. The Group follows SARB approval of the structure and limits imposed by the board on the size of assets that can be securitised.

Resecuritisation results from portfolio management action and the size of the exposure is dependent on market factors in the future. This exposure is reported to investors as part of the investor reporting process.

CONDUIT PROGRAMMES

The Group has conduit programmes incorporated under both securitisation scheme and commercial paper regulations. The iNdwa and iVusi conduit programmes are incorporated under securitisation scheme regulations. These are debt capital market vehicles, which provide investment-grade corporate South African counterparties with an alternative source of funding to directly accessing capital markets via their own domestic medium-term debt programmes or traditional bank funding. It also provides institutional investors with highly-rated short-term alternative investments. The fixed income fund, iNkotha, is a call-loan bond fund, which offers overnight borrowers and lenders an alternative to traditional overnight bank borrowings or overnight deposits.

The commercial paper programme, iNguza, issues bespoke notes to investors. These notes use the credit risk of separate and distinct transactions of a different underlying borrower or obligors. Note holders will have recourse only to the assets in relation to the underlying transaction and will not have recourse to any other assets. Risk relating to the underlying transactions is transferred directly to note holders and managed by them according to their risk appetite levels. Notes are listed on the JSE and may be traded through members of the JSE.

Both the fixed income fund and the commercial paper programme have been incorporated under commercial paper regulations.

All the assets originated for the conduit programmes are rigorously evaluated as part of the Group's credit approval processes applicable to any other corporate exposure held by the Group.

The conduit programmes have proved resilient during difficult financial market conditions and experienced a tightening of credit spreads in line with the corporate debt market. Supply of assets and demand for notes issued by the conduits remains healthy, albeit within the constraints of newly introduced collective investment scheme regulations.

The following tables show the programmes currently in place, the ratings distribution of the underlying assets and the role played by the Group in each of these programmes. All of these capital market vehicles continue to perform in line with expectations.

Conduit programmes*

R million	Underlying assets	Year initiated	Rating agency	Programme size	Non-recourse investments			Credit enhancement		
					December 2013	December 2012	June 2013	**December 2013**	December 2012	June 2013
Securi-tisations**										
iNdwa	Corporate and structured finance term loans	2003	Fitch	15 000	**4 932**	5 736	5 160	**–**	–	–
iVuzi	Corporate and structured finance term loans	2007	Fitch	15 000	**4 478**	3 579	4 123	**1 209**	673	1 070
Total				30 000	**9 410**	9 315	9 283	**1 209**	673	1 070
Fixed income fund#										
iNkotha	Overnight corporate loans	2006	GCR†	10 000	**3 278**	3 088	2 957	**–**	–	–
Total				10 000	**3 278**	3 088	2 957		–	–
Commercial paper programme#										
iNguza	Corporate and structured finance term loans	2008	GCR†	15 000	**13 698**	6 168	10 964	**–**	–	–
Total				15 000	**13 698**	6 168	10 964	**–**	–	–

* *Conduit programmes are consolidated into FRIHL for financial reporting purposes.*
** *Conduits incorporated under regulations relating to securitisation scheme.*
# *Conduits incorporated under regulations relating to commercial paper.*
† *Global credit rating.*

Rating distribution of conduits*

R million	F1+(zaf)	AAA(zaf)	AA+(zaf)	AA(zaf)	AA-(zaf)	A+(zaf)	A(zaf)	A-(zaf)	Total
Securitisations									
At 31 December 2013	**–**	**–**	**443**	**3 967**	**1 407**	**1 314**	**1 494**	**785**	**9 410**
At 31 December 2012	–	–	958	1 700	3 283	855	1 680	839	9 315
At 30 June 2013	–	–	820	2 841	1 777	1 945	1 284	616	9 283
Fixed income funds									
At 31 December 2013	**–**	**–**	**85**	**662**	**518**	**990**	**466**	**557**	**3 278**
At 31 December 2012	–	–	–	1 073	468	428	158	961	3 088
At 30 June 2013	–	–	–	648	827	601	321	560	2 957

* *This table excludes distributors relating to iNguza underlying exposure as this is driven by note holders and does not impact third parties.*

The Group's role in conduits

Transaction	Sponsor	Originator	Investor	Servicer	Liquidity provider	Credit enhancement provider	Swap counterparty
iNdwa	✓			✓	✓		✓
iNkotha				✓			
iVuzi	✓			✓	✓	✓	✓
iNguza				✓			

All of the above programmes continue to perform in line with expectations.

LIQUIDITY FACILITIES

The following table provides a summary of the liquidity facilities provided by the Group.

Liquidity facilities

R million	Transaction type	December 2013	December 2012	June 2012
Own transactions		**4 389**	6 481	5 751
iNdwa	Conduit	**2 760**	4 151	3 866
iVuzi	Conduit	**1 629**	2 330	1 885
Third party transactions	Securitisations	**1 415**	1 536	1 522
Total		**5 804**	8 017	7 273

All liquidity facilities granted to the transactions in the table above rank senior in terms of payment priority in the event of a drawdown. Economic capital is allocated to the liquidity facility extended to iNdwa and iVuzi as if the underlying assets were held by the Group. The conduit programmes are consolidated into FRIHL for financial reporting purposes.

ADDITIONAL INFORMATION

Capital against securitisation exposures has been calculated on consideration of a hierarchy of approaches. The supervisory formula is used for conduits, and the ratings-based approach has been selected for remaining exposures. Capital calculated under both of these approaches is limited to the capital that would have been held had the assets remained on-balance sheet. The following table provides the securitisation exposures retained or purchased as well as associated capital requirements per risk band.

Retained or purchased securitisation exposure and the associated regulatory capital charges

	Exposure			Capital*			Capital deduction**		
R million	Dec 2013	Dec 2012	Jun 2013	Dec 2013	Dec 2012	Jun 2013	Dec 2013	Dec 2012	Jun 2013
Risk weighted bands									
≤10%	**3 020**	4 701	3 989	**28**	66	33	**–**	–	–
>10% ≤20%	**2 205**	765	750	**41**	9	9	**–**	–	–
>20% ≤50%	**–**	523	–	**–**	27	–	**–**	–	–
>50% ≤100%	**1 225**	1 356	1 331	**75**	84	82	**–**	–	–
>100% ≤650%	**–**	–	–	**–**	–	–	**–**	–	–
1250%/deduction	**1 598**	1 777	1 423	**1 467**	–	1 422	**–**	1 404	–
Look through	**2 838**	15 402	6 027	**92**	644	281	**–**	–	–
Total	**10 886**	24 524	13 520	**1 703**	830	1 827	**–**	1 404	–

* *Capital is calculated at the Basel III 9.5% requirement (excluding the bank-specific individual capital requirement) and includes a 6% capital scalar.*
** *Exposure previously held as deductions have moved from supply to demand side of credit in line with regulatory changes.*

The Group did not securitise any exposures that were impaired or past due at the time of securitisation.

COUNTERPARTY CREDIT RISK

INTRODUCTION AND OBJECTIVES

Counterparty credit risk measures a counterparty's ability to satisfy its obligations under a contract that has positive economic value to the bank at any point during the life of the contract. It differs from normal credit risk in that the economic value of the transaction is uncertain and dependent on market factors that are typically not under the control of the bank or the client.

Counterparty credit risk is a risk taken mainly in the Group's trading and securities financing businesses. The objective of counterparty credit risk management is to ensure that this risk is appropriately measured, analysed and reported on, and is only taken within specified limits in line with the Group's risk appetite framework as mandated by the board.

During the period under review, the Group implemented reporting and risk mitigation requirements of the Dodd-Frank Act in the US and the European Market Infrastructure Regulations in Europe, given its extraterritorial effect on the derivative businesses.

FirstRand is, and will continue to be, an active participant in processes to implement legislative and structural reforms in the local derivatives market. Changes to international regulations relating to derivative market reforms are regularly monitored.

The risk to bilateral over-the-counter (OTC) counterparties is reduced by restricting transactions to higher-rated counterparties and collateralising all mark-to-market movements in the majority of cases. The risk to clients in securities financing is reduced by improved margining and restricting exposure to higher quality underlying assets.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

RMB's credit department is responsible for the overall management of counterparty credit risk. It is supported by RMB's derivative counterparty risk department which is responsible for ensuring that market and credit risk methodologies are consistently applied in the quantification of risk.

Counterparty credit risk is managed on the basis of the principles, approaches, policies and processes set out in the credit risk management framework for wholesale credit exposures.

In this respect, counterparty credit risk governance aligns closely with the Group's credit risk governance framework, with mandates and responsibilities cascading from the board through the RCC committee to the respective credit committees and subcommittees as well as deployed and central risk management functions. Refer to the *Risk governance* section, and organisational structure and governance in the *Credit risk* section for more details.

The derivative counterparty risk committee supports the credit risk management committee and its subcommittees with analysis and quantification of counterparty credit risk for traded product exposures.

ASSESSMENT AND MANAGEMENT

Quantification of risk exposure

The measurement of counterparty credit risk aligns closely with credit risk measurement practices and is focused on establishing appropriate limits at a counterparty level and on ongoing portfolio risk management.

To this end, appropriate quantification methodologies of potential future exposure over the life of a product, even under distressed market conditions, are developed and approved at the relevant technical committees.

Individual counterparty risk limit applications are prepared using the approved risk quantification methodologies, and assessed and approved at the dedicated counterparty credit committee, which has appropriate executive and non-executive representation.

All counterparty credit risk limits are subject to annual review, while counterparty exposures are monitored by the respective risk functions on a daily basis. Overall counterparty risk limits are allocated across a number of products. Desk-level reports are used to ensure sufficient limit availability prior to executing additional trades with counterparty.

Business and risk management functions share the following responsibilities in this process:

- quantification of exposure and risk, as well as management of facility utilisation within approved credit limits;
- ongoing monitoring of counterparty creditworthiness to ensure early identification of high-risk exposures and predetermined facility reviews at certain intervals;
- collateral management;
- management of high-risk (watch list) exposures;
- collections and workout process management for defaulted assets; and
- counterparty credit risk reporting.

Limit breaches are dealt with in accordance with the approved excess mandate. Significant limit breaches necessitate reporting to the head of the business unit, head of risk for the affected business unit and derivative counterparty risk management function. Any remedial actions are agreed amongst these parties and failure to remedy such a breach is reported to the RMB proprietary board, ERM and RCC committee.

As part of the ongoing process of understanding the drivers of counterparty credit risk, regular analysis is carried out on OTC derivative and securities financing portfolios on a look-through basis. This portfolio review process seeks to identify concentrations, the hypothetical impact of stress scenarios and to better understand the interaction of underlying market risk factors and credit exposure. The benefits gained include clearer insight into potential collateral, earnings and capital volatility, and potentially risky trading behaviour by counterparties.

Advanced monitoring of the creditworthiness of developed market counterparty banks is conducted through the real-time analysis of the spreads on listed securities that have been issued or referenced by these banks.

Counterparty credit risk mitigation

Where appropriate, various instruments are used to mitigate the potential exposure to certain counterparties. These include financial or other collateral in line with common credit risk practices, as well as netting agreements, guarantees and credit derivatives.

The Group uses International Swaps and Derivatives Association (ISDA) and International Securities Market Association agreements for the purpose of netting derivative transactions and repurchase transactions respectively. These master agreements as well as associated credit support annexes (CSA) set out internationally accepted valuation and default covenants, which are evaluated and applied on a daily basis, including daily margin calls based on the approved CSA thresholds.

For regulatory purposes, net exposure figures are employed in capital calculations, whilst for accounting purposes netting is only applied where a legal right to set off and the intention to settle on a netted basis exist.

Collateral to be provided in the event of a credit rating downgrade

In rare instances, FirstRand has signed ISDA agreements where both parties would be required to post additional collateral in the event of a rating downgrade. The additional collateral to be provided by the Group in the event of a credit rating downgrade is not material and would not adversely impact its financial position. ISDA agreements with these provisions are, however, being actively phased out.

When assessing the portfolio in aggregate, the collateral that would need to be provided in the event of a rating downgrade is subject to many factors, not least of which are market moves in the underlying traded instruments and netting of existing positions.

