FirstRand

BASEL PILLAR 3 DISCLOSURE **2020**

for the year ended 30 June

contents

BASEL PILLAR 3 DISCLOSURE

FirstRand

1966/010753/06
Certain entities within the FirstRand group are authorised financial services and credit providers.
This report is available on the group's website:
www.firstrand.co.za

Email questions to
investor.relations@firstrand.co.za

OVERVIEW OF FIRSTRAND

FIRSTRAND'S portfolio of integrated financial services businesses comprises FNB, RMB, WesBank, Aldermore and Ashburton Investments. The group operates in South Africa, certain markets in sub-Saharan Africa and the UK, and offers a universal set of transactional, lending, investment and insurance products and services. FCC represents group-wide functions.

Overview of risk management

Introduction

This risk and capital management report (Pillar 3 disclosure) covers the operations of FirstRand Limited (FirstRand or the group) and complies with:

- the Basel Committee on Banking Supervision's (BCBS's) revised Pillar 3 disclosure requirements (Pillar 3 standard); BCBS 309, published in January 2015; and the consolidated and enhanced framework, BCBS 400, published in March 2017; as well as the BCBS technical amendment on the regulatory treatment of accounting provisions, published in August 2018; and
- Regulation 43 of the *Regulations relating to Banks* (Regulations), issued in terms of the Banks Act 94 of 1990, *Directive 1 of 2019, Matters related to Pillar 3 disclosure requirement framework* and all other Pillar 3 disclosure-related directives issued by the Prudential Authority (PA).

The table references used throughout the Pillar 3 disclosure are in accordance with the Pillar 3 standard, where required.

Some differences exist between the practices, approaches, processes and policies of FirstRand Bank Limited (the bank or FRB) and its fellow wholly-owned group subsidiaries. These are highlighted by reference to the appropriate entity, where necessary. There is further distinction between FRB (which includes foreign branches) and FirstRand Bank Limited South Africa (FRBSA) (which excludes the foreign branches). Refer to the *Simplified group structure* section on page 03. This report has been internally verified through the group's governance processes, in line with the group's external communication and disclosure policy, which describes the responsibilities and duties of senior management and the board in the preparation and review of the Pillar 3 disclosure, and aims to ensure that:

- minimum disclosure requirements of the Regulations, standards and directives are met;
- disclosed information is consistent with the manner in which the board assesses the group's risk portfolio;
- the disclosure provides a true reflection of the group's financial condition and risk profile; and
- the quantitative and qualitative disclosures are appropriately reviewed.

In this regard, the board and senior management have ensured that appropriate review of the relevant disclosures have taken place. The review process applied was approved by the FirstRand risk, capital management and compliance (RCC) committee.

Group strategy

FirstRand is a portfolio of integrated financial services businesses operating in South Africa, certain markets in sub-Saharan Africa and in the UK. Many of these businesses are leaders in their respective segments and markets, and offer a broad range of transactional, lending, investment and insurance products and services.

Group earnings remain significantly tilted towards South Africa and are mainly generated by FirstRand's large lending and transactional franchises, which have resulted in deep and loyal customer bases. Increased competition is targeting these traditional banking profit pools, particularly the transactional activities, and the group remains focused on protecting this large and profitable revenue stream. At the same time, FirstRand is working hard to find other sources of less capital-intensive revenues and is investing in building meaningful insurance, and wealth and investment management businesses.

Ultimately the group's strategy in its domestic market is to deliver integrated financial services to its customers. Successful execution is underpinned by a long-standing culture of entrepreneurial thinking and innovation, combined with disciplined allocation and pricing of financial resources. This approach has resulted in a long track record of delivering superior economic profits, returns and dividends to shareholders.

The group's strategy outside of South Africa includes growing its presence and offerings in certain key markets in the rest of Africa, where it believes it can build competitive advantage and scale over time. In the UK, the group aims to build further franchise value through scaling, digitisation and disruption.

SIMPLIFIED GROUP STRUCTURE

FirstRand

LISTED HOLDING COMPANY (FIRSTRAND LIMITED, JSE: FSR)

100% – FirstRand Bank Limited (FRB) – SA banking
- First National Bank[1]
- Rand Merchant Bank[1]
- WesBank[1]
- FirstRand Bank India[2]
- FirstRand Bank London[2]
- FirstRand Bank Guernsey[2,*]
- FirstRand Bank Kenya[3]
- FirstRand Bank Angola[3]
- FirstRand Bank Shanghai[3]

100% – FirstRand EMA Holdings (Pty) Ltd (FREMA) – Rest of Africa
- **58%** FirstRand Namibia
- **70%** FNB Botswana
- **100%** FNB Eswatini
- **95%** FNB Mozambique
- **100%** FNB Zambia
- **100%** FNB Lesotho
- **100%** FNB Tanzania
- **100%** First National Bank Ghana**
- **100%** RMB Nigeria

100% – FirstRand International Limited (Guernsey) (FRI) – UK banking and hard currency platform
- **100%** Aldermore Group plc
- **100%** MotoNovo Finance[#]
- **100%** RMB International Mauritius

100% – FirstRand Insurance Holdings (Pty) Ltd – Insurance
- **100%** FirstRand Life Assurance
- **100%** FirstRand Short-Term Insurance Ltd
- **100%** FirstRand Insurance Services Company (FRISCOL)

100% – FirstRand Investment Management Holdings Limited – Investment management
- **100%** Ashburton Fund Managers
- **100%** Ashburton Management Company (RF)
- **100%** Ashburton Investments International Holdings
- **100%** FNB Investor Services
- **100%** FNB CIS Management Company (RF)
- **100%** Various general partners[†]

100% – FirstRand Investment Holdings (Pty) Ltd (FRIHL) – Other activities
- **98%** RMB Private Equity Holdings
- **97%** RMB Private Equity
- **100%** RMB Securities
- **50%** RMB Morgan Stanley
- **100%** RMB Investments and Advisory
- **100%** RMB Australia Holdings
- **100%** FNB Stockbroking and Portfolio Management
- **81%** MotoVantage
- **100%** FirstRand Securities
- **100%** Hyphen Technology
- **100%** FNB Fiduciary

1. Division

2. Branch

3. Representative office

DirectAxis is a business unit of FirstRand Bank Limited.

* *Trading as FNB Channel Islands.*

** *The merger of First National Bank Ghana and GHL Bank has been concluded. The merged entity is known as First National Bank Ghana.*

[#] *Wholly-owned subsidiary of Aldermore Group plc.*

[†] *Ashburton Investments has a number of general partners for fund seeding purposes. All of these entities fall under FirstRand Investment Management Holdings Limited.*

Structure shows effective consolidated shareholding

For segmental analysis purposes entities included in FRIHL, FREMA, FRI, FirstRand Investment Management Holdings Limited and FirstRand Insurance Holdings (Pty) Ltd are reported as part of the results of the managing business (i.e. FNB, RMB, WesBank or FCC). The group's securitisations and conduits are in FRIHL, FRI and FRB.

BUSINESS ACTIVITIES AND RESULTANT RISKS

The group's strategy is executed through its portfolio of operating businesses within frameworks set by the group.

	FNB	RMB	WesBank	Aldermore	Ashburton Investments	FCC
Key activities	**Retail and commercial banking, insurance, and wealth and investment management**	**Corporate and investment banking**	**Instalment finance and short-term insurance (VAPS*)**	**Asset and invoice finance, commercial and residential mortgages, vehicle asset finance and deposit taking**	**Asset management**	**Group-wide functions**
Market segments	• Consumer • Small business • Agricultural • Medium corporate • Public sector	• Financial institutions • Large corporates • Public sector	• Retail, commercial and corporate	• Retail and commercial	• Retail and institutional	• Institutional (and internal/ intragroup)
Products and services	• Transactional • Deposit taking • Mortgage and personal loans • Credit and debit cards • Investment products • Insurance products (funeral, risk, credit life) • Card acquiring • Credit facilities • Connect (MVNO**) • Wealth and investment management	• Advisory • Structured finance • Markets and structuring • Transactional banking • Deposit taking • Principal investing solutions and private equity	• Asset-based finance • Full maintenance leasing • Personal loans • VAPS (short-term insurance)	• Asset finance • Invoice finance • Commercial, buy-to-let and residential mortgages • Vehicle asset finance (MotoNovo) • Deposits	• Traditional and alternative investment solutions	• Group asset/ liability management • Funding and liquidity management • Funding instruments • Capital management • Capital issuance • Foreign exchange management • Tax risk management
Risks	Retail and commercial credit risk	Corporate and counterparty credit risk	Retail, commercial and corporate credit risk	Retail and commercial credit risk		Interest rate risk in the banking book
	Insurance risk	Traded market risk		Interest rate risk in the banking book		Funding and liquidity risk
				Funding and liquidity risk		Structural foreign exchange risk
	Equity investment risk					
	Operational risk					
Other risks	Strategic, business, reputational, model, environmental, social and climate, tax, regulatory and conduct risks					

* *Value-added products and services.*
** *Mobile virtual network operator.*

Group risk profile

The following table provides a high-level overview of the group's risk profile in relation to its quantitative return and risk appetite measures.

	YEAR ENDED 30 JUNE 2020	RETURN AND RISK APPETITE – QUANTITATIVE MEASURES	YEAR UNDER REVIEW
GROWTH AND RETURNS	**Normalised ROE** 12.9% 2019: 22.8%	**Normalised ROE** Long-term target **18% – 22%**	FirstRand's results for the year to 30 June 2020 reflect the extremely difficult operating environment, with normalised earnings decreasing 38% to R17.3 billion compared to 30 June 2019. ROE declined to 12.9%. Most of this decline was due to the much higher than expected credit impairment charge, driven by forward-looking economic assumptions required under IFRS 9. In addition, post the beginning of lockdown in March 2020, underlying customer income and affordability in all segments deteriorated sharply, as evidenced in lower levels of underlying transactional and credit turnover and in the amount of debt relief requested by customers, resulting in increased arrears and non-performing loans (NPLs). The *CFO's report* in the FirstRand annual integrated report provides an overview of the group's financial position and performance for the year ended 30 June 2020.
	Normalised earnings growth (38%) 2019: 6%	**Normalised earnings growth** Long-term target **Nominal GDP plus >0% – 3%**	
SOLVENCY	**Capital adequacy** 14.5% 2019: 15.2%	**Capital adequacy** Target **>14.25%**	The group actively manages capital aligned to strategy and risk appetite/profile. In response to the COVID-19 pandemic, the PA implemented temporary measures to provide additional capacity to counter economic risks to the financial system and promote ongoing lending to the economy. These measures temporarily reduced the Pillar 2A capital requirement from 1% to 0% and the allowance to draw down against the capital conservation buffer as the PA considers this to be a period of financial stress. The group's internal targets have not been adjusted for the COVID-19 temporary relief measures as they are aligned to the minimum requirements incorporating a fully phased-in Pillar 2A requirement. The group maintained a strong CET1 ratio with buffers in excess of the regulatory minimums. The group continues to focus on optimising the capital stack and risk weighted assets (RWA).
	Tier 1 12.1% 2019: 12.9%	**Tier 1** Target **>12.0%**	
	CET1 11.5% 2019: 12.1%	**CET1** Target **11.0% – 12.0%**	
	Leverage 7.1% 2019: 7.5%	**Leverage** Target **>5.5%**	

Note: Capital and leverage ratios include unappropriated profits and the transitional impact of IFRS 9.

