basel pillar 3 disclosure

for the six months ended 31 December 2014

FIRSTRAND

CONTENTS

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: 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 recently-established investment management business. The FCC franchise represents group-wide functions.

FirstRand Limited (FirstRand or the group) believes that effective risk, performance and financial resource management are of primary importance to its success and is a key component of the delivery of sustainable returns to its shareholders. These disciplines are, therefore, deeply embedded in the group's tactical and strategic decision making.

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 the group explicitly recognises risk identification, assessment, monitoring and management as core competencies and important differentiators in the competitive environment in which it operates.

MANAGING THE RISK PROFILE

Effective risk management is key to the successful execution of strategy and is based on:

- a risk-focused culture and effective risk governance structure with multiple points of control applied consistently throughout the organisation;
- a combined assurance process to integrate, coordinate and align the risk management and assurance process within the group to optimise and maximise the level of risk, governance and control oversight over the organisation's risk landscape; and
- strong risk governance through the application of financial and risk management disciplines through frameworks set at the centre.

RESILIENCE OF EARNINGS, GROWTH AND BALANCE SHEET STRENGTH

The group believes a strong balance sheet and resilient earnings are key to growth, particularly when entering periods of uncertainty.

FirstRand's franchises have consistently executed on a set of strategies which are aligned to certain group financial strategies and frameworks designed to ensure earnings resilience and growth, balance sheet strength and an appropriate risk/return profile. Ultimately the group seeks to create long-term sustainable franchise value and believes it is currently delivering this through the operating franchises, all of which have strong market positioning, unique customer value propositions, efficient platforms, a relentless focus on innovation and a proven entrepreneurial culture.

These deliverables are underpinned by the application of critical financial discipline through frameworks set at the centre, such as;

- Risk management framework:
  - assess the impact of the cycle on the portfolio;
  - understand and price properly for risk; and
  - originate within cycle-appropriate risk appetite and volatility parameters.
- Performance management framework:
  - allocate capital appropriately to capital-light or capital-intensive activities;
  - ensure an efficient capital structure with appropriate/conservative gearing; and
  - ensure earnings exceed cost of capital, i.e. positive net income after capital charge (NIACC).

- Balance sheet framework:
  - execute sustainable funding and liquidity strategies;
  - protect the credit rating; and
  - preserve a "fortress" balance sheet that can sustain shocks through the cycle.

The consistent application of these financial strategies and frameworks has over time allowed FirstRand to deliver the financial metrics the group targets on behalf of its shareholders, namely, earnings growth of nominal GDP plus 3% – 5% and an ROE of 18% – 22%.

FINANCIAL RESOURCE MANAGEMENT

The management of financial resources is critical to ensure the group achieves its overall strategic objectives, namely to:

- deliver long-term franchise value;
- deliver superior and sustainable economic returns to shareholders within acceptable levels of volatility; and
- maintain balance sheet strength.

The group sets quantitative measures and targets outlined below (for various business cycles within a defined confidence level) to ensure the appropriate balance between growth, return and earnings volatility and to deliver on its commitments to stakeholders (e.g. providers of financial resources):

- earnings growth, returns and volatility;
- minimum capital and leverage ratios;
- funding and minimum liquidity ratios; and
- its desired credit rating.

Refer to the *risk appetite* section of this report where these quantitative measures are outlined for normal business cycles.

The management of the group's financial resources resides in FCC, represented by Group Treasury, is independent of the operating franchises and comprises capital, funding and liquidity. To ensure that business units price for these financial resources appropriately in their underlying activities, Group Treasury:

- determines the level of capital, capital structure and gearing;
- allocates capital and cost of capital to business units and sets required hurdle rates; and
- decides on the availability and pricing of funding and liquidity to business units.

FirstRand's capital, funding, liquidity and volatility targets are set with reference to its desired credit rating and the franchises' growth, return and volatility targets are aligned to ensure that the group meets its overall objectives.

Quantitative targets and limits are augmented by a number of qualitative principles that serve to provide guidelines on boundaries for risk taking activities.

The risk/reward framework is cascaded down to the operating franchises to ensure that the group's portfolio can deliver on stakeholder commitments. It also enables the group to identify any gaps in the portfolio.

The group's financial performance for the six months ended 31 December 2014 is covered in the *Analysis of financial results for the six months ended 31 December 2014,* which is available on the group's website, www.firstrand.co.za.

BASEL PILLAR 3 DISCLOSURE

Regulation 43 of the revised Regulations of the Banks Act, 1990 (Act No. 94 of 1990), requires that a bank 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 its financial condition, including its capital adequacy, financial performance, business activities, risk profile and risk management practices. This disclosure requirement is commonly known as Pillar 3 of the Basel Accord. This document represents FirstRand's Basel Pillar 3 disclosure and complies with the risk disclosure requirements of regulation 43 of the *Regulations relating to Banks*, (Regulations). The Basel III additional capital disclosure templates (as required per South African Reserve Bank (SARB) directive 8 of 2013) can be found on the group's website, www.firstrand.co.za/investorcentre/pages/capitaldisclosures.aspx.

New developments

The Basel Committee on Banking Supervision (BCBS) recently issued revised Pillar 3 disclosure requirements, which address shortcomings in Pillar 3 of the Basel framework. The revised disclosure requirements will enable market participants to better compare banks' risk-weighted assets disclosures. These form part of the BCBS's broader agenda to reform regulatory standards for banks in response to the global financial crisis. The revisions focus on improving the transparency of the internal model-based approaches used by banks to calculate minimum regulatory capital requirements.

The revised requirements will take effect from the end of 2016 and supersede the existing Pillar 3 disclosure requirements first issued as part of the Basel II framework in 2004 and the Basel 2.5 revisions and enhancements introduced in 2009. The most significant revisions are templates for quantitative disclosure and definitions, some with a fixed format. This aims to enhance comparability of bank's disclosures. FirstRand is in the process of ensuring compliance with these new disclosure requirements.

SIMPLIFIED GROUP STRUCTURE

FIRSTRAND

LISTED HOLDING COMPANY (FIRSTRAND LIMITED, JSE: FSR)

100% – FIRSTRAND BANK LIMITED (FRB or the bank)

Banking

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

100% – FIRSTRAND EMA (PTY) LTD (FREMA)

Africa and emerging markets

58%	FNB Namibia
69%	FNB Botswana
100%	FNB Swaziland
90%	FNB Mozambique
100%	FNB Zambia
100%	FNB Lesotho
100%	FNB Tanzania
100%	FNB Ghana
100%	RMB Nigeria
100%	FirstRand International – Mauritius

100% – FIRSTRAND INVESTMENT HOLDINGS (PTY) LTD (FRIHL)

Other activities**

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

100% – ASHBURTON INVESTMENTS HOLDINGS LIMITED

Investment management

100%	Ashburton Fund Managers
100%	Ashburton Investor Services
100%	Ashburton Management Company
100%	Ashburton Private Equity GP 1
100%	Ashburton Investments International Holdings
100%	RMB CIS Management Company

100% – FIRSTRAND INSURANCE HOLDINGS (PTY) LTD

Insurance

100%	FirstRand Life Assurance

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 and FREMA are reported as part of results of the managing franchise.
The Group's securitisations and conduits are in FRIHL.

Some differences exist between the practices, approaches, processes and policies of the bank and its fellow wholly-owned subsidiaries and these are highlighted by 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.

TOP AND EMERGING RISKS

Identifying and monitoring top and emerging risks is an integral part of the group's approach to risk management. These risks are continuously identified, potential impacts determined, reported at and debated by appropriate risk committees and management. Current top and emerging risks include:

Macroeconomic

- While there are signs of an improvement in South Africa's external imbalances, the country continues to run a large current account deficit. This imbalance reflects the economy's dependence on foreign capital inflows to fund growth and renders the economy vulnerable to any global or domestic economic developments that could affect foreign capital inflows.
- The normalisation of monetary policy in the US could also result in a slowdown in capital flows to South Africa, which will result in more currency weakness and lower economic growth.
- Although most oil-importing countries will benefit from the fall in the oil price, the much needed boost to household income and consumption is unlikely to fully offset the broader deflationary pressures evident in the eurozone and Japan.
- Over the medium term, South Africa will benefit from the drop in the oil price with inflation expected to decline and the current account deficit to narrow, although the benefit is not expected to be permanent. Falling inflation will boost disposable income and consumption but the economy continues to be negatively impacted by electricity shortages and labour market constraints.
- Despite a possible fall in inflation, consumers' disposable income continues to be under pressure due to rising unemployment, tight credit conditions and additional tariffs (including e-tolls and electricity increases). Private investment spending will also slow as confidence wanes and profitability falls.
- Constraints on national electricity supply leading to planned power outages by Eskom and the possibility of possible prolonged outages increases business resilience risk, despite contingency plans in place. There are potential direct and indirect impacts on business, given operations are reliant on many elements of the national infrastructure, including water supply and telecommunication.

Regulatory

- The regulatory landscape requires the group to deal with a raft of new and changing regulatory requirements and expectations. These include ongoing changes and additional legal and regulatory requirements pertaining to the regulation of and compliance relating to anti-money laundering, treating customers fairly, the protection of personal information and prudential requirements aligned to Basel III. This is further exacerbated by new and complex 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 comply with in order to maintain correspondent banking relationships and secure funding.

Other

- Cybercrime and potential money laundering threats continue to increase globally.

RECENT AND FUTURE REGULATORY CHANGES

An important recent development in respect of the South African regulatory framework for financial services was a publication by National Treasury during December 2014 of the revised draft of the Financial Sector Regulation Bill and a discussion document *"Treating Customers Fairly in the Financial Sector: A Market Conduct Policy Framework for South Africa"*. Previous publications in this regard included a document issued for public comment in February 2013 by the Financial Regulatory Reform Steering Committee, which provided information on a wide-ranging set of reforms and proposals relating to, amongst others, the implementation of a twin peaks system 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. A twin peaks approach will primarily be aimed at the enhancement of systemic stability, improving market conduct regulation, sound micro- and macroprudential regulation, and the strengthening of the operational independence, governance and accountability of regulators. Accordingly, and in line with public statements made by National Treasury, the twin peaks approach will place equal focus on prudential and market conduct supervision, and a separate focus on financial stability.

Government confirmed that, in order to minimise the risks associated with the change, a phased-in approach will be followed in respect of the implementation of the twin peaks system of financial regulation in South Africa. The first phase relates, in the main, to the Financial Sector Regulation Bill and the establishment of the required regulatory architecture. It is anticipated that phase two will be focused on the establishment of the target framework, which will include the development of the legal frameworks for prudential and market conduct regulation, and the introduction of new legislation and licencing procedures, where necessary.

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

Outcomes	Risk management focus areas
Capital management	
The BCBS issued a number of consultative documents that may impact the capital levels: - a revised set of standardised approaches for credit and operational risk; and - a capital floor based on the revised standardised approach for internal ratings-based accredited banks. These consultative documents are still under discussion and the impact of the standardised capital floor cannot yet be determined as the BCBS has not yet clarified the proposed calibration and implementation timeline.	- Maintain strong capital levels, with particular focus on the quality of capital and optimise the group's risk-weighted assets (RWA) and capital mix during the transitional period of Basel III implementation. - Continue to focus on optimal capital mix following guidance from the SARB on loss absorbency requirements for capital instruments, as well as the capacity for new capital markets issuance. - Continued participation in the SARB quantitative impact studies to assess the impact of Basel III developments on capital adequacy and leverage.
Credit risk	
- The group's total gross advances increased 14% year-on-year with growth in corporate and commercial advances particularly robust at 17%. Retail advances growth of 9% was achieved within the group's risk appetite framework. - Total value of NPLs increased 8%. Strong book growth resulted in an increase in NPLs in other retail, the FNB Africa portfolio and WesBank personal loans, and certain defaulted accounts in the corporate and commercial portfolios. NPLs as a percentage of total advances decreased from 2.44% to 2.33% during the period under review. - The group's credit loss ratio of 0.86% remains below the long-run expected average range of 100 to 110 bps. - Portfolio impairments were driven by increased levels of arrears in VAF, WesBank personal loans and strong book growth. Overlays were created given the uncertainty on the outlook for oil prices in the current cycle.	*Retail credit portfolio* - Continued focus on limiting credit extension in FNB's unsecured portfolios to existing retail transactional customers. Risk appetite in personal loans has remained steady after significant cutbacks in 2011/12. - Ongoing refinement of credit scorecards and affordability risk management practices aligned to risk appetite and deteriorating macroeconomic context. - Focus on extending credit to lower-risk customers and investment in collection capabilities. *Commercial credit portfolio* - Focus on banked customers with non-banked lending limited to where pricing is appropriate for increased risk. - Further develop commercial lending skills and product offerings, especially across the rest of Africa and India. - Strengthen risk management and legal recoveries capacity to cater for expected increase in NPLs as the credit cycle emerges. *Corporate credit portfolio* - Available capacity for portfolio growth to be allocated to strategic growth areas and clients. - Continue to strengthen risk management in recognition of the challenging operating environment. *Regulatory* - Focus to ensure compliance with the requirements of the SARB's Directive 9 on *restructured credit exposures*. - Implementation of governance arrangements aligned to revised requirements of the National Credit Amendment Act, related to revise affordability assessment criteria.

Outcomes	Risk management focus areas
Counterparty credit risk	
• Successful implementation of global derivative regulatory reform requirements and a new, upgraded legal agreements database. • Improvement in analytics and reporting of derivative exposures, fair value adjustments and funding.	• Extend counterparty credit risk process to operations in the rest of Africa. • Improve platform and process for security collateral. • Further improve exposure modelling.
Market risk in the trading book	
• Overall diversified levels of market risk have remained fairly low over the last few years, with this trend continuing during the current reporting period. • There are no significant concentrations in the portfolio. • Across the group, the only activities where an increase in market risk has been noted are the African subsidiaries, but these remain low in the context of the overall group.	• Given the impending regulatory changes, and in particular with respect to the BCBS's consultative document on the *fundamental review of the trading book*, RMB is reviewing the current target operating model for market risk, taking into account system capabilities across both front office and risk areas.
Equity investment risk	
• Limited equity investments were added to the portfolio during the period, there was however a notable realisation in the private equity portfolio. • The Private Equity unrealised reserves increased on the back of earnings growth and degearing in the underlying portfolio companies. • Ashburton Investments developed and launched two new funds and one local feeder fund during the period under review.	• Volatility in the commodity markets resulted in losses experienced in the RMB resources portfolio with impairments taken against non-performing loans. RMB resources will continue to focus on these non-performing loans with no new loans being originated. • Ashburton Investments will continue to develop and launch new products and focus on improving its distribution capability.
Interest rate risk in the banking book	
• The Monetary Policy Committee increased rates by 25 bps in July 2014. This has had a positive impact on the group's earnings as a result of the endowment impact.	• The extent and timing of rate normalisation in South Africa is impacted by various global macroeconomic factors. The group continues to actively manage Interest rate risk in the banking book (IRRBB). • The BCBS, through the task force for interest rate risk in the banking book, continues to investigate the possibility of a Pillar 1 charge. Ongoing developments in this regard are monitored.
Foreign exchange and translation risk in the banking book	
• Continued to strengthen principles regarding the management of foreign exchange positions and funding of the group's foreign entities. • Monitored net open forward positions in foreign exchange (NOFP) limits in each of the group's foreign entities.	• 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	
• During the period under review, the deposit franchise grew 17% which resulted in a reduction in the group's reliance on institutional funding. The liquidity term profile of institutional funding was extended to 28 months. • The launch of innovative customer deposit products to source client funds directly on the group's balance sheet rather than relying on financial institutions. • Enhanced risk measurement of client utilisation on off-balance sheet facilities.	• Continue to focus on the Basel III liquidity regime with emphasis on both funding and market liquidity risk management. • Further optimise and diversify the funding profile on a risk-adjusted basis in line with Basel III requirements relating to the liquidity coverage ratio (LCR). Continue to focus on growing the deposit franchise through innovative products and improve the risk profile of institutional funding. • Continue to optimise the market liquidity risk profile of the group by developing execution platforms for additional funding sources. FRB's application for a committed liquidity facility has been approved and the bank is in the process of agreeing the format of eligible collateral with the SARB.
Operational risk	
• Validated the integrity of operational risk management information and application of operational risk tools. • Improved understanding of risks and controls in main business processes. • Increased use of external data in the scenario analysis process to make it more objective. • Streamlined operational risk governance reporting. • Updated the group's outsourcing policy in line with the requirements of the SARB's guidance note on *outsourcing functions within the banks*.	• Embed operational risk appetite in business decision making at segment and business unit levels. • Continue enhancement of the process-based risk and control identification and assessment process through comprehensive coverage of, *inter alia*, critical handover points, information governance, regulatory-, legal- and IT risks. • Refine the scenario analysis process by appropriate linkages to key risk drivers and risk mitigation plans. • Refine key risk indicators (KRIs) to be more predictive of risk and align with operational risk appetite settings. • Embed the tracking of group-wide mandatory KRIs (including IT risk). • Enhance risk assessment processes to ensure coverage of, amongst others, key operational risks and controls associated with critical inter-franchise handovers/dependencies. • Update advanced measurement approach capital modelling methodology and software. • Develop action plans to address gaps identified in Basel principles for risk data aggregation and reporting.

Outcomes	Risk management focus areas
Regulatory risk	
• The most recent development with regard to the anticipated implementation of a twin peaks system of financial regulation in South Africa relates to the publication by National Treasury, during December 2014, of the revised draft of the Financial Sector Regulation Bill and a discussion document – *"Treating Customers Fairly in the Financial Sector: A Market Conduct Policy Framework for South Africa"*. • In compliance with anti-money laundering and combating the financing of terrorism (AML/CFT) legislation, FirstRand continued to make significant investments in systems, processes and resources to ensure the correct capturing of customer information and the appropriate identification of suspicious transactions. • Substantial progress was made with remediation actions required in respect of the matters identified by the SARB during its previous AML/CFT inspection.	• Continued support for regulatory objectives and endorsement of improvements in risk management and governance practices, and cooperation with regulatory authorities and other stakeholders. • Continue to make significant investment in people, systems and processes to manage the risks emanating from the large number of new local and international regulatory requirements.

SARB APPROACHES TO CALCULATION OF RWA

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 - general risk - specific risk	 Internal model approach Standardised 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 remain on the BIA approach.*

BASIS OF CONSOLIDATION

Consolidation of all entities for accounting purposes is in accordance with IFRS and for regulatory purposes in accordance with the requirements of the 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>- Refer to threshold rules*</td><td>Refer to threshold rules*</td><td>Internal rating-based approach risk weight up to maximum of 1 250%</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>Refer to threshold rules*</td><td rowspan="2">Individual investment greater than 15% of CET1, AT1, Tier 2:
- risk weight at 1 250%
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><td>Refer to threshold rules*</td></tr>
</table>

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

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, namely 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 and social 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 often 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 litigations, underperformance or negative media coverage.
		Environmental and social risks focus on the environmental and social 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.
	Securitisations	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.
	Interest rate risk in the banking book	The sensitivity of a bank's financial position and earnings to unexpected, adverse movements in interest 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.
	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 net open foreign currency positions and foreign investments. Translation risk is the risk associated with banks that operate in foreign currencies or hold foreign assets. The greater the proportion of asset, liability and equity classes denominated in a foreign currency, 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

The group's risk appetite frames all organisational decision making and is fully integrated with FirstRand's strategic objectives. The risk/reward framework, which includes the risk appetite statement below, aims to ensure that the group maintains an appropriate balance between risk and reward. 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. At a business unit level, therefore, strategy and execution are managed through the availability and price of financial resources, earnings volatility limits and required hurdle rates.

Risk appetite statement

FirstRand's **risk appetite** is the aggregate level and type of risks the group is willing and able to accept within its overall **risk capacity**, and is captured by a number of qualitative principles and quantitative measures.

The aim is to ensure that the group maintains an appropriate balance between risk and reward. Risk appetite limits and targets are set to ensure the group achieves its overall strategic objectives, namely to:

- deliver long-term franchise value;
- deliver superior and sustainable economic returns to shareholders within acceptable levels of volatility; and
- maintain balance sheet strength.

The group's strategic objectives and financial targets frame its risk appetite in the context of risk, reward and growth, and contextualise the level of reward the group expects to deliver to its stakeholders under normal and stressed conditions for the direct and consequential risk it assumes in the normal course of business.

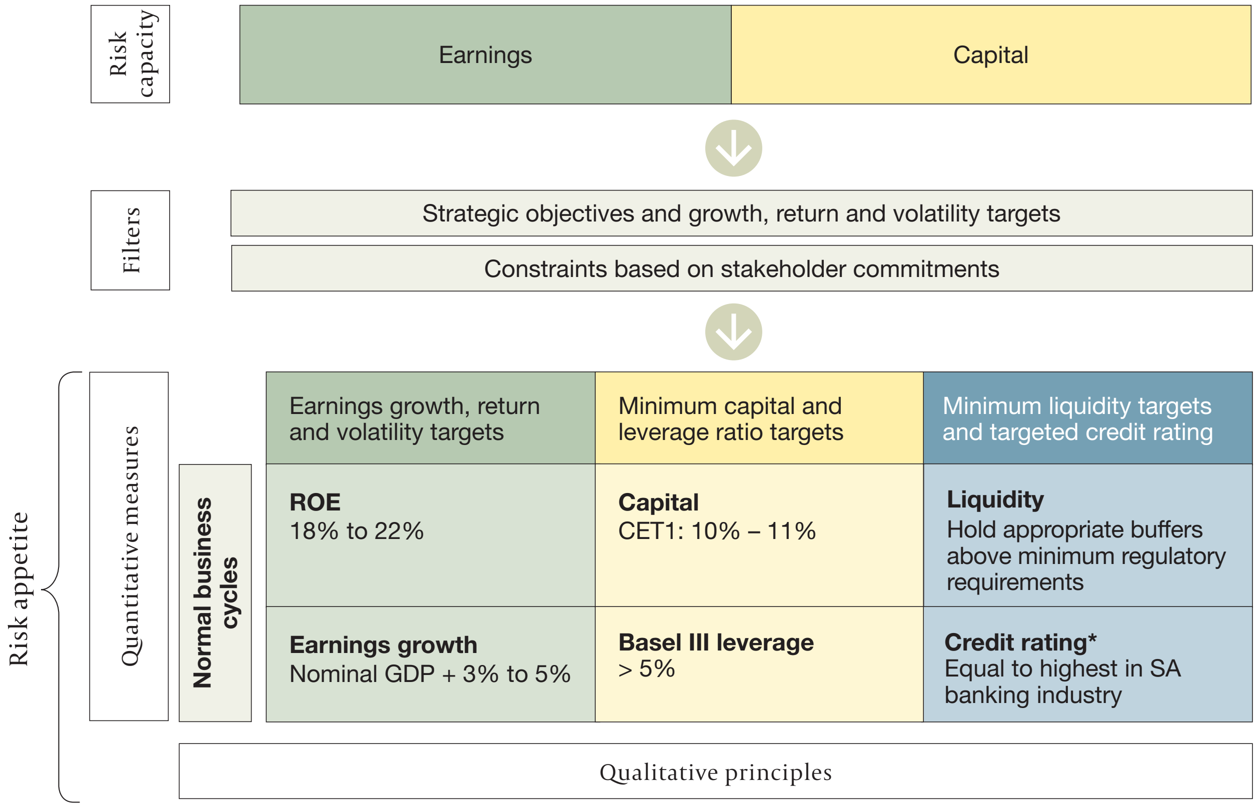
Risk capacity represents the absolute maximum level of risk the group can technically assume given its current available financial resources, i.e. earnings, capital, debt and deposits. The group views earnings as the primary defence against adverse outcomes. Risk capacity provides a reference for risk appetite and is not intended to be reached under any circumstances.

Risk appetite articulates what proportion of the group's financial resources should be utilised in the execution of its strategy and is determined through consideration of a number of filters, including:

- overall strategic objectives;
- growth, volatility and return targets, and;
- meeting the group's commitments to all stakeholders including regulators, depositors, debt holders and shareholders.

Risk appetite is captured through both quantitative measures and qualitative principles, which include set objectives for the level of earnings volatility and minimum levels of capital and liquidity to be maintained during defined time horizons in normal and stressed environments.

Process for determining risk appetite



* *Refers to a rating agency's measure of a bank's intrinsic creditworthiness before considering external factors, and refers to FirstRand Bank Limited.*

As mentioned previously, risk appetite is captured through both quantitative measures and qualitative principles. The qualitative principles include:

- always act with a fiduciary mindset;
- comply with prudential regulatory requirements;
- comply with the spirit and intention of accounting and regulatory requirements;
- build and maintain a strong balance sheet which reflects conservatism and prudence across all disciplines;
- do not take risk without a deep understanding thereof;
- comply with internal targets in various defined states to the required confidence interval;
- do not implement business models with excessive gearing through either on- or off-balance sheet leverage;
- limit concentrations in risky asset classes or sectors;
- ensure the group's sources of income remain appropriately diversified across business lines, products, markets and regions;
- manage the business on a through-the-cycle basis to ensure sustainability;
- identify, measure, understand and manage the impact of downturn and stress conditions;
- strive for operational excellence and responsible business conduct; and
- avoid reputational damage.