While these variables are not quantifiable, the following table, in addition to showing the effect of counterparty credit risk mitigation, provides a guide to the order of magnitude of the netted portfolio size and collateral placed with the Group. In aggregate, all of the positive mark-to-market values shown would need to reverse before the Group would be a net provider of collateral.

COUNTERPARTY CREDIT RISK PROFILE

The following table provides an overview of the counterparty credit risk arising from the Group's derivative and structured finance transactions.

Composition of counterparty credit risk exposure

R million	**December 2013**	December 2012	June 2013
Gross positive fair value	**105 484**	115 244	107 161
Netting benefits	**(17 650)**	(15 953)	(12 105)
Netted current credit exposure before mitigation	**87 834**	99 291	95 056
Collateral value	**(76 827)**	(87 464)	(82 268)
Netted potential future exposure*	**10 034**	3 213	3 661
Exposure at default**	**22 609**	15 378	21 097

* *The large increase in netted potential exposure in December 2013 was due to the inclusion of central counterparties for futures clearing operations not included in June 2013.*

** *EAD includes exposures calculated under both the standardised and current exposure method. FRB implemented the standardised method in June 2012. EAD under the standardised method is quantified by scaling either the current credit exposure less collateral or the net potential future exposure by a factor of 1.4. The latter explains why the summation of the netted current exposure, collateral value and netted potential future exposure in the table above differs from the EAD computed.*

The Group employs credit derivatives primarily for the purposes of protecting its own positions and for hedging its credit portfolio, as indicated in the following tables.

Credit derivatives exposure

	December 2013			
R million	**Credit default swaps**	**Total return swaps**	**Other**	**Total**
Own credit portfolio				
– protection bought	**–**	**–**	**–**	**–**
– protection sold	**382**	**–**	**–**	**382**
Intermediation activities				
– protection bought	**3 481**	**–**	**–**	**3 481**
– protection sold	**5 652**	**–**	**–**	**5 652**

	December 2012			
R million	Credit default swaps	Total return swaps	Other	Total
Own credit portfolio				
– protection bought	18	–	–	18
– protection sold	1 845	–	–	1 845
Intermediation activities				
– protection bought	3 149	–	–	3 149
– protection sold	4 207	–	–	4 207

	June 2013			
R million	Credit default swaps	Total return swaps	Other	Total
Own credit portfolio				
– protection bought	–	–	–	–
– protection sold	2 145	–	–	2 145
Intermediation activities				
– protection bought	3 511	–	–	3 511
– protection sold	4 633	–	–	4 633

MARKET RISK IN THE TRADING BOOK

INTRODUCTION AND OBJECTIVES

The Group's market risk emanates mainly from the provision of hedging solutions for clients, market-making activities and term lending products. Market risk in the trading book of the Group is taken and managed by RMB. The relevant businesses within RMB function as the centres of expertise with respect to all market risk-related activities and ensuring that market risk is managed and contained within the Group's appetite.

Overall levels of market risk across the Group have remained relatively low compared to previous periods (and in particular prior to 2012 when outright proprietary trading activities were ceased). Given recent market volatility and macroeconomic uncertainty.

The performance of market risk-taking activities is measured as the higher of the Group's internal expected tail loss (ETL) measure (as a proxy for economic capital) and regulatory capital based on VaR plus stressed VaR.

Interest rate risk in the banking book is managed by Group Treasury and is disclosed in the *Interest rate in the banking book* section of this report.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

In terms of the market risk framework, a subframework of the BPRMF, responsibility for determining market risk appetite vests with the board, which also retains independent oversight of market risk-related activities through the RCC committee and its market and investment risk committee.

Separate governance forums, such as RMB's proprietary board and risk oversight committee, take responsibility for allocating these mandates further, whilst deployed and central risk management functions provide independent control and oversight of the overall market risk process.

ASSESSMENT AND MANAGEMENT

Quantification of risk exposures

Market risk exposures are primarily measured and managed using an ETL measure and ETL limits. The ETL measure used by RMB is a historical simulation measure assessing the average loss beyond a selected percentile. RMB's ETL is based on a confidence interval of 99% and applicable holding periods. Since ETL is adjusted for the trading liquidity of the portfolio, it is referred to as liquidity-adjusted ETL. Holding periods, ranging between 10 and 90 days, are used in the calculation and are based on an assessment of distressed liquidity of portfolios. Historical data sets are chosen to incorporate periods of market stress such as data from the 2008/2009 global financial crisis included during the period under review.

VaR calculations over holding periods of 1 day and 10 days are used as an additional tool in the assessment of market risk. VaR triggers and loss escalation procedures are used to highlight positions to be reviewed by management.

The Group's VaR number should be interpreted in light of the limitations of the methodology used, as follows:

- due to its nature, historical simulation VaR may not provide an accurate estimate of future market moves;
- use of a 99% confidence level does not reflect the extent of potential losses beyond that percentile. ETL is a better measure to quantify losses beyond that percentile (but still subject to similar limitations as stated for VaR);
- use of a 1-day time horizon is not a fair reflection of profit or loss for positions with low trading liquidity, which cannot be closed out or hedged within one day;
- as exposures and risk factors can change during daily trading, these are not necessarily captured in the VaR calibration which uses end-of-day trading data; and
- where historical data is not available, time series data is approximated or backfilled using appropriate quantitative methodologies. Use of proxies is, however, limited.

These limitations mean that the Group cannot guarantee that losses will not exceed VaR.

Risk concentrations in the market risk environment are controlled by means of appropriate ETL sublimits for individual asset classes and the maximum allowable exposure for each business unit. In addition to the general market risk limits described above, limits covering obligor-specific risk and event risk have been introduced and utilisation against these limits is monitored continuously, based on the regulatory building block approach.

Stress testing

Stress testing provides an indication of potential losses that could occur under extreme market conditions. ETL assessment provides a view of risk exposures under stress conditions.

Additional stress testing, to supplement ETL assessment, is conducted using historical market downturn scenarios and includes the use of what-if hypothetical and forward-looking simulations. The stress test calibrations are reviewed regularly to ensure that results are indicative of the possible impact of severely distressed and event-driven market conditions. Stress and scenario analyses are regularly reported to and considered by the relevant governance bodies.

Earnings volatility

A key element of the Group's risk appetite framework is an assessment of potential earnings volatility that may arise from underlying activities. Earnings volatility for market risk is quantified by subjecting key market risk exposures to predetermined stress conditions, ranging from business-as-usual stress through severe stress and event risks.

In addition to assessing the maximum acceptable level of earnings volatility, stress testing is used to understand sources of earnings volatility and highlight unused capacity within the Group's risk appetite. Market risk earnings volatility is calculated and assessed on a monthly basis.

Back testing

Back testing is performed in order to verify the predictive ability of the VaR model and ensure ongoing appropriateness. The regulatory standard for back testing is to measure daily profits and losses against daily VaR at the 99th percentile. The number of breaches over a period of 250 trading days is calculated, and, should the number exceed that which is considered appropriate, the model is recalibrated.

Regulatory and economic capital for market risk

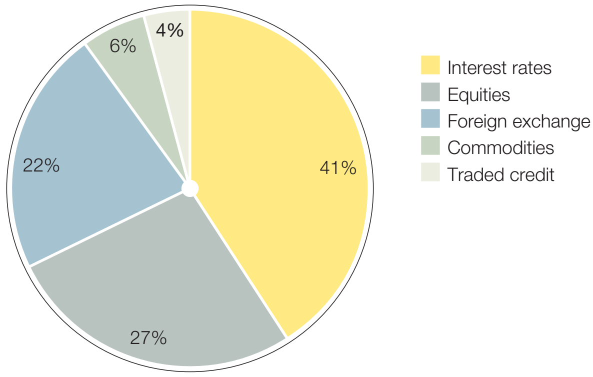
The internal VaR model for general market risk was approved by the SARB for local trading units and is consistent with methodologies stipulated in the Basel III framework. For all international legal entities, the standardised approach is used for regulatory market risk capital purposes.

Economic capital for market risk is calculated using liquidity-adjusted ETL plus an assessment of specific risk.

MARKET RISK IN THE TRADING BOOK PROFILE

The following chart shows the distribution of exposures per asset class across the Group's trading activities at 31 December 2013 based on VaR. VaR equity exposure shown relates mainly to listed equity exposures in RMB Australia Holdings. These exposures are predominantly in the junior resources sector and are reflected on the RMB Australia Holdings balance sheet. The interest rate asset class represented the most significant exposure at the end of the December 2013 period.

VaR exposures per asset class (%)



VaR analysis by risk type

The following table reflects VaR over a 1-day holding period at a 99% confidence level. Results indicate that overall levels of market risk remained fairly unchanged between June and December 2013. During December there was, however, increased volatility in the interest rate, equity and foreign exchange asset classes, which was partially offset by reduced commodity exposures. The weaker rand and market volatility, coupled with increased client activity were the main drivers of these movements.

1-day 99% VaR analysis by instrument

	December 2013				December 2012	June 2013
R million	**Min***	**Max***	**Average**	**Period end**	Period end	Period end
Risk type**						
Equities	**13.1**	**30.8**	**17.7**	**20.0**	18.1	13.9
Interest rates	**16.8**	**58.2**	**31.5**	**30.3**	16.8	33.7
Foreign exchange	**6.8**	**25.5**	**12.3**	**16.4**	14.2	7.9
Commodities	**4.5**	**18.4**	**11.4**	**4.6**	13.5	19.6
Traded credit	**0.6**	**5.8**	**2.6**	**3.0**	3.7	2.9
Diversification effect				**(19.5)**	(25.5)	(22.8)
Diversified total	**36.6**	**79.0**	**53.7**	**54.8**	37.0	55.2

* *The minimum and maximum VaR figures for each asset class did not necessarily occur on the same day. Consequently, a diversification effect was omitted from the above table.*
** *Banking book exposures are managed by Group Treasury and are reported under the banking book interest rate risk section.*

Other risk measures

Other risk factors are considered in the assessment and management of market risk. These include interest rate and equity specific risk. Specific risk accurately measures idiosyncratic risk not captured by ETL and VaR measures for interest rate and equity risk, such as default, credit migration and event risks, and identifies concentrations in a portfolio. The following table details specific risk for the period. The decrease in interest rate specific risk is due to reduced volumes on money-market instruments. Equity specific risk has remained constant since June 2013.

Specific risk measures

R million	**December 2013**	December 2012	June 2013*
Interest rate specific risk	**73**	134	109
Equity specific risk	**78**	180	78
Total	**151**	314	187

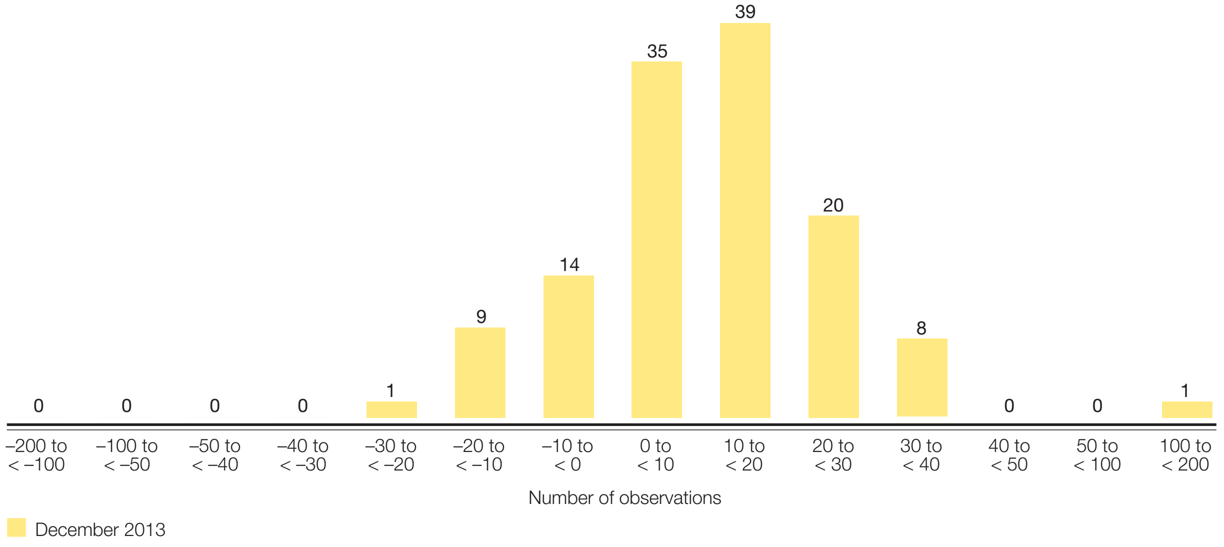
* *The June 2013 numbers were restated to reflect the amounts for FirstRand, and not for FRB (SA) as previously reported.*

Distribution of daily trading earnings from trading units

The following histogram shows the daily revenue for the local trading units in the Group for the period under review.