LIQUIDITY	**LCR** 115% 2019: 122%	**LCR** Minimum regulatory requirement: **80%** 2019: 100%	The impact of the COVID-19 pandemic on financial markets placed pressure on market liquidity and the supply of term funding. To provide liquidity relief to banks in this period of financial stress, the PA has temporarily reduced the regulatory minimum to 80%, effective 1 April 2020. Once financial markets have normalised, the PA will specify a phased-in approach to restoring the minimum liquidity coverage ratio (LCR) to 100%. The group exceeded the minimum LCR with an average LCR of 115% over the quarter ended 30 June 2020. At 30 June 2020, the group's average available high-quality liquid assets (HQLA) holdings amounted to R280 billion.
	NSFR 117% 2019: 118%	**NSFR** Minimum regulatory requirement: **100%**	The group exceeded the 100% minimum requirement with a net stable funding ratio (NSFR) of 117% at 30 June 2020.

Note: The group's LCR and NSFR include all registered banks and foreign branches in the group.

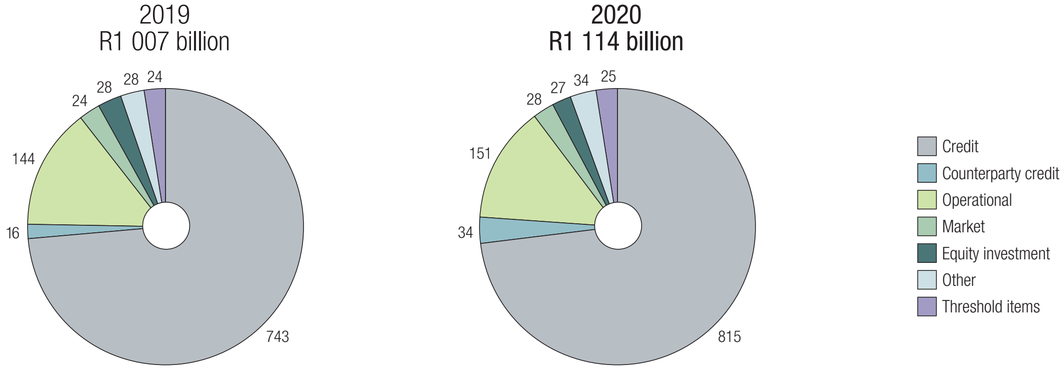
EXPOSURES PER RISK TYPE

YEAR ENDED 30 JUNE 2020	RETURN AND RISK APPETITE – QUANTITATIVE MEASURES	YEAR UNDER REVIEW
Credit risk	**NPLs** **4.37%** 2019: 3.33% **Credit loss ratio** **191 bps** (including Aldermore) 2019: 88 bps **210 bps** (excluding Aldermore) 2019: 98 bps Long-run average **100 – 110 bps**	FirstRand has revised its macroeconomic outlook for 2020/21, with material downward revisions to key economic variables impacting the group's activities, including a sharp contraction in GDP of 8%, a significant increase in unemployment and weakness in property markets. These revisions have been incorporated into the group's credit provisions in line with IFRS 9 requirements, with all segments and portfolios experiencing notable incremental impacts from forward-looking adjustments. The group's materially higher credit losses and credit impairment charge were driven by these forward-looking expectations and the levels of COVID-19 client relief provided. This, together with rising arrears and NPLs, resulted in a 45% increase in provisions held against loans and advances, across all stages and across all product portfolios. All provisions raised reflect the group's best estimates against available data and scenario analysis and are considered appropriately prudent given the prevailing risk in the system. In addition, the group has conservatively provided for a sharp increase in retrenchment claims as well as elevated death claims in its insurance business taking account of the latest epidemiological and economic outlooks. This increase is reflected under non-interest revenue. Credit impairment charges increased from R10.5 billion to R24.4 billion. This was driven by materially higher provision requirements across all stages of advances as a result of the deterioration in customer risk profiles and forward-looking assumptions. The group credit loss ratio increased to 191 bps compared to 88 bps in the comparative period. Group NPLs increased 39% to 4.37% of advances compared to 3.33% in the comparative period.
Market risk	**10-day ETL** **R487 million** 2019: R631 million	The interest rate asset class represented the most significant traded market risk exposure at 30 June 2020. The decrease in expected tail loss (ETL) from 2019 is due to the exit of certain market risk positions at the start of the COVID-19 crisis. The group's market risk profile remained within risk appetite.
Equity investment risk	**Equity investment carrying value as % of Tier 1*** **8.3%** 2019: 9.8%	The 2020 financial year was characterised by limited realisations and R1.8 billion of new investments added to the private equity portfolio. The quality of the investment portfolio remains acceptable and within risk appetite despite the challenging economic environment. The decrease in equity investment carrying value as a percentage of Tier 1 is due to a higher Tier 1 balance at 30 June 2020. The unrealised value in the portfolio at 30 June 2020 was R3.3 billion (2019: R3.5 billion).
Interest rate risk in the banking book	**Net interest income sensitivity** **Down 200 bps** **-R3.6 billion** 2019: -R4.4 billion **Up 200 bps** **R2.2 billion** 2019: R3.5 billion	Assuming no change in the balance sheet nor any management action in response to interest rate movements, an instantaneous, sustained parallel 200 bps decrease in interest rates would result in a reduction in projected 12-month net interest income (NII) of R3.6 billion. A similar increase in interest rates would result in an increase in projected 12-month NII of R2.2 billion. The group's average endowment book (excluding Aldermore) was R274 billion.

* *Excludes unappropriated profits.*

The group's RWA distribution shows that credit risk remains the most significant contributor to the group's overall risk profile, and is depicted in the chart below.

FIRSTRAND RWA ANALYSIS



Bank risk profile

The table below provides a high-level overview of the bank's risk profile in relation to its quantitative return and risk appetite measures.

The bank's results for the year to 30 June 2020 reflect the extremely difficult operating environment, with normalised earnings decreasing 35% to R13.8 billion compared to 30 June 2019. ROE declined to 14.6%. Most of this decline was due to the much higher than expected credit impairment charge, driven by forward-looking economic assumptions required under IFRS 9. In addition, post the beginning of lockdown in March 2020, underlying customer income and affordability in all segments deteriorated sharply, as evidenced by lower levels of underlying transactional and credit turnover and in the amount of debt relief requested by customers, resulting in increased arrears and NPLs.

	YEAR ENDED 30 JUNE 2020	RETURN AND RISK APPETITE – QUANTITATIVE MEASURES	YEAR UNDER REVIEW
SOLVENCY	**Capital adequacy** 15.7% 2019: 16.8%	**Capital adequacy** Target **>14.25%**	The bank actively manages capital aligned to strategy and risk appetite/profile. In response to the COVID-19 pandemic, the PA implemented temporary measures to provide additional capacity to counter economic risks to the financial system and promote ongoing lending to the economy. These measures temporarily reduced the Pillar 2A capital requirement from 1% to 0% and the allowance to draw down against the capital conservation buffer as the PA considers this to be a period of financial stress. The bank's internal targets have not been adjusted for the COVID-19 temporary relief measures as they are aligned to the minimum requirements incorporating a fully phased-in Pillar 2A requirement. FRB maintained a strong CET1 ratio with buffers in excess of the regulatory minimums. The bank continues to focus on optimising the capital stack and RWA.
	Tier 1 12.8% 2019: 14.0%	**Tier 1** Target **>12.0%**	
	CET1 12.3% 2019: 13.4%	**CET1** Target **11.0% – 12.0%**	
	Leverage 6.7% 2019: 7.2%	**Leverage** Target **>5.5%**	

Note: Figures shown above are for FRB including foreign branches. Capital and leverage ratios include unappropriated profits and the transitional impact of IFRS 9.

LIQUIDITY	**LCR** 124% 2019: 133%	**LCR** Minimum regulatory requirement: **80%** 2019: 100%	The impact of the COVID-19 pandemic on financial markets placed pressure on market liquidity and the supply of term funding. To provide liquidity relief to banks in this period of financial stress, the PA has temporarily reduced the regulatory minimum to 80%, effective 1 April 2020. Once financial markets have normalised, the PA will specify a phased-in approach to restoring the minimum LCR to 100%. The bank exceeded the minimum LCR with an average LCR of 124% over the quarter ended 30 June 2020. At 30 June 2020, the bank's average available HQLA holdings amounted to R249 billion.
	NSFR 116% 2019: 117%	**NSFR** Minimum regulatory requirement: **100%**	The bank exceeded the 100% minimum requirement with an NSFR of 116% at 30 June 2020.

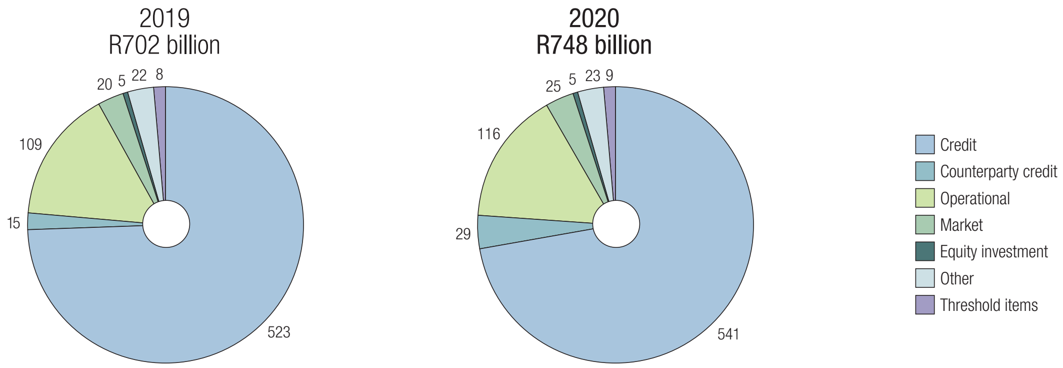
Note: The bank's LCR and NSFR are for FRBSA.