Application of the risk/reward framework

Risk appetite, targets and limits are used to monitor group's risk/reward profile on an ongoing basis. The risk/reward profile should be measured point-in-time and forward looking. Risk appetite should influence the business plans and inform risk taking activities and strategies in every business.

The group cascades overall appetite into targets and limits at risk type, franchise and subsequent activity level, and these represent the constraints the group imposes to ensure its commitments are attainable.

Management of risk is the responsibility of everybody across all levels of the organisation, supported through the three lines of control in the business performance and risk management framework.

The risk/reward framework provides for a structured approach to define risk appetite, targets and limits that apply to each key resource as well as the level of risk that can be assumed in this context. The framework drives the allocation of financial resources, including risk-taking capacity. Although different commitments are made to various stakeholders, these are monitored collectively. Quantitative targets and limits are augmented by a number of qualitative principles that serve to provide guidelines on boundaries for risk taking activities.

Stress testing and scenario planning are used to assess whether the desired profile can be delivered and whether the business stays within the constraints it has set for 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.

RISK GOVERNANCE

The group believes that effective risk management is supported by effective governance structures, robust policy frameworks and a risk-focused culture. Strong governance structures and policy frameworks foster the embedding of risk considerations in 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, setting risk appetite and ensuring that risks are adequately identified, measured, monitored, managed and reported on.

RISK GOVERNANCE FRAMEWORK

The group's business performance and risk management framework (BPRMF) describes the group's approach to risk management. Effective risk management requires multiple points of control or safeguards that should be consistently applied at various levels throughout the organisation. There are three lines of control across the group's operations, which are recognised in the BPRMF:

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

In the first line (risk ownership), risk taking is inherent in the individual businesses' activities. Business heads have the primary responsibility for risks in their business, in particular, identifying and managing risk appropriately. Business owners, the board and Exco are supported in these responsibilities by Group Treasury in FCC.

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 franchises. Franchise heads of risk have a direct reporting line to the group chief risk officer and the relevant franchise CEO. 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 in FCC, namely Enterprise Risk Management (ERM) and Regulatory Risk Management (RRM). ERM and RRM are represented on FirstRand's Exco by the group's chief risk officer and the head of regulatory risk management, respectively. These central risk control functions provide independent oversight and monitoring across the group on behalf of the board and relevant committees.

In the third line, Group Internal Audit (GIA) in FCC and external advisors provide independent and objective assurance on the adequacy and effectiveness of governance, risk management practices and controls across the group to the board, audit committee and regulators. 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, executives, franchises and all business unit functions, records, property and personnel.

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

The table below lists the responsibilities of the different business areas in the operating franchises and FCC in the lines of risk control.

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 parameters;
- design business processes to appropriately manage risk;
- ensure that board-approved risk policies, frameworks, standards, processes, methodologies and risk tools are implemented;
- specify and implement early warning measures, associated reporting, management and escalation processes through governance structures;
- implement risk mitigation and response strategies;
- implement timeous corrective actions and loss control measures as required; and
- ensure staff understand and implement responsibilities for risk management.

GROUP TREASURY

- provides an integrated approach to financial resource management;
- optimises the group's portfolio to deliver sustainable returns within an acceptable level of risk;
- performs scenario analysis and stress testing;
- manages the group's liquidity, funding, interest rate and market risk in the banking book and foreign exchange mismatch;
- performs capital management and planning; and
- advises senior management on potential capital actions, dividend strategy and other capital management developments.

SECOND LINE

DEPLOYED RISK MANAGEMENT

- supports management in identifying and quantifying key risks;
- ensures that board-approved risk policies, frameworks, standards, methodologies and tools are adhered to;
- approves design of business risk processes to ensure appropriate risk management;
- identifies process flaws and risk management issues and initiates and monitors corrective action;
- ensures timeous risk management and loss containment activities; 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 the BPRMF and its ancillary risk frameworks, policies, standards and risk governance structures;
- develops and communicates risk management strategy and challenges risk profiles;
- monitors adequate and effective implementation of risk management processes;
- reports risk exposures and performance to management and governance structures;
- supports management with risk aspects of business decisions;
- ensures appropriate risk management skills and culture;
- performs risk measurement validation; and
- manages regulatory relationships from a risk perspective.

REGULATORY RISK MANAGEMENT

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

THIRD LINE

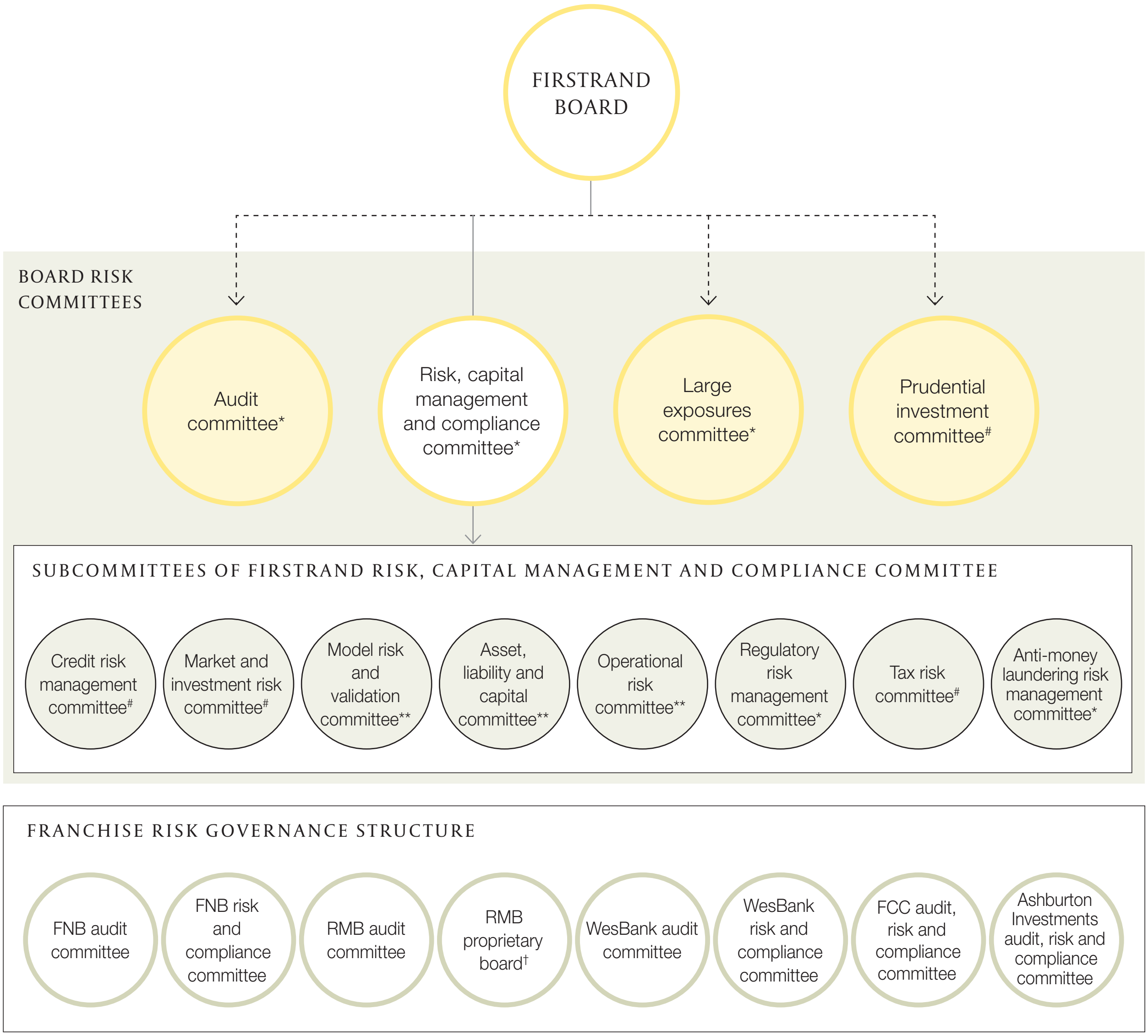
GROUP INTERNAL AUDIT

- monitors risk management infrastructure and practices;
- reviews the reliability and integrity of financial and operational information;
- reviews the significant systems established by management to ensure compliance with laws and regulations;
- reviews safeguarding and existence of assets;
- assesses whether resources are acquired economically and used efficiently and effectively;
- reviews operations or programmes for consistency with established goals and objectives;
- evaluates and assesses significant changes in functions, systems, services, processes, operations and controls; and
- provides an assessment of the adequacy and effectiveness of the system of internal controls (including financial controls) and risk management to the audit committee.

RISK GOVERNANCE STRUCTURE

The risk management structure is set out in the group's 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. The following diagram illustrates how the risk committees fit into the board committee structure. Other board committees also exist, with clearly defined responsibilities. One of these is the strategic executive committee, which ensures alignment of franchise strategies, sets risk appetite and is responsible for optimal deployment of the group's financial and non-financial resources.

Risk governance structure



* *Chairman is an independent non-executive director.*
** *Chairman is a specialist consultant.*
\# *Chairman is a member of senior executive management. The credit risk management committee has non-executive board representation.*
† *The RMB proprietary board is the risk and regulatory committee for RMB.*

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.

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 group board committees comprise members of franchise advisory boards, audit and risk committees to ensure a common understanding of the challenges businesses face and how these are addressed across the group. As illustrated in the previous diagram the franchise audit, risk and compliance committees support the board risk committees and RCC subcommittees in the third line of control across the group.

The responsibilities of the board risk committees and RCC subcommittees 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
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 annual integrated report, which is provided to shareholders and other stakeholders.
Risk, capital management and compliance committee	‣ approves risk management policies, frameworks, strategies and processes; ‣ monitors containment of risk exposures within the risk appetite framework; ‣ reports assessment of the adequacy and effectiveness of risk appetite, risk management, internal capital adequacy and assessment process (ICAAP) and compliance processes to the board; ‣ monitors the implementation of risk management strategy, risk appetite limits and effectiveness of risk management; ‣ 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; ‣ approves regulatory capital models, risk and capital targets, limits and thresholds; and ‣ monitors capital adequacy and ensures that a sound capital management process exists.
Large exposures committee (LEC)	‣ approves credit applications or renewals in excess of 10% of the group's qualifying capital and reserves; and ‣ delegates the mandate for approval of group and individual facilities to the FirstRand wholesale credit approval committee, commercial credit approval committee and the FirstRand retail credit policy, risk appetite and mandate approval committee (subcommittees of LEC), as appropriate.
Prudential investment committee (PIC)	‣ provides oversight to ensure that 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 as well as forward-looking credit risk indicators developed by the retail, commercial and corporate portfolios risk owners; 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, business origination, and underlying assets in securitisations; 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; monitors corrective actions in terms of non-adherence to the credit risk management framework based on reports by GIA and reports to the RCC committee; 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 by 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 regulatory capital calculations.
Asset, liability and capital committee (ALCCO)	approves and monitors effectiveness of management policies, assumptions, limits and processes for liquidity and funding risk, capital and market risk in the banking book (interest rate risk and foreign exchange and translation risk); monitors the group's funding management; 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 for the group.
Operational risk committee (ORC)	provides governance, oversight and coordination of relevant operational risk management practices and initiates corrective action, where required; monitors the group and franchise operational risk profiles against operational risk appetite; mandates the FirstRand operational risk management committee to approve operational risk-related methodologies, processes, guidelines and relevant documentation; reviews and recommends the group's operational risk appetite for approval by RCC committee; approves the operational risk management framework and all its subpolicies/frameworks used in the management of the different operational risk classes including fraud risk, legal risk, business resilience, information governance, information technology and physical security;

Committee	Responsibility
Operational risk committee continued	monitors the formal reports of the ORC subcommittees on the effectiveness of specific operational risk classes; ensures the maintenance of an independent and appropriately skilled operational risk management function; monitors the adequate and effective implementation of the operational risk management framework across the group and key corrective actions; 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 initiates corrective action where required.
Tax risk committee	sets 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.
Anti-money laundering risk management committee	approves the risk management framework, policies and procedures; monitors AML risk assessments, risk profile and compliance with relevant laws and regulations, and the adequacy of remedial actions; and reports and makes recommendations to the RCC committee on AML/CTF matters.

Combined assurance

The audit committee oversees formal enterprise-wide governance structures for enhancing the practice of combined assurance at group and franchise levels. The primary objective 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 financial resource 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 interrogation of current practices

As part of the reporting, interrogation 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.

RISK CULTURE

ERM and the group's ethics office collaborate closely to assess 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 implemented and 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 relevant business areas. The detailed sections covering each major risk type provide in-depth descriptions of the approaches, methodologies, models and processes used in the identification and management of each major risk. Each section also describes:

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

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 and pervasive 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.

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 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 the 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 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 processes.

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, and ICAAP. Volume and margin risk relates to the group's ability to generate sufficient levels of revenue to offset its operating expenses.

Reputational risk

As a financial services provider, the group's business is one 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 these 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 results and adversely affect its reputation.

Environmental and social risks

FirstRand has formal governance processes for managing environmental and social 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 environmental and social risks performance on a quarterly basis.

Each franchise defines tolerances for its principal environmental and social 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 environmental and social risks 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 overall capital management objective is to maintain sound capital ratios and a strong credit rating to ensure confidence in the group's solvency and quality of capital during calm and turbulent periods in the economy and financial markets. The group therefore maintains capitalisation ratios which are aligned to its risk appetite and are appropriate to safeguard operations and stakeholders' interests.

The optimal level and composition of capital is determined after taking into account:

- business units' organic growth plans;
- rating agencies' considerations;
- investor expectations (including debt holders);
- targeted capital ratios;
- future business plans;
- stress testing scenarios;
- economic capital requirements;
- appropriate buffers in excess of minimum requirements;
- issuance of additional capital instruments;
- regulatory changes; and
- the board's risk appetite.

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 overall business strategy.

Effectiveness of capital allocation decisions and efficiency of the 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.

The group continues to seek to protect shareholders from any unnecessary volatility in dividends. It considers the level of payout within a range of 1.8 times to 2.2 times dividend cover. The group annually assesses the appropriate level and takes into account the following factors:

- actual performance;
- forward-looking macroeconomic scenarios;
- demand for capital; and
- potential changes in regulation.

CAPITAL ADEQUACY AND PLANNING

Period under review

The capital planning process ensures that the total capital adequacy and CET1 ratios remain within or above targets across economic and business cycles. The group remains appropriately capitalised under a range of normal and severe scenarios (including stress events), which includes ongoing regulatory developments and expansion initiatives in the rest of Africa.

FirstRand operated above its targets throughout the period under review. The board-approved targets and actual capital ratios at 31 December 2014 are summarised in the table below.

Capital adequacy position

%	CET 1	Tier 1	Total
Regulatory minimum*	5.5	7.0	10.0
Targets	10.0 – 11.0	>12.0	>14.0
Actual			
– excluding unappropriated profits	**12.9**	**13.8**	**15.7**
– including unappropriated profits	**13.8**	**14.7**	**16.5**

* *Excludes the bank-specific individual capital requirement.*

Following the implementation of the final leverage framework, greater emphasis has been placed on monitoring leverage for the group. FirstRand's current leverage ratio comfortably exceeds the regulatory minimum and internal target levels, as reflected in the table below.

Leverage position

%	Actual
Regulatory minimum*	4.0
Target	>5.0
Actual	**7.9**

* *Reflects the SARB minimum requirement; Basel minimum is 3%.*

Basel III

The following diagram illustrates the main elements of the capital and leverage framework.

Qualifying capital and leverage components

TOTAL QUALIFYING CAPITAL AND RESERVES =

TIER 1 CAPITAL

CET1 CAPITAL

- share capital and premium
- retained earnings (appropriated)
- other reserves
- non-controlling interests

Deductions

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

AT1 CAPITAL

- NCNR preference shares
- instruments issued out of consolidated subsidiaries to third parties

Deductions

- investments in financial, banking and insurance institutions (AT1 instruments)

\+

TIER 2 CAPITAL

- subordinated debt instruments
- general provisions under standardised approach
- surplus of provisions over expected losses
- instruments issued out of consolidated subsidiaries to third parties

Deductions

- investment in financial, banking and insurance institutions (Tier 2 instruments)

LEVERAGE =

CAPITAL MEASURE

TIER 1 CAPITAL

÷

TOTAL EXPOSURE

- accounting value for on-balance sheet, non-derivative exposures (net of provisions) – no netting of loans and deposits allowed
- derivative exposures using the replacement cost and potential future exposure
- securities financing transaction exposures including a measure of counterparty credit risk
- adjusted off-balance sheet exposures

Regulatory update

The BCBS issued a number of consultative documents during the period under review. These papers are at different stages of testing, finalisation and implementation and will be incorporated in the BCBS quantitative impact studies. The following proposals may impact the group's capital levels:

- a revised set of standardised approaches for credit and operational risk; and
- a capital floor based on the revised standardised approach for internal ratings-based accredited banks.

The capital floor aims to address the variability in capital for banks using the internal ratings-based approaches and to enhance comparability across jurisdictions. These consultative documents are still under discussion and the impact of the standardised floor cannot be determined as the BCBS has not yet clarified the proposed calibration and implementation timeline.

In addition, the Financial Stability Board issued for consultation a set of principles on the adequacy of loss-absorbing and recapitalisation capacity of global systemically important banks (G-SIBs) at the end of 2014. These were developed in consultation with the BCBS and will, once finalised, form a new minimum standard for the total loss-absorbing capacity and composition of a bank's capital structure. It remains uncertain whether this standard will be implemented for South African banks.

The group continues to participate in the quantitative impact studies to assess the effect these standards.

Internal capital adequacy assessment process

ICAAP is key to the group's risk and capital management processes as it is an integral tool in meeting the capital management objectives of the group. ICAAP allows and facilitates:

- the link between business strategy, risk introduced and capital required to support the strategy;
- 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;
- the determination of the capital management strategy and how the group will manage its capital during business-as-usual and periods of stress; and
- the capital plan.

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 risks inherent in the various businesses with reference to normal economic circumstances and times of potential stress, which may lead to the emergence 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 loss-absorbing capital and remains well capitalised in the current environment.

Composition of capital

Supply of capital

The following table summarises the qualifying capital for the group.

Composition of qualifying capital

	FirstRand		
R million	**December 2014**	**December 2013**	**June 2014**
Excluding unappropriated profits			
CET1 capital	**77 492**	73 461	79 344
Tier 1 capital	**82 908**	79 083	84 647
Total qualifying capital and reserves	**93 912**	86 674	95 368
Including unappropriated profits			
CET1 capital	**82 500**	73 461	79 344
Tier 1 capital	**87 916**	79 083	84 647
Total qualifying capital and reserves	**98 920**	86 674	95 368

CET 1 capital benefited from strong internal capital generation through earnings.

Given SARB guidance on the loss absorbency requirements for capital instruments, the group continues to focus on the most optimal capital mix and pricing, as well as monitoring actual Tier 2 levels against targeted requirements. During the period under review, the Basel II compliant FRB03 subordinated debt instrument (R1.7 billion) was redeemed.

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 2014				December 2013	June 2014
	RWA					
R million	Advanced approach	Other approaches*	Total	Capital requirement**	RWA	RWA
Credit risk	**328 633**	**86 359**	**414 992**	**41 500**	376 104	398 160
– Corporate, banks and sovereigns	**143 157**	**29 235**	**172 392**	**17 239**	145 299	162 690
– Small and medium enterprises (SMEs)	**43 841**	**20 955**	**64 796**	**6 480**	59 610	61 846
– Residential mortgages	**49 068**	**6 107**	**55 175**	**5 518**	50 957	53 737
– Qualifying revolving retail	**24 392**	**311**	**24 703**	**2 470**	20 497	20 250
– Other retail	**68 175**	**15 120**	**83 295**	**8 330**	75 185	81 920
– Securitisation exposures#	**–**	**13 170**	**13 170**	**1 317**	19 940	16 386
– Other#	**–**	**1 461**	**1 461**	**146**	4 616	1 331
Counterparty credit risk†	**–**	**2 134**	**2 134**	**213**	952	1 317
Total credit risk	**328 633**	**88 493**	**417 126**	**41 713**	377 056	399 477
Operational risk	**78 071**	**23 049**	**101 120**	**10 112**	85 055	93 613
Market risk	**10 499**	**4 117**	**14 616**	**1 462**	11 246	13 118
Equity investment risk	**32 974**	**–**	**32 974**	**3 297**	31 174	34 128
Other assets‡	**–**	**32 862**	**32 862**	**3 286**	30 879	32 110
Total RWA	**450 177**	**148 521**	**598 698**	**59 870**	535 410	572 446

* *Includes the standardised and the current exposure method for counterparty credit risk, and the basic indicator approach for operational risk.*
** *Calculated at 10.0% of RWA.*
# *Reallocation of securitisation exposures from other for comparative periods only.*
† *Excludes default risk.*
‡ *Includes the investment in financial, banking and insurance entities and deferred tax assets risk weighted at 250%.*

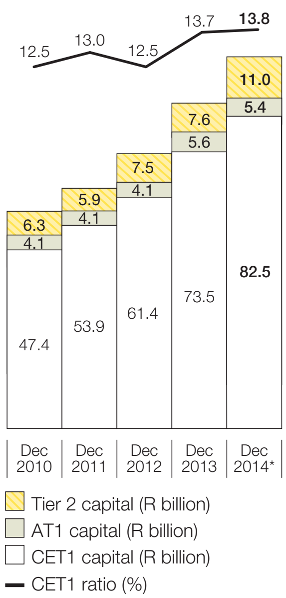
Overall movement in RWA can be attributed to the following:

- credit risk increased due to organic growth, model recalibrations and regulatory refinement;
- counterparty credit risk increased due to volume growth and refinement of internal methodologies;
- operational risk increased due to:
  - recalibration of risk scenarios;
  - increase in gross income for entities on the standardised approach; and
  - the SARB add-on for the difference between the capital calculated on the AMA and standardised approaches;
- market risk increased due to volume and mark-to-market movements; and
- equity investment risk decreased mainly due to the disposals of investments and foreign exchange movements.

Historical overview of capital adequacy

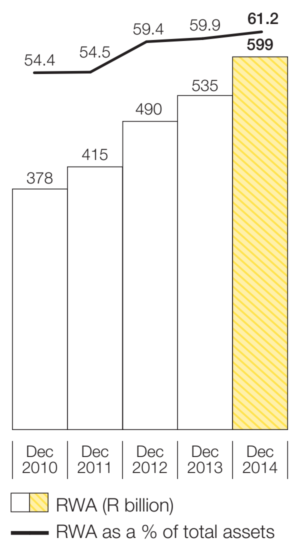
The graphs below show the historical overview of the group's capital adequacy and RWA.

Capital adequacy history



* *Includes unappropriated profits*

RWA history



Capital adequacy position for the group, its regulated subsidiaries and the bank's foreign branches

The registered banking subsidiaries of FirstRand must comply with 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 profits to the group.

The capital adequacy positions of the group, its regulated subsidiaries and the bank's foreign branches are set out below.

RWA and capital adequacy positions of the group, its regulated subsidiaries and the bank's foreign branches

	December 2014			December 2013	June 2014
	RWA R million	**Tier 1 %**	**Total capital adequacy %**	**Total capital adequacy %**	**Total capital adequacy %**
Basel III (SARB regulations)					
FirstRand*	**598 698**	**14.7**	**16.5**	16.2	16.7
FirstRand Bank South Africa*	**438 745**	**14.2**	**16.1**	15.7	16.1
FirstRand Bank London	**25 641**	**9.8**	**17.6**	13.2	19.0
FirstRand Bank India	**1 595**	**33.5**	**34.2**	32.7	31.8
Basel II (local regulations)					
FNB Namibia	**20 115**	**12.4**	**15.8**	15.7	17.1
FNB Mozambique	**3 125**	**14.8**	**15.1**	10.7	8.2
Basel I (local regulations)					
FNB Botswana	**15 107**	**15.1**	**20.3**	20.7	18.3
FNB Swaziland	**2 370**	**20.3**	**21.5**	25.3	22.3
FNB Lesotho	**691**	**13.1**	**16.0**	17.9	17.7
FNB Zambia	**4 181**	**21.6**	**25.9**	39.0	31.9
FNB Tanzania	**485**	**63.4**	**64.7**	39.0	>100
RMB Nigeria	**399**	**>100**	**>100**	>100	>100

* *Includes unappropriated profits.*

For more detail on the composition of capital and main features of capital instruments, refer to www.firstrand.co.za/investorcentre/pages/capitaldisclosures.aspx.