Distribution of daily earnings

Frequency (days in period)

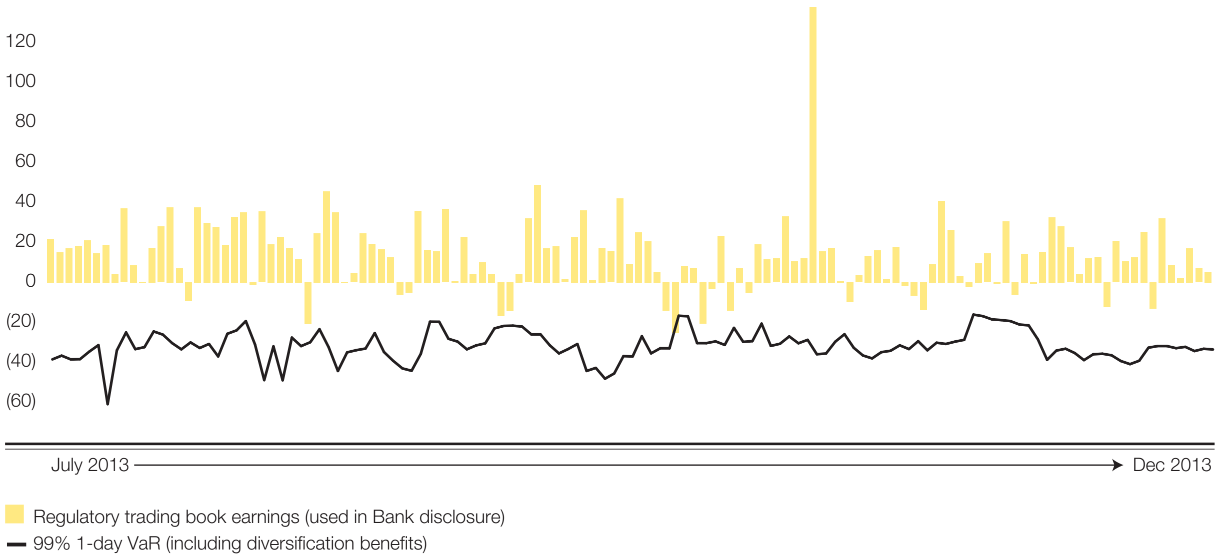


Back testing: daily regulatory trading book earnings and VaR

The Group tracks its daily local earnings profile as illustrated in the following chart. The earnings and 1-day VaR relate to the Group's internal VaR model. Exposures were contained within risk limits during the trading period and the earnings profile is skewed towards profitability.

Back testing: daily regulatory trading book earnings versus 1-day 99% VaR

(R million)



Trading book earnings exceeded 1-day VaR on one occasion during the period under review. This indicates a reasonably accurate quantification of market risk provided by the Group's internal model.

International

RMB Australia Holdings and the Bank's India branch hold the highest exposure to market risk amongst the international operations. The same approach is employed for the measurement and management of market risk as in the domestic portfolio.

FRIHL - VaR analysis by risk type

The table reflects VaR over a 1-day holding period at a 99% confidence level for FRIHL. Market risk in FRIHL relates to the trading activities taking place in RMB Australia Holdings Ltd and RMB Securities Trading (Pty) Ltd (RST), and represents a subset of the VaR analysis by asset class reflected above for the Group.

The following table reflects increased risk compared to June 2013. This is mainly due to the weaker rand and stronger equity prices in the Australian portfolio. The following table reflects decreased equity risk, due to continued derisking and a rebalancing of the Australian portfolio in favour of debt.

1-day 99% VaR analysis for FRIHL

	December 2013				December 2012	June 2013*
R million	**Min***	**Max***	**Average**	**Period end**	Period end	Period end
Diversified total	**10.1**	**19.7**	**12.8**	**16.4**	17.8	10.8

* *The minimum and maximum VaR figures for each asset class did not necessarily occur on the same day. Consequently, a diversification effect was omitted from the above table.*

Regulatory market risk for FRIHL is measured using the standardised approach. Commensurate with the increase in VaR observed above, market risk calibrated using the regulatory standardised approach has increased since the previous period.

Market risk standardised approach for FRIHL*

R million	**December 2013**	December 2012	June 2013
Specific risk	**49**	76	44
General risk	**64**	62	47

* *The above FRIHL regulatory market risk numbers are made up of RST and RMB Resources.*

FNB Africa subsidiaries – standardised approach

Market risk for the African subsidiaries is measured using the standardised approach. In addition, the same ETL and VaR methodologies described above are used as supplementary measures. The African businesses' trading activities have shown continued steady growth over the past six months and are set to grow further as RMB expands its footprint and operations. During the last six months, the profitability trajectory remained satisfactory, whilst earnings volatility was relatively benign. Market risk was contained within acceptable stress loss limits and was effectively managed in the African subsidiaries. There were no governance breaches (such as limit breaches) as a result of deliberate risk-taking activities.

Market risk standardised approach for the African subsidiaries

	December 2013				December 2012	June 2013
R million	**Min**	**Max**	**Average**	**Period end**	Period end	Period end
Risk type						
Interest rates	**7.4**	**23.3**	**13.8**	**10.6**	17.6	13.7
Foreign exchange	**11.5**	**30.4**	**18.5**	**21.5**	15.9	15.4
Total	**21.1**	**47.1**	**32.3**	**32.1**	33.6	29.1

EQUITY INVESTMENT RISK

INTRODUCTION AND OBJECTIVES

Historically, equity investment risk has arisen from portfolio investments in equity instruments undertaken in RMB. These positions are originated mainly through its Private Equity, Resources and Investment Banking divisions.

The Group launched its investment management franchise, Ashburton Investments, in June 2013, which could require seeding of new traditional and alternative funds both locally and offshore, which may expose the Group to equity investment risk.

In addition, equity investment risk arises from strategic investments held by WesBank, FNB and the Corporate Centre.

The Group actively monitors regulatory developments, including amendments to current Basel capital requirements and the impact of Basel III. This has resulted in changes to the risk weighting of certain classes of investments.

The overall quality of the investment portfolio remains acceptable and is within risk appetite. During the period under review, there were limited equity realisations and several new investments were made as part of a portfolio rebuilding strategy.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

The responsibility for determining equity investment risk appetite vests with the board. The following structures have been established in order to assess and manage equity investment risk:

- The prudential investment committee (chaired by the RMB chief investment officer) and its delegated subcommittees are responsible for the approval of all portfolio investment transactions in equity, quasi-equity or quasi-debt instruments;
- where the structure of the investments also incorporate significant components of senior debt, approval authority will rest with the respective credit committees and LEC, as appropriate;
- the biannual investment risk oversight committee assesses the quality, size and performance of the investment portfolio across RMB and reviews movements in light of risk appetite;
- the RMB CRO, in consultation with the Group CRO and with support from the deployed and central risk management functions, provides independent oversight and reporting of all investment activities in RMB to the RMB proprietary board, as well as the market and investment risk committee. FNB and WesBank executive management monitor and manage strategic investments through the financial reporting process; and
- RCC and the market and investment risk committees are responsible for the oversight of investment risk measurement and management across the Group.

In Ashburton Investments, new fund investments are approved by the fund/product approval forum before review and approval by its investment product development, investment distribution and executive committees. Also prior to seeding, capital and investment limits are provided by the capital management committee and the market and investment risk committee respectively. Ashburton Investments is in the process of establishing its own capital management committee to monitor and report on these positions to the appropriate Group governance committees. Ashburton Investments currently reports into the Corporate Centre audit and risk committee.

ASSESSMENT AND MANAGEMENT

Management of exposures

The equity investment risk portfolio is managed through a rigorous evaluation and review process from inception to exit of a transaction. All investments are subject to a comprehensive due diligence, during which a thorough understanding of the target company's business, risks, challenges, competitors, management team and unique advantage or value proposition is developed.

For each transaction, an appropriate structure is put in place which aligns the interests of all parties involved through the use of incentives and constraints for management and the selling party. Where appropriate, the Group seeks to take a number of seats on the company's board and maintains close oversight through monitoring of operations.

The investment thesis, results of the due diligence process and investment structure are discussed at the prudential investment committee before final approval is granted. In addition, normal semi-annual reviews of each investment are carried out and crucial parts of these reviews, such as valuation estimates, are independently peer reviewed.

Recording of exposures – accounting policies

IAS 39 requires equity investments to be classified as financial assets at fair value through profit and loss, or available-for-sale financial assets.

The consolidated financial statements include assets, liabilities and results of operations of all equity investments in which the Group, directly or indirectly, has the power to exercise control over operations for its own benefit.

Equity investments in associates and joint ventures are included in the consolidated financial statements using the equity accounting method. Associates are entities where the Group holds an equity interest of between 20% and 50%, or over which it has the ability to exercise significant influence, but does not control. Joint ventures are entities in which the Group has joint control over the economic activity of the joint venture through a contractual agreement.

Measurement of risk exposures

Risk exposures are measured as potential losses under stress conditions. A series of standardised stress tests are used to assess potential losses under current market conditions, adverse market conditions, as well as severe stress/event risk. These stress tests are conducted at individual investment and portfolio levels.

The Group targets an investment portfolio profile that is diversified along a number of pertinent dimensions, such as geography, industry, investment stage and vintage (i.e. annual replacement of realisations).

Stress testing

Economic and regulatory capital calculations are complemented with regular stress tests of market values and underlying drivers of valuation, e.g. company earnings, valuation multiples and assessments of stress resulting from portfolio concentrations.

Regulatory and economic capital

The Basel simple risk weighted method (300% or 400%) under the market-based approach is applied for the quantification of regulatory capital. Under Basel III and *Regulations relating to Banks,* the risk weightings applied to investments in financial institutions are subject to the aggregate value of the Group's shareholding in these investments and also in relation to the Group's capital. The shareholdings in the investments are bucketed depending on the size of investment.

For economic capital purposes, an approach using market value shocks to the underlying investments is used to assess economic capital requirements for unlisted investments after taking any unrealised profits not taken to book into account.

Where price discovery is reliable, the risk of listed equity investments is measured based on a 90-day ETL calculated using RMB's internal market risk model. The ETL risk measure is supplemented by a measure of the specific (idiosyncratic) risk of the individual securities per the specific risk measurement methodology.

EQUITY INVESTMENT RISK PROFILE

Market prices in selected industries continue to present the Group with opportunities to build its private equity portfolio. The private equity portfolio has been subject to a portfolio rebuilding initiative during the period under review. The investment portfolio has seen good growth in its unrealised profits over the period under review.

Investment risk exposure and sensitivity of investment risk exposure

R million	**December 2013**	December 2012	June 2013
Listed investment risk exposure included in the equity investment risk ETL process	**370**	474	431
ETL on above equity investment risk exposures	**134**	176	194
Estimated sensitivity of remaining investment balances*			
Sensitivity to 10% movement in market value on investment fair value**	**888**	577	729
Cumulative gains realised from sale of positions in the banking book during the period	**139**	195	550

* *These are the investment balances not subject to the equity investment risk ETL process.*
** *December 2012 and June 2013 were restated for IFRS changes.*

The following table provides information relating to equity investments in the banking book.