EXPOSURES PER RISK TYPE

YEAR ENDED 30 JUNE 2020	RETURN AND RISK APPETITE – QUANTITATIVE MEASURES	YEAR UNDER REVIEW
Credit risk	**Normalised NPLs** **5.22%** 2019: 3.71% **Normalised credit loss ratio** **200 bps** 2019: 95 bps Long-run average **100 – 110 bps**	FirstRand has revised its macroeconomic outlook for 2020/21, with material downward revisions to key economic variables impacting the bank's activities, including a sharp contraction in real GDP of 8%, a significant increase in unemployment and weakness in property markets. These revisions have been incorporated into the bank's credit provisions in line with IFRS 9 requirements, with all segments and portfolios experiencing notable incremental impacts from forward-looking adjustments. The bank's materially higher credit losses and credit impairment charge were driven by these forward-looking expectations and the levels of COVID-19 client relief provided. This, together with rising arrears and NPLs, resulted in performing provisions increasing R5.0 billion, mainly driven by conservative coverage ratios. NPLs increased 38% to 5.22% of advances (2019: 3.71%). This required a further provision of R5.4 billion, with coverage largely maintained. All of this combined resulted in a 38% increase in provisions held against loans and advances, across all stages and across all product portfolios. The bank's credit impairment charge was R18.3 billion and the credit loss ratio increased to 200 bps compared to 95 bps in the comparative period.
Market risk	**10-day ETL** **R431 million** 2019: R582 million	The interest rate asset class represented the most significant traded market risk exposure at 30 June 2020. The decrease in ETL from 2019 to 2020 is due to the exit of certain market risk positions at the start of the COVID-19 crisis. The bank's market risk profile remained within risk appetite.
Interest rate risk in the banking book	**Net interest income sensitivity** **Down 200 bps** **-R2.7 billion** 2019: -R3.7 billion **Up 200 bps** **R1.8 billion** 2019: R3.1 billion	Assuming no change in the balance sheet nor any management action in response to interest rate movements, an instantaneous, sustained parallel 200 bps decrease in interest rates would result in a reduction in projected 12-month NII of R2.7 billion. A similar increase in interest rates would result in an increase in projected 12-month NII of R1.8 billion. The bank's average endowment book was R272 billion.

The bank's RWA distribution shows that credit risk remains the most significant contributor to the bank's overall risk profile, and is depicted in the chart below.

FRB RWA ANALYSIS



Current and emerging challenges and opportunities

The operating environment for the second half of FirstRand's financial year to 30 June 2020 is now considered to be the worst global economic crisis since the Second World War. The COVID-19 pandemic and associated economic crisis resulted in three simultaneous and profound shocks: to global trade; to global confidence, causing financial conditions to tighten significantly and abruptly; and to economic activity following the lockdown policies adopted by most of the world's major economies. This translated into a once in a generation economic stress event.

This scenario prompted coordinated efforts by central banks and governments to lower policy rates and simultaneously provide fiscal stimulus packages to cushion the impact of the economic shock to the real economy. Despite these actions, global financial conditions are expected to remain challenging and any form of recovery will be contingent on proof that the spread of the virus in developed economies has peaked, allowing containment measures to be relaxed, and that the various governments' fiscal support to consumers and small businesses has been successful to some degree.

South Africa's already extremely weak domestic position was further worsened by the COVID-19 crisis and resultant lockdown, with limited fiscal space to support the economy. The South African Reserve Bank (SARB) provided monetary policy support, implementing 275 bps of rate cuts since the start of the crisis, however, the real-economy impact of COVID-19 remains deep given the loss of economic activity, tax revenue, and household and corporate income.

The rest of Africa portfolio also came under pressure as many of the Southern African Customs Union (SACU) economies rely heavily on activity in South Africa. Without exception, the real economies in these countries are extremely weak and face increased fiscal risk.

The UK entered the crisis with historically low levels of unemployment and fairly resilient household consumption activity and this, combined with the fiscal and monetary policy stimulus that is being applied, has provided some support to the real economy. However, despite these supportive factors, the UK suffered one of the deepest economic contractions globally in the second quarter of 2020.

Existing risks were amplified by the crisis and new emerging risks and challenges emanating from the COVID-19 pandemic need to be considered. These are discussed below in four thematic categories.

ECONOMIC RISK

The diminished economic activity during the COVID-19 pandemic is likely to cause structural shifts in the global economy with emerging economies at risk of deeper crises. A prolonged (or double-dip) recession of the global economy is a potentially prevailing risk. Most emerging economies are challenged by weaker health systems and lower capacity to stimulate growth. A much-needed fiscal response to the pandemic places further pressure on capacity by lowering revenue and raising the cost of debt. These challenges will result in higher levels of bankruptcies, structural unemployment, particularly amongst the youth, and the disruption of global supply chains which means certain industries will not fully recover.

In South Africa, high debt levels and the potential for additional sovereign credit downgrades may further impact the economy, increasing banking sector exposure to sovereign risks and government's borrowing costs. Other risks in South Africa include the liquidation of term investments in favour of cash deposits, withdrawal by foreigners of large South African (SA) government bond holdings and the lack of dollar currency liquidity.

CLIMATE CHANGE CHALLENGE

Fiscal capacity has focused on the COVID-19 pandemic with a resultant shortfall of investment in climate adaptation and mitigation efforts. However, worldwide lockdowns resulted in reduced emissions due to decreased industrial activity, travelling and commuting. As economies reopen, global emissions will increase and there is emerging evidence that large-scale infectious disease outbreaks may become more frequent due to a warming climate and biodiversity loss. Many governments have announced green recovery packages that aim to address both economic recovery and climate change. The South African cabinet recently approved the National Climate Change Adaptation Strategy, which acknowledges that a climate resilient economy is vital for job protection and economic growth.

CYBERSECURITY AND PRIVACY

Technology has been central to the way people, companies and governments have managed the COVID-19 pandemic and the contact-free economy may also create new employment opportunities in the post-pandemic world. However, a greater dependence on technology has increased **cybersecurity risks** and **privacy concerns**. New working patterns may increase cyber attacks and data fraud.

SOCIAL IMPACT

The pandemic has resulted in wide-scale social anxiety and exacerbated existing inequality. For example:

- High unemployment levels have affected mental health and caused financial distress.
- The rapid shift to remote working has, in some instances, resulted in a lack of work-life balance and low morale due to isolation.
- Large social gatherings, such as religious and civil gatherings that promote well-being, have been restricted to limit the spread of the virus.
- In South Africa, the of lack of access to online learning is widening the inequality gap.
- Additional unemployment from accelerated workforce automation is a global risk concern.

OPPORTUNITY AND RISK MANAGEMENT FOCUS

As economies restart, there is an opportunity to create greater societal equality and embed sustainable development goals. In business, the opportunity exists for the transformation to more sustainable and digital operating models and enhancing productivity.

Identifying and monitoring challenges emerging in the wider operating environment and risk landscape domestically, in the rest of Africa and the UK, are integral to the group's risk management approach. Challenges in the global environment are also monitored to identify possible impacts on the group's operating environment. These challenges and associated risks are continuously identified, and potential impacts determined, reported to and debated by appropriate risk committees and management.

FINANCIAL RISKS

CURRENT AND EMERGING CHALLENGES	OPPORTUNITIES AND RISK MANAGEMENT FOCUS AREAS
Funding, liquidity and capital	
• In response to the COVID-19 pandemic, the PA implemented temporary capital and liquidity relief measures to provide additional capital capacity and liquidity relief to enable banks to counter economic risks to the financial system and to promote financial stability. Refer to the *Regulatory update* section for further detail on these measures. • Regulatory reforms, including finalised Basel III reforms, may put further pressure on required capital levels.	• FirstRand exceeded all prudential minimum regulatory requirements and maintained a strong balance sheet with buffers in excess of minimum requirements. • The group continues to focus on growing its deposit franchise through innovative products, improving the risk profile of its institutional funding, and the management and optimisation of liquidity buffers. • The group's internal capital targets have not been adjusted for the COVID-19 temporary relief measures as they are aligned to the minimum requirements including a fully phased-in Pillar 2A capital requirement. FirstRand continues to focus on optimising the capital stack and RWA. • The impact of the proposed regulatory reforms continues to be assessed and incorporated into the group's capital planning.
Credit and counterparty credit risk	
• COVID-19 created significant economic dislocation, directly impacting consumers and businesses, particularly in industries impacted by lockdown measures. • This required immediate credit risk management responses across various disciplines, including the development of payment relief programmes, assessment of impairments within the context of the deteriorating growth outlook, and credit origination incorporating industry and high-frequency transactional data. • The outlook remains uncertain and is dependent on the extent and duration of lockdown measures, as well as the impact of consumer and business confidence on the recovery of activity. • The impact of physical and transition climate risks on the group's lending book may heighten credit risks for climate-sensitive industries, such as fossil fuels and agriculture. • Counterparty credit risk remains sensitive to mark-to-market changes driven by volatility of underlying risk factors for derivative instruments, especially those that are uncollateralised or concluded without netting agreements. Exposures increased due to increased trading volumes to facilitate client hedging activities in volatile markets. • In some instances, counterparty quality also weakened due to the spillover impacts of sovereign downgrades on counterparty quality. This has led to higher counterparty credit risk capital requirements for the trading book.	COVID-19 created unprecedented economic stress, which has had a profound and far-reaching impact on the economy. One of the implications of this stress was the need to provide payment relief solutions for customers. For the South African businesses, some of these solutions are outlined below: • Retail customers in good standing were offered emergency funds designed to bridge short-term liquidity needs and provide cash flow relief. The loans were priced at the prime interest rate with zero fees and a flexible repayment period starting three months after relief was taken up. No early settlement penalties are levied. This customer-centric approach covers all FNB products and those WesBank customers who bank with FNB. Payment holidays were also offered. • FNB provided relief to commercial customers primarily in the form of payment holidays and additional relief was offered to SMEs through the government-guaranteed loan scheme. • For corporate customers, relief was advanced on a case-by-case basis. Corporate relief was provided in the form of additional liquidity facilities, payment holidays and covenant waivers. Eligibility for relief followed a risk-based approach and was assessed at an overall customer level. For retail customers industry guidance set by the Banking Association of South Africa (BASA) was followed. Corporate and commercial portfolios were assessed against the respective sector's sensitivity to the impact of COVID-19. In the UK, Aldermore's focus was on providing forbearance for existing clients.

CURRENT AND EMERGING CHALLENGES	OPPORTUNITIES AND RISK MANAGEMENT FOCUS AREAS
Credit and counterparty credit risk continued	
	• Conservative credit provisions were raised, incorporating forward-looking information on the expected weak economic outlook. • The group had a smooth transition to remote working practices, allowing effective execution on required credit risk management responses. • Despite challenging economic conditions, the group is benefiting from prudent risk mitigation measures in the support of its existing customers, as well as in its new credit origination. • The group continues to review risk appetite and credit origination strategies on an ongoing basis. • In light of recent market volatility, more focused efforts are being made to refine forecasting the demand of capital, especially where specific risk types, such as counterparty credit are sensitive to volatility in underlying risk factors. • The group is finalising the implementation of regulatory requirements with regard to the standardised approach to counterparty credit risk (SA-CCR).
Traded market risk	
• Financial markets continue to be volatile, with reduced liquidity. • The group's overall diversified levels of market risk remained within tolerance. Market risk models performed well during the heightened volatility. There were no significant concentrations in the portfolio. • Impending changes to the regulatory environment, outlined in the BCBS's *Fundamental review of the trading book*, will impact banks' operating platforms.	• The group continues to review and adapt its operating platform for market risk activities, including platform capabilities across both front office and risk management areas, and align market risk processes, analyses and reporting in line with changes in regulatory requirements. This includes progress on the market risk platform installation. • The BCBS's *Fundamental review of the trading book* remains a priority and the group continues to work with both regulators and the banking industry to understand, provide input on and implement these regulations. • In light of the recent market volatility, more focused efforts are being made to refine forecasting the demand of capital, especially where specific risk types, such as market risk, are sensitive to volatility in underlying risk factors.
Interest rate risk in the banking book and structural foreign exchange risk	
• The SARB decreased interest rates by a total of 300 bps between 1 July 2019 and 30 June 2020, of which 250 bps were in response to the COVID-19 crisis and associated lockdown. • To mitigate the negative impact that rate cuts would have on earnings, the group increased its endowment book hedges. • Inflation remains at relatively low levels and continues to be actively monitored.	• The BCBS, through the task force for interest rate risk in the banking book (IRRBB), has published more robust regulations for IRRBB. The group is addressing these new requirements, which will be formally adopted on 1 June 2022. • Given current uncertainty about the level and direction of future interest rates, the group continues to actively manage endowment risk. • The group monitors its net open foreign currency position against limits, assesses and reviews foreign exchange exposures and continues to focus on enhancing the quality and frequency of reporting.