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

CREDIT RISK

INTRODUCTION AND OBJECTIVES

The goal of credit risk management is to maximise the group's measure of economic profit, i.e. 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 credit risk appetite, as measured on a ROE, NIACC and volatility-of-earnings basis, credit risk management principles include holding the appropriate level 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 purchase or improve a 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 linked mainly to transactional accounts of FNB-banked 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 (the 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

Corporate credit products include the following offered by RMB to large corporate multi-banked customers:

- 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 jurisdictions in the rest of Africa;
- structuring, raising and underwriting of equity capital and structured equity solutions;
- infrastructure and project finance;
- leveraged finance;

- real estate finance;
- guarantees and letter of credit to assist in the facilitation of transactions;
- working capital and general banking facilities; and
- resource finance.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

The group has a comprehensive credit governance committee structure with the responsibility to approve, monitor and oversee the group's credit risk management and exposures. 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 FirstRand credit risk management committee (a subcommittee of the RCC committee), the credit risk management framework is a board-approved policy and a subframework of the BPRMF, as discussed in the *risk governance* section.

The large exposure 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 on 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 processes. 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;
- interrogating 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's credit governance structures and credit measurement process;
- performing independent validations of regulatory capital credit rating systems;
- acting as key contact for the SARB on credit risk matters, including credit regulatory returns;
- ensuring completeness of credit risk identification;
- implementing 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).

Each portfolio head has specific credit responsibilities, including:

- accountability to the group's governance forums and liaison with regulators;
- ensuring high competency levels/skills in each credit function;
- alignment of credit origination strategy and appetite;
- implementation and assessment of credit governance frameworks and policy compliance;
- streamlining and consolidation of functions, systems and mandates; and
- calculating 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 Regulations and 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 the SARB AIRB approach requirements and the group's model building frameworks. The credit risk approaches across the group are shown in the following table.

SARB approach	FirstRand Bank SA	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; or
- event-driven: there is reason to believe that the exposure will not be recovered in full and has been classified as such.

This default definition 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 & Poor's. These mappings are reviewed and updated on a regular basis.*

FR 1 is the lowest PD and FR 100 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 credit risk exposure:

- 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.

A number of EAD models, which are tailored to the respective portfolios and products employed, 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. This more conservative measure of LGD 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

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 relating mainly to 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 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 portfolio.

Credit portfolio rating process

<table>
<tr><th>Portfolio and type of exposures</th><th>Description of rating system</th></tr>
<tr><td>Large corporate portfolios
(Corporate: RMB, WesBank Corporate and FCC)
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.</td><td>Default definitions applied in rating systems are aligned to the Regulations.
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 counterparty's business and financial risks 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 ratings or PDs are possible after approval by these committees; and
• LGD and EAD estimates are based on modelling a combination of internal and suitably adjusted international data with the same committee process responsible for reviewing and approving these measures.</td></tr>
<tr><td>Low default portfolios: sovereign and bank exposures
(Corporate: RMB and FCC)
Exposures to sovereign and bank counterparties.</td><td>Default definitions applied in rating systems are aligned to the Regulations.
Rating process:
• expert judgement 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 ratings or PDs are possible after approval by these committees.</td></tr>
<tr><td>Specialised lending portfolios
(Corporate: RMB, FNB commercial and wealth (RMB Private Bank and FNB Private Wealth))
Exposures to private-sector counterparties for the financing of income-producing real estate.</td><td>Default definitions applied in rating systems are aligned to the Regulations.
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 ratings or PDs are possible after approval by these committees.</td></tr>
</table>

Portfolio and type of exposures	Description of rating system
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.	Default definitions applied in rating systems are aligned to the Regulations. **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 Ratings) 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.
Residential mortgages (FNB HomeLoans, FNB housing finance and wealth (RMB Private Bank and FNB Private Wealth)) Exposures to individuals for the financing of residential properties.	Default definition applied in rating systems is aligned to the Regulations. **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 done 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:** - as these exposures are unsecured, 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 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).
Qualifying revolving retail exposures (FNB card, FNB value banking solutions and wealth) Exposures to individuals providing a revolving limit through a credit card or overdraft facility.	
Other retail exposures (FNB personal loans, WesBank VAF and WesBank personal loans)	

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 of downturn periods such as 2001 and 2007 to 2009 in calibration.

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 rating systems. The results of these reviews are reported to and approved by the model risk and validation committee and 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; and
- model build and development frameworks, which are reviewed and, where required, updated annually. These frameworks provide guidance, principles and minimum standards which model development teams are required to adhere to.

Credit risk mitigation

Since taking and managing 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, 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 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.

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 sources, credit bureaux, 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 business unit level, portfolio level and in aggregate for the group.

Use of credit risk measures

The following credit risk management actions and measures are used extensively in the group's credit risk processes:

- credit approval;
- pricing;
- limit setting/risk appetite;
- reporting;
- provisioning;
- capital calculations and allocation;
- profitability analysis;
- stress testing;
- risk management and credit monitoring; and
- performance measurement.

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

Use of credit risk management actions and 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 terms of appropriate limits and group risk appetite.	• same measures as for corporate; and • credit models determine loss thresholds used in setting of credit risk appetite.
Determination of individual and portfolio limits	• industry and geographical concentrations; • ratings; • risk-related limits on the composition of portfolio; and • group credit risk appetite.	• same measures as for corporate; and • modeled versus actual experience is evaluated in setting of risk appetite.
Profitability analysis and pricing decisions	• PD, EAD and LGD used to determine pricing; and • economic profit used for profitability.	• same measures as for corporate.
Credit approval	• consideration of application'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.	• same measures as for 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 • judgmental 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.	• primary credit risk measures, PD, EAD and LGD, are the most important inputs.
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.	• portfolio reports discussed at franchise and business unit risk committee meetings; and • quarterly portfolio reports submitted to credit risk management and RCC committees.

CREDIT RISK PORTFOLIO

Credit strategy is managed as part of the broader financial resource management process and is aligned with the group's view of trends in the wider economy.

The credit risk portfolio overview on this page are presented on a normalised basis. The normalised results have been derived from the IFRS financial results.

Retail credit portfolios

- Retail NPLs decreased 1%. NPLs as a percentage of advances decreased to 3.17% from 3.50% at December 2013.
- NPLs in the residential mortgages portfolio continue to decline as a result of curing and workouts. The rate of inflows into NPLs has also slowed. NPLs as a percentage of advances declined further to 2.88% (December 2013: 3.65%).
- As expected, VAF NPLs increased as consumers continue to be under pressure. It is also worth noting that all restructured debt review accounts are included in NPLs even though 40% of these accounts at December 2014 had never defaulted.
- NPLs on the unsecured lending book increased 4%. The better than expected credit profile is due to enhanced loan origination policies implemented since 2011.
- The 51% increase in WesBank personal loans NPLs is due to higher inflows as well as an increasing number of debt review restructured accounts which at December 2014, represented 60% of NPLs. Due to the amended repayment profile, debt review restructured accounts remain on the books for an extended period, remaining in NPLs even though clients may be fully performing in terms of the revised repayment terms. This is in line with the group's policy to only migrate out of NPLs when all arrears in terms of original credit facilities have been repaid.
- The retail impairment charge as a percentage of average advances was 1.15% (December 2013: 1.24%). The improvement was driven by the slowdown in the inflow of NPLs and also benefited from strong post write-off recoveries of R940 million, mainly emanating from unsecured portfolios and VAF.

Corporate and commercial credit portfolios

- NPLs in the corporate and commercial portfolios increased as a result of certain defaulted accounts. NPLs as a percentage of advances increased to 1.74% from 1.59%.
- The NPL coverage ratio of 54.2% was impacted by the level of coverage on recent NPLs in the oil and gas, and mining and metals portfolios where the prospect of recoveries is high.
- The impairment charge increased to 0.64% from 0.36% at December 2013 as a result of higher NPL inflows and includes portfolio impairments in excess of R500 million.

Credit assets

The following table provides a breakdown of credit exposure (including off-balance sheet exposures) by type, segment and SARB approach. The figures are based on IFRS and differ from exposure figures used for regulatory capital calculation, which reflect the recognition of permissible adjustments such as netting of certain exposures.

Credit assets by type, segment and SARB approach

		AIRB approach	Standardised approach			
R million	**December 2014**	**FirstRand Bank (SA)**	**FNB Africa***	**Other subsidiaries**	**December 2013**	**June 2014**
On-balance sheet exposures						
Cash and short-term funds	**44 604**	**35 392**	**7 064**	**2 148**	40 347	54 647
– Money at call and short notice	**22 786**	**18 341**	**2 347**	**2 098**	22 204	35 385
– Balances with central banks	**21 818**	**17 051**	**4 717**	**50**	18 143	19 262
Gross advances	**732 770**	**635 147**	**47 033**	**50 590**	645 055	696 311
FNB**	**312 982**	**269 252**	**43 332**	**398**	282 726	299 266
– FNB retail	**216 427**	**216 427**	**–**	**–**	201 460	208 920
– FNB commercial#	**52 825**	**52 825**	**–**	**–**	44 539	49 903
– FNB Africa*	**43 730**	**–**	**43 332**	**398**	36 727	40 443
WesBank	**177 322**	**149 992**	**–**	**27 330**	154 225	167 037
RMB investment banking	**230 452**	**207 298**	**3 122**	**20 031**	198 700	218 279
RMB corporate banking**	**6 326**	**6 255**	**–**	**71**	6 427	6 442
FCC	**5 688**	**2 350**	**579**	**2 759**	2 977	5 287
Derivatives	**39 325**	**38 768**	**311**	**246**	44 221	39 038
Debt investment securities (excluding non-recourse investments)	**89 143**	**78 738**	**9 113**	**1 292**	91 115	83 014
Accounts receivable	**7 389**	**3 839**	**1 484**	**2 066**	7 349	8 159
Reinsurance assets	**436**	**–**	**1**	**435**	396	408
Off-balance sheet exposures	**124 780**	**113 102**	**8 777**	**2 901**	128 507	125 274
– Guarantees	**32 314**	**29 058**	**2 704**	**552**	33 463	33 114
– Letters of credit†	**9 046**	**8 412**	**618**	**16**	7 981	7 588
– Irrevocable commitments	**77 475**	**69 687**	**5 455**	**2 333**	81 411	78 785
– Credit derivatives	**5 945**	**5 945**	**–**	**–**	5 652	5 787
Total	**1 038 447**	**904 986**	**73 783**	**59 678**	956 990	1 006 851

* *Includes FNB's activities in India.*
** *Certain portfolios have been restated to reflect the current segmentation of the business.*
# *Includes public sector.*
† *Includes acceptances.*

Credit quality

Advances are considered past due in the following circumstances:

- loans with a specific expiry date (e.g. term loans and VAF) 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. credit cards) 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; or
- revolving facilities are treated as past due when the actual exposure is in excess of approved limits.

In these instances, the full outstanding amount is disclosed as 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 2014					
	Neither past due nor impaired		**Past due but not impaired**			
R million/%	**Current**	**Renegotiated but current**	**One full instalment past due**	**Two full instalments past due**	**Impaired (NPLs)**	**Total**
FNB	**297 801**	**595**	**3 760**	**1 985**	**8 841**	**312 982**
– FNB retail	**205 717**	**535**	**2 247**	**1 351**	**6 577**	**216 427**
– FNB commercial*	**51 406**	**40**	**60**	**41**	**1 278**	**52 825**
– FNB Africa**	**40 678**	**20**	**1 453**	**593**	**986**	**43 730**
WesBank	**165 473**	**–**	**4 620**	**1 895**	**5 334**	**177 322**
RMB investment banking#	**227 172**	**–**	**499**	**508**	**2 273**	**230 452**
RMB corporate banking	**6 281**	**–**	**1**	**–**	**44**	**6 326**
FCC	**5 688**	**–**	**–**	**–**	**–**	**5 688**
Total	**702 415**	**595**	**8 880**	**4 388**	**16 492**	**732 770**
Percentage of total book	**95.9%**	**0.1%**	**1.2%**	**0.6%**	**2.2%**	**100.0%**

* *Includes public sector.*
** *Includes FNB's activities in India.*
\# *Impaired advances for RMB investment banking are net of cumulative credit fair value adjustments on the non-performing book.*

Age analysis of advances (continued)

R million/%	December 2013					
	Neither past due nor impaired		Past due but not impaired			
	Current	Renegotiated but current	One full instalment past due	Two full instalments past due	Impaired (NPLs)	Total
FNB*	267 342	718	3 105	1 536	10 025	282 726
– FNB retail	189 441	617	2 341	1 266	7 795	201 460
– FNB commercial**	42 988	14	54	18	1 465	44 539
– FNB Africa#	34 913	87	710	252	765	36 727
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*	6 419	–	–	–	8	6 427
FCC	2 977	–	–	–	–	2 977
Total	617 829	718	7 498	3 610	15 400	645 055
Percentage of total book	95.8%	0.1%	1.2%	0.5%	2.4%	100.0%

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

R million/%	June 2014					
	Neither past due nor impaired		Past due but not impaired			
	Current	Renegotiated but current	One full instalment past due	Two full instalments past due	Impaired (NPLs)	Total
FNB*	283 228	873	3 969	1 810	9 386	299 266
– FNB retail	196 980	769	2 548	1 367	7 256	208 920
– FNB commercial**	48 471	88	54	31	1 259	49 903
– FNB Africa#	37 777	16	1 367	412	871	40 443
WesBank	155 983	–	4 348	1 922	4 784	167 037
RMB investment banking†	216 569	–	100	571	1 039	218 279
RMB corporate banking*	6 436	–	–	–	6	6 442
FCC	5 287	–	–	–	–	5 287
Total	667 503	873	8 417	4 303	15 215	696 311
Percentage of total book	95.9%	0.1%	1.2%	0.6%	2.2%	100.0%

* *Certain portfolios have been restated to reflect the current segmentation of the business.*
** *Includes public sector.*
# *Includes FNB's activities in India.*
† *Impaired advances for RMB investment banking are net of cumulative credit fair value adjustments on the non-performing book.*

Renegotiated advances

Renegotiated-but-current financial assets would be past due or impaired were it not for the renegotiation, but are separately classified as neither-past-due-nor-impaired assets. Renegotiated-but-current advances include advances where, due to a 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. Renegotiated-but-current advances are advances which have not been classified as defaulted.

Advances are only classified as renegotiated but current if the terms of the renegotiated contract have not yet expired and remain classified as such until the terms of the renegotiated contract expire. Adherence to the new terms and conditions for each product segment is closely monitored. Renegotiated-but-current 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.

NPLs cannot be reclassified as renegotiated but current 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.

Retail NPL accounts which have been renegotiated cannot be reclassified to performing until all arrears have been paid up as per the group's policy.

Past due but not impaired

Advances past due but not impaired in the previous tables include accounts in arrears by one or two full repayments. For the six months ended 31 December 2014, exposures to technical and partial arrears of R7.7 billion (December 2013: R5.3 billion; June 2014: R6.4 billion) were classified as neither past due nor impaired in accordance with FirstRand's impairment methodology, primarily driven by retail exposures.

The following tables provide the credit quality of advances in the in-force portfolio. Detailed information on the movements on an asset class level is provided in the *PD, EAD and LGD profiles* section.

Credit quality of performing advances

	December 2014							
		FNB						
R million	**Total neither past due nor impaired***	**Retail**	**Commercial****	**FNB Africa#**	**WesBank**	**RMB investment banking**	**RMB corporate banking**	**FCC**
FR 1 – 25	**195 192**	**49 726**	**2 715**	**6 538**	**8 449**	**122 655**	**1 526**	**3 583**
FR 26 – 91	**495 281**	**150 641**	**47 757**	**33 588**	**155 802**	**100 731**	**4 671**	**2 091**
Above FR 92	**12 537**	**5 885**	**974**	**572**	**1 222**	**3 786**	**84**	**14**
Total	**703 010**	**206 252**	**51 446**	**40 698**	**165 473**	**227 172**	**6 281**	**5 688**

* *Total neither past due nor impaired includes renegotiated but current advances.*
** *Includes public sector.*
# *Includes FNB's activities in India.*

	December 2013							
		FNB*						
R million	**Total neither past due nor impaired****	**Retail**	**Commercial#**	**FNB Africa†**	**WesBank**	**RMB investment banking**	**RMB corporate banking***	**FCC**
FR 1 – 25	161 705	39 026	2 203	6 219	4 269	105 397	3 077	1 514
FR 26 – 91	445 965	142 641	40 016	28 132	139 606	90 866	3 342	1 362
Above FR 92	10 877	8 391	783	649	900	53	–	101
Total	618 547	190 058	43 002	35 000	144 775	196 316	6 419	2 977

* *Certain portfolios have been restated to reflect the current segmentation of the business.*
** *Total neither past due nor impaired includes renegotiated but current advances.*
# *Includes public sector.*
† *Includes FNB's activities in India.*

	June 2014							
		FNB*						
R million	**Total neither past due nor impaired****	**Retail**	**Commercial#**	**FNB Africa†**	**WesBank**	**RMB investment banking**	**RMB corporate banking***	**FCC**
FR 1 – 25	177 066	43 260	2 817	5 562	2 983	118 613	1 698	2 133
FR 26 – 91	481 675	147 285	45 239	31 949	151 958	97 374	4 737	3 133
Above FR 92	9 635	7 204	503	282	1 042	582	1	21
Total	668 376	197 749	48 559	37 793	155 983	216 569	6 436	5 287

* *Certain portfolios have been restated to reflect the current segmentation of the business.*
** *Total neither past due nor impaired includes renegotiated but current advances.*
# *Includes public sector.*
† *Includes FNB's activities in India.*

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

	December 2014				
R million	**Debt investment securities***	**Derivatives**	**Cash and short-term funds**	**Reinsurance assets**	**Total**
AAA to BBB	**77 489**	**31 739**	**41 050**	**435**	**150 713**
BB+ to B-	**10 832**	**7 535**	**2 937**	**1**	**21 305**
CCC	**407**	**44**	**397**	**–**	**848**
Unrated	**415**	**7**	**220**	**–**	**642**
Total	**89 143**	**39 325**	**44 604**	**436**	**173 508**

* *Excludes non-recourse investments.*

	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.*

	June 2014				
R million	**Debt investment securities***	**Derivatives**	**Cash and short-term funds**	**Reinsurance assets**	**Total**
AAA to BBB	74 229	31 054	52 300	408	157 991
BB+ to B-	7 958	7 929	1 940	–	17 827
CCC	459	45	209	–	713
Unrated	368	10	198	–	576
Total	83 014	39 038	54 647	408	177 107

* *Excludes non-recourse investments.*

Policy for impairment of financial assets

A financial asset is impaired if its carrying value 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 is impaired and impairment losses are incurred if, and only if, there is 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 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 movements in impairments

	December		% change	June
R million	**2014**	**2013**		**2014**
Opening balance – specific impairment	**5 575**	5 713	(2)	5 713
Reclassifications and transfers	**27**	(19)	(>100)	(7)
Exchange rate difference	**8**	34	(76)	17
Unwinding and discounted present value on NPLs	**(49)**	(89)	(45)	(135)
Bad debts written off	**(2 756)**	(2 872)	(4)	(5 835)
Net new impairments created	**3 046**	2 727	12	5 822
Closing balance – specific impairment	**5 851**	5 494	6	5 575
Closing balance – portfolio impairment	**5 390**	4 118	31	4 810
Total impairment	**11 241**	9 612	17	10 385

NPLs and impaired advances

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.

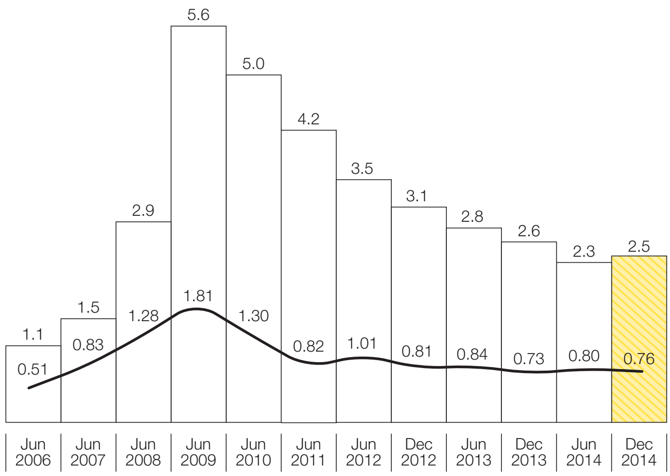
For amortised cost advances, impairments are recognised through the creation of an impairment reserve and an impairment charge in the income statement. For fair value advances, the credit valuation adjustment is charged to the income statement through trading income and recognised as a change to the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

Specific impairments are created for non-performing loans 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.

The following chart shows a history of NPLs and impairments.

Total NPLs and impairments

%



* *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.

NPLs by class

	NPLs As a % of advances			NPLs R million		
	December 2014	**December 2013**	**June 2014**	**December 2014**	**December 2013**	**June 2014**
FNB	**2.82**	3.55	3.14	**8 841**	10 025	9 386
FNB retail	**3.04**	3.87	3.47	**6 577**	7 795	7 256
FNB commercial	**2.42**	3.29	2.52	**1 278**	1 465	1 259
FNB Africa*	**2.25**	2.08	2.15	**986**	765	871
WesBank	**3.01**	2.67	2.86	**5 334**	4 112	4 784
RMB investment banking	**1.63**	1.22	0.96	**3 751**	2 419	2 105
RMB corporate banking	**0.70**	0.12	0.09	**44**	8	6
Total NPLs	**2.45**	2.57	2.34	**17 970**	16 564	16 281

* *Includes FNB's activities in India.*

NPLs by sector

	NPLs As a % of advances			NPLs R million		
	December 2014	**December 2013**	**June 2014**	**December 2014**	**December 2013**	**June 2014**
Agriculture	**0.72**	2.76	0.87	**189**	616	200
Financial services	**0.29**	0.30	0.20	**269**	233	167
Building and property development	**7.27**	6.57	6.46	**1 961**	2 036	2 194
Government, Land Bank and public authorities	**0.17**	0.68	0.33	**28**	109	53
Individuals	**3.06**	3.44	3.29	**11 320**	11 597	11 729
Manufacturing and commerce	**1.56**	1.32	0.74	**1 518**	1 100	661
Mining	**5.25**	0.22	1.08	**1 294**	51	248
Transport and communication	**1.20**	0.59	0.46	**230**	119	91
Other	**1.98**	2.13	1.83	**1 161**	703	938
Total NPLs	**2.45**	2.57	2.34	**17 970**	16 564	16 281

NPLs by geographical area

	NPLs As a % of advances			NPLs R million		
	December 2014	**December 2013**	**June 2014**	**December 2014**	**December 2013**	**June 2014**
South Africa	**2.51**	2.73	2.52	**15 546**	15 216	15 061
Other Africa	**2.13**	1.36	1.30	**1 517**	775	810
UK	**0.39**	0.35	0.30	**116**	71	84
Other Europe	**1.68**	–	–	**88**	–	–
North America*	**12.36**	2.94	2.13	**369**	35	26
South America*	**82.20**	91.44	100.00	**157**	331	161
Australasia	**7.21**	7.13	6.70	**83**	78	78
Asia	**3.83**	5.25	3.58	**94**	58	61
Total NPLs	**2.45**	2.57	2.34	**17 970**	16 564	16 281

* *Impaired loans to the Americas relate to pressures in the mining sector.*

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.