Investment valuations and associated regulatory capital requirements

	December 2013		
R million	**Publicly quoted investments**	**Privately held**	**Total**
Carrying value of investments*	**1 405**	**8 621**	**10 026**
Latent revaluation gains not recognised in the balance sheet**	**125**	**529**	**654**
Fair value#	**1 530**	**9 150**	**10 680**
Total unrealised losses recognised directly in balance sheet through equity instead of income statement**	**243**	**380**	**623**
Capital requirement†	**400**	**3 003**	**3 403**

* *Carrying value includes investments in financial entities, which from 1 January 2013 are subject to the Basel III 250% risk weighting.*
** *These unrealised gains or losses are not included in Tier 1 or Tier 2 capital.*
\# *Fair values of listed private equity investments were not considered to be materially different from the quoted market prices.*
† *Capital requirement calculated at 9.5% of RWA (excluding bank-specific individual capital requirement) and includes capital on investments in financial entities. These investments are included as other assets in the RWA table in the Capital section.*

R million	December 2012 Publicly quoted investments	Privately held	Total
Carrying value of investments	2 936	9 314	12 250
Latent revaluation gains not recognised in the balance sheet*	24	2 530	2 554
Fair value**	2 960	11 844	14 804
Total unrealised gains recognised directly in balance sheet through equity instead of income statement*	–	72	72
Capital requirement#	837	3 539	4 376

* *These unrealised gains or losses are not included in Tier 1 or Tier 2 capital.*
** *Fair values of listed private equity investments were not considered to be materially different from the quoted market prices.*
# *Capital requirement calculated at 9.5% of RWA (excluding bank-specific individual capital requirement) and includes capital on investments in financial entities. These investments are included as other assets in the RWA table in the Capital section.*

R million	June 2013 Publicly quoted investments	Privately held	Total
Carrying value of investments*	2 521	9 262	11 783
Latent revaluation gains not recognised in the balance sheet**	67	3 292	3 359
Fair value#	2 588	12 554	15 142
Total unrealised gains recognised directly in balance sheet through equity instead of income statement**	517	–	517
Capital requirement†	718	3 279	3 997

* *Carrying value includes investments in financial entities, which from 1 January 2013 are subject to the Basel III 250% risk weighting.*
** *These unrealised gains or losses are not included in Tier 1 or Tier 2 capital. Numbers restated to reflect correct values as at 30 June 2013.*
# *Fair values of listed private equity investments were not considered to be materially different from the quoted market prices.*
† *Capital requirement calculated at 9.5% of RWA (excluding bank-specific individual capital requirement) and includes capital on investments in financial entities. These investments are included as other assets in the RWA table in the Capital section.*

INTEREST RATE RISK IN THE BANKING BOOK

INTRODUCTION AND OBJECTIVES

Interest rate risk is the sensitivity of the balance sheet and income statement to movements in interest rates. Interest rate risk in the banking book (IRRBB) originates from the differing repricing characteristics of balance sheet instruments, yield curve risk, basis risk and client optionality embedded in banking book products.

The endowment effect, which arises from a large proportion of non- and low-rate liabilities that fund variable-rate assets, continues to be the primary driver of IRRBB and results in Group earnings continuing to be vulnerable to interest rate cuts. In a hiking cycle, the endowment effect results in an increase in the Group's margins. Hedging of endowment is to protect and enhance the Group's earnings and is done in line with the Group's macroeconomic view. Given the current rate view, the Group is positioned to benefit from a hiking cycle.

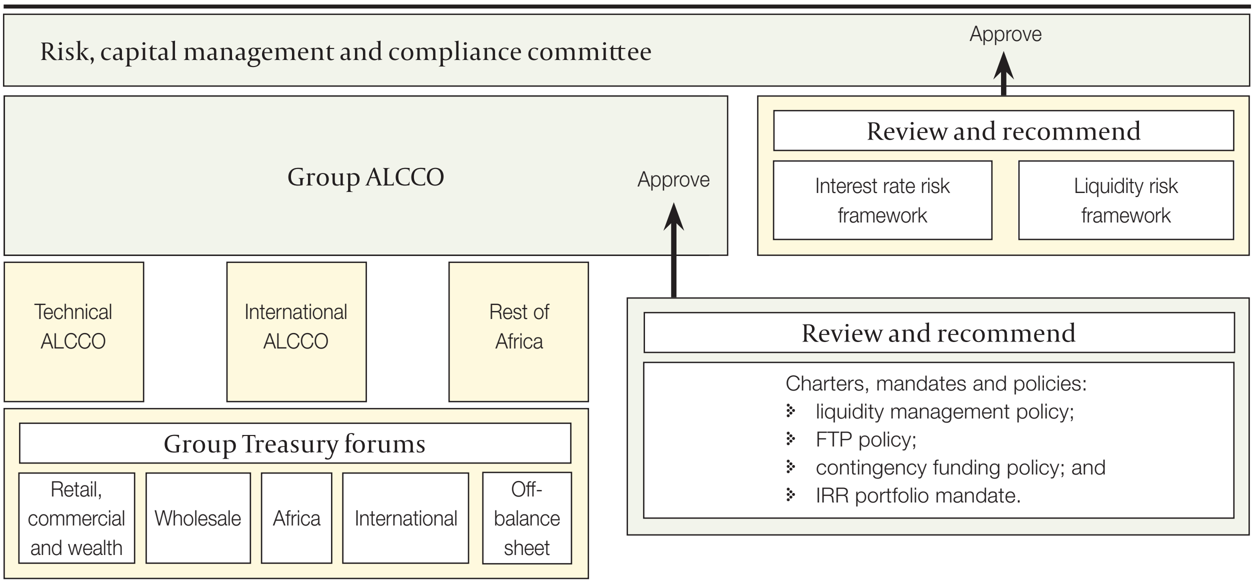
IRRBB is an inevitable risk associated with banking and can be an important source of profitability and shareholder value. IRRBB continues to be managed from an earnings approach, with the aim to protect and enhance the Group's earnings and economic value within approved risk limits and appetite levels.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

The control and management of IRRBB is governed by the framework for the management of market risk in the banking book, which is a subframework of the BPRMF. Ultimate responsibility for determining risk limits and appetite for the Group vests with the board. Independent oversight for monitoring is done through the RCC committee, which, in turn, has delegated the responsibility for IRRBB to Group ALCCO. ALCCO also maintains responsibility on behalf of the board for the allocation of sub-limits and remedial action to be taken in the event of any limit breaches.

Individual ALCCOs exist in each of the African subsidiaries and international branches and monitor and manage in-country IRRBB. Material issues from individual ALCCOs are reported through to Group ALCCO. The IRRBB management and governance structure is illustrated below.

Interest rate risk management and governance structure



ASSESSMENT AND MANAGEMENT

FirstRand Bank

Interest rate risk originates from trading and non-trading/banking book activities. In the trading book, interest rate risk is primarily quantified and managed using ETL measures and limits, VaR calculations are performed over a 1- and 10-day holding period as an additional risk measure. This is covered in *Market risk in the trading book* section of this report.

Management and monitoring of the FirstRand domestic banking book is split between the RMB book and the remaining domestic banking book. RMB manages its banking book under the market risk framework; risk is measured and monitored in conjunction with the trading book with management oversight provided by the market and investment risk committee. The RMB banking book interest rate risk exposure was R24.5 million on a 10-day ETL basis at 31 December 2013 (December 2012: R14.1 million; June 2013: R31.5 million). Any further references relating to the banking book in this section exclude the RMB banking book.

The remaining banking book consists predominantly of retail balances from FNB, WesBank, and Corporate Centre balance sheets. This is centrally managed by Group Treasury with oversight from Corporate Centre risk management. The Group Treasury investment committee meets regularly to discuss and propose strategies and to ensure that management action is within the Group's risk limit and appetite levels.

The internal FTP process is used to transfer interest rate risk from the franchises to Group Treasury. This process allows risk to be managed centrally and holistically in line with the Group's macroeconomic outlook. Management of the resultant risk is achieved by balance sheet optimisation or alternatively through the use of derivative transactions. Derivative instruments used are mainly interest rate swaps, for which there is a liquid market. Where possible, hedge accounting is used to minimise accounting mismatches, thus ensuring that amounts deferred in equity are released to the income statement at the same time as movements attributable to the underlying hedged asset/liability.

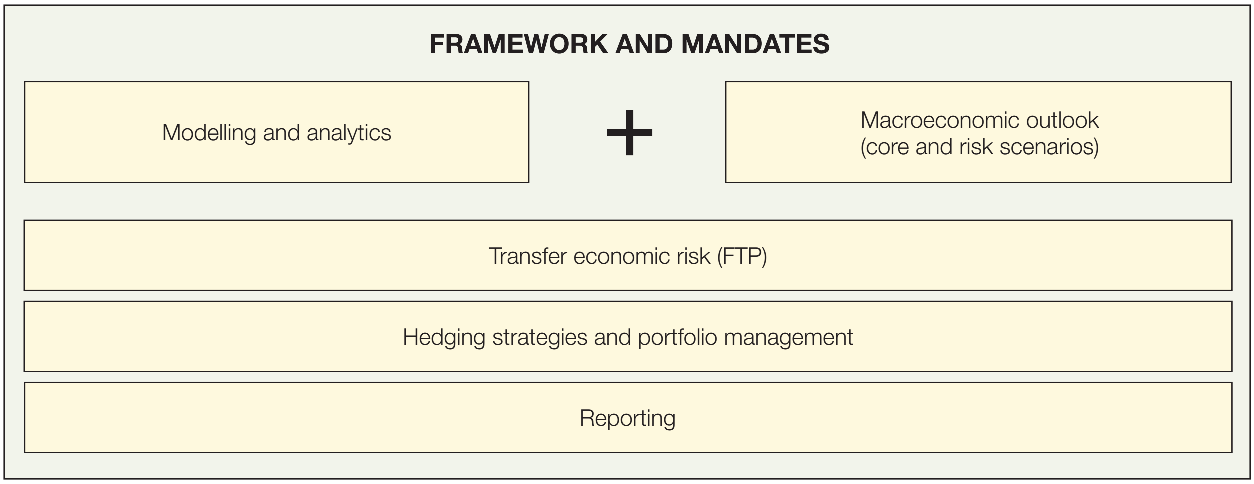
A number of measurement techniques are used to measure and monitor IRRBB. These focus on the NII sensitivity/earnings risk and market risk measures such as the economic value of equity (EVE) and daily PV01 (present value of 1 bps increase in rates) measures.

Interest rate risk from the fixed book is managed to low levels with residual risk stemming from timing and basis risk. The primary driver of NII sensitivity relates to the non- and low-rate products in the balance sheet and the endowment book. This has an adverse impact on the Group's net interest margin in a cutting cycle as the decrease in NII from assets repricing to lower rates is not offset by a corresponding interest saving from liabilities. The repo rate remained flat following the July 2012 rate cut, with a slight decrease of 5 bps in the average rate for the six months ended December 2013 compared to the prior period, resulting in a slightly negative impact on the Group's margin as a result of the endowment effect.

International subsidiaries and branches

Management of the subsidiaries in the rest of Africa and international branches is performed by in-country management teams with oversight provided by Group Treasury and Corporate Centre risk management. For the subsidiaries, NII measures are used to measure, monitor and manage interest rate risk in line with the Group's appetite. Where applicable, PV01 and ETL risk limits are also used for endowment hedges.

Interest rate risk management and assessment



CURRENT REPRICING PROFILE

In calculating the repricing gap, all banking book assets, liabilities and derivative instruments are placed in gap intervals based on repricing characteristics. Where applicable, the disclosed repricing gap has been behaviourally adjusted to align with NII assumptions. No prepayment assumptions are applied.