NON-FINANCIAL RISKS

CURRENT AND EMERGING CHALLENGES	OPPORTUNITIES AND RISK MANAGEMENT FOCUS AREAS
Operational, IT and information governance risk	
• Operational risk is driven by the complex IT environment, the growing sophistication of cybercrime, the interplay between cyber risk and fraud, and their effects on reputational risk, operational challenges in meeting various new regulatory requirements across multiple jurisdictions, the risk of process breakdowns in manually intensive process environments, industry-wide payments risk, and organisational change. • The impact of external factors on business operations, such as the COVID-19 pandemic and intermittent electricity supply interruptions, pose a heightened risk to operations, especially where employees are working from home, and require management to continuously review operational resilience plans to ensure minimal business disruption whilst managing employee wellbeing. • Planning an operational response to the unprecedented COVID-19 pandemic. • Ensuring compliance with continuously changing COVID-19-related regulations within a short space of time. • Increased business digitisation (including robotics, artificial intelligence and cloud computing) introduces additional risks due to the demand and speed of digital technology adoption, which the group must be in a position to speedily identify and mitigate. • Global demand for critical IT resources across industries poses a challenge in terms of attracting and retaining the best IT skills. • Key vendor dependency and supply-chain risk requires ongoing management and monitoring to ensure uninterrupted, continuous service provision.	• The group continues to address possible control weaknesses, and there are ongoing improvements in information security, IT risk processes and operational business resilience capability. • Efforts to improve staff and customer awareness of cybercrime and information security are ongoing. • Build an integrated group cybercrime framework and cyber incident response planning and testing. • Continue to improve risk data management, aggregation and reporting. • Align IT risk management practices with changing business models and technological landscape. • Enhance vendor risk management processes throughout the vendor lifecycle. • Improve information management capabilities and the control environment, and roll out awareness programmes on records management, data quality and data privacy management. • Adopt a holistic approach to the development of key staff retention plans. • Use technology capability and capacity to enable flexible and remote working arrangements seamlessly. • Increase the drive for automation of controls and digitisation of risk processes, where possible, to facilitate robust risk management in the context of remote working arrangements. • Agility in response to and lessons learnt from the COVID-19 pandemic may be used to refine operational risk responses to future crises.
Regulatory and conduct risk	
• Regulatory and conduct risk management is affected by the changing regulatory landscape and the ongoing introduction of new and/or amended legal and related regulatory instruments. This may result in an increase in the cost of compliance. • Heightened scrutiny and monitoring by regulators and other stakeholders on regulatory compliance and ethical conduct in areas such as debt relief, new products and new business origination, impact regulatory and conduct risk management. • Responding to crisis-related changes in the operating environment and ensuring the group continues to effectively manage regulatory and conduct risk with unique risks, including a suddenly dispersed workforce, have an impact on regulatory and conduct risk management.	• Continue to make significant investments in people, systems and processes to manage risks emanating from the large number of new and amended local and international regulatory requirements, market conduct reforms, data privacy and financial crime-related legislation. • Ensure ongoing monitoring of, among others, the risk culture with a focus on prevention and, where required, effective and timely remediation. • The risk of ethical drift is heightened with the majority of employees working remotely. • Implement conduct risk programmes focused on defining key business metrics and materiality thresholds which are sufficiently noteworthy for board-level reporting. Evaluate internal practices against local and international best practice.

Risk management approach

FirstRand believes that effective risk, performance and financial resource management are key to its success and underpin the delivery of sustainable returns and earnings growth to shareholders. These disciplines are, therefore, deeply embedded in the group's tactical and strategic decision-making.

The group believes a strong balance sheet and resilient earnings streams are key to growth, particularly during periods of uncertainty. FirstRand's businesses 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, an appropriate risk/return profile and an acceptable level of earnings volatility under adverse conditions. These deliverables are underpinned by frameworks set at the centre to ensure financial discipline. These frameworks are outlined in the table below.

RISK MANAGEMENT FRAMEWORK	PERFORMANCE MANAGEMENT FRAMEWORK	RETURN AND RISK APPETITE, AND FINANCIAL RESOURCE MANAGEMENT FRAMEWORKS
Key principles: • ensure material risks are identified, measured, monitored, mitigated and reported; • assess impact of the cycle on the group's portfolio; • understand and price appropriately for risk; and • originate within cycle-appropriate risk appetite and volatility parameters.	**Key principles:** • allocate capital appropriately; and • drive economic value creation, which is defined as net income after cost of capital (NIACC), the group's key performance measure.	**Key principles:** • execute sustainable funding and liquidity strategies; • protect credit ratings; • preserve a "fortress" balance sheet that can sustain shocks through the cycle; and • ensure the group remains appropriately capitalised with an efficient capital structure with appropriate/conservative gearing.

The group defines risk widely. It is any factor that, if not adequately assessed, monitored and managed, may prevent it from achieving its business objectives or result in adverse outcomes, including reputational damage.

Risk taking is an essential part of the group's business and the group explicitly recognises core risk competencies as necessary and important differentiators in the competitive environment in which it operates. These core risk competencies include identifying, assessing, monitoring and managing risk, and are integrated in all management functions and business areas across the group.

The risk management process provides the checks and balances necessary to ensure sustainability and performance, create opportunities, achieve desired objectives, and avoid adverse outcomes and reputational damage.

A business can profit from taking risks, but will only generate an acceptable profit commensurate with the associated risk if these risks are properly managed and controlled. The group's aim is not to eliminate risk, but to achieve an appropriate balance between risk and reward. This balance is achieved by controlling risk at the level of individual exposures, at portfolio level, and across all risk types and businesses through the application of the return and risk appetite framework. The group's return and risk appetite framework enables organisational decision-making and is aligned with FirstRand's strategic objectives. Refer to page 26 for more on the group's return and risk appetite framework.

The following table illustrates the core competencies that form part of the group's risk management processes across key risk types and components.

CORE RISK COMPETENCIES AND KEY RISKS

CORE COMPETENCIES	RISK TYPES	RISK COMPONENTS
	Funding and liquidity risk	• Funding liquidity risk • Market liquidity risk
Identification	**Credit risk**	• Pre-settlement risk • Country risk • Credit default risk • Concentration risk • Securitisation risk
	Counterparty credit risk	• Counterparty credit risk
Assessment	**Traded market risk**	• Interest rate risk in the trading book • Traded equity and credit risk • Foreign exchange risk • Commodity risk
	Non-traded market risk	• Interest rate risk in the banking book • Structural foreign exchange risk
	Equity investment risk	• Price risk • Equity investment liquidity risk
Monitoring	**Operational risk**	• Internal and external fraud • People risk • Information technology risk • Information risk • Legal risk • Business resilience risk • Process risk
Management	**Other risks**	• Strategic risk • Business risk – Volume and margin changes – Expansion activities • Reputational risk • Model risk • Insurance risk • Environmental, social and climate risk • Regulatory and conduct risk • Tax risk

Risk limits established across risk types are an integral part of risk management and are instrumental in constraining risk taking within appetite. The risks, and the roles and responsibilities of the various stakeholders in business, support and control functions are described in the group's business performance and risk management framework (BPRMF).

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, approving risk appetite and ensuring that risks are adequately identified, measured, monitored, managed and reported on.

RISK GOVERNANCE FRAMEWORK

The group's BPRMF describes the group's risk management structure and approach to risk management. Effective risk management requires multiple points of control or safeguards that should be applied consistently at various levels throughout the organisation. The BPRMF recognises three lines of control across the group's operations, as illustrated in the diagram on the next page.

Aldermore employs the three lines of control model in managing its risks in line with the FirstRand model. Its risk and governance committees report to the group's risk and governance committees. Aldermore's executive committee reports to the Aldermore board.

LINES OF RISK CONTROL

FIRST LINE OF CONTROL

RISK OWNERSHIP

Risk inherent in business activities

Business unit heads

Group Treasury in FCC

Supports business owners, the board and the strategic executive committee

Segment/operating business executive committees

FirstRand strategic executive committee
- Group chief executive officer (chair)
- Group chief financial officer
- Group chief operating officer
- Group chief digital officer
- Group chief risk officer
- Group Treasurer
- CEOs of FNB, RMB, WesBank and Aldermore
- Head: Investor Relations
- Head: Organisational Development and Human Capital
- Head: Social Investing

FINANCIAL RESOURCE MANAGEMENT EXECUTIVE COMMITTEE

CONDUCT EXECUTIVE COMMITTEE

PLATFORM EXECUTIVE COMMITTEE

PEOPLE, LEADERSHIP AND TALENT FORUM

REST OF AFRICA EXECUTIVE COMMITTEE

SECOND LINE OF CONTROL

RISK CONTROL

Risk identification, measurement, control, and independent oversight and monitoring

Enterprise Risk Management

Group chief risk officer is represented on conduct and platform executive committees

Regulatory and Conduct Risk Management

Head of regulatory and conduct risk is represented on platform and conduct executive committees
- Heads of business compliance functions have functional reporting lines to the head of Regulatory and Conduct Risk Management

Insurance control functions

Heads report to FNB Life chief executive officer, Enterprise Risk Management and Regulatory and Conduct Risk Management

Deployed business, segment and business unit risk managers
- Involved in all business decisions
- Represented at business executive committees

BOARD

RISK, CAPITAL MANAGEMENT AND COMPLIANCE COMMITTEE

Specialised risk committees

Segment/business and subsidiary/statutory risk committees

Segment/operating business chief risk officers

Report to segment/business CEOs and group chief risk officer

THIRD LINE OF CONTROL

INDEPENDENT ASSURANCE

Adequacy and effectiveness of internal control, governance and risk management

Group Internal Audit

Headed by chief audit executive with direct, unrestricted access to audit committee chairman, group CEO, businesses, records, property and personnel