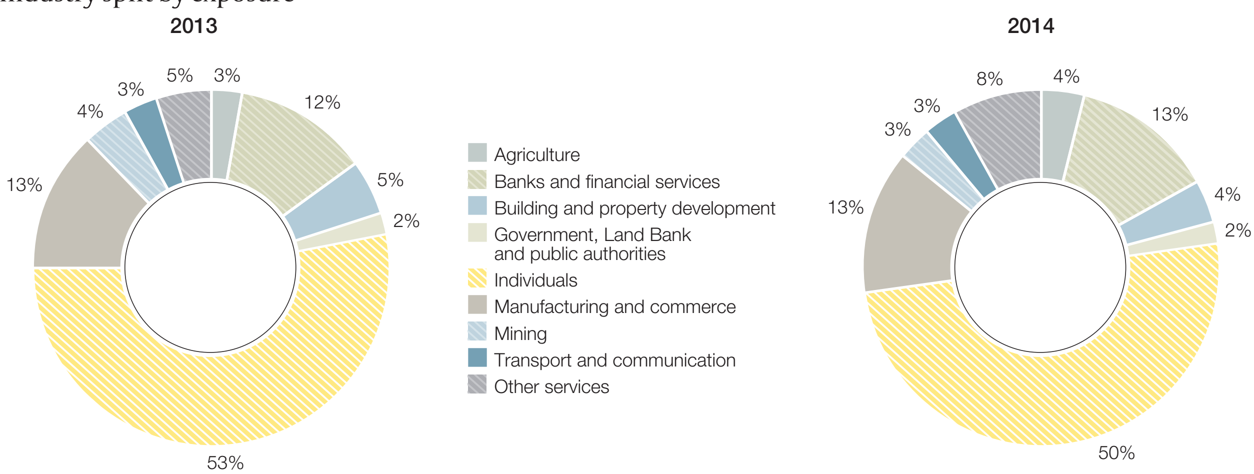
Concentration risk is managed based on the nature of the credit concentration within each portfolio. The group's credit portfolio is well diversified, which is achieved through setting maximum exposure guidelines to individual counterparties. The group constantly reviews its concentration levels and 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 exposure

	December 2014								
R million	**South Africa**	**Other Africa**	**United Kingdom**	**Other Europe**	**North America**	**South America**	**Austra-lasia**	**Asia**	**Total**
Advances	**619 746**	**71 289**	**29 704**	**5 235**	**2 983**	**191**	**1 154**	**2 468**	**732 770**
Derivatives	**21 599**	**495**	**13 979**	**2 296**	**811**	**–**	**8**	**137**	**39 325**
Debt investment securities*	**71 493**	**9 734**	**87**	**137**	**1 158**	**–**	**–**	**6 534**	**89 143**
Guarantees, acceptances and letters of credit**	**32 161**	**6 626**	**275**	**487**	**93**	**–**	**1 074**	**644**	**41 360**
Irrevocable commitments**	**64 584**	**9 217**	**1 271**	**1 743**	**360**	**–**	**102**	**198**	**77 475**

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

	December 2013								
R million	**South Africa**	**Other Africa**	**United Kingdom**	**Other Europe**	**North America**	**South America**	**Austra-lasia**	**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.*

	June 2014								
R million	**South Africa**	**Other Africa**	**United Kingdom**	**Other Europe**	**North America**	**South America**	**Austra-lasia**	**Asia**	**Total**
Advances	597 147	62 273	28 314	4 316	1 223	161	1 165	1 712	696 311
Derivatives	21 721	287	14 263	1 961	707	–	1	98	39 038
Debt investment securities*	67 372	7 591	656	68	2 126	–	–	5 201	83 014
Guarantees, acceptances and letters of credit**	31 307	7 017	77	337	630	–	40	1 294	40 702
Irrevocable commitments**	67 489	9 252	805	584	61	–	–	594	78 785

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

Average advances per major risk portfolio

	Year ended		
R million	**December 2014**	**December 2013**	**June 2014**
Retail	**377 144**	339 085	357 973
FNB Africa	**40 501**	32 752	36 605
Corporate	**220 597**	188 922	206 821
Commercial	**49 878**	42 751	46 168

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

REGULATORY DISCLOSURE

Credit rating systems and processes used for SARB approaches

The group uses the AIRB approach for exposures for the FRB South African operations and the standardised approach for all of the group's other legal entities and the bank's offshore branches 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.

For portfolios using the standardised approach, ratings from Standard & Poor's are used. External ratings are not available for all jurisdictions and for certain parts of the portfolio, the group uses its internally-developed mapping between FR grade and S&P grades (refer to the table mapping of FirstRand (FR) grades to rating agency scales on page 30).

The following table provides the breakdown of exposures rated through the standardised approach by risk bucket. The risk-weights used are those prescribed in the Regulations and will differ primarily by asset class and credit rating. From June 2014 all exposures rated through the standardised approach are reported in this table and not only the subsidiaries in the rest of Africa's exposures as previously.

Credit risk exposure rated through the standardised approach by risk bucket*

	Exposure R million	
Risk bucket	**December 2014**	**June 2014**
0%	**3 865**	3 597
10%	**–**	21
20%	**10 146**	8 508
35%	**14 795**	13 893
50%	**6 067**	5 397
75%	**30 352**	24 656
100%	**68 487**	45 384
Specific impairments	**535**	940
Total	**134 248**	102 396

* *No exposure amount is deducted from the group's capital or reserve funds.*

Protected exposures

The table below includes the exposures for the standardised approach portfolios in certain subsidiaries in the rest of Africa, namely Botswana, Lesotho, Namibia, Swaziland, Tanzania and Zambia. The exposures are split according to the retail, commercial and corporate portfolios, as appropriate. The table also includes the amount of protection obtained through eligible financial collateral. Eligible financial collateral used is as specified in the Regulations for both standardised and AIRB approaches including guarantees or credit-derivative instruments after the effect of haircuts.

Standardised approach protected exposures per asset class

	December 2014			June 2014*		
R million	**Exposure before credit risk mitigation**	**Eligible collateral****	**Exposure after credit risk mitigation**	**Exposure before credit risk mitigation**	**Eligible collateral****	**Exposure after credit risk mitigation**
Retail	**29 393**	**119**	**29 274**	27 170	362	26 808
Commercial and corporate	**33 897**	**159**	**33 738**	29 750	265	29 485
Total	**63 290**	**278**	**63 012**	56 920	627	56 293

* *Protected exposures for standardised approach portfolios are included in the disclosure from June 2014.*

** *Eligible collateral includes cash, certificates of deposit, gold, debt securities, equities, undertakings for collective investments in transferable securities, mutual funds, financial receivables, guarantees and credit-derivative instruments.*

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 through-the-cycle 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 risk-weight and 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 are 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 year. The risk profile reflects the group's credit origination strategy, which focuses on targeting segments that provide an appropriate risk/return profile.

The risk weight per Basel risk bucket table must be read together with the EAD% distribution per Basel risk bucket table as the significant overall movements year-on-year are explained by the movement of exposures in low-volume rating buckets. The sovereign asset class includes public sector entities, local government and municipalities and sovereign exposures (including central government and central bank exposures) while the specialised lending asset class includes high-volatility commercial real estate, income-producing real estate, object finance, commodity finance and project finance. The increase in EAD% and nominal EAD for the 1-5 bucket of banks and securities firms, reflect the funding provided to the FirstRand Bank London branch from FRB's South African balance sheet. This is due to a change in the regulatory returns.

Bank's risk profile per asset class: risk-weight per SARB risk buckets

%	Risk weight					
	Total FRB			**Corporate**		
	Dec 2014	**Dec 2013**	**June 2014**	**Dec 2014**	**Dec 2013**	**June 2014**
1 – 5	**3.1**	3.1	3.0	**10.0**	9.2	0.1
6 – 10	**23.0**	22.1	22.7	**26.2**	28.6	27.2
11 – 15	**35.7**	36.5	37.5	**57.5**	59.6	60.0
16 – 20	**53.3**	52.5	52.3	**103.3**	96.8	101.7
21 – 25	**109.6**	116.6	110.1	**169.5**	163.5	157.1
NPLs	**70.0**	64.2	69.0	**14.1**	–	0.9

%	Risk weight					
	SME corporate			**SME retail**		
	Dec 2014	**Dec 2013**	**June 2014**	**Dec 2014**	**Dec 2013**	**June 2014**
1 – 5	**0.9**	–	4.1	**5.8**	1.1	5.8
6 – 10	**13.8**	28.4	1.9	**13.0**	15.5	13.1
11 – 15	**47.8**	44.2	48.0	**35.5**	32.0	34.5
16 – 20	**63.8**	67.2	63.9	**42.9**	42.2	40.3
21 – 25	**119.1**	140.4	116.9	**82.3**	69.4	73.7
NPLs	**17.5**	15.4	13.6	**178.4**	244.1	245.5

Bank's risk profile per asset class: EAD% distribution per SARB risk buckets

%	EAD					
	Total FRB			**Corporate**		
	Dec 2014	**Dec 2013**	**June 2014**	**Dec 2014**	**Dec 2013**	**June 2014**
1 – 5	**9.5**	8.4	9.3	**–**	0.2	–
6 – 10	**16.4**	15.9	16.3	**42.0**	34.2	38.2
11 – 15	**38.0**	39.4	38.4	**45.9**	53.2	49.8
16 – 20	**30.2**	30.3	30.0	**11.3**	11.7	11.0
21 – 25	**4.2**	4.1	4.1	**0.5**	0.5	0.9
NPLs	**1.8**	2.0	1.8	**0.4**	0.2	0.2

%	EAD					
	SME corporate			**SME retail**		
	Dec 2014	**Dec 2013**	**June 2014**	**Dec 2014**	**Dec 2013**	**June 2014**
1 – 5	**0.1**	–	0.2	**3.0**	0.1	2.5
6 – 10	**0.1**	0.7	–	**6.7**	15.4	6.3
11 – 15	**56.7**	53.8	55.7	**36.7**	24.1	34.6
16 – 20	**38.4**	40.2	39.3	**46.1**	52.8	48.7
21 - 25	**3.4**	3.5	3.3	**5.0**	4.9	5.4
NPLs	**1.4**	1.8	1.4	**2.6**	2.7	2.6

	Risk weight								
	Sovereign			Specialised lending			Banks and securities firms		
	Dec 2014	Dec 2013	June 2014	Dec 2014	Dec 2013	June 2014	Dec 2014	Dec 2013	June 2014
	4.0	3.0	3.8	**5.0**	4.9	5.2	**0.3**	3.8	0.7
	30.5	23.8	26.5	**18.3**	16.2	16.8	**17.2**	13.7	16.1
	51.2	51.4	53.1	**36.9**	41.4	41	**53.8**	41.9	51.5
	95.1	79.1	74.6	**100.7**	90.6	94.6	**153.2**	98.4	100.7
	111.1	359.1	354.3	**155.6**	190.8	235.9	**151.1**	168.1	142.1
	292.0	–	5.8	**–**	–	–	**–**	–	–

	Risk weight								
	Retail mortgages			Retail revolving			Other retail		
	Dec 2014	Dec 2013	June 2014	Dec 2014	Dec 2013	June 2014	Dec 2014	Dec 2013	June 2014
	1.2	1.2	1.2	**1.7**	1.7	1.7	**10.5**	1.3	1.5
	5.2	5.2	5.1	**5.7**	18.8	5.7	**21.3**	43.6	22.1
	15.0	15.3	15.3	**23.3**	32.5	23.1	**28.4**	29.1	29.7
	36.2	36.3	36.6	**62.1**	67.3	61.7	**48.5**	47.6	47.0
	77.6	77.1	77.6	**160.3**	148.7	157.4	**107.8**	123.9	107.1
	4.5	15.9	14.8	**178.0**	83.6	12.1	**121.3**	113.8	133.4

	EAD								
	Sovereign			Specialised lending			Banks and securities firms		
	Dec 2014	Dec 2013	June 2014	Dec 2014	Dec 2013	June 2014	Dec 2014	Dec 2013	June 2014
	84.0	81.9	80.3	**0.2**	0.2	0.3	**30.0**	8.5	28.8
	13.4	14.5	16.5	**18.8**	13.9	17.1	**48.1**	70.1	51.1
	1.7	2.3	2.2	**62.4**	65.1	64.1	**17.5**	17.3	15.3
	0.8	1	0.8	**13.2**	14.8	13.5	**3.0**	3.5	3.7
	–	0.2	0.2	**1.0**	1.7	1	**1.3**	0.6	1
	–	–	–	**4.3**	4.4	4	**–**	–	–

	EAD								
	Retail mortgages			Retail revolving			Other retail		
	Dec 2014	Dec 2013	June 2014	Dec 2014	Dec 2013	June 2014	Dec 2014	Dec 2013	June 2014
	0.7	0.4	0.6	**2.0**	2.5	2.1	**–**	–	–
	0.7	0.6	0.6	**8.7**	14.1	8.8	**–**	0.1	–
	51.9	56.7	53.8	**35.3**	34.8	36	**19.3**	15.0	13.9
	40.8	35.4	38.6	**43.8**	38.1	43.6	**63.0**	68.6	69
	3.8	4.1	3.8	**8.4**	8.4	7.8	**13.5**	12.5	13
	2.2	2.8	2.6	**1.7**	2.1	1.7	**4.3**	3.9	4.1

Bank's risk profile per asset class: Nominal EAD per SARB risk buckets

	Nominal EAD					
	Total FRB			Corporate		
R million	Dec 2014	Dec 2013	June 2014	Dec 2014	Dec 2013	June 2014
1 – 5	**75 916**	61 878	74 409	**–**	402	14
6 – 10	**131 101**	117 962	130 132	**78 457**	56 391	71 707
11 – 15	**303 446**	291 505	305 533	**85 814**	87 625	93 524
16 – 20	**240 884**	223 958	239 110	**21 181**	19 232	20 656
21 – 25	**33 228**	30 334	32 487	**926**	844	1 620
NPLs	**14 342**	14 553	14 275	**647**	366	405
Total	**798 917**	740 190	795 946	**187 025**	164 860	187 926

	Nominal EAD					
	SME corporate			SME retail		
R million	Dec 2014	Dec 2013	June 2014	Dec 2014	Dec 2013	June 2014
1 – 5	**22**	–	111	**1 238**	22	980
6 – 10	**41**	317	1	**2 730**	6 061	2 463
11 – 15	**26 751**	23 575	24 936	**15 047**	9 526	13 523
16 – 20	**18 131**	17 588	17 622	**18 896**	20 848	19 055
21 – 25	**1 616**	1 530	1 496	**2 051**	1 931	2 106
NPLs	**664**	797	624	**1 053**	1 065	1 013
Total	**47 225**	43 807	44 790	**41 015**	39 453	39 140

Bank's PD%, LGD%, EL/EAD and RWA/EAD ratio per asset class

	Total FRB			Corporate		
%	Dec 2014	Dec 2013	June 2014	Dec 2014	Dec 2013	June 2014
Average performing PD	**2.4**	2.4	2.4	**0.9**	0.9	0.9
Average performing LGD	**29.0**	28.9	28.9	**34.2**	34.5	34.6
Performing EL/EAD	**0.8**	0.9	0.8	**0.3**	0.3	0.3
Performing RWA/EAD	**38.9**	39.9	39.3	**50.1**	53.7	52.9
Average total book PD	**4.2**	4.3	4.1	**1.2**	1.1	1.1
Average total book LGD	**29.4**	29.2	29.1	**34.2**	34.5	34.6
Total book EL/EAD	**1.5**	1.6	1.5	**0.5**	0.4	0.4
Total book RWA/EAD	**39.5**	40.4	39.8	**50.0**	53.6	52.8

	SME corporate			SME retail		
%	Dec 2014	Dec 2013	June 2014	Dec 2014	Dec 2013	June 2014
Average performing PD	**2.3**	2.5	2.3	**2.9**	3.0	3.0
Average performing LGD	**26.7**	27.7	27.0	**33.5**	32.6	32.0
Performing EL/EAD	**0.6**	0.7	0.6	**1.0**	0.9	1.0
Performing RWA/EAD	**56.4**	56.9	56.6	**39.0**	36.8	37.5
Average total book PD	**3.7**	4.2	3.6	**5.4**	5.6	5.5
Average total book LGD	**26.9**	28.0	27.2	**33.9**	33.0	32.6
Total book EL/EAD	**1.6**	1.9	1.6	**1.8**	2.0	1.9
Total book RWA/EAD	**55.9**	56.2	56.0	**42.6**	42.4	42.8

Nominal EAD								
Sovereign			Specialised lending			Banks and securities firms		
Dec 2014	**Dec 2013**	**June 2014**	**Dec 2014**	**Dec 2013**	**June 2014**	**Dec 2014**	**Dec 2013**	**June 2014**
54 878	55 752	52 907	**89**	65	142	**17 507**	4 024	18 165
8 744	9 851	10 836	**7 656**	5 809	8 108	**28 039**	33 045	32 205
1137	1 590	1 427	**25 367**	27 205	30 305	**10 221**	8 168	9 640
523	683	538	**5 382**	6 161	6 362	**1 764**	1 648	2 343
12	150	153	**395**	701	494	**728**	270	630
20	14	–	**1 765**	1 820	1 873	**–**	–	–
65 314	68 040	65 861	**40 654**	41 761	47 284	**58 259**	47 155	62 983

Nominal EAD								
Retail mortgages			Retail revolving			Other retail		
Dec 2014	**Dec 2013**	**June 2014**	**Dec 2014**	**Dec 2013**	**June 2014**	**Dec 2014**	**Dec 2013**	**June 2014**
1 237	645	1 211	**944**	942	853	**1**	26	26
1 382	1 121	1 174	**4 050**	5 312	3 637	**2**	55	1
99 290	103 565	100 707	**16 396**	13 059	14 933	**23 423**	17 192	16 538
78 111	64 652	72 206	**20 333**	14 317	18 091	**76 563**	78 829	82 237
7 247	7 407	7 210	**3 905**	3 170	3 246	**16 348**	14 331	15 532
4 219	5 186	4 784	**809**	778	720	**5 165**	4 527	4 856
191 486	182 576	187 292	**46 437**	37 578	41 480	**121 502**	114 960	119 190

Sovereign			Specialised lending			Banks and securities firms		
Dec 2014	**Dec 2013**	**June 2014**	**Dec 2014**	**Dec 2013**	**June 2014**	**Dec 2014**	**Dec 2013**	**June 2014**
0.2	0.1	0.2	**1.3**	1.4	1.2	**0.6**	0.4	0.4
29.5	28.5	29.4	**21.2**	23.0	22.9	**29.7**	27.5	28.2
–	0.1	0.1	**0.3**	0.4	0.4	**0.3**	0.1	0.1
9.1	8.7	10.0	**43.2**	47.9	46.2	**24.3**	21.6	21.5
0.2	0.2	0.2	**5.6**	5.7	5.1	**0.6**	0.4	0.4
29.5	28.5	29.4	**22.1**	23.8	23.7	**29.7**	27.5	28.2
–	0.1	0.1	**2.5**	2.5	2.3	**0.3**	0.1	0.1
9.2	8.7	10.0	**41.3**	45.8	44.4	**24.3**	21.6	21.5

Retail mortgages			Retail revolving			Other retail		
Dec 2014	**Dec 2013**	**June 2014**	**Dec 2014**	**Dec 2013**	**June 2014**	**Dec 2014**	**Dec 2013**	**June 2014**
2.8	2.8	2.8	**3.9**	3.8	3.8	**6.2**	6.1	6.1
13.7	13.8	13.8	**65.5**	65.6	65.5	**33.8**	34.0	33.3
0.4	0.4	0.4	**2.5**	2.5	2.5	**2.6**	2.8	2.5
26.1	25.4	26.0	**50.3**	53.3	48.9	**52.8**	54.6	52.6
4.9	5.5	5.3	**5.6**	5.8	5.5	**10.2**	9.8	9.9
13.8	14.0	13.9	**65.6**	65.6	65.5	**34.4**	34.9	33.9
0.9	1.1	1.0	**3.5**	3.7	3.7	**4.3**	4.5	4.1
25.6	25.1	25.7	**52.5**	53.9	48.3	**55.7**	57.0	55.9

Bank's nominal credit extended, drawn exposure and EAD per asset class

R million	Total FRB			Corporate		
	Dec 2014	Dec 2013	June 2014	Dec 2014	Dec 2013	June 2014
Total book credit extended	**1 028 266**	926 690	1 009 673	**241 109**	212 645	236 559
Total book drawn exposure	**684 026**	623 480	690 972	**158 136**	129 755	151 431
Total book nominal EAD	**798 917**	740 190	795 946	**187 025**	164 860	187 926

R million	SME corporate			SME retail		
	Dec 2014	Dec 2013	June 2014	Dec 2014	Dec 2013	June 2014
Total book credit extended	**56 314**	52 024	52 456	**44 952**	41 086	42 594
Total book drawn exposure	**38 794**	36 327	37 333	**32 896**	30 806	32 611
Total book nominal EAD	**47 225**	43 807	44 790	**41 015**	39 453	39 140

	Sovereign			Specialised lending			Banks and securities firms		
	Dec 2014	Dec 2013	June 2014	Dec 2014	Dec 2013	June 2014	Dec 2014	Dec 2013	June 2014
	73 315	77 022	72 449	**53 864**	42 128	47 704	**167 955**	139 457	180 870
	56 019	65 679	62 698	**39 874**	40 914	46 397	**44 052**	27 156	55 274
	65 314	68 040	65 861	**40 654**	41 761	47 284	**58 259**	47 155	62 983

	Retail mortgages			Retail revolving			Other retail		
	Dec 2014	Dec 2013	June 2014	Dec 2014	Dec 2013	June 2014	Dec 2014	Dec 2013	June 2014
	205 507	196 123	200 502	**63 273**	50 697	56 850	**121 977**	115 508	119 689
	167 392	158 359	162 651	**26 501**	20 621	24 491	**120 362**	113 863	118 086
	191 486	182 576	187 292	**46 437**	37 578	41 480	**121 502**	114 960	119 190

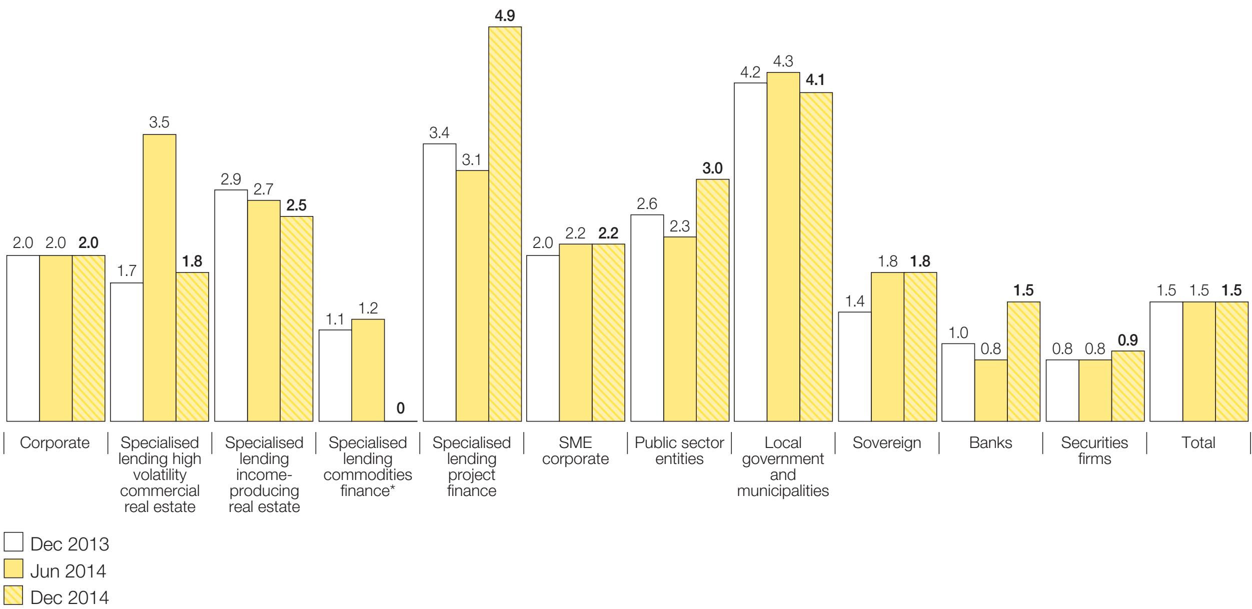
Maturity breakdown

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 corporate 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. The following chart provides a maturity breakdown of AIRB asset classes within the corporate credit portfolio.

Maturity breakdown per corporate AIRB asset class

Maturity in years



* *Specialised lending commodities finance exposures are now reported using the slotting criteria.*

Actual versus expected loss analysis

To provide a meaningful assessment of the effectiveness of internal ratings-based models, expected loss is compared to actual losses during the calendar year. This analysis 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 calendar year, i.e. 1 January 2014. 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 period consist of the level of specific impairments at the start of the year (1 January 2014) and the net specific impairment charge recorded through the income statement for the year 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 year, but which did not exist at 1 January 2014. These exposures are not reflected in the expected loss value described. As a result, significant volumes of new business can distort the analysis by inflating the actual loss figure.

The following table provides the comparison of actual loss to regulatory expected loss for each significant AIRB asset class. 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 regulatory capital models that were applied as at 31 December 2013. This comparison is supplemented with more detailed analyses on the following page, comparing actual and expected outcomes for each risk parameter (PD, LGD and EAD) during the period under review.