Repricing schedules for the Group's banking book

	December 2013				
	Term to repricing				
R million	< 3 months	> 3 but ≤ 6 months	> 6 but ≤ 12 months	> 12 months	Non-rate sensitive
FirstRand Bank					
Net repricing gap	**43 548**	**26 415**	**7 313**	**19 008**	**(96 285)**
Cumulative repricing gap	**43 548**	**69 963**	**77 277**	**96 285**	**–**
FNB Africa					
Net repricing gap	**5 912**	**(3 062)**	**(869)**	**415**	**(2 396)**
Cumulative repricing gap	**5 912**	**2 850**	**1 981**	**2 396**	**–**
Total cumulative repricing gap	**49 460**	**72 813**	**79 258**	**98 681**	**–**

	December 2012				
	Term to repricing				
R million	< 3 months	> 3 but ≤ 6 months	> 6 but ≤ 12 months	> 12 months	Non-rate sensitive
FirstRand Bank					
Net repricing gap*	47 676	(15 746)	33 531	16 671	(82 133)
Cumulative repricing gap	47 676	31 931	65 462	82 133	–
FNB Africa					
Net repricing gap	5 714	(1 426)	(1 463)	(1 111)	(1 715)
Cumulative repricing gap	5 714	4 289	2 826	1 715	–
Total cumulative repricing gap	53 390	36 220	68 288	83 848	–

	June 2013				
	Term to repricing				
R million	< 3 months	> 3 but ≤ 6 months	> 6 but ≤ 12 months	> 12 months	Non-rate sensitive
FirstRand Bank					
Net repricing gap	5 423	6 083	49 011	20 653	(81 170)
Cumulative repricing gap	5 423	11 506	60 517	81 170	–
FNB Africa					
Net repricing gap	3 433	(2 387)	429	603	(2 078)
Cumulative repricing gap	3 433	1 046	1 475	2 078	–
Total cumulative repricing gap	8 856	12 552	61 992	83 248	–

* *The repricing gap disclosed has been behaviourally adjusted from June 2013 to align with NII assumptions. For comparability, December 2012 numbers have been restated to reflect this behavioural adjustment. This repricing gap analysis excludes RMB's banking book and the international balance sheet, both of which are managed separately.*

SENSITIVITY ANALYSIS

NII sensitivity

NII models are run on a monthly basis to provide a measure of the NII sensitivity of the existing balance sheet to shocks in interest rates. Different scenarios are modelled including parallel and key rate shocks as well as yield curve twists and inversions as appropriate. Underlying transactions are modelled on a contractual basis, assuming a constant balance sheet size and mix. No adjustments are made for prepayments in the underlying book, however, prepayment assumptions are factored into the calculation of hedges for fixed rate lending. Roll-over assumptions are not applied to off-balance sheet positions.

The following tables show the 12-month NII sensitivity for a 200 bps downward parallel shock to interest rates. The increased sensitivity in December 2013 from December 2012 and June 2013 is attributable to the roll off of derivative positions used to manage interest rate risk in line with the macroeconomic outlook. The book was positioned to provide protection against the risk of rate cuts in the previous financial year. Given changes in the macroeconomic environment, these hedges have been allowed to roll off and the Group's net interest margin would benefit from rate hikes as a result of the endowment impact.

Assuming no change in the balance sheet and no management action in response to interest rate movements, an instantaneous and sustained parallel decrease in interest rates of 200 bps would result in a reduction in projected 12-month NII of R2.1 billion. A similar increase in interest rates would result in an increase in projected 12-month NII of R1.9 billion.

Sensitivity of the Group's projected NII

	December 2013		
	Change in projected 12-month NII		
R million	**FirstRand Bank**	**FNB Africa**	**FirstRand**
Downward 200 bps	**(1 781)**	**(346)**	**(2 127)**
Upward 200 bps	**1 692**	**297**	**1 988**

	December 2012		
	Change in projected 12-month NII		
R million	FirstRand Bank	FNB Africa	FirstRand
Downward 200 bps	(1 318)	(240)	(1 558)
Upward 200 bps	1 201	241	1 442

	June 2013		
	Change in projected 12-month NII		
R million	FirstRand Bank	FNB Africa	FirstRand
Downward 200 bps	(789)	(260)	(1 049)
Upward 200 bps	676	258	934

The NII sensitivity analysis excludes RMB's banking book and the international balance sheet, both of which are managed separately.
The Group's average endowment book was R112 billion and the negative endowment impact was approximately R28 million for the six months ended 31 December 2013.

Economic value of equity

EVE sensitivity measures are calculated on portfolios managed centrally by Group Treasury on a monthly basis. This includes all external hedges used to manage interest rate risk from the retail fixed book and hedging on the Group's fixed issuance. The impact on cash flow and available-for-sale equity reserves, as shown below, would be offset by the change in value of the underlying banking book positions for which these hedges were transacted. This offset from underlying positions is not included in the following table.

The following table shows the EVE measures for a -200 bps and +200 bps instantaneous, parallel shock to rates on external open positions managed by Group Treasury. This is shown as a percentage of the Group's total Tier 1 and Tier 2 capital. The change in the current period is attributable to growth in hedge position against risk from the retail fixed book, and hedges which were in place to protect against the endowment impact rolling off.

Sensitivity of the Group's reported reserves to interest rate movements

R million	**December 2013**	December 2012	June 2013
Downward 200 bps			
Available-for-sale	**1 109**	965	1 085
Cash flow	**(2 134)**	(1 542)	(1 486)
Total sensitivity	**(1 025)**	(577)	(401)
As % of Tier 1 and Tier 2 capital (%)	**(1.181)**	(1.033)	(0.473)
Upward 200 bps			
Available-for-sale	**(943)**	(832)	(934)
Cash flow	**1 971**	1 417	1 350
Total sensitivity	**1 028**	584	416
As % of Tier 1 and Tier 2 capital (%)	**1.184**	1.046	0.490

The sensitivity analysis excludes RMB's banking book and the international balance sheet, both of which are managed separately.

FOREIGN EXCHANGE AND TRANSLATION RISK IN THE BANKING BOOK

INTRODUCTION AND OBJECTIVES

Foreign exchange risk arises from on- and off-balance sheet positions whose valuation in rand is subject to currency movements. Key activities giving rise to these positions are foreign currency placements, lending and investing activities, raising of foreign currency funding, and from trading and client facilitation activities in foreign currencies. The objective of foreign exchange risk management is to ensure that currency mismatches are managed within the Group's risk appetite and to ensure that it is overseen and governed in keeping with the risk governance structures.

Translation risk is the risk to the rand-based South African reported earnings from fluctuations in the exchange rate when applied to the value, earnings and assets of foreign operations. Translation risk is, at present, seen as an unavoidable risk which results from having offshore operations. The Group does not currently actively hedge this risk.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

Foreign exchange risk results from activities of all the franchises, but management and consolidation of all these positions occur in one of two business units. Client flow and foreign exchange trading, including daily currency mismatch, are executed by RMB Global Markets. Foreign currency funding, foreign assets as well as foreign currency exposure, liquidity and term mismatch are managed by Group Treasury.

Market risk, foreign exposure and mismatch limits are approved by the board and the primary governance body is the RCC committee. Trading risk and the NOFP are overseen by the market and investment risk committee, a subcommittee of the RCC committee, and mismatch risk is governed through Group and international ALCCO processes. In addition to the committee structures, business units charged with front-line management of these risks have deployed risk managers who assess and report on an ongoing basis.

ASSESSMENT AND MANAGEMENT

In addition to the regulatory prudential limit on foreign asset exposure (25% of local liabilities), the board has set internal limits on FirstRand's total foreign currency exposure, within the regulatory limit, but allowing opportunity for expansion and growth. Internal limits are also set per franchise, taking into account existing foreign asset exposure and future growth plans. Internal limits and utilisation are continuously monitored and reviewed when necessary.

The Group's NOFP is within the regulatory limit of USD800 million. Senior management implemented various levels of internal prudential limits, taking into account fluctuating exchange rates and the Group's capital position, below the regulatory limit but large enough to cater for hedging, settlement and execution positions of business units. Group Treasury is the clearer of all currency positions in FirstRand and is, therefore, responsible for managing the Group's position within internal and prudential limits. Any breaches are reported through the risk management structures and corrective action is monitored by both the deployed risk managers and ERM.

FOREIGN EXCHANGE AND TRANSLATION RISK PROFILE

Over the period under review, no significant foreign exchange positions were run, apart from translation risk in strategic foreign investments. Mismatches were contained well within regulatory limits at all times. The macro foreign asset exposure of the Group remained below both regulatory and board limits and there is significant headroom for expansion into foreign assets.

FUNDING AND LIQUIDITY RISK

INTRODUCTION AND OBJECTIVES

The Group distinguishes two types of liquidity risk:

- **funding liquidity risk** is the risk that a bank will not be able to effectively meet current and future cash flow and collateral requirements without negatively affecting the normal course of business, financial position or reputation; and
- **market liquidity risk** is the risk that market disruptions or lack of market liquidity will cause the bank to be unable (or able, but with difficulty) to trade in specific markets without affecting market prices significantly.

Mitigation of market and funding liquidity risks is achieved via contingent liquidity risk management. Buffer stocks of highly liquid assets are held either to be sold into the market or provide collateral for loans to cover any unforeseen cash shortfall that may arise.

The Group's principal liquidity risk management objective is to optimally fund itself under normal and stressed conditions.

Funding structure

The banking sector in South Africa is characterised by certain structural features, such as a low discretionary savings rate and a higher degree of contractual savings that are captured by institutions such as pension funds, provident funds and providers of asset management services. A portion of these contractual savings translate into institutional funding for banks, which has higher liquidity risk than the original source of the deposits. The structural liquidity risk is, therefore, higher in South Africa than in most other markets. This risk is, however, to some extent mitigated by the following factors:

- the closed rand system where all rand transactions are cleared and settled in South Africa through registered banks and clearing institutions domiciled in South Africa;
- the prudential exchange control framework in place in South Africa; and
- the low dependency of South African banks on foreign currency funding.

The BCBS released an update on the NSFR in January 2014. The consultative paper proposes a better alignment between the LCR and NSFR, which will allow for balance sheet improvements between LCR and NSFR. The Group believes that the calibration and LCR alignment has improved.

Surplus liquidity buffers for cash flow management are amended in line with available liquidity in government debentures, treasury bills and bonds. The current level is considered sufficient relative to current market conditions.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

Liquidity risk management is governed by the liquidity risk management framework, which provides relevant standards in accordance with regulatory requirements and international best practices. As a subframework to the BPRMF, the liquidity risk management framework is approved by the board and sets out consistent and comprehensive standards, principles, policies and procedures to be implemented throughout the Group to effectively identify, measure, report and manage liquidity risk.

The board retains ultimate responsibility for the effective management of liquidity risk. The board has delegated its responsibility for the assessment and management of this risk to the RCC committee, which in turn delegated this task to FirstRand ALCCO. FirstRand ALCCOs primary responsibility is the assessment, control and management of both liquidity and interest rate risk for the Bank, FNB Africa, and international subsidiaries and branches, either directly or indirectly, through providing guidance, management and oversight to the asset and liability management functions and ALCCOs in these subsidiaries and branches.

South Africa

Liquidity risk for FRB solo, i.e. FRB excluding foreign branches, is centrally managed by a dedicated liquidity and funding team in Group Treasury. Governance is provided by an independent risk team responsible for ensuring that the liquidity risk management framework is implemented appropriately.

The Group's liquidity position, exposures and auxiliary information are reported weekly to the funding and liquidity portfolio management committee and monthly at the funding executive committee. In addition, management aspects of the liquidity position are reported to Group Treasury. The liquidity risk management team also provides regular reports to Group ALCCO.

Rest of Africa

Individual ALCCOs have been established in each of the FREMA businesses and manage liquidity risk on a decentralised basis, in line with the principles under delegated mandates from the respective boards. Reports from these committees are regularly presented to FirstRand ALCCO and management and control of liquidity risk in the subsidiaries follows the guidance and principles that have been set out and approved by Group ALCCO.

International

Similarly, liquidity risk for international businesses is managed on a decentralised basis in line with the Group's liquidity risk management framework. International businesses report into the international ALCCO (a subcommittee of Group ALCCO), which meets quarterly to review and discuss region-specific liquidity and interest rate risk issues. Individual ALCCOs are held locally monthly and include representation from Group Treasury.

FirstRand has been granted renewable dispensation by the Prudential Regulatory Authority (PRA) for a waiver on a Whole-firm Liquidity Modification application basis where the PRA considers local risk reporting and compliance of the parent bank sufficient to waive PRA requirements for FirstRand Bank (London branch). PRA reporting commenced from January 2011.