External advisors

AUDIT COMMITTEE

Segment/business and subsidiary/statutory audit committees

RISK GOVERNANCE STRUCTURE

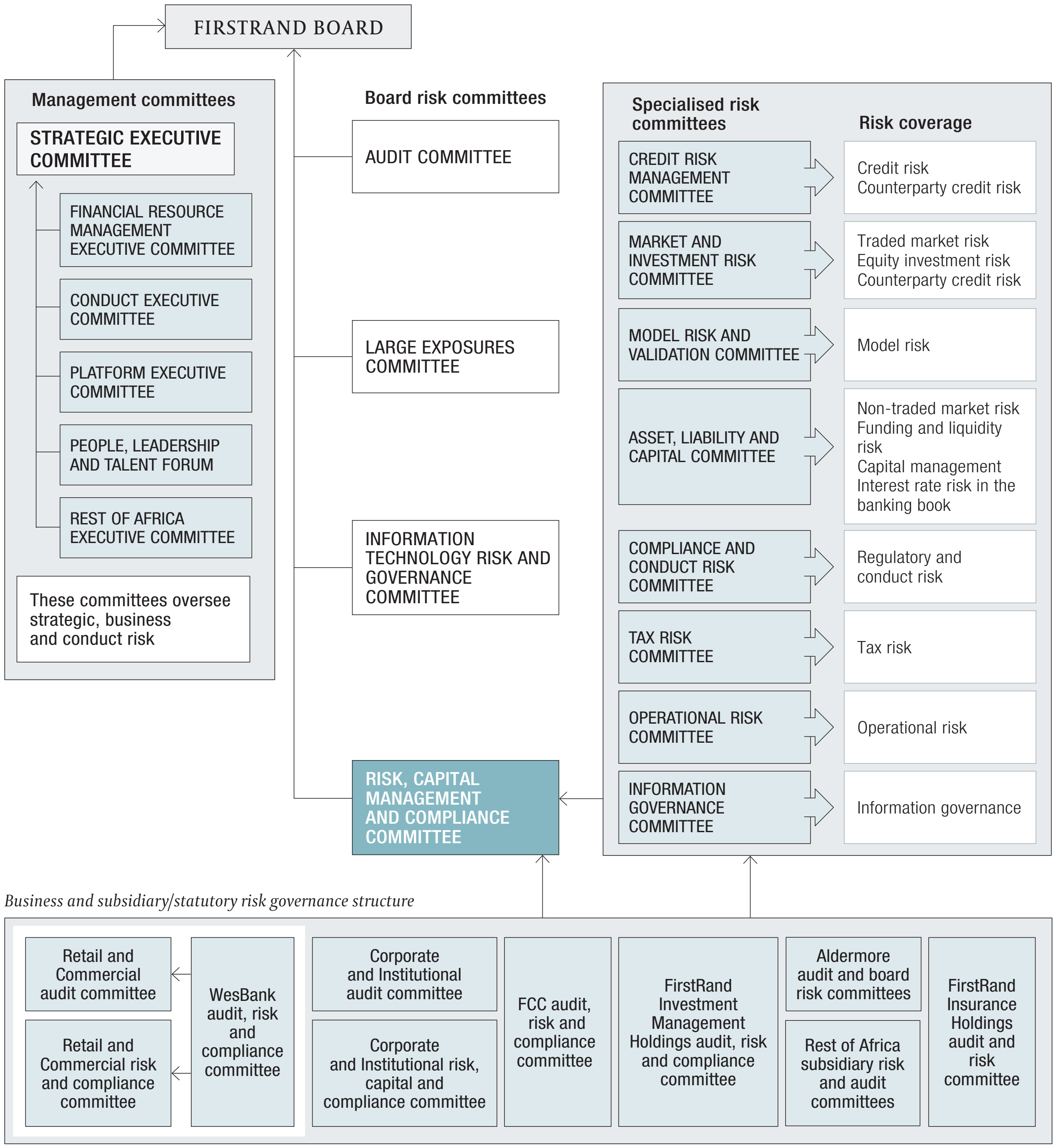
The risk management structure is set out in the group's BPRMF. As a policy of the board, the BPRMF delineates the roles and responsibilities of key stakeholders in business, support and control functions across the group.

The primary board committee overseeing risk matters across the group is the RCC committee. It has delegated responsibility for a number of specialist topics to various subcommittees. Further detail on the roles and responsibilities of the RCC committee and its subcommittees relating to each risk type is provided in the major risk sections of this report.

Additional risk, audit and compliance committees exist in the operating businesses, segments and subsidiaries. The governance structures of these entities align closely with that of the group, as illustrated in the risk governance structure diagram on page 18. The group's operating model is aligned to execute on its integrated financial services objectives. The Retail and Commercial segment committees represent the FNB committees, and the Corporate and Institutional segment committees represent the RMB committees. The Aldermore audit and board risk committees are integrated into the group's governance structure. The segment audit, risk and compliance committees support the board risk committees and RCC subcommittees in the third line of control. The diagram on the next page illustrates how the risk committees fit into the board committee structure and the risk coverage of each committee.

Other board committees also exist, with clearly defined responsibilities. The group board committees comprise members of segment/operating business advisory boards and audit and risk committees to ensure a common understanding of the challenges businesses face and how these are addressed across the group. The strategic executive committee ensures alignment of business strategies, implements the return and risk appetite framework and is responsible for optimal deployment of the group's resources.

RISK GOVERNANCE STRUCTURE



BOARD RISK COMMITTEES' RESPONSIBILITIES

COMMITTEE	RESPONSIBILITIES
Audit committee	• assists the board with its duties relating to the safeguarding of assets, the operation of adequate systems and controls, assessment of going-concern status and ensuring that relevant compliance and risk management processes are in place; • 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 financial information and 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 including its subcommittees' charters and membership; • monitors management and containment of risk exposures within the return and risk appetite framework and the BPRMF; • reports on assessment of the adequacy and effectiveness of risk appetite, risk management, the group's internal capital adequacy assessment process (ICAAP) and compliance processes to the board; • monitors the implementation of the risk management strategy, risk-appetite limits and effectiveness of risk management; • approves, ratifies and monitors corrective risk management initiatives by management; • 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	• reviews and approves applications and/or renewals for investments, advances or other credit instruments in excess of 10% of the group's qualifying capital and reserves; • reviews and approves transactions with a related party and the write-off of any related party exposure exceeding 1% of the group's qualifying CET1 capital and reserve funds; • reviews and approves applications and renewals outside the mandate of the FirstRand wholesale credit approval committee; and • delegates the mandate for approval of group and individual facilities to the FirstRand wholesale credit approval committee and the FirstRand commercial credit approval committee, as appropriate.
Information technology risk and governance committee	• monitors appropriateness and effectiveness of the implementation and oversight of IT risk management, information and cybersecurity management, and IT governance across FirstRand; • considers the FirstRand IT risk profile, including cybersecurity, and ensures it is managed within the group's IT risk appetite; • ensures compliance with all relevant regulatory requirements; • initiates corrective actions and passes resolutions, as may be appropriate, to improve the overall status of IT and information security risk management and governance in FirstRand, including requiring changes to processes where weaknesses are identified; • reviews and approves the FirstRand IT governance framework and oversight of the implementation thereof; • escalates significant IT (including cyber) risk and governance matters to the board; • approve, where appropriate, relevant IT and information security-related frameworks, policies and standards; • monitors (through audit reports, risk reviews, etc.) adequacy and effectiveness of IT risk and governance across FirstRand, to provide the board with an overall view of the state of IT risk and governance; • receives reports on significant IT, information security and cyber-related incidents, and monitors that adequate corrective actions have been implemented; • monitors IT spend and ensures value delivery for significant investments in technology and information; • monitors development and implementation of the IT strategy; and • instils an appropriate level of governance to ensure IT support for the implementation of the FirstRand data strategy and a sound FirstRand data ecosystem.

SUBCOMMITTEES OF THE RCC COMMITTEE RESPONSIBILITIES

RCC SUBCOMMITTEE	RESPONSIBILITIES
Credit risk management committee	• approves credit risk management and risk appetite policies as well as forward-looking credit risk indicators developed by retail, commercial and corporate portfolio management; • monitors the credit risk profile including performance relative to credit risk appetite thresholds, quality of the in-force business and business origination in terms of the group's view of credit economic outlook; • monitors scenario and sensitivity analysis, stress tests, credit economic capital utilisation, credit pricing and credit concentrations; • ensures uniform interpretation of credit regulatory requirements and credit reporting; and • monitors corrective actions, where appropriate.
Market and investment risk committee	• approves market, investment and counterparty credit risk management frameworks, policies, standards and processes; • monitors the market, investment and counterparty credit risk profile and the effectiveness of related risk management processes; • monitors implementation of corrective action, where required; and • approves market, investment and counterparty credit risk-related limits.
Model risk and validation committee	• considers and approves all material aspects of model governance and validation processes, including but not limited to those processes related to credit risk rating and estimation processes, internal models for market risk and advance measurement operational risk models.
Asset, liability and capital committee (ALCCO)	• approves and monitors effectiveness of management policies, assumptions, limits and processes for liquidity and funding risk, capital and non-traded market risk; • monitors the group's funding management; • monitors capital management including level, composition, supply and demand of capital, and capital adequacy ratios; and • approves frameworks and policies relating to internal funds transfer pricing for the group.
Compliance and conduct risk committee	• approves regulatory risk, including anti-money laundering (AML) and combating the financing of terrorism (CFT) frameworks, plans, risk management policies and standards; • monitors the effectiveness of regulatory risk management across the group and initiates corrective action, where required; • monitors compliance with the Regulations and supervisory requirements relating to banks; and • reviews matters relating to financial crime regulatory compliance, market conduct and prudential regulatory compliance, anti-bribery and corruption, and any other matter relating to regulatory compliance.
Tax risk committee	• sets tax strategy and tax risk appetite; • approves tax risk management frameworks and policies; • monitors tax risk assessments and risk profiles; and • escalates relevant risk items to the RCC committee.
Operational risk committee	• monitors effectiveness of the implementation and provides oversight of operational risk management, and initiates corrective action, where required; • recommends the group's operational risk appetite for approval by the RCC committee; • monitors the group, subcommittee and business risk profiles against operational risk appetite and escalates relevant risk themes to the RCC committee; and • approves operational risk management frameworks and subpolicies, including those for integrated crime, protective security, legal risk, business resilience risk and vendor risk.
Information governance committee	• monitors the development and implementation of an appropriate information governance framework (including policies, standards and guidelines) and recommends the framework for approval by the RCC committee; • reports to the RCC committee on the level of information governance for the group; • initiates such actions and issuing of instructions as may be appropriate, in order to improve group information governance; and • monitors development and implementation of the group data strategy and reports to the RCC and platform executive committees on implementation status.

COMBINED ASSURANCE

The audit committee oversees formal enterprise-wide governance structures for enhancing the practice of combined assurance at both group and business levels. The primary objective is for assurance providers to work together with management to deliver appropriate, cost-effective assurance. Assurance providers in this model include Group Internal Audit (GIA), senior management, Enterprise Risk Management (ERM), Regulatory and Conduct Risk Management (RCRM) and external auditors. The combined outcome of independent oversight, validation and audit tasks performed by the assurance providers ensures a high standard across methodologies, and operational and process components of the group's risk and financial resource management (FRM) functions.

The group established a combined assurance forum, supported by business combined assurance forums, with the primary objective to assist the audit committee in discharging its responsibilities on the integration, coordination and alignment of the various risk management and assurance processes and activities across the group. Combined assurance is firmly embedded in the organisation and drives consistent reporting to relevant governance committees.

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

RISK INFORMATION REPORTING

Process of risk reporting

The group's robust and transparent risk-reporting process enables key stakeholders (including the board and the strategic executive committee) to get an accurate, complete and reliable view of the group's financial and non-financial risk profile, and enables management to make appropriate strategic and business decisions.