Actual versus expected loss per portfolio segment*

	For the year ended			
	December 2014		December 2013	
R million	Expected loss	Actual loss	Expected loss	Actual loss
Corporate (corporate, banks and sovereign)**	**1 619**	**95**	1 811	67
SMEs (SME corporate and SME retail)#	**1 227**	**996**	1 164	1 001
Residential mortgages#	**2 062**	**1 841**	2 552	2 110
Qualifying revolving retail	**1 470**	**1 509**	1 110	1 126
Other retail	**2 286**	**2 021**	2 069	2 694
WesBank	**3 392**	**4 122**	2 950	3 435
Total	**12 056**	**10 584**	11 656	10 433

	For the year ended			
	June 2014		June 2013	
R million	Expected loss	Actual loss	Expected loss	Actual loss
Corporate (corporate, banks and sovereign)**	1 977	59	1 621	70
SMEs (SME corporate and SME retail)#	1 125	998	1 146	989
Residential mortgages#	2 422	1 913	2 674	2 470
Qualifying revolving retail	1 434	1 512	1 126	973
Other retail	1 981	2 336	1 718	2 413
WesBank	3 076	3 825	2 780	3 236
Total	12 015	10 643	11 065	10 151

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

** *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.*

Actual losses are below expected losses which is expected given the current point in the economic cycle and that expected loss parameters are based on long-run and downturn conditions.

For the analysis on the next page, estimated values are based on regulatory capital models applied as at 31 December 2013. For PDs, this is applied to the total performing book as at 31 December 2013. 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 1 January 2014 to 31 December 2014. 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 to date – 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 1 January 2014 to 31 December 2014) to the actual nominal exposure at default for the same accounts.

Risk parameters used to determine regulatory expected loss

	December 2014				
	PD		**LGD**		**Estimated EAD to actual EAD ratio**
Asset class	**Estimated %**	**Actual %**	**Estimated %**	**Actual %**	**%**
Corporate, banks and sovereign*	**0.6**	**0.4**	**26.3**	**26.6**	**92.4**
Specialised lending – property finance	**1.5**	**0.4**	**25.5**	**2.4**	**209.9**
SME corporate	**2.2**	**1.5**	**29.6**	**30.3**	**137.9**
SME retail	**3.0**	**2.7**	**35.0**	**34.3**	**115.1**
Residential mortgages	**2.7**	**2.0**	**15.3**	**9.7**	**102.6**
Qualifying revolving retail	**4.7**	**2.8**	**72.0**	**67.9**	**111.5**
Other retail	**6.1**	**5.9**	**40.9**	**40.3**	**103.2**
Total	**2.5**	**2.0**	**29.1**	**26.2**	**105.3**

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

	December 2013				
	PD		**LGD**		**Estimated EAD to actual EAD ratio**
Asset class	**Estimated %**	**Actual %**	**Estimated %**	**Actual %**	**%**
Corporate, banks and sovereign*	0.7	0.1	20.1	29.7	99.3
Specialised lending – property finance	2.1	1.1	28.7	2.5	115.4
SME corporate	2.2	1.7	27.3	14.5	108.1
SME retail	2.7	2.5	29.2	21.8	109.8
Residential mortgages	3.0	2.1	16.7	11.6	102.6
Qualifying revolving retail	3.8	3.2	65.4	68.8	102.1
Other retail	6.3	5.9	47.3	45.6	106.0
Total	2.6	1.9	26.8	26.4	105.0

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

	June 2014				
	PD		**LGD**		**Estimated EAD to actual EAD ratio**
Asset class	**Estimated %**	**Actual %**	**Estimated %**	**Actual %**	**%**
Corporate, banks and sovereign*	0.8	0.2	18.7	28.2	101.9
Specialised lending – property finance	2.3	0.5	16.9	2.0	133.7
SME corporate	2.4	1.2	26.6	20.9	111.3
SME retail	2.8	2.3	32.4	34.2	109.3
Residential mortgages	2.9	2.0	15.4	8.8	103.2
Qualifying revolving retail	4.4	2.8	65.2	71.8	106.8
Other retail	6.0	6.1	42.6	43.6	106.9
Total	2.6	1.9	24.9	26.0	106.3

* *Corporate, banks and sovereign are shown as one asset class to align with the associated 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 default rates.

Differences between the actual and expected LGDs for corporates, banks and sovereigns as well as specialised lending (property finance) are due to low default volumes where the loss experience on individual defaults can dominate the result. The difference in the outputs compared to prior periods are primarily a result of the actual and expected LGD being based only on counterparties which have defaulted during the relevant 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 rare.

The other retail asset class typically has stable risk parameters due to diverse underlying exposures which do not follow the conventional retail cycle.

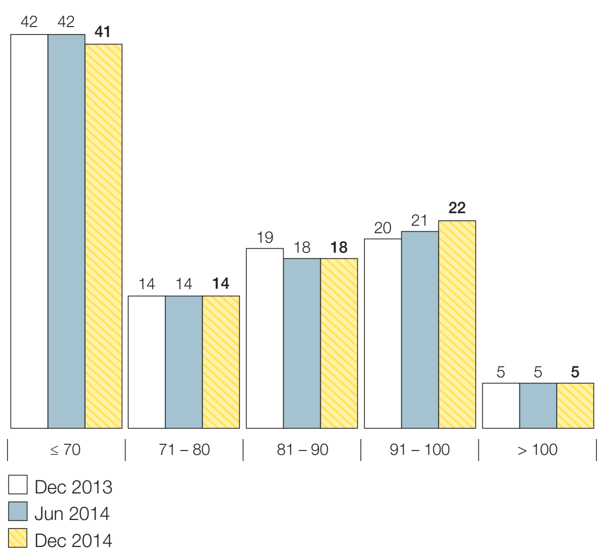
SELECTED RISK ANALYSES

The graphs below provide loan balance-to-value ratios and age distributions of residential mortgages.

Loan-to-value ratios for new business are an important consideration in the credit origination process. The group, however, places more emphasis on counterparty creditworthiness rather than relying only on the underlying security.

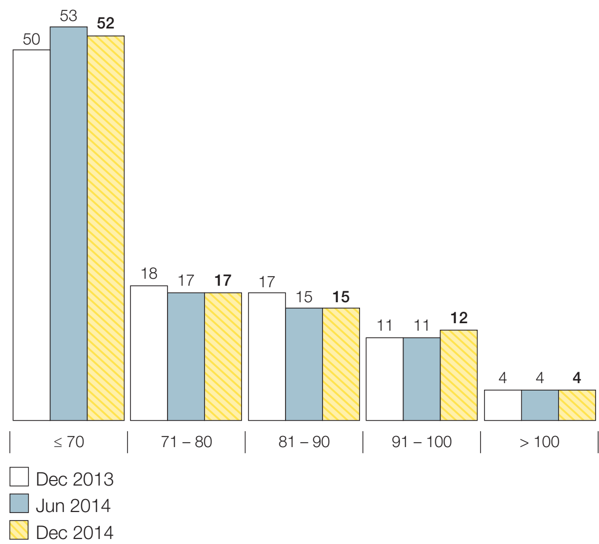
Residential mortgages balance-to-original value

%



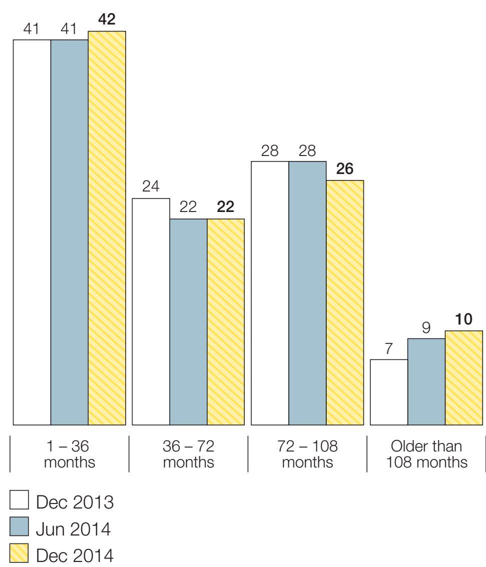
Residential mortgages balance-to-market value

%



Residential mortgages age distribution

%



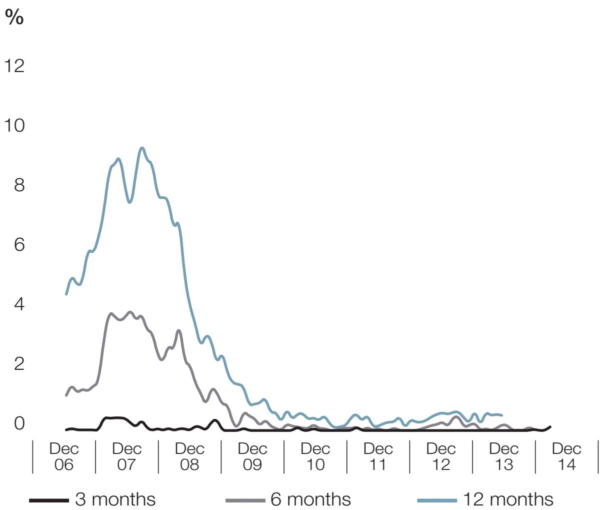
The following graph shows arrears in the FNB HomeLoans portfolio. It includes arrears where more than one full payment is in arrears expressed as a percentage of total advances.

FNB HomeLoans arrears

The following graphs provide the vintage analyses for FNB HomeLoans and WesBank retail VAF. Vintage graphs reflect the default experience three, six and twelve months after each origination date as well as the impact of origination strategies and the macroeconomic environment on portfolio performance.

FNB HomeLoans vintages continue to perform at record lows even when considering the pre-2008 period. This can be attributed to risk mitigation actions taken across all residential mortgage portfolios, as well as a continued lower interest rate environment; supporting customer affordability.

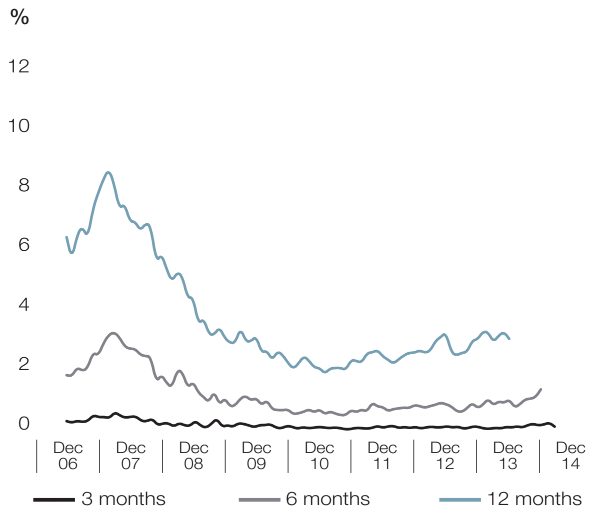
FNB Home Loans vintage analysis



The WesBank retail cumulative vintages analysis continue to show a noticeable improvement in the quality of business written since mid-2007. This is due to improved customer profiles and enhanced collection strategies.

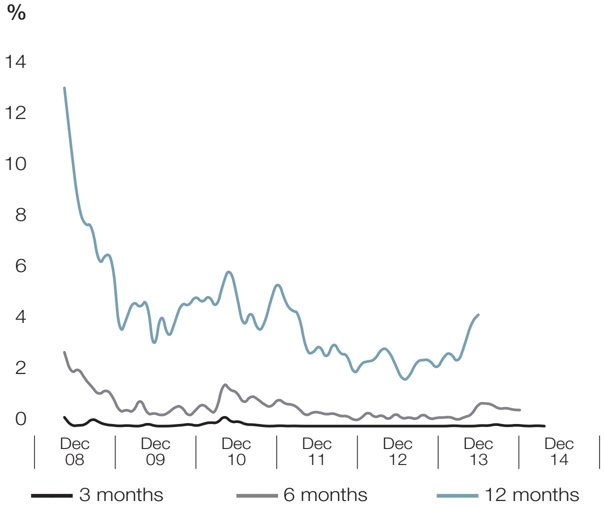
As expected, default rates in the retail VAF portfolio are gradually increasing. The uptick in VAF vintages is due, in part, to strong new business volumes in recent years as well as increased debt review applications. The emerging strain is driven by pressure on consumers' disposable income, partly due to inflationary increases on motor vehicle prices. The group actively adjusts risk appetite and credit parameters to ensure that vintages continue to perform in line with expectations considering the credit cycle.

WesBank retail VAF vintage analysis



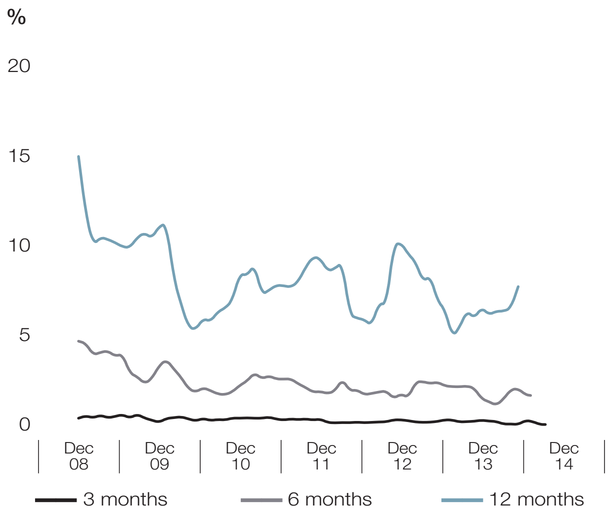
FNB card default rates remain at very low levels, even on a through-the-cycle basis. There was a minor increase in risk appetite from October 2013, which resulted in more business written in the lower-end consumer segment at slightly higher default rates. This was reviewed and adjusted downwards again in April 2014. Action taken is reflected in the reduction in the default rates in the six-month default vintage. The twelve-month default vintage is expected to follow. In the group's view, default rates have bottomed and moderate increases are expected off this level.

FNB card vintage analysis



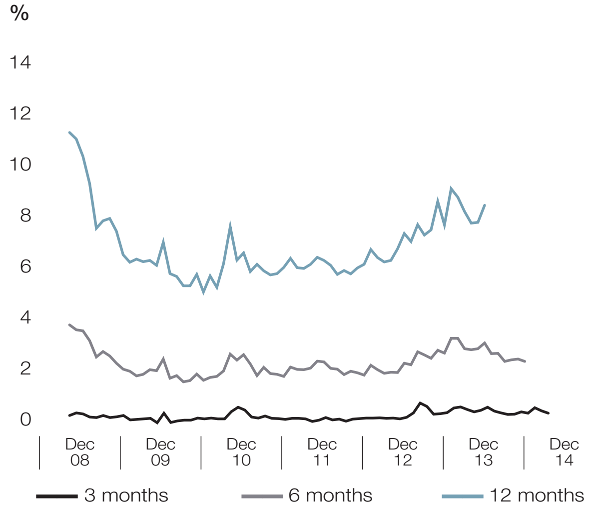
The default experience of the FNB and WesBank personal loans portfolios is within risk appetite. Continued actions are undertaken to ensure these portfolios remain within risk appetite. FNB loan vintages reflect improvement since December 2008 levels. This positive outcome is the result of active management of risk appetite and parameters even as risk levels within the unsecured lending market remain high. There is a level of cyclical volatility in the twelve-month vintage due to increased client demand in December months and certain product specific features (e.g. take-a-break month in January).

FNB personal loans vintage analysis



As expected, WesBank personal loans vintages show a marginal deterioration from 2010 levels. This is expected given the challenging macroeconomic conditions and increased debt review applications. To counter this, credit parameters are continuously adjusted to ensure performance is in line with expectations. Recent adjustments to credit appetite are proving effective and enhancing portfolio performance, particularly for business written less than six months ago.

WesBank personal loans vintage analysis



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 ratings higher than its own corporate credit rating, which generally provides access to broader funding sources at more favourable rates. The removal of the assets and supporting funding from the balance sheet enables the group to reduce some of the costs of on-balance sheet financing and manage potential asset-liability mismatches and credit concentrations.

The group uses securitisation as a tool to achieve one or more of the following objectives:

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

The table below provides an overview of the group's role in securitisation and conduit structures.

Transaction	Originator	Sponsor	Servicer	Investor	Liquidity provider	Credit enhancement provider	Swap counterparty
Own securitisations							
Nitro 4	✓	✓	✓	✓			✓
Turbo Finance 2	✓	✓	✓	✓			
Turbo Finance 3	✓	✓	✓	✓			
Turbo Finance 4	✓	✓	✓	✓			
Turbo Finance 5	✓	✓	✓	✓			
Conduit structures							
iNdwa*		✓	✓		✓		✓
iVuzi*		✓	✓		✓	✓	✓
iNkotha**			✓				
iNguza**			✓				
Third party							
Homes Obligor Mortgage Enhanced Securities					✓		
Private Residential Mortgages 2					✓		
Superdrive Investments				✓			
Torque Securitisation					✓		

* *Conduits incorporated under regulations relating to securitisation scheme.*
** *Conduits incorporated under regulations relating to commercial paper.*

OVERSIGHT AND RISK MITIGATION

The group's role in securitisations transactions, both group originated and sponsored transactions, as well as third party securitisations, results in various financial and operational risks, including:

- liquidity and funding risk;
- interest rate risk;
- credit risk;
- currency risk;
- operational risk;
- reputational risk; and
- compliance risk.

For securitisations originated by the group, exposures are managed from a credit perspective by the originating business units as if the securitisation had never occurred. Resultant risks from retained exposures and the overall origination and maintenance of the securitisation structures are managed as part of the day-to-day management of the various risk types. This includes risk mitigation and management actions depending on the risk limits and appetite per risk area. The performance of the securitisations is monitored on an ongoing basis and reported to management and governance forums.

Some of the governance and management processes in place to monitor risks as a result of securitisation transactions are outlined below:

- proposed securitisations follow a rigorous internal approval process and are reviewed by ALCCO, the RCC committee and the board against approved board limits;
- the performance of the group and third-party off-balance sheet transactions are discussed and monitored at a bimonthly meeting of Group Treasury's off-balance sheet forum, which includes representation from investor relations;
- changes to retained exposures (as result of ratings, reviews, note redemptions and credit losses) are reflected in the monthly BA500 regulatory return; and
- transaction investor reports, alignment with special purpose vehicle 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.

SECURITISATION ACCOUNTING POLICIES

From an accounting perspective, traditional securitisations are treated as sales transactions. At inception, the assets are sold to a 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 securitisation 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.

PERIOD UNDER REVIEW

Turbo Finance 2

Following the redemption of the Class A notes and subsequent purchase of the outstanding Class B notes from the market, FirstRand was left as the sole investor in Turbo 2 via FirstRand Bank (London branch) and FirstRand International (Guernsey). Consequently, the transaction was early redeemed in full at the end of August 2014, with the underlying assets repurchased by MotoNovo.

Turbo Finance 4

The 12-month revolving period ended in November 2014, with the notes amortising sequentially in order of seniority hereafter.

Turbo Finance 5

The mandated arrangers, HSBC and JP Morgan, assisted FirstRand Bank (London branch) and MotoNovo in structuring a fifth securitisation under the Turbo Finance program. As with Turbo 4, Turbo 5 was structured to include a 12-month revolving period. Timing of the transaction was opportune as the repurchased Turbo 2 assets assisted in upsizing Turbo 5 to GBP420 million.

The following table summarizes the note issuance.

Tranche	Final ratings (Fitch/Moodys)	Credit enhancement	Tranche size (GBP million)	Spread
Class A	AAA/Aaa	12.80%	371.6	1m Libor + 0.47%
Class B	A+/Aa3	3.80%	37.7	1m Libor + 1.00%
Class C	BBB/Ba1	1.30%	10.7	5.00%
Class D	Unrated	0%	5.5	15.00%
Total			425.5	

FirstRand Bank (London branch) retained a portion of the Class A tranche for the Bank of England funding for lending scheme. FirstRand Bank (London branch) also retained GBP24.7 million of the Class B tranche due to reduced investor appetite. GBP5 million of the Class B tranche was subsequently sold to investors.

Exposures intended to be securitised or resecuritised in the future

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

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

TRADITIONAL AND SYNTHETIC SECURITISATIONS

The following tables show the traditional and synthetic securitisations currently in issue and the rating distribution of any exposures retained. 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.

Securitisation transactions

R million	Asset type	Year initiated	Expected close	Rating agency	Assets securitised
Traditional securitisations**					26 474
Nitro 4	Retail: Auto loans	2011	2015	Moody's	3 982
Turbo Finance 2	Retail: Auto loans	2012	2014	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	2017	Moody's and Fitch	6 095
Turbo Finance 5	Retail: Auto loans	2014	2018	Moody's and Fitch	7 790
Total					26 474

* *Does not include cash reserves.*
** *Includes transactions structured by the group and excludes third-party transactions.*

Rating distribution of retained 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 Dec 2014	**2 748**	**–**	**–**	**366**	**–**	**–**	**412**	**–**	**–**	**936**	**4 462**
At 31 Dec 2013	1 399	–	–	323	–	–	247	–	–	1 401	3 370
At 30 Jun 2014	1 463	–	–	247	–	–	235	–	–	1 380	3 325
Synthetic											
Third-party											
At 31 Dec 2014	**354**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**354**
At 31 Dec 2013	504	–	–	–	–	–	–	–	–	–	504
At 30 Jun 2014	504	–	–	–	–	–	–	–	–	–	504

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

	Assets outstanding*			Notes outstanding			Retained exposure		
	December 2014	**December 2013**	**June 2014**	**December 2014**	**December 2013**	**June 2014**	**December 2014**	**December 2013**	**June 2014**
	15 025	11 161	10 066	**15 983**	12 536	10 895	**4 462**	3 370	3 325
	330	932	576	**432**	1 125	717	**195**	359	268
	–	1 545	1 067	**–**	1 838	1 189	**–**	467	488
	1 209	2 552	1 907	**1 337**	2 991	2 108	**569**	549	574
	6 184	6 132	6 516	**6 540**	6 581	6 881	**1 608**	1 995	1 995
	7 302	–	–	**7 674**	–	–	**2 090**	–	–
	15 025	11 161	10 066	**15 983**	12 536	10 895	**4 462**	3 370	3 325

RESECURITISATIONS

A resecuritisation exposure is where 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 represents a minimal portion of the total portfolio and is accounted for as a resecuritisation exposure for regulatory capital purposes.

Resecuritisation exposure

	December 2014		December 2013		June 2014	
Programme*	**Resecuritisation exposure (R million)**	**% of total programme**	**Resecuritisation exposure (R million)**	**% of total programme**	**Resecuritisation exposure (R million)**	**% of total programme**
iVuzi	**9.8**	**0.4**	12.0	0.3	11.0	0.3

* *Excludes distributions relating to iNguza underlying exposure as this is driven by note holders and does not impact third parties.*

CAPITAL MARKET PROGRAMMES

The group has capital market programmes incorporated under both securitisation scheme and commercial paper regulations. The iNdwa and iVuzi 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 funding source to capital markets issuance 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 call-loan vehicle, iNkotha, 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 obligor. Note holders will have recourse only to the assets of 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 can be listed on the JSE or unlisted, and may be traded through members of the JSE.

Both the call-loan vehicle and the commercial paper programme have been incorporated under commercial paper regulations.

All 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 seen lower issuance volumes and assets under management in the past six months. The lower issuance volumes were driven mainly by the collapse of ABIL and the related impact on the money market industry. Issuance volumes are expected to remain low whilst the money market industry reassesses credit product appetite.

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.

Conduit programmes*

R million	Underlying assets	Year initiated	Rating agency	Programme size	Non-recourse investments Dec 2014	Non-recourse investments Dec 2013	Non-recourse investments Jun 2014	Credit enhancement provided Dec 2014	Credit enhancement provided Dec 2013	Credit enhancement provided Jun 2014
Securitisations**										
iNdwa	Corporate and structured finance term loans	2003	Fitch	15 000	2 638	4 932	4 420	-	-	-
iVuzi	Corporate and structured finance term loans	2007	Fitch	15 000	3 285	4 478	3 871	1 100	1 209	1 144
Total				30 000	5 923	9 410	8 291	1 100	1 209	1 144
Fixed income fund#										
iNkotha	Overnight corporate loans	2006	GCR†	10 000	1 194	3 278	2 937	-	-	-
Total				10 000	1 194	3 278	2 937	-	-	-
Commercial paper programme#										
iNguza	Corporate and structured finance term loans	2008	GCR†	15 000	10 262	13 698	9 482	-	-	-
Total				15 000	10 262	13 698	9 482	-	-	-

* *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
Conduits									
At 31 December 2014	**–**	**448**	**1 496**	**1 154**	**–**	**887**	**821**	**1 117**	**5 923**
At 31 December 2013	–	–	443	3 967	1 407	1 314	1 494	785	9 410
At 30 June 2014	–	674	1 054	2 744	250	1 247	1 533	789	8 291
Fixed income funds									
At 31 December 2014	**–**	**222**	**–**	**304**	**–**	**201**	**251**	**216**	**1 194**
At 31 December 2013	–	–	85	662	518	990	466	557	3 278
At 30 June 2014	–	–	270	367	422	798	610	470	2 937

* *Excludes distributions relating to iNguza underlying exposure as this is driven by note holders and does not impact third parties.*

LIQUIDITY FACILITIES

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

R million	Transaction type	December 2014	December 2013	June 2014
Own transactions		**2 498**	4 389	4 363
iNdwa	Conduit	**1 165**	2 760	3 204
iVuzi	Conduit	**1 333**	1 629	1 159
Third party transactions	Securitisations	**197**	1 415	214
Total		**2 695**	5 804	4 577

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 is based on the appropriate approach based on the Regulations. 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 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 the associated capital requirement per risk band.