LIQUIDITY RISK MANAGEMENT

The Group acknowledges liquidity risk as a consequential risk that may be caused by other risks as demonstrated by the reduction in liquidity in many international markets as a consequence of the recent credit crisis. The Group is, therefore, focused on continuously monitoring and analysing the potential impact of other risks and events on the funding and liquidity position of the Group to ensure business activities preserve and improve funding stability. This ensures the Group is able to operate through periods of stress when access to funding is constrained.

The approach to liquidity risk management distinguishes between structural, daily and contingency liquidity risk management across all currencies and various approaches are employed in the assessment and management of these on a daily, weekly and monthly basis as illustrated in the following chart.

Aspects of liquidity risk management

Structural liquidity risk management	Daily liquidity risk management	Contingency liquidity risk management
Managing the risk that structural, long-term on-and off-balance sheet exposures cannot be funded timeously or at reasonable cost.	Ensuring that intraday and day-to-day anticipated and unforeseen payment obligations can be met by maintaining a sustainable balance between liquidity inflows and outflows.	Maintaining a number of contingency funding sources to draw upon in times of economic stress.
– liquidity risk tolerance; – liquidity strategy; – ensuring substantial diversification across different funding sources; – assessing the impact of future funding and liquidity needs taking into account expected liquidity shortfalls or excesses; – setting the approach to managing liquidity in different currencies and from one country to another; – ensuring adequate liquidity ratios; – ensuring adequate structural liquidity gap; and – maintaining a funds transfer pricing methodology and processes.	– managing intraday liquidity positions; – managing daily payment queue; – monitoring net funding requirements; – forecasting cash flows; – perform short-term cash flow analysis for all currencies individually and in aggregate; – management of intragroup liquidity; – managing central bank clearing; – managing net daily cash positions; – managing and maintaining market access; and – managing and maintaining collateral.	– managing early warning and key risk indicators; – performing stress testing including sensitivity analysis and scenario testing; – maintaining product behaviour and optionality assumptions; – ensuring that an adequate and diversified portfolio of liquid assets and buffers are in place; and – maintaining the contingency funding plan.

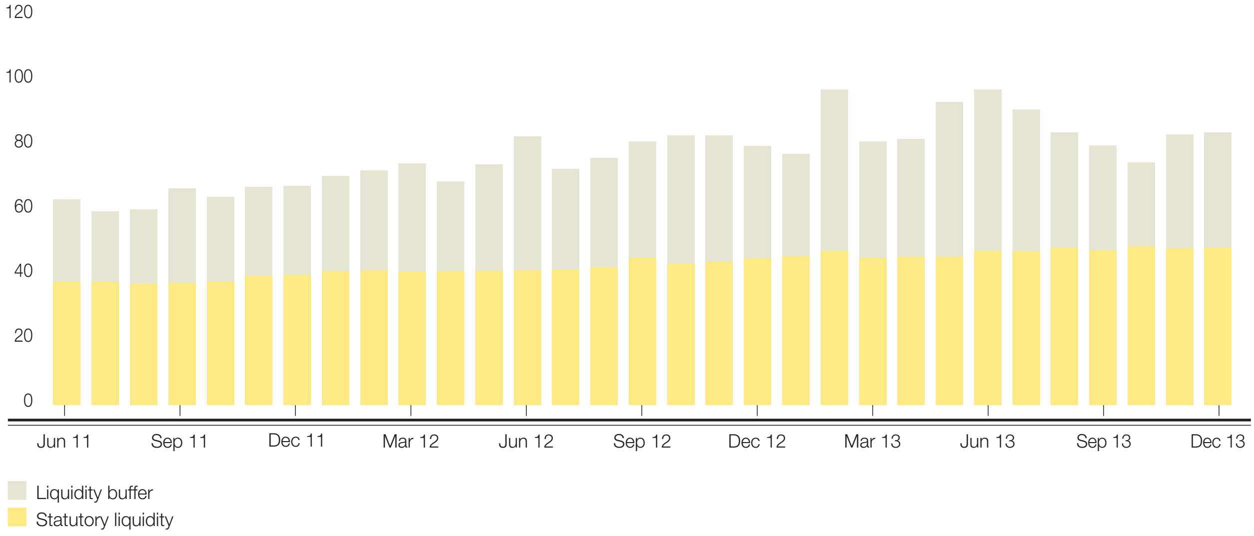
Available liquidity

Liquidity buffers are actively managed via high quality, highly-liquid assets that are available as protection against unexpected events or market disruptions. The buffer methodology has been defined and linked to regular stress testing and scenario analysis. The methodology is adaptive and will be responsive to Basel III changes on the LCR.

The following chart shows the liquidity buffer and statutory liquidity requirements for the Bank.

The Bank's liquidity buffer and statutory liquidity requirements*

(R billion)



* *Reflects solo supervision, FRB excluding foreign branches.*

In addition to the measurement and management of liquidity profiles, various key risk indicators are defined that highlight potential risks within defined thresholds. Two levels of severity are defined for each indicator. Monitored on a daily and monthly basis, the key risk indicators may trigger immediate action where required. Current status and relevant trends are reported to the FirstRand ALCCO and the RCC committee quarterly.

Stress testing and scenario analysis

Regular and rigorous stress tests are conducted on the funding profile and liquidity position as part of the overall stress-testing framework with a focus on:

- quantifying the potential exposure to future liquidity stresses;
- analysing the possible impact of economic and event risks on cash flows, liquidity, profitability and solvency position; and
- proactively evaluating the potential secondary and tertiary effects of other risks on the Group.

Liquidity contingency planning

Frequent volatility in funding markets and the fact that financial institutions can and have experienced liquidity problems even during good economic times have highlighted the relevance of quality liquidity risk and contingency management processes.

The Group's ability to meet all of its daily funding obligations and emergency liquidity needs is of paramount importance and, in order to ensure that this is always adequately managed, the Group maintains a liquidity contingency plan.

The objective of the liquidity contingency plan is to achieve and maintain funding levels in a manner that allows the Group to emerge from a potential funding crisis with the best possible reputation and financial condition for continuing operations. The plan is expected to:

- support effective management of liquidity and funding risk under stressed conditions;
- establish clear roles and responsibilities in the event of a liquidity crisis; and
- establish clear invocation and escalation procedures.

The liquidity contingency plan provides a pre-planned response mechanism to facilitate swift and effective responses to contingency funding events. These events may be triggered by financial distress in the market (systemic) or a bank-specific event (idiosyncratic) which may result in the loss of funding sources.

It is reviewed annually and tested biannually via a Group-wide liquidity stress simulation exercise to ensure the document remains up to date, relevant and familiar to all key personnel within the Group that have a role to play should the Group ever experience an extreme liquidity stress event.

Recovery plan

The Group has submitted the first Group recovery plan to the SARB and this will in future be an annual requirement. In addition, FirstRand is currently engaged with industry and regulators on the recovery and resolution regime development for South Africa.

FUNDING STRATEGY

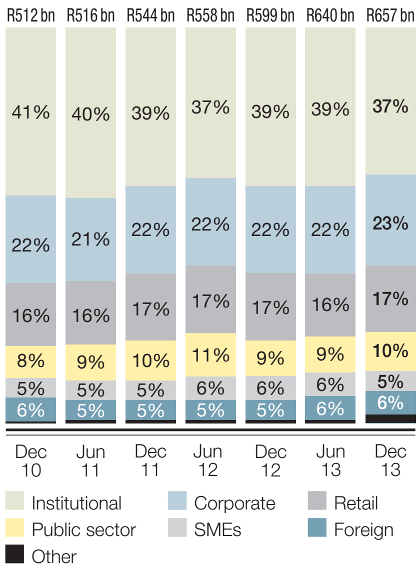
The Group's objective is to fund its activities in a sustainable, diversified, efficient and flexible manner, underpinned by strong counterparty relationships within prudential limits and requirements. The objective is to maintain natural market share of transactional accounts and balances, but also to outperform at the margin, which will provide the Group with a natural liquidity buffer.

Compliance with the Basel III LCR influences the funding strategy, in particular as it seeks to restore the correct risk-adjusted pricing of deposits. FirstRand is actively building its deposit franchise through innovative and competitive products and pricing, while improving the risk profile of its wholesale funding.

The following table illustrates the Bank's sources of funding by counterparty and the total deposit funding base.

FRB funding analysis by source*

(R billion)

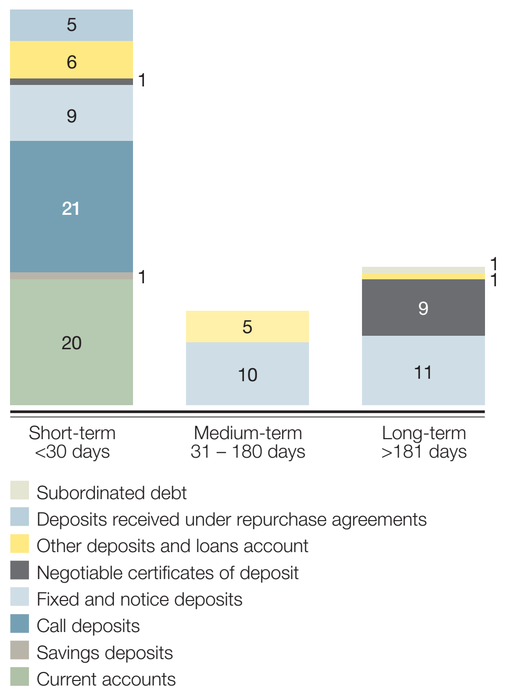


* *Reflects solo supervision, FRB excluding foreign branches.*

The following charts illustrate the Group's funding instruments by instrument type including senior debt and securitisation, as well as the term structure of funding.

The Bank's funding liabilities by instrument type at 31 December 2013*

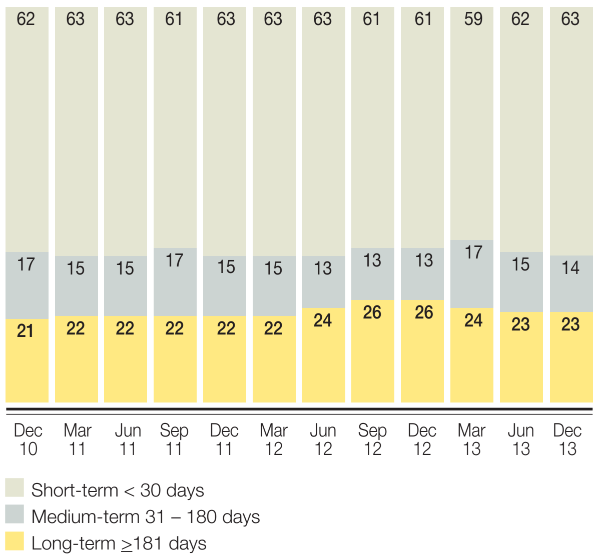
(%)



** Reflects solo supervision, FRB excluding foreign branches.*

Term structure of the Bank's funding liabilities*

(%)



** Reflects solo supervision, FRB excluding foreign branches.*

The business is incentivised to preserve and enhance funding stability via the funds transfer pricing framework, which ensures the pricing of assets is in line with liquidity risk, liabilities in accordance with funding maturity and contingencies in respect of the potential funding draws on the Group.

OPERATIONAL RISK

INTRODUCTION AND OBJECTIVES

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Group believes that effective management of operational risk is key to the achievement of its business strategy. Accordingly, there is ongoing evaluation of existing frameworks, policies, methodologies, processes, systems and infrastructure for relevance and to ensure that operational risk management practices are in line with regulatory developments and emerging best practices.

Focus remains on building an effective and forward-looking operational risk management programme, encompassing, amongst other things, the management and oversight of IT risk and information governance, internal and external fraud, litigation, business disruption and process risk. The key operational risk strategic objectives are:

- embed operational risk management systems and processes implemented in the previous financial year;
- optimise benefits of automated and integrated risk tools;
- embed and monitor adherence to operational risk appetite limits;
- ongoing refinement of the maturity of the AMA components and methodologies;
- continue improvements to the control environment;
- update the AMA capital modelling methodology and software; and
- maintain the AMA status.

The period under review

The period under review was characterised by a number of initiatives aimed at improving operational risk maturity, driving efficiency in operational risk management processes and improving the control environment.