Reporting of risk information follows the governance structure illustrated on page 18. Specialised risk committees and business audit, risk and compliance committees report to the RCC committee and its subcommittees, as well as to relevant executive committees on risk profile, material risk exposures, risk-adjusted business performance and key risk issues. The RCC committee submits its reports and findings to the board, and highlights control issues to the audit committee.

Regular risk reporting enables the board, senior management, RCC committee and relevant subcommittees to evaluate and understand the level and trend of material risk exposures and the impact on the group's capital position, and to make timely adjustments to the group's future capital requirements and strategic plans.

The RCC committee, in turn, submits reports to the board on:

- the group's risk profile, significant issues, key risk exposures, risk rating trends, board risk appetite principles and board risk limits;
- effectiveness of corporate governance, risk management, capital management and capital adequacy;
- level of compliance or non-compliance with laws and regulations, and supervisory requirements;
- internal control and regulatory material malfunction;
- contravention of codes of conduct or ethics, personal trading, or unethical behaviour by any director; and
- limits, authorities and delegations granted to the RCC committee.

GIA provides a written assessment on the adequacy and effectiveness of the system of internal controls (including financial controls) and risk management to the audit committee. This enables the board to report on the effectiveness of the system of internal controls in the annual integrated report.

Scope and content of risk reporting

Risk reports to the board, board risk committees, business risk and audit committees, and senior management include the following:

- risk exposure and risk-adjusted business performance;
- feedback on implementation and monitoring of risk management processes;
- comparison of risk management performance against risk appetite, limits and indicators;
- periodical review of process against and deviation from the risk management plan;
- changes in external and internal environment and their possible impact on the group's risk profile;
- impact of environmental changes on the strategic risk profile of the group;
- assessment of whether risk responses are effective and efficient in both design and operation;
- tracking implementation of risk responses;
- analysis and lessons learnt from changes, trends, successes, failures and events; and
- identification of emerging risks.

As part of the reporting, interrogation and control processes, 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 every business.

ERM ensures and GIA provides assurance 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 data aggregation and risk reporting

The BCBS published BCBS 239 in January 2013, setting out principles to strengthen banks' risk data aggregation capabilities and internal risk reporting practices. In turn, effective implementation of the principles is expected to enhance risk management and decision-making processes at banks. Domestic systemically important banks (D-SIBs) were required to comply with the principles by 1 January 2017.

Management recognises the need to comply, as well as the scope and complexity of remediation efforts. A strategic yet pragmatic approach has been adopted for implementation. Significant investment and notable progress has been made with regard to the implementation of the principles, taking cognizance of the strategic data roadmap, supported by business and IT strategies.

The involvement of GIA as an independent validation unit from the outset of the BCBS 239 programme, the development of BASA audit guidelines and benchmarking the group's implementation approach against international best practice, has improved the group's understanding of the principles. GIA considered the BASA audit guidelines, international best practice and the FirstRand risk data aggregation and reporting framework in developing internal audit procedures for BCBS 239 to support consistent reviews across the group.

Despite the challenges posed by the complexity, scope and scale of the requirements, the group remains committed and is on track to ensure implementation of the principles in line with the scope and timelines agreed with the PA. GIA is validating the group's compliance status on an ongoing basis through independent reviews with appropriately skilled resources. The current focus is on embedding new or revised processes, roles and remaining gaps identified by management and GIA.

The compliance timeline for Aldermore was agreed with the PA. Recognising BCBS 239 as a key priority, significant expansion of activities is planned for the next financial year to include all in-scope risk types and to progress the credit risk remediation plan. Credit risk capabilities will be leveraged to establish a process which can be replicated across the risk landscape. Significant progress was made in understanding the gaps and developing a remediation plan. Strong engagement with FirstRand is embedded in Aldermore's BCBS 239 programme.

Risk culture

The group recognises that effective risk management requires an appropriate risk culture. The group distinguishes between corporate culture (how values are lived in the group) and risk culture (attitudes towards risk management). Significant determinants are ethical leadership, flow of information, reporting integrity and treating customers fairly.

The group's risk culture is intended to ensure effective risk management and controls. It places primary responsibility for risk management on the first line of control (risk ownership), while designating specific risk management-related duties and responsibilities to the second (risk control) and third (independent assurance) lines of risk control.

The group believes its risk culture is underpinned by the following:

- competent and ethical leadership in setting strategy, risk appetite and a positive attitude towards applying appropriate risk practices;
- robust risk governance structures to ensure risk policy frameworks are visible and implemented, and that appropriate committee structures and membership exist;
- best practice risk identification, measurement, monitoring, management and reporting; and
- a broader organisational culture which drives appropriate business ethics practices and supports risk management goals, and which provides a balance between skills and ethical values and ensures accountability for performance.

In support of a sound risk culture, the group manages ethics and conduct risk programmes with appropriate levels of employee training and communication to ensure responsible conduct. The programmes include those aimed at overseeing client desirability and related reviews, managing whistle-blowing and other risk culture monitoring mechanisms, as well as reviewing the outcomes of various culture and behaviour assessments. The effectiveness of these programmes is periodically assessed.

The group has established clear parameters to assess its risk culture rating. This is outlined in the following diagram.

RISK CULTURE ASSESSMENT FRAMEWORK

Themes

- Ethical and competent leadership
- Accurate and timely flow of information with appropriate disclosure
- Ethical treatment of clients and ethical clients

Parameters	Activities
Tone from the top	• Ensuring an ethical and competent leadership pipeline – recruitment, promotion and dismissal. • Developing management structures and forums that encourage openness. • Zero tolerance for unethical conduct or whistle-blower victimisation.
Setting risk goals	• Ensuring risk management goals, policies and standards are set and communicated throughout the group. • Ensuring that ethics and accountability to risk management parameters are acknowledged to be as important as efficiency, innovation and profit.
Providing resources and sound platforms	• Ensuring risk management goals are attainable by adequately staffing risk management functions. • Applying fit-and-proper tests for key risk roles. • Embedding risk controls in business platforms.
Aligning measurement and rewards	• Ensuring accurate and relevant performance metrics. • Ensuring risk metrics are incorporated in the performance management framework.

Risk measurement approaches

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

RISK TYPE	FRBSA (i.e. FRB EXCLUDING FOREIGN BRANCHES)	PA APPROVAL DATE	REMAINING GROUP SUBSIDIARIES AND FRB FOREIGN OPERATIONS
Credit risk	Advanced internal ratings-based (AIRB) approach and the standardised approach for certain portfolios	January 2008	Standardised approach
Securitisations	AIRB	January 2008	Standardised approach
Counterparty credit risk	Standardised method	May 2012	Current exposure method
Traded market risk	Internal model approach	July 2007	Standardised approach
Equity investment risk	Market-based approach: simple risk weighted method*	June 2011	Market-based approach: simple risk weighted method*
Operational risk	Advanced measurement approach (AMA)	January 2009	**Remaining subsidiaries and FRB foreign branches:** • The standardised approach for operational risk (TSA) **FRIHL entities:** • Basic indicator approach (BIA), TSA, AMA **Ashburton Investments:** • BIA **Aldermore:** • BIA
Other assets	Standardised approach	January 2008	Standardised approach

* *Subject to the threshold rules as per Regulation 38(5).*

CREDIT RISK

The calculation of credit RWA for the bank's domestic operations is based on internally developed quantitative models in line with the AIRB approach. The three credit risk measures, namely probability of default (PD), exposure at default (EAD), and loss given default (LGD) are used along with prescribed correlations, dependent on the asset class and estimates of maturity, where applicable, to derive credit RWA. The quantitative models also adhere to the AIRB requirements related to annual validation.

For the remaining entities, credit RWA is based on the standardised approach where regulatory risk weights are prescribed per asset class. Even though the remaining entities do not have regulatory approval to use the AIRB approach, internally developed quantitative models are used for internal assessment of credit risk.

SECURITISATIONS

Where a public rating is made available by an eligible external credit assessment institution (ECAI) for the notes in issue, the ratings-based approach is used, otherwise the supervisory formula approach or a look-through to the underlying assets is applied. Capital calculated under these approaches is limited to the capital that would have been held had the assets remained on-balance sheet.

The ratings-based approach uses an external rating assigned to the securitisation tranches by an ECAI. Credit risk weightings are based on the rating assigned to the specific tranche as well as its seniority relative to other notes.

Under the supervisory formula approach, the capital requirement for any securitisation exposure is determined using the credit parameters for the underlying assets. Capital is determined using a standard formula taking into account the size of the tranche and credit enhancement. Unrated exposures are risk weighted at 1 250%. Capital for unrated exposures is determined using the size of the tranche and credit enhancement.

The standardised approach uses an external rating assigned to the securitisation tranches by an ECAI. Credit risk weightings are based on the rating assigned to the specific tranche.

COUNTERPARTY CREDIT RISK

Regulatory capital for counterparty credit risk is based on the credit risk approach, i.e. AIRB for domestic entities and the standardised approach for the remainder of the group's entities. In addition, capital is held for credit valuation adjustment (CVA) risk. CVA refers to the fair value adjustment to reflect counterparty credit risk in the valuation of derivative contracts. It is the mark-to-market adjustment required to account for credit quality deterioration experienced by a derivative counterparty. CVA capital, for all entities, both domestic and foreign, is computed in accordance with the standardised approach. For domestic entities, economic capital is calculated based on the internal model, with regulatory capital serving as a proxy for economic capital for the remainder of the group entities.

These three EAD approaches to measure the exposure of derivative transactions are based on current regulations and are outlined in the table below.

Current exposure method (CEM)	CEM is the simplest approach and is based on a replacement cost plus add-on formula dependent on potential future exposure that accounts for the potential change in the value of the contract until a hypothetical default of the counterparty. This method is applied to all group entities except for FRBSA.
Standardised method	The standardised method is applied for FRBSA. This method is more sophisticated than the CEM approach as it factors in the non-linearity features of derivatives, risk sensitivity such as PV01s and is based on the concept of hedging sets. 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.
Internal model method	The internal model method is the third and most complex method and is not applied by the group.

TRADED MARKET RISK

Regulatory capital for domestic trading units is based on the internal Value-at-Risk (VaR) model supplemented with a stressed VaR (sVaR). Both VaR and sVaR are calculated at the 99%, 10-day actual holding period level using 250 scenarios each. VaR is calculated using the last 260 trading days' data and sVaR using 260 trading days during a pre-defined static stress period (2008 – 2009). For internal risk reporting purposes, an expected shortfall methodology calculated at a 99%, 10-day actual holding period is used over the same periods as VaR and sVaR. 1-day VaR calculations are also used as an additional tool in the assessment of market risk.

The group's subsidiaries in the rest of Africa and the bank's foreign branches are measured using the standardised approach for regulatory capital. Internal stress loss methodology applies to the rest of Africa for internal measurement of risk. Capital is calculated for general market risk using the duration methodology. In addition to general market risk, specific risk capital is held based on the Basel III standardised approach duration method.