Retained or purchased securitisation exposure and the associated regulatory capital charges

	Total exposure			RWA			Capital*		
R million	**Dec 2014**	**Dec 2013**	**Jun 2014**	**Dec 2014**	**Dec 2013**	**Jun 2014**	**Dec 2014**	**Dec 2013**	**Jun 2014**
≤10%	**–**	3 020	3 464	**–**	362	671	**–**	34	67
>10% =<20%	**3 309**	2 205	2 167	**650**	431	423	**65**	41	42
>20% =<50%	**1 165**	–	–	**1 036**	–	–	**104**	–	–
>50% =<100%	**371**	1 225	30	**190**	787	23	**19**	75	2
>100% +<650%	**397**	–	206	**1 390**	–	720	**139**	–	72
1 250%/Capital neutral	**936**	1 598	1 380	**9 357**	15 441	13 798	**936**	1 467	1 380
Look through	**2 433**	2 838	2 303	**776**	1 147	1 087	**78**	109	109
Total	**8 611**	10 886	9 550	**13 399**	18 168	16 722	**1 341**	1 726	1 672

* *Capital is calculated at the SARB transitional minimum requirement of 10% for 2014 (9.5%: 2013) (excluding the bank-specific individual capital requirement) and includes a 6% capital scalar.*

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 group or the client.

Counterparty credit risk is 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 focused on improving the measurement and management of derivative credit risks.

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/liquidity 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 corporate 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 relevant 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 ongoing portfolio risk management.

To this end, appropriate quantification methodologies of potential future exposure over the life of a product, also 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 relevant 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 counterparties.

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, assess the 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. In addition, the group has set up a function to clear OTC derivatives centrally as part of the risk mitigation.

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 used 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 immaterial and would not adversely impact its financial position. The group is phasing out ISDA agreements with these provisions. The number of trades (and associated risk) with counterparties with these types of agreements is also immaterial.

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, including 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 exposure

R million	December 2014	December 2013	June 2014
Gross positive fair value	**109 232**	105 484	97 882
Netting benefits	**(16 527)**	(17 650)	(11 650)
Netted current credit exposures before mitigation	**92 705**	87 834	86 232
Collateral value	**(84 403)**	(76 827)	(76 413)
Netted potential future exposure	**9 269**	10 034	11 702
Exposure at default*	**22 136**	22 609	24 488

* *Includes exposures calculated under both the standardised and current exposure method. 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 computed EAD.*

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. The credit derivative exposures are based on notional values.

Credit derivatives exposure

	December 2014			
R million	**Credit default swaps**	**Total return swaps**	**Other**	**Total**
Own credit portfolio				
– protection bought	**198**	**–**	**–**	**198**
– protection sold	**127**	**–**	**–**	**127**
Intermediation activities				
– protection bought	**3 623**	**–**	**–**	**3 623**
– protection sold	**5 747**	**–**	**–**	**5 747**

	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

	June 2014			
R million	**Credit default swaps**	**Total return swaps**	**Other**	**Total**
Own credit portfolio				
– protection bought	–	–	–	–
– protection sold	127	–	–	127
Intermediation activities				
– protection bought	3 555	–	–	3 555
– protection sold	5 787	–	–	5 787

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 is taken and managed by RMB. The relevant businesses within RMB function as the centres of expertise for all market risk-related activities. Market risk is managed and contained within the group's appetite.

Overall diversified levels of market risk have remained fairly low during the last few years, with this trend continuing during the current reporting period. There are no significant concentrations in the portfolio, which also reflects overall lower levels of risk.

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 Value-at-Risk (VaR) plus stressed VaR (sVaR).

Interest rate risk in the banking book is managed by Group Treasury in FCC and is disclosed in the *interest rate risk 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 subcommittee.

Separate governance forums, such as RMB's proprietary board, 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

The internal measure of risk is an ETL metric at the 99% confidence level under the full revaluation methodology using historical risk factor scenarios (historical simulation method). In order to accommodate the regulatory stress loss imperative, the scenario set used for revaluation of the current portfolio comprises historical scenarios which incorporate both the past 260 trading days and at least one static period of market distress (currently 2008/2009 data). The ETL is liquidity adjusted to cater for illiquid exposures. Holding periods, ranging between 10 and 90 days or more, are used in the calculation and are based on an assessment of distressed liquidity of portfolios.

VaR is calculated at the 99% 10-day holding period level using data from the past 260 trading days. For regulatory capital purposes this is supplemented with a sVaR, calculated using a pre-defined static stress period (as described above).

VaR calculations over a holding period of 1 day are used as an additional tool in the assessment of market risk.

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;
- the use of a 99% confidence level does not reflect the extent of potential losses beyond that percentile. The ETL is a better measure to quantify losses beyond that percentile (but still subject to similar limitations as stated for VaR);
- the 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. The ETL assessment provides a view of risk exposures under stress conditions.

Additional stress testing, to supplement the 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 the 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 quarterly 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 99^{th} 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 the methodologies stipulated in the Basel III framework. For all international 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.

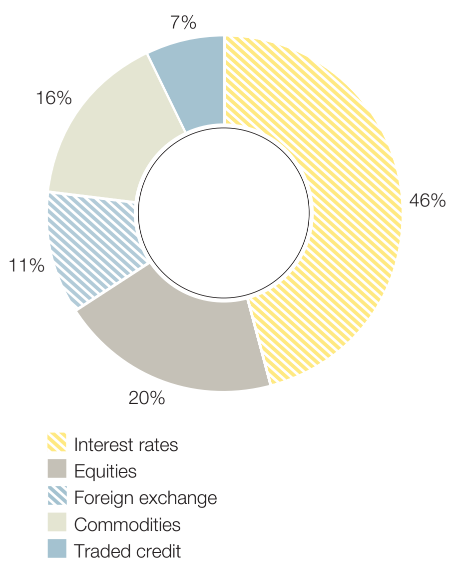
MARKET RISK IN THE TRADING BOOK PROFILE

The following chart shows the distribution of exposures per asset class across the group's trading activities at 31 December 2014 based on the VaR methodology. VaR equity exposure shown relates mainly to listed equity exposures in RMB Australia Holdings which relate to the RMB Resources portfolio. These exposures are predominantly in the junior resources sector and are reflected on the RMB Australia Holdings balance sheet. This risk is measured on a 90-day liquidity adjusted basis.

The overall asset class mix has remained consistent with the prior period. The interest rate asset class represented the most significant exposure at year end.

VaR exposure 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 reduced slightly between June and December 2014. The most notable change when compared to the prior period relates to the interest rate component, which halved in quantum. The main drivers of this reduction in risk were a number of platform and structural changes that were implemented following the implementation of a function unit to manage the group's derivative transformation initiative.

1-day 99% VaR analysis by instrument

	December 2014				December 2013	June 2014
R million	**Min***	**Max***	**Average**	**Period end**	**Period end**	**Period end**
Risk type						
Equities	**10.6**	**31.9**	**17.4**	**10.6**	20.0	18.2
Interest rates**	**21.2**	**60.4**	**40.8**	**24.5**	30.3	49.6
Foreign exchange	**5.6**	**31.5**	**17.2**	**5.6**	16.4	11.2
Commodities	**2.0**	**8.9**	**4.0**	**8.5**	4.6	3.3
Traded credit	**1.6**	**3.8**	**2.6**	**3.8**	3.0	2.6
Diversification effect	**–**	**–**	**–**	**(16.8)**	(19.5)	(26.2)
Diversified total	**32.0**	**86.5**	**57.1**	**36.2**	54.8	58.7

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

** *Banking book exposures are managed by Group Treasury in FCC and are reported under the banking book interest rate risk section.*

The following table reflects 10-day VaR and sVaR at the 99% confidence level at 31 December 2014. The 10-day VaR calculation is performed using 10-day scenarios created from the past 260 trading days, whereas the 10-day sVaR is calculated using scenario data from the static stress period (2008/2009). The results reflected in the following table are consistent with those mentioned above.

10-day 99% VaR and sVaR analysis by instrument

	December 2014								December 2013		June 2014	
	VaR				**sVaR**				**Period end**		**Period end**	
R million	**Min**	**Max**	**Aver-age**	**Period end**	**Min**	**Max**	**Aver-age**	**Period end**	**VaR**	**sVaR**	**VaR**	**sVaR**
Risk type												
Equities	**26.3**	**64.0**	**38.9**	**32.2**	**9.9**	**116.8**	**53.1**	**58.1**	56.0	25.7	41.5	29.3
Interest rates	**59.7**	**134.1**	**92.9**	**62.9**	**91.8**	**194.6**	**126.2**	**101.7**	91.2	179.7	78.6	137.0
Foreign exchange	**15.2**	**67.6**	**38.4**	**38.1**	**13.4**	**127.7**	**48.5**	**47.0**	32.8	123.6	32.2	24.3
Commodities	**5.2**	**31.2**	**11.1**	**29.2**	**8.1**	**72.0**	**26.5**	**69.1**	19.4	27.2	6.9	12.9
Traded credit	**3.5**	**10.0**	**4.6**	**10.0**	**3.7**	**8.3**	**5.3**	**6.6**	3.0	11.2	4.6	5.5
Diversification effect	**–**	**–**	**–**	**(55.7)**	**–**	**–**	**–**	**(172.4)**	(45.3)	(149.0)	(39.0)	(57.5)
Diversified total	**101.9**	**182.1**	**133.0**	**116.7**	**93.2**	**218.1**	**127.4**	**110.0**	157.1	218.4	124.9	151.5

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 general market risk measures for interest rate and equity risk, such as default, credit migration and event risks, and identifies concentrations in a portfolio. The following table represents the group's specific risk. The interest rate specific risk increase was driven mainly by new bond exposures in the rest of Africa.

Specific risk capital*

R million	December 2014	December 2013	June 2014
Interest rate specific risk	**145**	73	99
Equity specific risk	**55**	78	85
Total	**200**	151	184

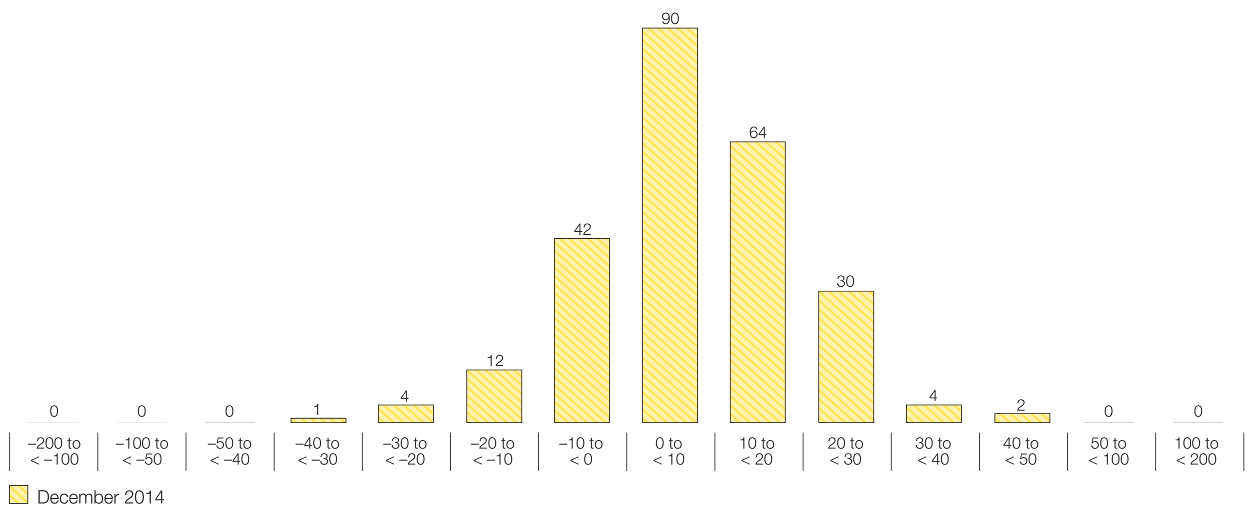
* *Capital calculated at the SARB transitional minimum requirement of 10.25% (excluding the bank-specific individual capital requirement).*

Distribution of daily trading earnings from trading units

The following histogram shows the daily revenue for the group's local trading units for the period. The results are skewed towards profitability.

Distribution of daily earnings – frequency

Days in a period

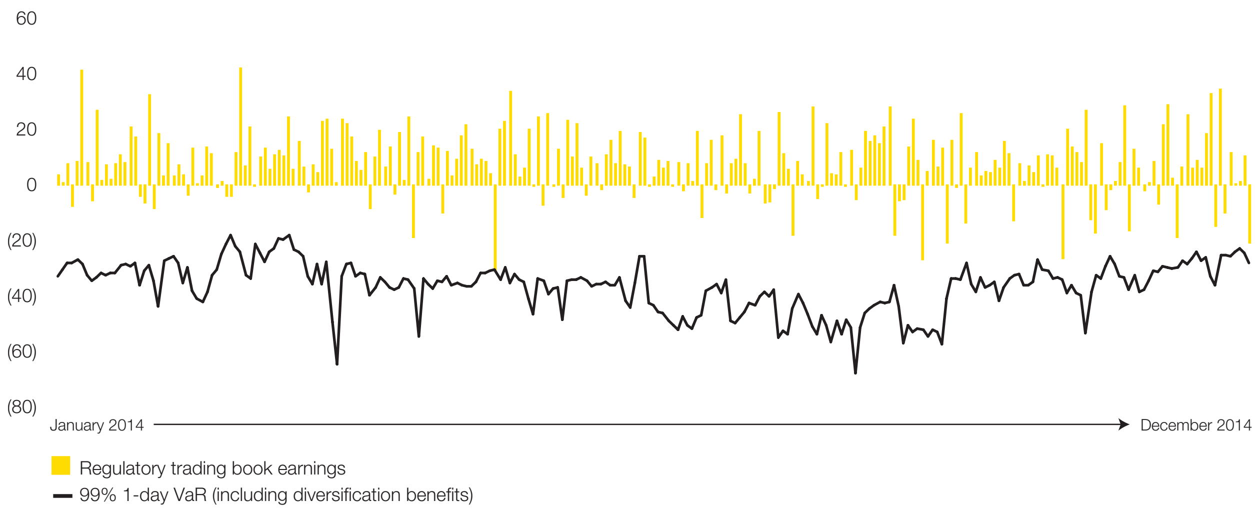


Back testing: daily regulatory trading book earnings and VaR

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.

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 good quantification of market risk provided by the group's internal model.

International entities

RMB Australia Holdings, FirstRand Bank India branch, the FirstRand Bank London branch and the group's subsidiaries in the rest of Africa hold exposures to market risk. RMB Australia Holdings, FirstRand Bank India branch and the FirstRand Bank London branch are measured and managed on the same basis as the local portfolios, with regulatory capital based on the regulatory standardised approach. The subsidiaries in the rest of Africa are measured using the regulatory standardised approach for regulatory capital and an internal stress loss methodology for internal measurement of risk.

At 31 December 2014, the African subsidiaries collectively held the majority of market risk exposures when compared to the other international entities listed above.

Rest of Africa

Activities across the rest of Africa, in particular Nigeria, have continued to grow during the reporting period. There was a notable increase in interest rate risk, driven mainly by the Nigeria operations.

Market risk was contained within acceptable stress loss limits and effectively managed across the African subsidiaries during the period under review.

Market risk standardised approach for the African subsidiaries

R million	December 2014 Min	Max	Average	Period end	December 2013 Period end	June 2014 Period end
Risk type						
Interest rates	**20.1**	**143.8**	**76.3**	**130.0**	10.6	7.4
Foreign exchange	**7.6**	**22.8**	**13.6**	**17.3**	21.5	16.0
Total	**27.7**	**166.6**	**89.9**	**147.3**	32.1	23.4

FRIHL

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

1-day 99% VaR analysis for FRIHL

R million	December 2014 Min*	Max*	Average	Period end	December 2013 Period end	June 2014 Period end
Diversified total	**6.3**	**35.1**	**15.6**	**6.3**	16.4	13.3

* *The maximum and minimum 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 decrease in VaR observed above, market risk calibrated using the regulatory standardised approach decreased.

Market risk standardised approach regulatory capital for FRIHL*

R million	December 2014	December 2013	June 2014
Specific risk	**19**	49	42
General risk	**31**	64	51

* *The FRIHL regulatory market risk numbers comprise RST and RMB Resources.*

INTEREST RATE RISK IN THE BANKING BOOK

INTRODUCTION AND OBJECTIVES

Interest rate risk in the banking book (IRRBB) originates from the differing repricing characteristics of balance sheet transactions, yield curve risk, basis risk and client optionality embedded in banking book products.

The endowment effect, which results from a large proportion of non- and low-rate liabilities that fund variable-rate assets, remains the primary driver of IRRBB and results in group earnings being vulnerable to interest rate cuts and benefiting from a hiking cycle.

IRRBB is an inevitable risk associated with banking and can be an important source of profitability and shareholder value. Within FirstRand, IRRBB continues to be managed on an earnings approach, with the aim to protect and enhance the group's earnings and economic value through the cycle within approved risk limit and appetite levels. The endowment hedge portfolio is managed dynamically taking into account the continuously changing macroeconomic environment.

At the beginning of 2014, the SARB communicated that South Africa was entering a hiking cycle. The subsequent increase in the repo rate in the period under review had a positive impact on margins as a result of the endowment impact.

Strategic hedge positions are in place to protect the group's net interest margin against macroeconomic uncertainty timing and the extent of the hiking cycle, and if rates remain lower for longer. These hedges are actively monitored along with macroeconomic factors impacting rates in the domestic economy, as well as the foreign subsidiaries and branches.

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, 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 sublimits and remedial action to be taken in the event of limit breaches.

Individual ALCCOs exist in each of the African subsidiaries and international branches which monitor and manage in-country IRRBB. Material issues from individual ALCCOs are reported through to FirstRand ALCCO.

ASSESSMENT AND MANAGEMENT

FirstRand Bank (South Africa)

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. This is covered in the *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 the majority of its banking book under the market risk framework; as such, 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 R24.3 million on a 10-day ETL basis at 31 December 2014 (December 2013: R24.5 million, June 2014: R31.5 million). Refer to *market risk in the trading book* section. Portions managed by Group Treasury in FCC as part of the banking book relate to non-rate items and prime-linked products which are not managed on a fair value basis and are included in this section.

The remaining banking book consists predominantly of balances from FNB and WesBank, and the FCC balance sheet. This is managed centrally by Group Treasury with oversight from FCC risk management.

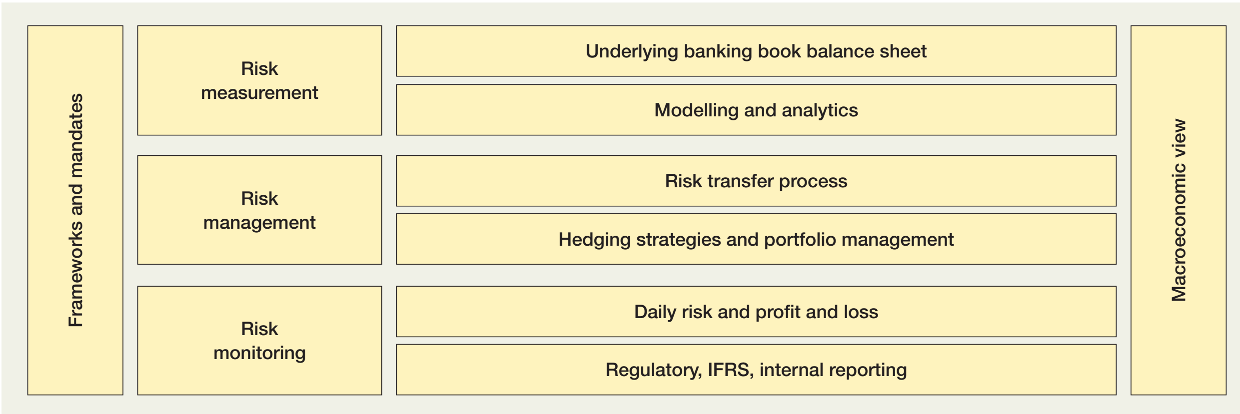
The internal funds transfer pricing (FTP) process is used to transfer interest rate risk from the franchises to Group Treasury. This process allows risk to be managed centrally and holistically in line with the group's macroeconomic outlook. Management of the resultant risk position is achieved by balance sheet optimisation or 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. Interest rate risk from the fixed-rate book is managed to low levels with remaining risk stemming from timing and basis risk.

A number of measurement techniques are used to monitor IRRBB. These focus on NII sensitivity/earnings risk and net asset value/economic value of equity (EVE). A repricing gap is also generated to better understand the repricing characteristics of the balance sheet. In calculating the repricing gap, all banking book assets, liabilities and derivative instruments are placed in gap intervals based on repricing characteristics. The repricing gap, however, is not used for management decisions.

Foreign operations

Management of foreign branches and subsidiaries is performed by in-country management teams with oversight provided by Group Treasury and FCC risk management. For subsidiaries, earnings sensitivity measures are used to 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



SENSITIVITY ANALYSIS

A change in interest rates impacts both the earnings potential of the banking book (as underlying assets and liabilities reprice to new rates), as well as in the economic/net asset value of an entity (as a result of a change in the fair value of any open risk portfolios used to manage the earnings risk). The role of management is to protect both the financial performance as a result of a change in earnings and to protect the long-term economic value. To achieve this, both earnings sensitivity and economic sensitivity measures are monitored and managed within appropriate risk limits and appetite levels, considering the macroeconomic environment and factors which could cause a change in rates.

Earnings sensitivity

Earnings models are run on a monthly basis to provide a measure of the NII sensitivity of the existing banking book balance sheet to shocks in interest rates. 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. Rollover assumptions are not applied to off-balance sheet positions. A pass-through assumption is applied in relation to non-maturing deposits, which reprice at management's discretion. This assumption is based on historical product behaviour.

The following tables show the 12-month NII sensitivity for a sustained, instantaneous parallel 200 bps downward and upward shock to interest rates. The decreased sensitivity at December 2014 from June 2014 is attributable to strategic hedges in place to manage the margin from the capital and deposit endowment book through the cycle. At June 2014, endowment hedges were being allowed to roll off to benefit from a hiking cycle. Given current uncertainty on the length and extent of the hiking cycle, the endowment book is actively managed.

Assuming no change in the balance sheet and no management action in response to interest rate movements, an instantaneous, sustained parallel decrease in interest rates of 200 bps would result in a reduction in projected 12-month NII of R2 400 million. A similar increase in interest rates would result in an increase in projected 12-month NII of R2 241 million. The NII sensitivity analysis below excludes the banking books which are managed separately. The bulk of the sensitivity relates to the endowment book mismatch. The group's average endowment book was R131 billion for the period. Total sensitivity to ZAR rate moves is measured in FRB whilst African subsidiaries are measured in local currency terms.

Projected NII sensitivity to interest rate movements

	December 2014		
	Change in projected 12-month NII		
R million	**FirstRand Bank**	**FNB Africa***	**FirstRand**
Downward 200 bps	**(1 956)**	**(444)**	**(2 400)**
Upward 200 bps	**1 869**	**372**	**2 241**

	December 2013		
	Change in projected 12-month NII		
R million	**FirstRand Bank**	**FNB Africa***	**FirstRand**
Downward 200 bps	(1 675)	(346)	(2 127)
Upward 200 bps	1 586	297	1 988

	June 2014		
	Change in projected 12-month NII		
R million	**FirstRand Bank**	**FNB Africa***	**FirstRand**
Downward 200 bps	(2 258)	(421)	(2 679)
Upward 200 bps	2 218	363	2 581

* *Includes FNB's activities in India.*

Economic value of equity (EVE)

An EVE sensitivity measure is used to assess the impact on the total net asset value of the group as a result of a shock to underlying rates. Unlike the trading book, where a change in rates will impact fair value income and reportable earnings of an entity when a rate change occurs, the realisation of a rate move in the banking book will impact the distributable and non-distributable reserves of the entity to varying degrees and is reflected in the NII margin more as an opportunity cost/benefit over the life of the underlying transactions. As a result, a purely forward looking EVE measure applied to the banking book, be it a 1 bps shock or a full stress shock, is monitored relative to total risk limit and appetite levels.