The principal operational risks currently facing the Group are:

- fraud and violent crime;
- information security risk (risk of loss or theft of information), this risk is rapidly changing, with increasingly sophisticated global attacks by cybercrime groups; and
- execution, delivery and process management risk (the risk of process weaknesses and control deficiencies) as the business continues to grow and evolve.

Projects to address key operational risk themes are being tracked and reported regularly at Group level through the risk governance process. The integration and automation of the Group's operational risk management and measurement tools onto a single platform to enhance operational risk management processes has been completed. Focus is now on enhancing operational risk profiles based on risk data available on this single platform.

With the completion of the roll-out of the process-based risk and control identification and assessment methodology for all key products/services, the objective is to further embed this methodology and through comprehensive coverage of handover points and information governance, IT, legal and regulatory risks.

The Group and franchise operational risk profiles are tracked against the relevant operational risk appetites on a regular basis. Work is currently underway to set segment/business unit-level appetites. Focus is on mitigating the risk of cybercrime, which is viewed as the dominant global future threat in the financial services sector, through improved information security processes and controls.

The Group implemented its own work area recovery facility and upgraded power supply, management equipment and infrastructure for key facilities. A third redundant data centre is being implemented to improve the Group's business resilience capability.

The Group's IT risk and governance functions have been integrated, with relevant governance forums in place in ERM to ensure continued monitoring and mitigation of IT risk across the Group. The Group's IT and related frameworks are being reviewed to ensure alignment with changing business models and the technology landscape.

Information (whether the Group's or entrusted to it by customers, staff or business partners) is a valuable asset and the management of information remains integral to the way the Group operates. To this end, an information governance framework was developed to ensure that information is managed in accordance with its value, sensitivity and the risks to which it is exposed.

A key focus has been the refinement of information governance structures, processes and the improvement of data quality and records management practices. Information governance committees have been established in all divisions and information governance now forms an integral part of the overall risk management framework of the Group.

The Group will continue to improve its information management capabilities by:

- embed governance structures;
- improve information control environment; and
- roll-out awareness programmes on relevant topics, including records management, data quality management and data privacy management.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

The board has delegated its approval and review authority for operational risk to the operational risk committee, a subcommittee of the RCC committee, and is responsible for monitoring the implementation of the operational risk management framework and oversight over the management of operational risk across the Group. This framework prescribes the authorities, governance and monitoring structures, duties and responsibilities, processes, methodologies and standards which have to be implemented and adhered to when managing operational risk.

Operational risk includes a number of key risks for which specialised teams, frameworks, policies and processes have been established. Fraud and physical security, business resilience, legal, information technology and insurance have dedicated specialist teams who provide oversight, which is integrated into the broader operational risk management and governance processes.

The central operational risk management team in ERM is responsible for embedding the operational risk governance structure across the Group.

MEASUREMENT

Basel – advanced measurement approach

FirstRand applies AMA under Basel for the Group's domestic operations. Offshore subsidiaries and operations continue to use the standardised approach for operational risk and all previously unregulated entities that are now part of FRIHL use the basic indicator approach. FirstRand continuously assesses the feasibility of migrating the standardised approach and the basic indicator approach entities to AMA (subject to internal and regulatory constraints).

Under AMA, FirstRand uses a sophisticated statistical model for the calculation of capital requirements, which enables more accurate risk-based measures of capital for all business units on AMA.

Operational risk scenarios (covering key risks that, although low in probability, may result in severe losses) and internal loss data are inputs into this model.

Scenarios are derived through an extensive analysis of the Group's operational risks in consultation with business and risk experts from the respective business areas. Scenarios are cross-referenced to external loss data, internal losses, key risk indicators, risk and control self-assessments and other pertinent information about relevant risk exposures. To ensure ongoing accuracy of risk and capital assessments, all scenarios are reviewed, semi-annually, as appropriate.

The loss data used for risk measurement, management and capital calculation is collected for all seven Basel event types across various internal business lines. Data collection is the responsibility of the business units and is overseen by the operational risk management team in ERM.

The modelled operational risk scenarios are combined with modelled loss data in a simulation model to derive the annual, aggregate distribution of operational risk losses. Basel Pillar 1 minimum capital requirements are then calculated (for the Group and each franchise) as the operational VaR at the 99.9th percentile of the aggregate loss distribution, excluding the effects of insurance, expected losses and correlation/diversification.

Capital requirements are calculated for each franchise using the AMA capital model and then allocated to the legal entities within the Group based on gross income contribution ratios. This split of capital between legal entities is required for internal capital allocation, regulatory reporting and performance measurement purposes.

The standardised approach and the basic indicator approach capital calculations are based on a multiplication factor applied to gross income, as specified by Basel and SARB regulations. No risk-based information is used in these capital calculations and allocations.

Business practices continuously evolve and the operational risk control environment is, therefore, constantly changing to adopt to the underlying risk profile. The assessment of the operational risk profile and exposures and associated capital requirements take the following into account:

- changes in the operational risk profile, as measured by the various operational risk tools;
- material effects of expansion into new markets, new or substantially changed products or activities as well as the closure of existing operations;
- changes in the control environment – a continuous improvement in the control environment is targeted, but deterioration in effectiveness is also possible due to, for example, unforeseen increases in transaction volumes; and
- changes in the external environment, which drives certain types of operational risk (for example, the risk of cybercrime).

ASSESSMENT AND MANAGEMENT

Operational risk assessment and management tools

The Group obtains assurance that the principles and standards in the operational risk management framework are being adhered to by the three lines of control model. In this model, business units own the operational risk profile as the first line of control. In the second line of control, ERM is responsible for consolidated operational risk reporting, policy ownership and facilitation and coordination of operational risk management and governance processes. GIA, as the third line of control, provides independent assurance of the adequacy and effectiveness of operational risk management processes and practices.

In line with international best practice, a variety of tools are employed and embedded in the assessment and management of operational risk. The most relevant of these are outlined in the following chart.

Operational risk assessment and management tools

Risk control self-assessments and process-based risk and control identification and assessments	Key risk indicators
▸ integrated in the day-to-day business and risk management processes; ▸ used by business and risk managers to identify and monitor key risk areas and assess the effectiveness of existing controls; and ▸ process-based risk and control identification and assessment per product/service based on key business processes.	▸ used across the Group in all businesses as an early warning measure; ▸ highlight areas of changing trends in exposures to specific key operational risks; and ▸ inform operational risk profiles which are reported periodically to the appropriate management and risk committees and are monitored on a continuous basis.
Internal/external loss data	**Risk scenarios**
▸ the capturing of internal loss data is well entrenched within the Group; ▸ internal loss data reporting and analyses occur at all levels with specific focus on root cause and process analysis and corrective action; and ▸ external loss databases are used to learn from loss experiences of other organisations and as inputs to the risk scenario processes.	▸ risk scenarios are widely used to identify and quantify low frequency extreme loss events; ▸ senior executives of the business actively participate in the biannual reviews; and ▸ results are tabled at the appropriate risk committees and are used as input to the capital modelling process.

The process-based risk and control identification and assessments have been rolled out across the Group for key products and services and replace the risk control self-assessments to ensure a comprehensive understanding of end-to-end business processes.

FirstRand uses an integrated and reputable operational risk system which provides a solid platform for automation of all operational risk tools. All the operational risk tools have been automated on the system.

Operational risk events

As operational risk cannot be avoided or mitigated entirely, frequent events resulting in small losses are expected as part of business operations (for example, external fraud) and are budgeted for appropriately. Business areas minimise these losses through continuously monitoring and improving relevant business and control practices and processes. Operational risk events resulting in substantial losses occur much less frequently and the Group strives to minimise these and contain frequency and severity within its risk appetite levels.

Operational risk events are analysed regularly to identify trends, root causes and corrective actions with comprehensive reporting to the risk governance structures.

Operational risk management processes

Operational risk includes a number of key risks for which specialised teams, frameworks, policies and processes have been established as described above.

Business resilience management

Business resilience management focuses on ensuring that the Group's operations are resilient to the risk of severe disruptions caused by internal failures or external events. The business resilience steering committee, a subcommittee of the operational risk committee, has oversight of business resilience management.

Business resilience practices are documented in the Group's business resilience policy and supporting standards, which are approved at the operational risk committee. The policy, a subframework of the operational risk management framework, requires the development and maintenance of business continuity strategies and plans. It also requires regular business continuity assessments and testing to be carried out in all business units and for the results to be reported to the business resilience steering committee.

The Group carries out regular reviews of business resilience management practices and any disruptions or incidents are assessed and regularly reported to the relevant risk committees.

Legal risk

The legal risk management framework, a subframework of the operational risk management framework, addresses areas such as the creation and ongoing management of contractual relationships, management of disputes (which do or might lead to litigation), protection and enforcement of property rights (including intellectual property) and failure to account for the impact of the law or changes in the law brought about by legislation or decisions of the courts. Whilst compliance with legislation is a major element of legal risk, RRM manages this aspect. Added to these substantive and direct risks is the management of risk around the procurement of external legal resources.

A legal risk management programme is in place to ensure that comprehensive, sound operational risk governance practices and solutions are adopted in respect of legal risk management which represent best practice and align to the Group's overall risk management programme. The legal risk committee, a subcommittee of the operational risk committee, has oversight of legal risk management.

IT risks and information governance

Information risk is concerned with the quality and protection of information and information systems against unauthorised access, destruction, modification, use and disclosure. The goal is to ensure confidentiality, availability and integrity of all information and systems that maintain, process and disseminate this information. To this end, a distinction is made between:

- IT risk management and governance (protection of systems); and
- information governance (accountability for and quality of information).

The Group's IT risk management framework, acceptable use of information resources policy and information security policy provide the basis for the management of IT risk and information security within the Group.

The IT risk management framework defines the objectives of IT risk management and processes that are to be embedded, managed and monitored across the Group for effective management of IT risk.

The information governance framework is a management tool to ensure business success through the use of reliable information. The aim is to set a framework to optimise information use and to support effective management and mitigation of information related risk.

Fraud and security risks

Fraud risk is defined as the risk of loss resulting from unlawfully making, with intent to defraud, misrepresentation which causes actual prejudice or which is potentially prejudicial to another. Fraud incorporates both internal (staff) criminal activities as well as those that emanate from an external source.

Fraud risk is governed by the fraud risk management framework, which is a subframework of the operational risk management framework. The Group utilises a deployed fraud risk management model that requires businesses to institute processes and controls specific and appropriate to operations within the constraints of a consistent governance framework. This is overseen by the fraud risk management function reporting to the Group CRO.

The Group is committed to creating an environment that safeguards customers, staff and assets against fraud or security risks by continually investing in people, systems and processes for both preventative and detective measures.

Risk insurance

The Group has a structured insurance risk financing programme in place, which has been developed over many years, to protect the Group against unexpected material losses arising from non-trading risks. The insurance risk programme is continuously refined through ongoing assessment of changing risk profiles, organisational strategy and growth, and monitoring of international insurance markets. The levels and extent of insurance cover is reviewed and benchmarked annually.

The Group's insurance-buying philosophy is to carry as much risk on its own account as is economically viable and to only protect itself against catastrophic risks through the use of third-party insurance providers. Accordingly, the majority of cover is placed into the Group's wholly-owned first-party dedicated insurance company, FirstRand Insurance Services Company Limited (FRISCOL). All cover on the main programme is placed with reinsurers with a minimum credit rating of A-. The insurance programme includes, *inter alia*, cover for operational risk exposures such as professional indemnity, directors and officers liability, crime bond, public and general liability, etc. The Group, however, does not consider insurance as a mitigant in the calculation of capital for operational risk purposes.

REGULATORY RISK

INTRODUCTION AND OBJECTIVES

The Group's RRM function plays an integral part in managing risks inherent in banking. The Group fosters a compliance culture in its operations that contributes to the overall objective of prudent regulatory compliance and risk management, by observing both the spirit and the letter of the law in its business activities. The compliance culture also embraces broader standards of integrity and ethical conduct which concerns all employees.

The objective of the RRM function is to ensure that business practices, policies, frameworks and approaches across the organisation are consistent with applicable laws and that regulatory risks are identified and managed proactively throughout the Group. This culminates in the maintenance of an effective and efficient regulatory risk management framework with sufficient operational capacity to promote and oversee compliance with legislative and best practice requirements. In order to achieve the Group's regulatory risk management objectives, staff members are trained and made aware of compliance requirements in order to ensure a high level of understanding and awareness of the applicable regulatory framework.