EQUITY INVESTMENT RISK

The simple risk weighted method under the market-based approach (300% for listed equities or 400% for unlisted equities) is applied with the scalar for the quantification of RWA. In terms of Regulation 38, a specific risk weight is applied to qualifying investments in financial, banking and insurance entities (threshold rules). This is dependent on the size of the portfolio of the investments in relation to the group's qualifying CET1 capital. The full deduction method is applied to insurance entities i.e. deduction of IFRS consolidated net asset value (NAV) and risk weighting of investment into insurance entity. Economic and regulatory capital calculations are augmented by regular stress tests of market values and underlying drivers of valuations, including assessments of stress resulting from portfolio concentrations.

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 for the economic capital quantification. The ETL risk measure is supplemented by a measure of the specific (idiosyncratic) risk of the individual securities per the specific risk measurement methodology.

OPERATIONAL RISK

The group applies AMA for its domestic operations. Offshore subsidiaries and operations use TSA and all previously unregulated entities (prior to 2010) in FRIHL use BIA. Ashburton Investments and Aldermore also follow BIA. Under AMA, the group uses a sophisticated statistical model for the calculation of capital requirements, which enables more accurate, risk-based measures of capital for business units on this approach. Operational risk scenarios and internal loss data are used as direct inputs into this model, while risk and control assessments, key risk indicators and external data are used to inform the operational risk scenario analysis process. TSA and BIA capital calculations are based on a multiplication factor applied to gross income, as specified by Basel and PA regulations. No risk-based information is used in these capital calculations and allocations.

OTHER ASSETS

The group applies the standardised approach to property and equipment, accounts receivable and other assets. Deferred tax assets relating to temporary differences, and investment in financial, banking and insurance entities, are also included under other assets, and are risk weighted at 250%, subject to the threshold requirements as per Regulation 38.

Risk mitigation

The group is exposed to a number of risks inherent in its operations and uses a range of techniques and strategies to actively mitigate these risks.

INTEREST RATE RISK IN THE BANKING BOOK

The internal funds transfer pricing process is used to transfer IRRBB from the operating businesses to Group Treasury. This process allows risk to be managed centrally and holistically, in line with the group's macroeconomic outlook.

Group Treasury is mandated by the board to manage the group's IRRBB and operates within a set of risk limits aligned to the group's risk appetite. The exposures against these limits are monitored daily with oversight by FCC Risk Management and ALCCO.

The two key drivers of IRRBB, the endowment effect and the fixed-rate book, are managed by Group Treasury through balance sheet optimisation or the use of financial market instruments.

Fixed-rate book	Interest rate risk from the net fixed rate asset/liability position is managed to low levels with residual risk stemming from timing mismatches and basis risk.
Endowment effect	The endowment effect is the most significant driver of IRRBB and is a result of the use of large portfolios of low/non-rate liabilities to fund variable-rate assets. Consequently, the group's margins naturally expand in a rate-hiking cycle, but contract in a rate-cutting cycle. Group Treasury employs a combination of structural and tactical hedging strategies to manage the endowment effect. It actively monitors the macroeconomic environment to assess the stage of the cycle and hedges this risk from an earnings perspective. Only instruments for which a liquid market exists are used for hedging purposes and, where possible, cash flow hedge accounting is applied to minimise accounting mismatches.

CREDIT RISK

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 parameters that fall within risk appetite.

Although in principle credit assessment focuses on the counterparty's ability to repay 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.

Credit risk mitigation instruments

- Mortgage and instalment sale finance portfolios in FNB, WesBank, MotoNovo and Aldermore are secured by the underlying assets financed.
- FNB and Aldermore commercial credit exposures are secured by the assets of the small and medium enterprises (SMEs) counterparties and commercial property finance deals are secured by the underlying property and associated cash flows.
- Personal loans, overdrafts and credit card exposures are generally unsecured or secured by guarantees and sureties.
- For FNB and WesBank retail customers, insurance against disability, life and retrenchment is prescribed, where applicable.
- Structured facilities in RMB are secured as part of the structure through financial or other collateral, including guarantees, credit derivative instruments and assets.
- Counterparty credit risk in RMB is mitigated through the use of netting agreements and financial collateral.
- Personal loans, overdrafts and credit card exposures are generally unsecured or secured by guarantees and sureties.
- Working capital facilities in RMB corporate banking are secured and unsecured.

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. For mortgage portfolios, collateral is revalued on an ongoing basis using an index model, and physical inspection is performed at the beginning of the recovery process. For asset finance, the total security reflected represents only the realisation value estimates of the vehicles repossessed at the date of repossession. Where the repossession has not yet occurred, the realisation value of the vehicle is estimated using internal models and is included as part of total recoveries.

Concentrations in credit risk mitigation types, such as property, are monitored and managed at a product and segment level, in line with the requirements of the group credit risk appetite framework. 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.

COUNTERPARTY CREDIT RISK

The group uses various instruments to mitigate 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 over-the-counter (OTC) derivatives centrally as part of risk mitigation.

The group uses International Swaps and Derivatives Association (ISDA) and International Securities Market Association (ISMA) agreements for 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 daily, including daily margin calls based on the approved CSA thresholds.

The effectiveness of the hedges and mitigants in place are monitored by a combination of counterparty risk limits and market risk limits. The setting of these limits is in accordance with the wholesale credit risk framework and the market risk limit framework. The counterparty credit risk team in RMB Markets Cluster is the custodian of the policies that set collateral requirements for counterparties and portfolios. Business units are responsible for executing these policies and the RMB Business Resource Management desk is responsible for the overall management of the funding costs/benefits of the collateral. Client and portfolio exposures, concentrations and effectiveness of collateral and hedges are monitored on an ongoing basis via the relevant derivative risk committees and the quarterly derivative counterparty risk management committee in RMB.

Collateral, in the form of cash and/or cash equivalents, is the primary credit risk mitigant for counterparty credit risk. Collateral arises from margin arrangements, which are stipulated within netting agreements, and is also a function of providing market access to clients across certain business lines. The liquid nature of the collateral taken makes it effective as a mitigant in that its valuation, where applicable, is easily observable in the market and in that lower regulatory haircuts apply.

RISK INSURANCE

The group's insurance buying philosophy is to self-insure as much as is economically viable in line with its risk appetite and to only protect itself against catastrophic risks through the use of third-party insurers. The insurance programme includes, *inter alia*, cover for key insurable operational risk exposures, such as professional indemnity, directors' and officers' liability, crime, cyber liability, public and general liability and property. The group does not consider insurance as a mitigant in the calculation of capital for operational risk purposes.

Risk appetite

Risk appetite is approved by the board. The group's return and risk appetite statement informs organisational decision-making and is aligned to FirstRand's strategic objectives. Business and strategic decisions are aligned to risk appetite measures to ensure these are met during a normal cyclical downturn. Constraints are also set for stressed conditions. At a business unit level, strategy and execution are influenced by the availability and price of financial resources, earnings volatility limits and required hurdle rates and targets.

RETURN AND RISK APPETITE STATEMENT

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

The return and risk appetite framework aims to ensure that the group maintains an appropriate balance between risk and reward. Return targets and risk limits 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 long-term financial targets capture its risk appetite in the context of risk, reward and growth. The targets contextualise the level of return the group expects to deliver to stakeholders under normal and stressed conditions for the direct and consequential risks it assumes in the normal course of business.

Risk capacity is the absolute maximum level of risk the group can technically assume given its current available financial resources. Risk capacity provides a reference for risk appetite and is not intended to be reached under any circumstances.

Risk limits are clearly defined risk boundaries for different measures per risk type, and are also referred to as thresholds, tolerances or triggers.

The return and risk appetite framework aims to drive the discipline of balancing risk, return and sustainable growth across all portfolios. Through this process, the group ultimately seeks to achieve an optimal trade-off between its ability to take on risk, and the sustainability of the returns delivered to shareholders.

The group's risk/return profile is monitored regularly, using risk appetite limits, which are measured on a point-in-time and forward-looking basis. Business performance targets for ROE and NIACC are set to ensure delivery of appropriate sustainable returns for risk taken and financial resource utilisation. Principles are set to ensure these are appropriately captured in business pricing.

Risk appetite influences business plans and informs risk-taking activities and strategies.

The following diagram illustrates the processes to align risk and return metrics with the group's strategic objectives, commitments to stakeholders, performance measurement objectives and the management of financial resources.

FIRSTRAND RISK AND RETURN METRICS

The following diagram outlines the quantitative measures and qualitative principles of the return and risk appetite framework. The measures are continually reassessed as part of the group's ongoing review and refinement of its return and risk appetite framework.

RETURN AND RISK APPETITE FRAMEWORK

QUANTITATIVE MEASURES

Normal cycle

Performance targets	
Returns	ROE **18% – 22%**
Earnings growth	Normalised earnings growth **Nominal GDP plus >0% – 3%**

Resource objectives and constraints		
Solvency	CET1 capital **11% – 12%**	Leverage **>5.5%**
Liquidity	To exceed minimum regulatory requirements with appropriate buffers	

Standalone credit rating*:
Equal to highest in SA banking industry

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

Normal downturn and stressed downturn

Limits set for earnings fall under stressed conditions, as well as minimum ROE, CET1, leverage and liquidity ratios.

RISK LIMITS

Risk limits, thresholds, tolerances and triggers are defined per risk type.

QUALITATIVE PRINCIPLES

Always act with a fiduciary mindset.	Limit concentrations in risky asset classes or sectors.
Comply with prudential regulatory requirements.	Avoid reputational damage.
Comply with the spirit and intention of accounting and regulatory requirements.	Manage the business on a through-the-cycle basis to ensure sustainability.
Build and maintain a strong balance sheet which reflects conservatism and prudence across all disciplines.	Identify, measure, understand and manage the impact of downturn and stress conditions.
Do not take risk without a deep understanding thereof.	Strive for operational excellence and responsible business conduct.
Comply with internal targets in various defined states to the required confidence interval.	Ensure the group's sources of income remain appropriately diversified across activities, products, segments, markets and geographies.
Do not implement business models with excessive gearing through either on- or off-balance sheet leverage.	

The COVID-19 pandemic and associated economic crisis resulted in three simultaneous and profound shocks: to global trade; to global confidence, causing financial conditions to tighten significantly and abruptly; and to economic activity following the lockdown policies adopted by most of the world's major economies. This translated into a once in a generation economic stress event. This stress event is outside of the boundaries used to set the group's return and risk appetite framework. The group's resource objectives and constraints were within tolerances set for stressed conditions. The earnings fall and ROE outcomes were outside of the targets set for stress. This was largely due to:

- The extent of the crisis as a once in a generation economic stress event.
- The lack of diversification benefits as most business activities were negatively impacted across geographic markets, segments and products simultaneously.
- The impact of higher than expected credit impairments, driven by forward-looking economic assumptions required under IFRS 9.

Financial resource management

The management of the group's financial resources, which it defines as capital, funding and liquidity, and risk capacity, is a critical enabler of the achievement of FirstRand's stated growth and return targets, and is driven by the group's overall risk appetite.

At the onset of lockdown, FirstRand implemented specific actions to strengthen and protect the balance sheet to enable the group to effectively weather the prevailing environment, and emerge in a position to fully capitalise on the recovery.

Given the scale of the economic crisis, which FirstRand expects to influence the operating environment for the next 18 to 24 months, the group anchored business to certain FRM principles, adherence to which will ensure FirstRand returns to its historical trajectory of growth, quality earnings and delivery of superior returns to shareholders.