The table below highlights the sensitivity of net asset value as a percentage of total capital. The EVE shock applied is based on regulatory guidelines and is a sustained, instantaneous parallel 200 bps downward and upward shock to interest rates. This is applied to risk portfolios as managed by Group Treasury which, as a result of the risk transfer through the FTP process, captures relevant open risk positions in the banking book. This measure does not take into account the unrealised economic benefit embedded in the entity as a result of the banking book products which are not recognised at fair value. The increase in NAV sensitivity in the current period is attributable to active management of strategic hedges in the period under review. In June 2014, hedges were being allowed to roll off in anticipation of a hiking cycle.

The table below reflects a point-in-time view, which is dynamically managed and can change significantly in a short space of time. This disclosure differs from previous EVE sensitivity disclosure as it looks at the economic sensitivity of the banking book as a whole as opposed to only the sensitivity of products impacting the cash flow and available-for-sale reserves. The sensitivity analysis below excludes the banking book managed by RMB and the foreign operations' banking books, which are separately managed.

Net asset value sensitivity to interest rate movements as a percentage of total group capital

%	December 2014	December 2013	June 2014
Downward 200 bps	**0.90**	0.57	0.25
Upward 200 bps	**(0.87)**	(0.54)	(0.28)

EQUITY INVESTMENT RISK

INTRODUCTION AND OBJECTIVES

Equity investment risk arises primarily from equity exposures from investment banking activities in RMB, e.g. exposures to equity risk arising from principal investments or structured lending. Other sources of equity investment risk include strategic investments held by WesBank, FNB and FCC.

Ashburton Investments was launched in 2013, which required the seeding of new traditional and alternative funds both locally and offshore, which exposes the group to equity investment risk.

The group actively monitors regulatory developments, including amendments to current regulations. 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.

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 (investment committee) chaired by the RMB chief investment officer and its delegated subcommittees are responsible for oversight of the approval of 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 relevant credit committees and the large exposures committee, 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 investments through the financial reporting process; and
- The RCC and MIRC 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 investment 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 has established its own capital management committee to monitor and report on these positions to the Ashburton Investments' audit, risk and compliance committee and RCC 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 investment committee before final approval is granted. In addition, normal biannual reviews are carried out for each investment 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 or loss, or available-for-sale financial assets.

Consistent with the group's accounting policies, the consolidated financial statements include the assets, liabilities and results of operations of all equity investments in which the group has power over the relevant activities and the ability to use that power to affect the variable returns received from the entity.

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 relevant activities of the joint venture through a contractual agreement.

Measurement of risk exposures

Risk exposures are measured as potential loss 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 replacements of realisations).

Stress testing

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

Regulatory and economic capital

The SARB simple risk weighted method under the market-based approach, 300% (listed) or 400% (unlisted) is applied for the quantification of regulatory capital. Under the Regulations, the risk weight applied to investments in financial, banking and insurance institutions are subject to the aggregate and individual value of the group's shareholding in these investments and also in relation to the group's qualifying CET1 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

The private equity portfolio had a significant realisation during the period under review. The unrealised value of the total investment portfolio measured to R4.3 billion (December 2013: R3.0 billion).

Investment risk exposure and sensitivity of investment risk exposure

R million	December 2014	December 2013	June 2013
Listed investment risk exposure included in the equity investment risk ETL process	**106**	370	516
ETL on above equity investment risk exposures	**69**	134	161
Estimated sensitivity of remaining investment balances			
Sensitivity to 10% movement in market value on investment fair value*	**409**	888	397
Cumulative gains realised from sale of positions in the banking book during the period	**871**	139	1 786

* *The 10% sensitivity movement is calculated on the carrying value of investments excluding investments subject to the ETL process and the carrying value of investments in associates and joint ventures. The decline in the sensitivity value from December 2013 to December 2014 relates mainly to a change in accounting treatment of employee liability insurance.*

The following tables provide information relating to equity investment risk.

Investment valuations and associated regulatory capital requirements

R million	Publicly quoted investments (December 2014)	Privately held (December 2014)	Total (December 2014)
Carrying value of investments*	**1 586**	**9 868**	**11 454**
Per risk bucket			
250%	**2**	**2 826**	**2 828**
300%	**1 584**	**–**	**1 584**
400%	**–**	**7 042**	**7 042**
Latent revaluation gains not recognised in the balance sheet**	**178**	**1 327**	**1 505**
Fair value#	**1 764**	**11 195**	**12 959**
Total unrealised gains recognised directly in balance sheet through equity instead of the income statement**	**153**	**227**	**380**
Capital requirement†	**475**	**2 873**	**3 348**

* *Financial, banking and insurance entities that meet Basel III classification criteria are subject to risk weighting at 250% whilst listed and unlisted investments are subject to 300% and 400% risk weighting respectively.*
** *These unrealised gains or losses are not included in Tier 1 or Tier 2 capital.*
# *The fair values of listed private equity investments were not considered to be materially different from the quoted market prices.*
† *Capital requirement calculated at 10% of RWA (excluding the 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	Publicly quoted investments (December 2013)	Privately held (December 2013)	Total (December 2013)
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 gains recognised directly in balance sheet through equity instead of the income statement	243	380	623
Capital requirement#	400	3 003	3 403

* *These unrealised gains or losses are not included in Tier 1 or Tier 2 capital.*
** *The 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 incremental 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.*

Investment valuations and associated regulatory capital requirements (continued)

	June 2014		
R million	**Publicly quoted investments**	**Privately held**	**Total**
Carrying value of investments*	1 907	9 630	11 537
Per risk bucket			
250%	3	2 558	2 561
300%	1 904	–	1 904
400%	–	7 072	7 072
Latent revaluation gains not recognised in the balance sheet**	183	5 750	5 933
Fair value#	2 090	15 380	17 470
Total unrealised gains recognised directly in balance sheet through equity instead of the income statement**	259	45	304
Capital requirement†	586	2 952	3 538

* *Financial, banking and insurance entities that meet Basel III classification criteria are subject to risk weighting at 250% whilst listed and unlisted investments are subject to 300% and 400% risk weighting respectively. This additional information was included in disclosure from June 2014.*

** *These unrealised gains or losses are not included in Tier 1 or Tier 2 capital.*

\# *The fair values of listed private equity investments were not considered to be materially different from the quoted market prices.*

† *Capital requirement calculated at 10% of RWA (excluding the 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.*

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 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 governance and oversight.

Translation risk is the risk to the rand-based 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 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 consolidated under and executed by RMB's Global Markets division. Foreign currency funding, foreign assets as well as foreign currency exposure, liquidity and term mismatch are consolidated under and managed by Group Treasury in FCC.

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 international ALCCO processes. In addition to these committee structures, business units charged with frontline management of these risks have deployed risk managers within their units who assess and report this risk 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 the group's total foreign currency exposure, below the regulatory limit but sufficient to allow 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 position is within the regulatory limit of USD811 million, with actual exposure at a negative USD159 million. Senior management implemented various levels of internal prudential limits, taking into account fluctuating exchange rates and the group's capital position. These limits fall below the regulatory limit but are large enough to cater for the hedging, settlement and execution positions of business units. Group Treasury is the clearer of all currency positions in the group and is, therefore, tasked with the responsibility 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

During the period under review, no significant foreign exchange positions have been run, apart from translation risk in strategic foreign investments. Mismatches have been 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 strives to fund its activities in a sustainable, diversified, efficient and flexible manner, underpinned by strong counterparty relationships within prudential limits and minimum requirements. The objective is to maintain natural market share, but also to outperform at the margin, which will provide the group with a natural liquidity buffer.

Given the liquidity risk introduced by its business activities, the group's objective is to optimise its funding profile within structural and regulatory constraints to enable its franchises to operate in an efficient and sustainable manner.

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

The group improved its funding and liquidity profile, however, the current market conditions and regulatory requirements would require further increasing levels of available liquidity relative to the group's appetite.

At 31 December 2014, FRB exceeded the 60% minimum LCR requirement effective 1 January 2015, per the *pro forma* LCR issued by the BCBS and aligned to the SARB LCR measurement.

FRB's available sources of liquidity per the BCBS LCR were R84 billion, with an additional R9 billion of management liquidity available at 31 December 2014.

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 practice. As a subframework of 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. Its primary responsibility is the assessment, control and management of both liquidity and interest rate risk for the bank, its international branches as well as the subsidiaries in the rest of Africa, either directly or indirectly, through providing guidance, management and oversight to the asset and liability management functions and ALCCOs in these entities.

Group Treasury is mandated to manage the funding and liquidity risk of the group. Group Treasury is responsible for:

- recommending, implementing and reviewing the liquidity risk appetite, strategy and liquidity risk management processes of the group; and
- managing and maintaining the prudential liquidity limits across all entities in the group.

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 to the funding executive committee. In addition, management aspects of the liquidity position are reported daily to Group Treasury and FCC risk management. The liquidity risk management team provides regular reports to FirstRand ALCCO.

Foreign entities

Foreign branches are part of the bank, while subsidiaries are managed on a standalone basis with no implicit or explicit support. All subsidiaries are managed within the in-country capital base and liquidity resources with focus placed on developing deposit franchises.

International branches and subsidiaries have in-country treasury functions responsible for the day-to-day management of these entities' funding and liquidity risk. Group Treasury provides:

- overall funding and liquidity risk management frameworks and mandates;
- dedicated resources to assist with technical expertise in asset/liability management and fund raising activities; and
- alignment to international best practices and latest regulatory environment.

Individual ALCCOs have been established in each of the subsidiaries in the rest of Africa and manage liquidity in-country in line with the group principles under delegated mandates from the relevant boards. Reports from these committees are regularly presented to FirstRand ALCCO and management and control of liquidity risk in the subsidiaries are based on guidance and principles that have been set out and approved by FirstRand ALCCO.

From a liquidity risk perspective, international businesses report into the international ALCCO (a subcommittee of FirstRand 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 a renewed dispensation by the Financial Services Authority (FSA) for a waiver on a Whole-firm Liquidity Modification application basis where the FSA considers local risk reporting and compliance of the parent bank sufficient to waive FSA requirements for FirstRand Bank (London branch). FSA reporting commenced in January 2011. As part of the liquidity risk management framework for the London branch, it has access to the Bank of England's discount window facility for approved collateral.

FUNDING MANAGEMENT

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 have higher liquidity risk than deposits raised through the deposit franchise. Recent observations suggest that South African corporates and the public sector are also making use of financial intermediaries that provide bulking and maturity transformation services with their cyclical cash surpluses. 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;
- concentration of customer current accounts with the four largest banks;
- prudential exchange control framework in place in South Africa; and
- the low dependency of South African banks on foreign currency funding.

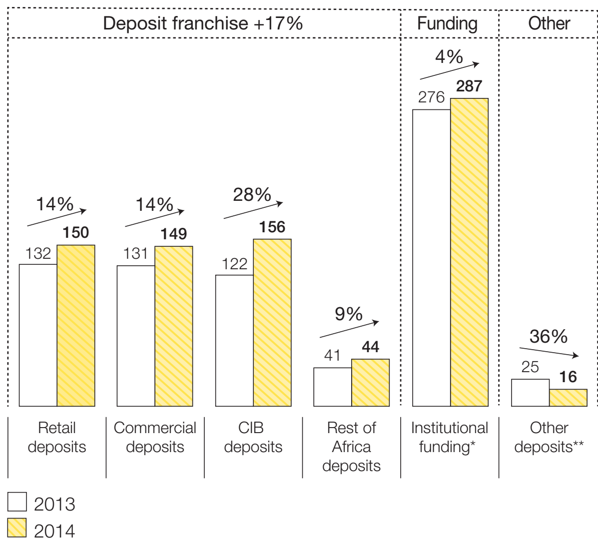
During the period under review, there has been increased liquidity demand by banks as a consequence of the money supply constraints introduced by LCR and central banks market operations. In the light of the structural features discussed above, focus is currently placed on achieving a risk-adjusted diversified funding profile which also supports the Basel III requirements.

The group manages its funding structure by source, counterparty type, product, currency and market. The deposit franchise represents the most efficient source of funding and comprised 67% of domestic funding liabilities at 31 December 2014. During the period under review, the group has continued to focus on growing its deposit franchise across all segments with increasing emphasis on savings products and term savings. Progress has been made in developing suitable products to attract a greater proportion of clients' available liquidity with improved risk-adjusted pricing. To fund operations, the group accesses the domestic money markets daily and has, during the course of the period, accessed capital markets. The group has frequently issued various capital and funding instruments within the capital markets on an auction and reverse enquiry basis with strong support from investors.

The graph below provides a segmental analysis of the group's funding base and illustrates the success of its deposit franchise focus.

Group funding by segment

R billion



* *Includes CIB institutional funding and marketable debt securities.*

** *Consists of liabilities relating to conduits and securitisations.*

Funds transfer pricing

The group operates a funds transfer pricing framework which incorporates liquidity costs and benefits as well as regulatory friction costs into product pricing and performance measurement for all on- and off- balance sheet activities. Franchises are incentivised to:

- preserve and enhance funding stability;
- ensure that assets pricing is aligned to liquidity risk;
- reward liabilities in accordance with behavioural characteristics and maturity; and
- manage contingencies with respect to potential funding drawdowns.

Funding measurement and activity

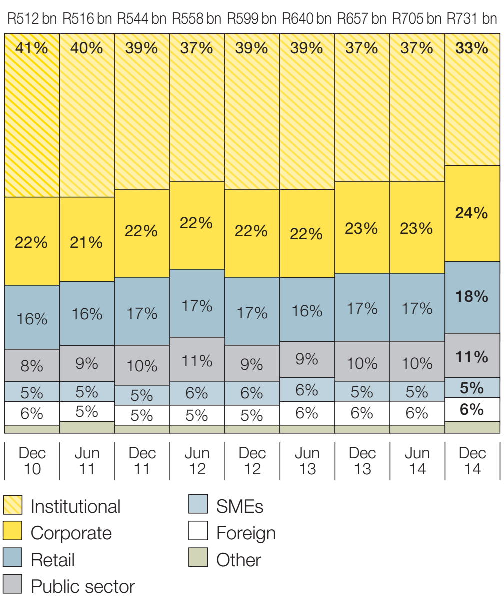
FRB, FirstRand's wholly-owned subsidiary and debt issuer, generates a larger proportion of its funding from the deposit franchise in comparison to the South African aggregate, however, its funding profile also reflects the structural features described above. The table below provides an analysis of FRB's funding sources.

FRB's funding sources

	31 December 2014			
% of funding liabilities	**Total**	**Short-term**	**Medium-term**	**Long-term**
Institutional funding	**33.4**	**11.1**	**8.0**	**14.3**
Deposit franchise	**66.6**	**50.7**	**6.5**	**9.4**
Corporate	**23.9**	**20.4**	**1.9**	**1.6**
Retail	**17.7**	**13.4**	**2.9**	**1.4**
SME	**5.2**	**4.6**	**0.4**	**0.2**
Government and parastatals	**10.5**	**9.0**	**1.0**	**0.5**
Foreign	**6.4**	**2.9**	**0.2**	**3.3**
Other	**2.9**	**0.4**	**0.1**	**2.4**
Total	**100.0**	**61.8**	**14.5**	**23.7**

FRB's funding analysis by source

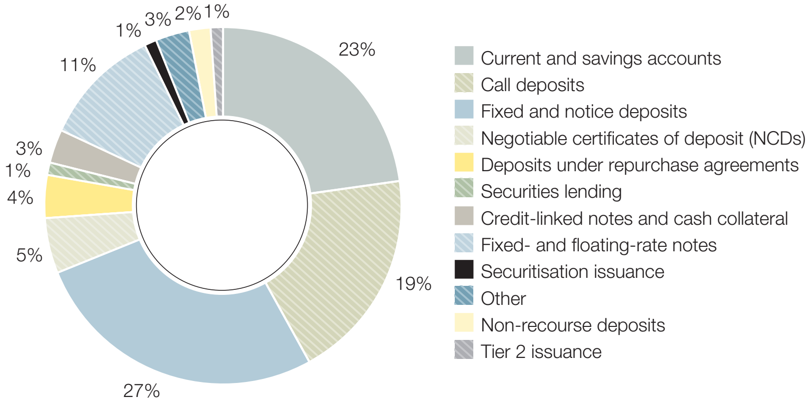
R billion



Source: SARB BA900 returns, December 2014.

The following charts illustrate the group's funding instruments by instrument type, including senior debt and securitisation.

Group's funding analysis by instrument type

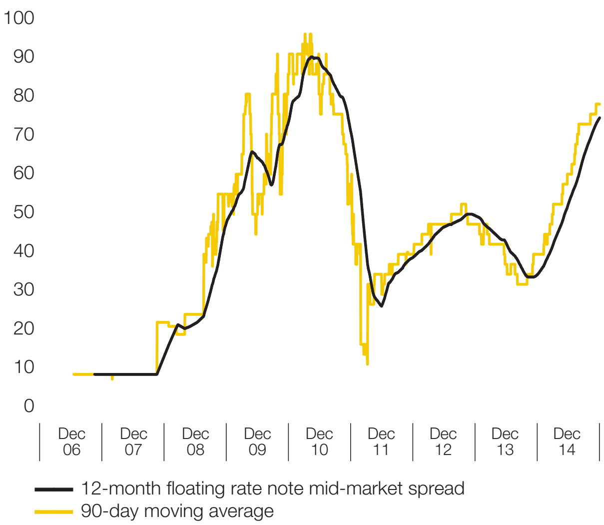


The group's aim is to fund the balance sheet in the most efficient manner, taking into account the liquidity risk management framework, as well as regulatory and rating agency requirements.

To ensure maximum efficiency and flexibility in accessing funding opportunities, a range of debt programmes has been established. FRB's strategy for domestic vanilla public issuance is to create actively-traded benchmarks, which facilitate secondary market liquidity in both domestic and offshore markets. The value of this strategy is that it assists in identifying cost-effective funding opportunities while ensuring a good understanding of market liquidity.

The following graph is a representation of the market cost of liquidity, which is measured as the spread paid on NCDs relative to the prevailing swap curve for that tenor. The liquidity spread graph is based on the most actively-issued money market instrument by banks, namely 12-month NCDs and shows that liquidity spreads have continued to increase.

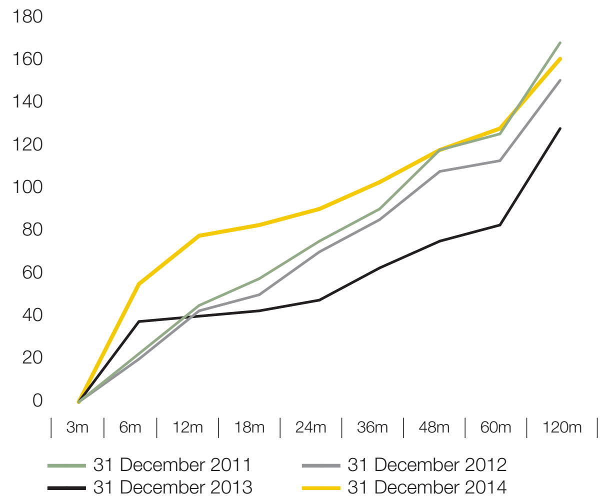
12-month liquidity spread



Source: Bloomberg (RMBP screen) and Reuters

The following graph shows that long-term funding spreads are elevated from a historical perspective. On the basis of the group's improved risk profile, higher capital adequacy and greater predictability of earnings, the credit risk component of funding spreads should be lower. Long-term funding spreads, therefore, still appear to be reflecting a high liquidity premium. The group is consistently able to raise funds in the capital markets in line with its funding curve, which it views as an important test as the group's asset origination is linked to its funding curve.

Long-term funding spreads

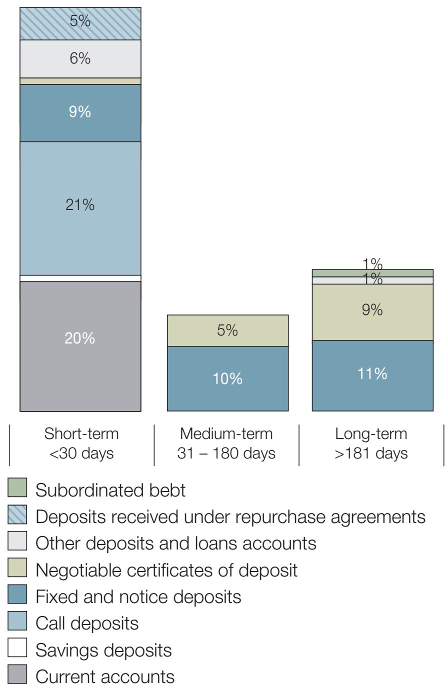


Source: Bloomberg (RMBP screen) and Reuters

As a result of the group's focus on growing its deposit and transactional banking franchise, a significant proportion of funds are contractually short-dated. As these deposits are anchored to clients' service requirements and given the balance granularity created by individual clients' independent activity, the resultant liquidity risk profile is improved.

The following chart illustrates a breakdown of the group's funding liabilities by instrument and term.

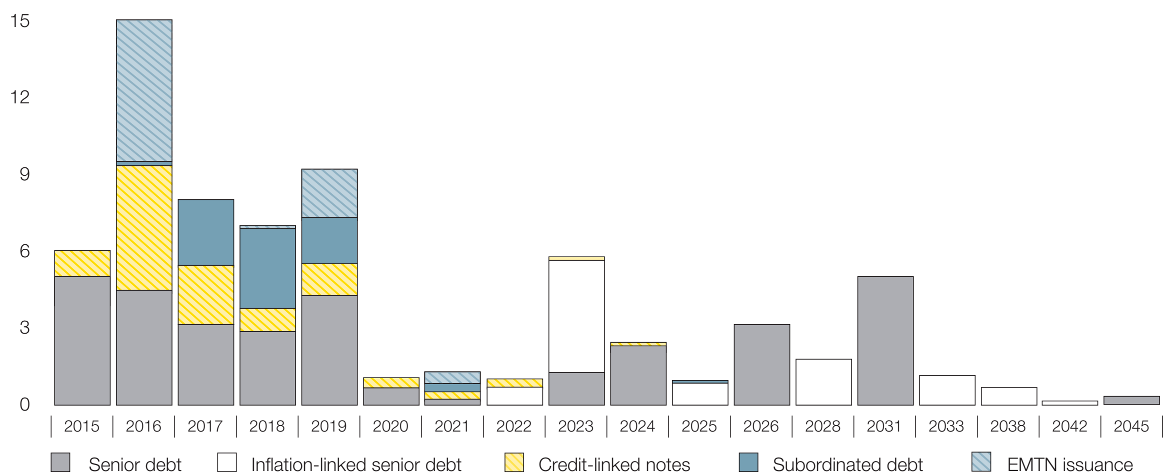
Group's funding liabilities by instrument type and term at 31 December 2014



The maturity profile of all issued capital markets instruments is shown below. The group does not have concentration risk in any one year and seeks to efficiently issue across the curve with consideration of investor demand.

Maturity profile of FRB's capital market instruments

R billion



Funding structure of foreign operations

In line with the group's strategy to build its deposit franchises, foreign operations are categorised in terms of their stage of development from greenfields start-ups to mature subsidiaries and can be characterised from a funding perspective as follows:

- Mature deposit franchises – all assets are largely funded in-country. The pricing of funding is determined via in-country funds transfer pricing, which is already in place.
- Growing deposit franchises – assets are first funded in-country at attendant funds transfer pricing rates. Any excess over and above in-country capacity would be funded by the group's USD funding platforms. This is a temporary arrangement, which allows these entities time to develop adequate in-country deposit bases.
- No deposit franchises – all activities would be funded by FirstRand's USD funding platforms.

Group funding support

Any funding provided by the group is constrained by the appetite set independently by the credit risk management committee or the board. In arriving at limits, the credit risk management committee considers the operating jurisdiction and any sovereign risk limits that should apply, but is indifferent between liquidity and funding facilities. Group Treasury, therefore, has to ensure that any resources availed to foreign entities are priced appropriately.