The Group seeks to achieve full compliance with statutes and regulations and every effort is made to ensure that governance policies and practices and the implementation thereof appropriately align to regulatory and industry best practice requirements. Non-compliance may potentially have serious consequences, which could lead to both civil and criminal liability, including penalties, claims for loss and damages or restrictions imposed by regulatory authorities.

It is of paramount importance that the Group ensures compliance with laws and regulations applicable to its operations. These include, among others, the provisions of the Banks Act, 1990, the Regulations relating to Banks, the Financial Intelligence Centre Act, 2001, the Financial Advisory and Intermediary Services Act, 2002 and the Consumer Protection Act, 2008. All compliance issues identified in this context should be effectively and expeditiously resolved by senior management with the assistance of RRM. This requires close cooperation with and interaction between RRM, other Group functions and various regulatory authorities.

The period under review

Banking legislation

The new *Regulations relating to Banks* became effective on 1 January 2013. It incorporates, among others, the requirements contained in the Basel III framework which are being phased in. Ongoing amendments to the Regulations are expected to ensure that the South African regulatory framework for banks remains aligned to internationally-agreed regulatory and supervisory standards. The Banks Amendment Act 22 of 2013, which came into effect on 10 December 2013, among others, serves to amend banking legislation in line with requirements of the BCBS.

Twin peaks

The most notable development and focus area of current regulatory reforms is the anticipated implementation of a twin peaks model of financial regulation in South Africa. In terms of the broad policy objectives, it is expected that these reforms will be implemented in two phases, along with the development of legislation necessary to enable the relevant regulators to deliver on their revised mandates. The Group will continue to foster close interaction and cooperation with regulators and other stakeholders.

The Group's ethics framework

The Group's Ethics Office is part of RRM and is responsible for an ethics framework. Several culture- and people-risk assessments were conducted, some of which resulted in strategic and operational changes in certain areas and the proactive identification and management of several risk types. The focus on promotion of responsible business conduct was maintained and included intensified training on whistle blowing, conflict of interest avoidance, anti-bribery and corruption. Another focus area is the promotion of responsible market conduct and ensuring that the Group remains compliant with market conduct regulations and related industry best practice. Further enhancements to the Group's responsible competitive practice programme are expected to mitigate related risks.

Anti-Money Laundering and Combating Terrorist Financing (AML/CFT) measures

Banking groups in South Africa have to ensure compliance with national and international regulations and counter-measures to combat money laundering and terrorist financing as prescribed and/or recommended by the Financial Intelligence Centre Act, 2001, the Financial Action Task Force (FATF) and the BCBS. The BCBS guidelines issued in January 2014 describe how banks should manage AML/CFT risks within overall risk management programmes. The BCBS supports the adoption and implementation of the FATF standards and the Group's objective remains to ensure compliance with these requirements.

Protection of Personal Information Act, 2013 (PoPI)

PoPI was signed into law in December 2013, with the effective date of compliance to be proclaimed. PoPI is applicable to all personal information held by the Group in respect of employees, customers and suppliers. The Group continues to devote substantial attention and resources to aspects such as security safeguards, processing and purpose specification of personal information, quality of personal information held, customer notification and consent, third party processors of personal information and complaints handling, in line with PoPI requirements.

Carbon disclosure project (CDP)

Over 5 000 listed companies from all over the world reported on climate change through the Carbon Disclosure Project (CDP) during the period and 81% of the world's 500 largest public companies engaged with CDP to enable effective measurement of carbon footprint and climate change action. FirstRand performed well above the average for the financial sector and was the only South African-based financial institution and Global 500 company to appear in the 2013 Climate Performance Leadership Index with an A-level performance rating, the highest band of performance on climate change risk management and performance.

In the South African JSE top 100 sample, FirstRand was one of the top eight companies in the South African Climate Performance Leadership Index and in the top 20 in terms of transparency of disclosure on climate change risks. Public scores are available in CDP reports, through Bloomberg Terminals, Google Finance and Deutsche Börse's website.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

Responsibility for compliance with all relevant laws, related internal policies, regulations and supervisory requirements are delegated by the board to senior management and RRM. In order to assist board members to make informed judgements on whether the Group is managing its regulatory and compliance risks effectively, the head of RRM has overall responsibility for coordinating the management of the Group's regulatory risk, including monitoring, assessing and reporting on the level of compliance to senior management and the board. RRM complies with the prescribed requirements in terms of regulation 49 of the Regulations and its mandate is formalised in the Group's compliance risk management framework.

Governance oversight of the RRM function is conducted by a number of committees such as the RRM, RCC and audit committees, all of which receive regular detailed reports from RRM on the level of compliance and instances of material non-compliance. In addition to the centralised RRM function, each of the operating franchises have dedicated compliance officers responsible for implementing and monitoring compliance policies and procedures related to the respective franchises.

FirstRand has a formal social and ethics committee to exercise oversight over the governance and functioning of the Group-wide ethics programme. The FirstRand Group code of ethics is the cornerstone of FirstRand's ethics management framework. RRM retains an independent reporting line to the Group CEO as well as to the board through its designated committees.

ASSESSMENT AND MANAGEMENT

RRM's board mandate is to ensure full compliance with statutes and regulations. To achieve this, RRM has implemented appropriate structures, policies, processes and procedures to identify regulatory and supervisory risks. RRM monitors the management of these risks and reports on the level of compliance risk management to both the board and the Registrar of Banks. These include:

- risk identification through documenting laws, regulations and supervisory requirements that are applicable to FirstRand;
- risk measurement through the development of risk management plans;
- risk monitoring and review of remedial actions;
- risk reporting; and
- providing advice on compliance-related matters.

Although independent of other risk management and governance functions, the RRM function works closely with GIA, ERM, external audit, internal and external legal advisors, and the company secretary's office to ensure effective functioning of compliance processes.

PUBLIC POLICY AND REGULATORY AFFAIRS OFFICE

The Group's Public Policy and Regulatory Affairs Office provides the Group with a central point of engagement, representation and coordination in respect of relevant regulatory and public policy-related matters, at a strategic level. This function is differentiated from the existing and continuing engagement with regulators at an operational level (i.e. regulatory reporting, compliance and audit) with its main objective to ensure that Group executives and franchises are aware of key developments relating to public policy, legislation and regulation, which are considered pertinent to the Group's business activities and to support executives in developing the Group's position on issues pertaining to government policy, proposed and existing legislation and regulation.

This office reports directly to the Group CEO and indirectly, through designated subcommittees, to the board and maintains close working relationships with RRM, ERM and the business units where specific technical expertise reside.

REMUNERATION AND COMPENSATION

FirstRand's compensation policies and practices observe international best practice and comply with the requirements of the Banks Act, 1990 (Act No. 94 of 1990) and FSB Principles for Sound Compensation Practices. In accordance with the requirements of regulation 43 of the revised *Regulations relating to Banks* and the Basel requirements, full disclosure of the Group's compensation policies, practices and performance are included in the remuneration committee report of its annual integrated report, which is published on FirstRand's website, www.firstrand.co.za.

DEFINITIONS

Additional Tier 1 (AT1) capital	NCNR preference share capital plus qualifying capital instruments issued out of fully consolidated subsidiaries to third parties less specified regulatory deductions.
Capital adequacy ratio (CAR)	Total qualifying capital and reserves divided by RWA.
Common Equity Tier 1 (CET1) capital	Share capital and premium plus accumulated comprehensive income and reserves plus qualifying capital instruments issued out of fully consolidated subsidiaries to third parties less specified regulatory deductions.
Credit loss ratio	Total impairment charge per income statement expressed as a percentage of average advances (average between the opening and closing balance for the period).
Net income after capital charge (NIACC)	Normalised earnings less cost of equity multiplied by average ordinary shareholders' equity and reserves.
Return on equity (ROE)	Normalised earnings divided by average normalised ordinary shareholders' equity.
Risk weighted assets (RWA)	Prescribed risk weightings relative to credit risk of counterparties, operational risk, market risk, equity investment risk and other risks multiplied by on- and off-balance sheet assets.
Tier 1 ratio	Tier 1 capital divided by RWA.
Tier 1 capital	CET1 capital plus AT1 capital.
Tier 2 capital	Qualifying subordinated debt instruments plus qualifying capital instruments issued out of fully consolidated subsidiaries to third parties plus general provisions for entities on the standardised approach less specified regulatory deductions.
Total qualifying capital and reserves	Tier 1 plus Tier 2 capital.

ABBREVIATIONS

AIRB	Advanced internal ratings-based approach
ALCCO	Asset, liability and capital committee
AMA	Advanced measurement approach
BCBS	Basel Committee on Banking Supervision
BPRMF	Business performance and risk management framework
CET1	Common Equity Tier 1
CRMF	Credit risk management framework
EAD	Exposure at default
EL	Expected loss
ERM	Enterprise Risk Management
ETL	Expected tail loss
EVE	Economic value of equity
Exco	Executive committee
FRB	FirstRand Bank Limited
FRIHL	FirstRand Investment Holdings (Pty) Limited
FRM	Financial Resource Management
FSA	Financial Services Authority
FTP	Funds transfer pricing
GIA	Group Internal Audit
ICAAP	Internal capital adequacy assessment process
IFRS	International Financial Reporting Standards
LCP	Liquidity contingency planning
LCR	Liquidity coverage ratio
LGD	Loss given default
LTV	Loan-to-value
NCNR	Non-cummulative non-redeemable
NII	Net interest income
NOFP	Net open forward position in foreign exchange
NPLs	Non-performing loans
NSFR	Net stable funding ratio
PD	Probability of default
PIT	Point-in-time
RCC committee	Risk, capital management and compliance committee
RRM	Regulatory Risk Management
RWA	Risk-weighted assets
SMEs	Small and medium enterprise
TTC	Through-the-cycle
VAF	Vehicle and asset-based finance
VaR	Value-at-Risk

SIMPLIFIED GROUP STRUCTURE

FIRSTRAND

Listed holding company (FirstRand Limited, JSE: FSR)

100%	100%	100%	100%
FIRSTRAND BANK LIMITED	FIRSTRAND EMA HOLDINGS LIMITED	FIRSTRAND INVESTMENT HOLDINGS (PTY) LTD (FRIHL)	ASHBURTON INVESTMENTS HOLDINGS LIMITED
Banking	**Africa and emerging markets**	**Other activities****	**Investment management**

Banking

100%	First National Bank[1]
100%	Rand Merchant Bank[1]
100%	WesBank[1]
100%	FirstRand Bank India[2]
100%	FirstRand Bank London[2,*]
100%	FirstRand Bank Kenya[3]
100%	FirstRand Bank Angola[3]
100%	FirstRand Bank Dubai[3]
100%	FirstRand Bank Shanghai[3]

Africa and emerging markets

59%	FNB Namibia
69%	FNB Botswana
100%	FNB Swaziland
90%	FNB Mozambique
100%	FNB Zambia
100%	FNB Lesotho
100%	FNB Tanzania
100%	RMB Nigeria
100%	FirstRand International – Mauritius

Other activities**

96%	RMB Private Equity Holdings
93%	RMB Private Equity
100%	RMB Securities
50%	RMB Morgan Stanley
100%	RentWorks
66%	Direct Axis
100%	FirstRand International – Guernsey (includes RMB Australia Holdings)

Investment management

100%	Ashburton Fund Managers (Pty) Ltd
100%	Ashburton Investor Services (Pty) Ltd
100%	Ashburton Management Company (Pty) Ltd
100%	Ashburton Private Equity GP1 (Pty) Ltd
100%	FNB International Wealth Management Holdings Ltd
100%	RMB CIS Management Company (Pty) Ltd

Structure shows effective consolidated shareholding.

1. Division
2. Branch
3. Representative office

* MotoNovo Finance is a business segment of FirstRand Bank Limited (London Branch).

** For segmental analysis purposes, entities included in FRIHL are reported as part of results of the managing franchise. The Group's securitisations and conduits are in FRIHL.

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FIRSTRAND