FOREIGN CURRENCY BALANCE SHEET

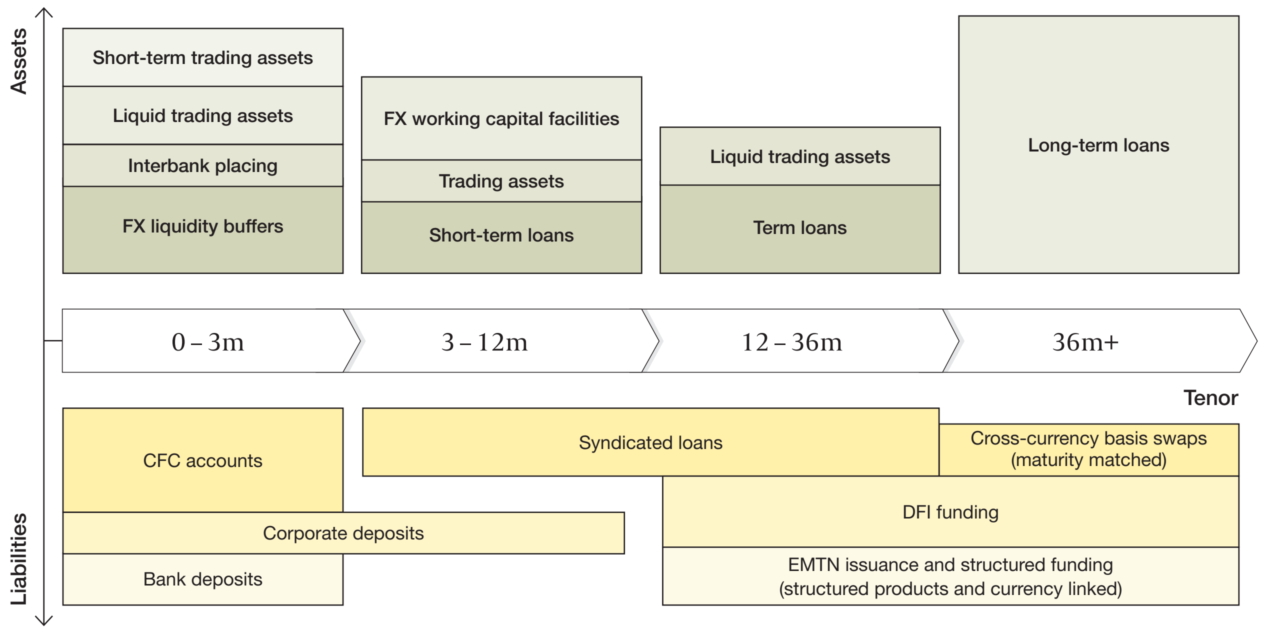
Given the group's objective to grow its franchise in the rest of Africa, India and the corridors, and given the size of MotoNovo, the active management of foreign currency liquidity risk continues to be a strategic focus. The group seeks to avoid exposing itself to undue liquidity risk within the risk appetite approved by the board and risk committee. The SARB via *Exchange Control Circular 9 of 2011* introduced macro-prudential limits applicable to authorised dealers. The group utilises its own foreign currency measurement balance sheet measures based on economic risk and has set internal limits below that are allowed by the macro-prudential limit framework.

FirstRand's expansion strategy means that its foreign currency activities, specifically lending and trade finance, have increased. It is, therefore, important to have a sound framework for the assessment and management of foreign currency external debt, given the inherent vulnerabilities and liquidity risks associated with cross-border financing. This limit includes the FirstRand Bank's exposure to branches, foreign currency assets and guarantees.

Philosophy on foreign currency external debt

A key determinant in an institution's ability to fund and refinance in currencies other than its domestic currency is the sovereign risk and associated external financing requirement. The group's framework for the management of external debt takes into account sources of sovereign risk and foreign currency funding capacity. The group considers risks arising from an unsustainable debt path, liquidity, exchange rate and macroeconomic crises. To determine South Africa's foreign currency funding capacity, the group considers the external debt of all South African entities (private and public sector, financial institutions) as these entities all utilise the South African system's capacity – confidence and export receipts.

Graphical representation of the foreign currency balance sheet



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 group recognises two types of liquidity risk:

- **funding liquidity risk** – 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** – the risk that market disruptions or lack of market liquidity will cause a 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 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 table.

Liquidity risk management approaches

Structural liquidity risk	Daily liquidity risk	Contingency liquidity risk
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 over 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 an appropriate structural liquidity gap; and • maintaining a funds transfer pricing methodology and process.	• managing intraday liquidity positions; • managing daily payment queue; • monitoring net funding requirements; • forecasting cash flows; • performing 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.

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 benign economic conditions highlight the importance 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 liquidity contingency planning is to achieve and maintain funding levels in a manner that allows the group to emerge from a potential funding crisis with its reputation intact and to maintain its 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 bank-specific events (idiosyncratic) which may result in the loss of funding sources.

It is reviewed annually and tested regularly 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 it ever experience an extreme liquidity stress event.

REGULATORY UPDATE

Basel III

Post the financial crisis the BCBS instituted a framework for sound and prudent liquidity risk management. The liquidity reforms 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 minimum requirements and implementation dates.

The BCBS released an update on the NSFR in January 2014, proposing a better alignment between the LCR and NSFR. The group believes that the calibration and alignment has improved the NSFR, however, some concerns remain with respect the treatment of secured funding transactions, such as repos and the application of the calibration to derivative transactions. The group will continue to participate in the consultative process on the NSFR.

Liquidity coverage ratio

The LCR has been fully adopted by the SARB with the inclusion of a committed liquidity facility, and will be phased in from 2015 to 2019. The minimum LCR requirement will be 60% at 1 January 2015, with 10% incremental step ups each year to 100% on 1 January 2019.

In addition to level 1 assets, eligible collateral will include levels 2A and 2B with qualifying criteria and ratings requirements referenced to national scale ratings for liquidity risk in that local currency.

Disclosure requirements

In March 2014 the BCBS published the *Liquidity coverage ratio disclosure standards* proposing consistent and transparent disclosure of banks liquidity positions as measured by the Basel III regulations. The objective of the document is to reduce market uncertainty around these liquidity positions.

The SARB issued *Directive 11 of 2014* which requires banks to disclose the simple average of the prior three month-end liquidity coverage ratio figures on a quarterly basis. This is effective from the first quarter of 2015 and will correspond with quarterly capital disclosures. The disclosure only applies to banking and/or deposit-taking entities. The South African banking industry and the SARB are currently defining the reporting template to be used in the disclosures. The group's intention is to comply with these requirements from 2015 onwards.

The LCR disclosure standards require banks to provide in a standardised template:

- available sources of liquidity by level of liquidity;
- cash outflows attributable by customer, category type and relationship; and
- cash inflows attributable by source.

Committed liquidity facility

On 2 August 2013, the SARB released *Guidance Note 6 of 2013* which outlines the provision of a committed liquidity facility to assist banks in meeting the LCR. The guidance note confirms that the maximum facility size would initially be set at 40% of high-quality liquid assets. Banks would, therefore, be required to meet the 60% requirement through adjustment to their balance sheets. It is envisaged that, as capital markets develop and the liquid asset shortage is addressed, the SARB may reduce the size of the committed liquidity facility.

The committed liquidity facility remains broadly as defined in *Guidance Note 5 of 2012* but with revisions to acceptable collateral. The SARB has, however, provided a detailed operational notice on the committed liquidity facility as an addendum to *Guidance Note 6 of 2013*.

Eligible collateral for the committed liquidity facility includes but is not limited to:

- listed debt securities (minimum A- national scale credit rating);
- listed equities on the main board of the JSE;
- notes of self-securitised eligible residential mortgages; and
- selection of on-balance sheet ring-fenced assets.

In order to include the committed liquidity facility in banks' available liquidity resources, a considerable amount of work is required to appropriately structure and prepare banks' assets to access this facility. The collateral requirements include structuring features, eligibility criteria and haircuts designed to protect all counterparties. The committed liquidity facility has provided more clarity on the nature of liquidity transactions under stress and is a step towards reducing systemic risk in the banking sector. FRB's application for a committed liquidity facility has been approved and the bank is in the process of agreeing the format of eligible collateral with the SARB.

FirstRand is in the process of LCR implementation and expects to comply with LCR phase-in requirements.

Net stable funding ratio

The BCBS released the updated NSFR in October 2014. The latest NSFR is in alignment with the consultative paper released earlier in the year and the NSFR now represents more of a structural balance sheet funding ratio compared to the originally proposed one-year stressed balance sheet ratio. The BCBS maintains the principle that a stable funding profile in relation to the composition of a bank's assets and off-balance sheet items promotes a more resilient banking sector. The ratio calculates the amount of available stable funding relative to the amount of required stable funding. The ratio has to at least equal 100%. It is anticipated that the ratio will become a requirement on 1 January 2018, once the calibration has been finalised.

The current proposed NSFR calculation methodology is an improvement over previous proposals, with better recognition given to certain funding components received from retail, small and medium enterprises, financial institutions and public sector entities, where the duration is longer than six months and the funding is operational in nature. South African banks still face a structural funding shortfall and will, therefore, be unable to meet the 100% ratio compliance requirement given the current market structure. National Treasury has convened a prudential committee, which includes regulators, banks and financial market participants to deliberate on this issue.

Recovery and resolution regime

Financial Stability Board member countries are required to have recovery and resolution plans in place for all systemically significant financial institutions as per *Key Attributes of Effective Resolution Regimes*. The SARB adopted this requirement and has, as the first phase, required South African domestically significant banking institutions to develop their own recovery plans. Improving the stability of the banking system by strengthening banks' ability to manage themselves through a potentially severe stress situation is of national importance. Guidance issued by the Financial Stability Board and the SARB has been incorporated into the group's comprehensive recovery plan.

Recovery planning

The purpose of the recovery plan is to document how the board and management of FirstRand, including its franchises and key subsidiary, FirstRand Bank, will recover from a severe stress event/scenario that threatened the group's commercial viability. The recovery plan:

- analyses the potential for severe stress in the group that causes material disruption to the South African financial system;
- identifies the type of stress event/s that would be necessary to trigger its activation;
- analyses how the group might potentially be affected by the event/s;
- lists a menu of potential recovery actions available to the board and management to counteract the event/s; and
- assesses how the group might recover from the event/s as a result of those actions.

The recovery plan requires the group to perform an extensive self-assessment exercise to determine if there are any potential idiosyncratic vulnerabilities that it may be exposed to, and then to reconcile these exposures to its own risk appetite and strategy. Strategies to optimise the balance sheet structure and preserve the bank's critical functions to support recovery from a severe stress event with the least negative impact are being considered. This process enables banks to better understand what functions are critical for its customers and the financial system as well as which assets are most marketable to facilitate recovery. Where inefficiencies are identified these can be amended to make the bank more streamlined, adaptable and resilient to stress.

Resolution plan

The SARB is progressing with the resolution and recovery planning requirements for South African banks. This process aims to resolve a bank facing severe stress, without systemic disruption or costs to taxpayers.

The purpose of a recovery plan is to prepare and consider the actions a bank can take to recover from a severe stress event. The SARB has issued *Directive 1 of 2015* which defines the minimum standards for bank recovery plans.

In addition, the SARB has circulated a draft *Banks Act Amendment Bill*, which defines the operating and legal framework in which the resolution authority will act.

LIQUIDITY RISK POSITION

The table below gives details on the sources of liquidity by Basel LCR definition and management assessment.

FRB's composition of liquid assets

	As at 31 December 2014			
		After Basel III haircut		
R billion	**High-quality liquid assets**	**Level 1**	**Level 2**	**Management buffer after haircuts**
Cash and deposits with central banks	**24**	**24**	**–**	**24**
Government bonds and bills*	**57**	**57**	**–**	**55**
Corporate bonds	**11**	**–**	**5**	**5**
Other liquid assets	**–**	**–**	**–**	**9**
Total	**92**	**81**	**5**	**93**

* *SARB-specified haircuts for management buffers.*

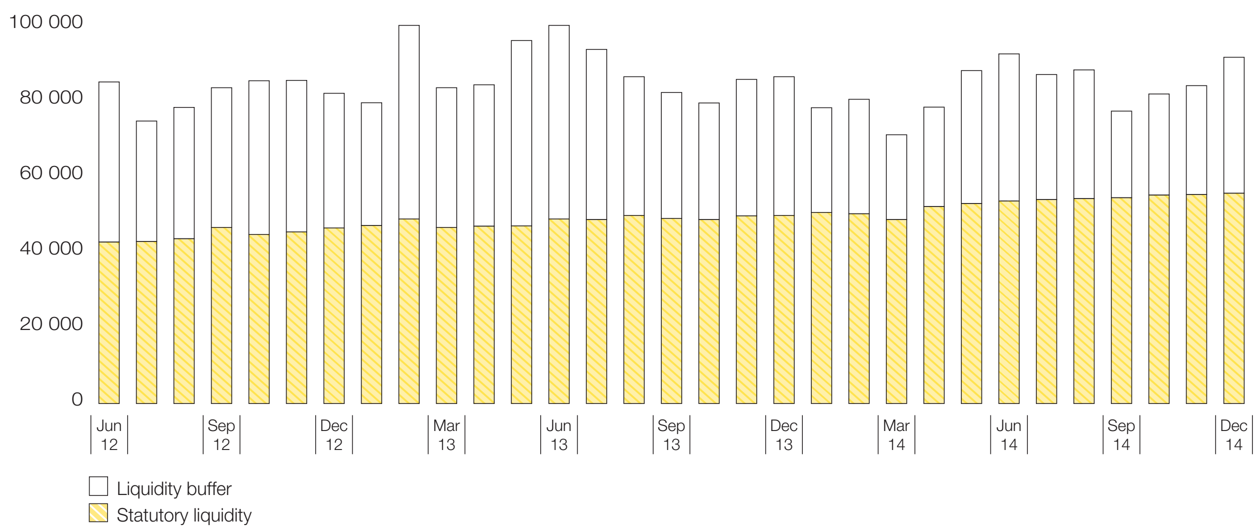
Liquidity buffers are actively managed via high quality, highly-liquid assets that are available as protection against unexpected events or market disruptions. The quantum and composition of the available sources of liquidity are defined by the behavioural funding liquidity at risk and the market liquidity depth of available liquidity resources. In addition, adaptive overlays to liquidity requirements are derived from stress testing and scenario analysis of the cash inflows and outflows related to business franchise activity.

Funding from institutional clients is the largest contributor to the group's net cash outflows as measured under the LCR at nearly 40%, and is reflective of the South African market structure. Other significant contributors to the cash outflows are corporate funding and off-balance sheet facilities granted to clients, specifically those related to corporate clients. The group has strategies in place to increase funding sourced through its deposit franchise and to reduce reliance on institutional funding, as well as to offer utilised facilities more efficiently.

The graph below presents a historical view of statutory liquid assets. The bank has sought to hold buffers in excess of regulatory minimums based on its own risk assessment and operational liquidity requirements, these are also reflected in the graph below.

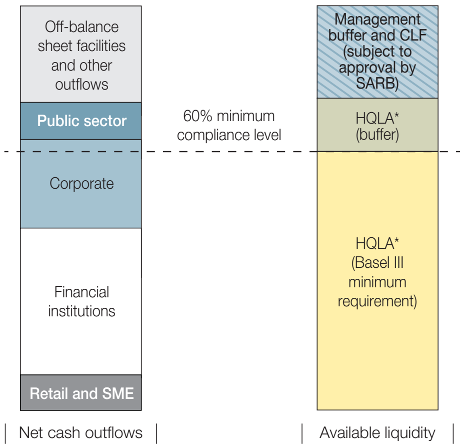
FRB's liquidity buffer and statutory liquidity requirements

R million



The graph below gives an indication of FRB's LCR position as at 31 December 2014 and demonstrates the bank's compliance with the 60% minimum requirement.

FRB's LCR



* *High-quality liquid assets.*

OPERATIONAL RISK

INTRODUCTION AND OBJECTIVES

The group believes that effective management of operational risk is key to the achievement of its business strategy. Accordingly, there is ongoing evaluation and enhancement of existing frameworks, policies, methodologies, processes, standards, systems and infrastructure to ensure that operational risk management practices are practical and in line with regulatory developments and emerging best practices.

The focus remains on building an effective and forward-looking operational risk management programme, encompassing, amongst other things, the management and oversight of IT, infrastructure and information risks, internal and external fraud, litigation, business resilience and process risk. Key operational risk strategic objectives include:

- embedding the use of automated risk tool outputs for an integrated view of the operational risk profile;
- embedding and refining operational risk appetite limits at various levels in the group;
- ongoing enhancement of the maturity of AMA components and methodologies;
- facilitating greater use of risk information and analysis outcomes in risk management and strategic decision making;
- continuing improvements to the control environment, assessing operational risk-related regulatory developments and putting in place necessary actions for compliance;
- maintaining AMA status; and
- implementing new AMA capital modelling software and updating the AMA capital modelling methodology.

Period under review

The period under review was characterised by a number of initiatives aimed at addressing key operational risk themes identified as part of the risk identification and assessment process and improving operational risk maturity. The progress on these initiatives is tracked and reported at group level through the risk governance process.

The principal operational risks currently facing the group are:

- commercial and violent crime (including internal fraud) as economic growth slows;
- business resilience risk given the national power supply shortages and the potential direct and indirect impacts on business;
- information security risk (risk of loss or theft of information), given the growing sophistication of cyberattacks globally; and
- execution, delivery and process management risk (the risk of process weaknesses and control deficiencies) as the business continues to grow and evolve.

Process automation projects are underway to reduce manual processes and thereby mitigate associated risks and improve efficiencies.

Given the enhancements implemented on the risk management system in the prior year, a number of processes and system generated reports have been implemented to manage risk data quality on an ongoing basis and to improve efficiency in the internal validation of risk tools.

Further refinements to the process-based risk and control self-assessment have been ongoing. A review of key risk indicators was conducted across the group to improve the quality and value of KRIs tracked.

Operational risk appetite setting enables the group and its franchises to measure and monitor operational risk profiles against approved operational risk appetite levels, and to set boundaries for operational risk within which business decisions can be made. The operational risk profile at group and franchise level is tracked against approved operational risk appetite measures on a regular basis. The group continues to enhance the operational risk appetite process and measures.

Business resilience plans have been reviewed in light of the national power supply shortages to ensure that the direct impact of rolling blackouts on business operations is minimised. The plan includes adequate maintenance of alternate power supply via generators and sufficient diesel supply to run the generators at key premises during blackouts. The risks associated with internal controls to mitigate same are monitored on an ongoing basis.

The group 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 within ERM, with relevant governance forums in place to ensure continued monitoring and mitigation of IT risk across the group. The group's IT and related frameworks are being implemented to ensure appropriate risk mitigation and value delivery.

Cybercrime remains a focus area, as this is a dominant threat in the financial services sector globally. Risk mitigation strategies to combat cybercrime are continuously reviewed to ensure that controls implemented are adequate and effective.

Information, whether the group's or that 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.

The refinement of information governance structures, processes and the improvement of data quality and records management practices was undertaken during the period under review. Information governance committees have been established in all franchises and information governance now forms an integral part of the group's overall risk management framework.

Looking ahead, the group will continue to focus on improving its information management capabilities by embedding governance structures, continuous improvement of the information control environment and rolling out awareness programmes on relevant topics including records management, data quality 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. This committee is responsible for monitoring implementation of the operational risk management framework and oversight over the management of operational risk across the group.

The operational risk management 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 exist for which specialised teams, frameworks, policies, standards and processes have been established. Fraud and physical security, business resilience, legal, information governance and information technology have dedicated specialist teams who provide oversight that 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 OF OPERATIONAL RISK

Basel – advanced measurement approach (AMA)

FirstRand applies AMA for the group's domestic operations. Under AMA, a sophisticated statistical model for the calculation of capital requirements is used, which enables more accurate risk-based measures of capital for all business units. 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 across the group. Scenarios are cross-referenced to external loss data, internal losses, key risk indicators, process-based 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, supplemented or updated 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 business units and is overseen by the operational risk management team in ERM.

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 99.9^{th} 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.

TSA and BIA 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 or allocation. Business practices continuously evolve and the operational risk control environment is, therefore, constantly changing. 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.

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 integrated in operational risk management. 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, 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

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 (currently being rolled out) is the risk and control assessment per product/service based on key business processes.	• used across the group in all businesses as early warning measures; • highlight areas of changing trends in exposures to specific key operational risks; and • inform operational risk profiles which are periodically reported 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 the root cause and process analysis and corrective action; and • external loss databases are used to learn from the loss experience of other organisations and as an input to the risk scenario process.	• widely used to identify and quantify low frequency extreme loss events based on internal and external loss data, key risk indicators and risk assessment outputs and management knowledge, experience and judgement; • 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.

FirstRand uses an integrated and reputable operational risk system for its automated and integrated operational risk tools.

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 appropriately budgeted for. Business units 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 the frequency and severity within risk appetite levels.

Operational risk management processes

A number of key risks exist for which specialised teams, frameworks, policies and processes have been established and integrated into the broader operational risk management and governance processes as described below for major operational risks.

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. These are low probability, high impact 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 subpolicy 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 across all franchises 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 subpolicy 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, by embarking on conduct which fails to appreciate or account for what the law or changes in the law demands, as articulated in legislation or judgments. 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 risks around the procurement of external legal resources, and the employment of 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 represents best practice and aligns to the group's overall risk management programme. Key legal processes and control measures were implemented to support business in assessing and addressing legal risks. 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 of these functions 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, information governance framework, acceptable use of information resources policy, information security policy and other supporting policies provide the basis for the management of IT risk, information security and data quality within the group.

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

The information governance framework stipulates key requirements with respect to the management of information across the group to ensure that the group's data, information and records are maintained at a level of integrity and quality sufficient to ensure regulatory compliance and effective operation of business.

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 external sources.

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 in FNB which has a group mandate.

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.

External fraud losses related to commercial and violent crime maintained decreasing trends as improvement in controls were introduced. These include deployment of chip cards, improvement in user authentication processes and enhancements to detection capabilities at transaction level. Employee (internal) fraud threats remain a primary concern given the risk of collusion with syndicates and employee knowledge of controls.

Cybercrime is regarded as a major threat and the group continues to evaluate potential weaknesses and apply measures to improve its resilience against this growing threat.

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 as well as the programme is reviewed and renewed annually.

The group's insurance strategy is to protect the group in line with its risk appetite by consolidating the group's insurance needs and placing cover primarily through its wholly-owned first-party dedicated insurance company, FirstRand Insurance Services Company Limited (FRISCOL). The insurance programme includes, *inter alia*, cover for operational risk exposures such as professional indemnity, directors and officers liability, crime, public and general liability, assets 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 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. Compliance culture also embraces broader standards of integrity and ethical conduct which concern 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 proactively managed throughout the group. The group's approach is to maintain 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 are trained and made aware of compliance and regulatory requirements which also ensures a high level of understanding and awareness of the applicable legal and regulatory framework pertaining to the group's business activities.

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, therefore, important that the group ensures compliance with laws and regulations applicable to its operations. These include 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, the National Credit Act, 2005 and the Consumer Protection Act, 2008 amongst others. 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 and franchise functions and various regulatory authorities.

The period under review

Banking legislation

There were no further changes to the banking legislation for the period under review. The recent amendments in 2013 served to amend, among others, banking legislation in line with BCBS requirements. Ongoing amendments to South Africa's banking legislation are expected to ensure that the South African regulatory framework for banks remains aligned to internationally-agreed regulatory and supervisory standards.

Twin peaks

The most notable development and focus area of current regulatory reforms is the implementation of a twin peaks system 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 in this regard.

Group ethics framework

The group's ethics office is part of RRM and is responsible for its ethics framework. Several risk 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 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. These developments specifically pertain to treating customers fairly in the context of the implementation of a twin peaks system of financial regulation in South Africa. 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 (FICA), 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. In terms of a consultative paper issued by the Financial Intelligence Centre, FICA will, going forward, be amended in order to align more closely with revised FATF recommendations.

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.

The National Credit Amendment Act, Act No. 19 of 2014 (the Amendment Act)

The Amendment Act was signed into law on 19 May 2014 with the effective date of compliance with the Amendment Act and the Regulations still to be proclaimed. The group is proactive with regard to the implementation of governance arrangements aligned to the revised requirements.

National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008)

Problematic areas relating to certain provisions of Part 8 of the Waste Act is currently receiving focused attention on an industry basis and the group is actively participating in relevant forums.

Carbon disclosure project

The results of the JSE 2014 carbon disclosure project (CDP) were released on 15 October 2014. The group has been rated in terms of the CDP performance leadership index as one of the top ten JSE-listed companies in South Africa. FirstRand was rated as the highest performing company amongst its peers with a score of 99 per cent for carbon reduction and disclosure. The CDP is an investment indicator done on behalf of 767 global investors internationally. In addition, FirstRand was also one of a few companies that secured, for the third consecutive year, a top performance rating from the Global 500 CDP.

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 in making 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. This includes 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 operating franchise has a dedicated compliance officer responsible for implementing and monitoring compliance policies and procedures related to the relevant franchise.

FirstRand has a formal social and ethics committee, which exercises oversight over the governance and functioning of the group-wide ethics programme. The group code of ethics is the cornerstone of the group's ethics management framework. RRM has 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 the board and the Registrar of Banks (SARB). These include:

- risk identification through documenting which laws, regulations and supervisory requirements are applicable to the group;
- 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. Its main objective is to ensure that group and franchise executives are aware of key developments relating to public policy, legislation and regulation, which are pertinent to the group's business activities. It also supports 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 resides.

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, full disclosure of the group's compensation policies, practices and performance are included in the remuneration committee report in its annual integrated report, which is published on the group's website, www.firstrand.co.za.

STUDIO 5

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