These FRM principles include:

- Carefully price for financial resources.
- Appropriately provide against lending portfolios.
- Apply strict cost management.
- Further strengthen and appropriately tilt the balance sheet to the macro outlook.
- Accrete capital and NAV – deployment of capital to reflect the increased cost of equity.
- Emerge from COVID-19 with limited vulnerabilities, with capital for growth.

Forecast growth in earnings and balance sheet RWA is based on the group's macroeconomic outlook and evaluated against available financial resources, considering the requirements of capital providers, regulators and rating agencies. The expected outcomes and constraints are then stress tested, and the group sets targets for different business cycles and scenarios to enable FirstRand to deliver on its commitments to stakeholders at a defined confidence level.

The management of the group's financial resources is executed through Group Treasury and is independent of the operating businesses. This ensures the required level of discipline is applied in the allocation and pricing of financial resources. This also ensures that Group Treasury's mandate is aligned with the portfolio's growth, return and volatility targets to deliver shareholder value. The group continues to monitor and proactively manage a fast-changing regulatory environment, competitive landscape and ongoing macroeconomic challenges.

The group adopts a disciplined approach to the management of its foreign currency balance sheet. The framework for the management of external debt takes into account sources of sovereign risk and foreign currency funding capacity, as well as the macroeconomic vulnerabilities of South Africa. The group employs self-imposed structural borrowing and liquidity risk limits which are more onerous than those required in terms of the Regulations. The group's philosophy is that, in the longer term, foreign currency assets should be supported by foreign currency liabilities, primarily in the same jurisdiction. It aligns with one of the group's strategic priorities to increase diversification by jurisdiction, which is evidenced by the integration of the MotoNovo business with Aldermore Group in the UK, as well as the utilisation of the RMB International Mauritius platform for the group's rest of Africa dollar exposures.

Despite increasing competition, the group believes that its disciplined and dynamic approach to financial resource management provides it with the ability to further enhance the value proposition to customers and optimally utilise platforms across the group to deliver on commitments to stakeholders.

FirstRand uses the group's macroeconomic house view for budgeting, forecasting and business origination strategies. The house view focuses on the key macroeconomic variables that affect the group's financial performance and risk position. The macroeconomic outlook for South Africa and a number of other jurisdictions where the group operates, is reviewed on a monthly basis over a three-year forecast horizon. The house view for other jurisdictions with less frequent data updates is updated at least quarterly. Business plans for the next three years are captured in the budget and forecasting process. Scenario planning is then used to assess whether the desired profile can be delivered and whether the group will remain within the constraints that have been set. These scenarios are based on changing macroeconomic variables, plausible event risks, and regulatory and competitive changes.

The strategy, risk and financial resource management processes inform the capital and funding plans of the group. Analysis and understanding of value drivers, markets and the macroeconomic environment also inform portfolio optimisation decisions as well as the price and allocation of financial resources.

Stress testing and scenario planning

Stress testing and scenario planning serve a number of regulatory and internal business purposes, and are conducted for the group and the bank across different risk types, factors and indicators. The group employs a comprehensive, consistent and integrated approach to stress testing and scenario analysis. The group evaluates the impact of various macroeconomic scenarios on the business and considers the need for adjustment to origination and takes appropriate actions. More severe macroeconomic scenarios are run less frequently, but are critical to determine or test capital buffers and other risk appetite measures, enhance capital and liquidity planning, validate existing quantitative risk models and improve the understanding of required management actions/responses.

Stress tests are conducted throughout the group for most legal entities, whether regulated or not. The various stress test processes are supported by a robust and holistic framework, underpinned by principles and sound governance, and aligned to regulatory requirements and best practice.

Stress testing and scenario analysis provide the board and management with useful insight into the group's financial position, level of earnings volatility, risk profile and future capital position. Results are used to challenge and review certain of the group's risk appetite measures, which, over time, influence the allocation of financial resources across businesses and impact performance measurement.

From a regulatory perspective, stress testing and scenario analysis feed into the group's ICAAP and recovery plan. The ICAAP stress test is an enterprise-wide, macroeconomic stress test covering material risks that the group is exposed to. It typically covers a three-year horizon, with separate ICAAP submissions completed for the group's regulated banking entities which are subject to Basel II and III requirements. The severity of the macroeconomic scenarios ranges from a mild downturn to severe stress scenarios. In addition to macroeconomic scenarios, the group incorporates event risks and reverse stress test scenarios that highlight contagion between risk types. Techniques and methodologies range from multi-factor and regression analyses for macroeconomic stress tests to single-factor sensitivities and qualitative impact analysis for event risks and reverse stress tests.

The group's recovery plan builds on its ICAAP. The scenarios defined for ICAAP are extended and incorporate the following scenarios:

- systemic;
- idiosyncratic;
- fast-moving; and
- slow-moving.

The results of the ICAAP and recovery plan process are submitted to the PA annually and are key inputs into:

- determination of the capital buffer and targets;
- dividend proposals;
- the group's earnings volatility measures; and
- performance measurement requirements.

The group regularly runs additional *ad hoc* stress tests for both internal and regulatory purposes. Internally, risk-specific stress tests may utilise various techniques depending on the purpose (e.g. limit setting or risk identification). From a regulatory perspective, the group expects to be subjected to more frequent supervisory stress tests covering a range of objectives.

The COVID-19 pandemic has added a layer of complexity to the group's stress and scenario analysis process. It challenges the severity and shape of economic downturns to be considered in addition to the current stressed environment.

These stress events and scenario analyses are not only focused on the downside impacts on earnings and capital, but generally allow the bank to also assess its operational resilience. The process is further used to identify and deploy mitigating measures to support customers and the broader economy within the boundaries of prudential constraints.

Climate change and related risks have also become relevant when considering stress and scenario analysis. This follows the timely and ambitious transition to a lower carbon economy (transitional risk) as well as many geographies battling more extreme weather disruptions and events (physical risks). At this stage, FirstRand is investigating and exploring scenarios and a range of methodological considerations of climate change for the assessment of transitional risk and related physical risk scenarios.

Given the infancy stage of the climate-related scenario analysis (across both transitional and physical risks), the group currently considers only event-based scenarios for certain portfolios and segments. These have been incorporated in the 2020 ICAAP for group and bank.

Application of the return and risk appetite framework and risk limits

Risk appetite, targets and limits are used to monitor the group's risk/return profile on an ongoing basis and are measured point-in-time and on a forward-looking basis. Risk appetite influences business plans and informs risk-taking activities and strategies. The return and risk appetite 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 group cascades overall appetite into targets and limits at risk type, business and activity level, and these represent the constraints the group imposes to ensure its commitments are attainable. Risk management roles and responsibilities are outlined in the BPRMF. Risk appetite measures and risk limits per risk type are provided below.

FUNDING AND LIQUIDITY RISK

Liquidity risk is an inevitable consequence of the group's business activities. Group Treasury sets the group's funding risk appetite. This is done through ongoing engagement with stakeholders across businesses to determine funding requirements during business-as-usual and stress scenarios. Liquidity risk is managed by optimising the group's funding profile within structural and regulatory constraints, with the objective of enabling the group to operate in an efficient and sustainable manner.

Risk appetite levels are set in relation to the composition of funding as well as the marketability of the group's assets, in particular the mix and size of liquidity buffers held. These strategies are impacted by prudential requirements including regulatory liquidity requirements (including LCR and NSFR). These regulatory constraints and risk appetite levels are incorporated into the group's internal funds transfer pricing framework.

The funds transfer pricing framework 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. The funds transfer pricing process is a key management tool for funding appetite allowing for pricing of products within the group's desired risk appetite levels.

Liquidity risk appetite is additionally monitored in terms of survival periods. Survival periods are the minimum time frames over which the cumulative cash inflows and liquidity buffers exceed cash outflows. Survival periods provide management with sufficient time to take mitigating actions to adjust the group's liquidity profile. Risk appetite levels in relation to survival periods are analysed at various reporting levels. The survival period aligns to prudential requirements inherent in the LCR, namely 30 days. Monitoring of actual performance against limits and limit utilisation is performed and reported daily, weekly and monthly, as appropriate, to various management and governance committees.

CREDIT RISK

The group aims to manage credit in such a way that it can achieve its overall earnings growth target, within acceptable volatility levels. The group's credit risk appetite, aligned to the group's overall risk appetite, is determined through supplementing a top-down group credit risk appetite with an aggregated bottom-up assessment of business unit level credit risk appetite. Stress testing is used to enable measurement of financial performance and the credit volatility profile of the different credit business units at a portfolio, segment, business, and ultimately at a diversified group-wide level.

The credit risk appetite statement is articulated to describe acceptable downside risk, i.e. definition of acceptable performance outcomes under different economic cycles. The key credit risk performance measures are credit loss ratios, ROE and NIACC. These measures and stressed assessments correspond to macroeconomic stress scenarios applied in the group's stress testing.

To achieve outcomes within these constraints, risk limits for new and existing business are articulated within business segments. This is done to manage concentrations in credit segments contributing to high and/or volatile credit losses. Business risk limits are managed through assessing volatility of credit losses, product pricing strategies, product cost structures and capital requirements. Business risk limits include the following elements:

- counterparty limits based on borrower risk segments, for example FirstRand (FR) rating grades;
- collateral limits for secured lending based on collateral profiles, for example loan-to-value bands;
- concentration limits including single counterparty, counterparty grouped by FR rating, collateral loan-to-value band, gearing, industry, market, maturity and geography; and
- capacity limits based on measures of customer affordability, e.g. repayments-to-income bands.

Credit origination strategies are refined on an ongoing basis to ensure credit profiles are maintained within risk limits. The financial performance, monitoring against limits, economic growth potential, lending conditions, financial soundness, and balance sheet structure of large counterparties as well as non-performing and impairment trends, economic indicators of specific industries, and macroeconomic and political factors, are continually assessed to determine the appropriateness of limits.

COUNTERPARTY CREDIT RISK

The counterparty credit risk management process is aligned to credit risk management practices and includes the setting of counterparty credit risk limits, quantifying the potential credit exposure over the life of the product, monitoring of limit utilisation, collateral management and ongoing portfolio risk management.

Risk appetite for the over-the-counter (OTC) derivatives and prime financing portfolio is based on exposure appetite and a measure of the cost-to-close of a counterparty's position. Exposure appetite is based on the open exposure the group is willing to assume against a given counterparty, the activity that the counterparty is engaged in, quality and trading liquidity of the underlying securities, and associated impact on the counterparty's credit quality.

Credit risk management sets pre-settlement, settlement, contingent, concentration and other limits for each counterparty, and policies and procedures outline the methodology for establishing these credit limits. Nominal (risk-equivalent amount) and loss in the event of default limits are set for prudential limit purposes. The loan equivalent risk amount is typically used in jurisdictions which recognise the legal right of netting exposures and collateral. In addition, regardless of the transaction credit limits to be applied, all transactions are subject to specific country risk limits and the availability of these at the time of transacting.

TRADED MARKET RISK

Quantitative and qualitative market risk limits are set in line with the group's risk appetite. Quantitative limits for income volatility at a very high confidence level (99%) under distressed conditions for a specified time horizon are set and expressed as:

- VaR and ETL limits per asset class, business line and business unit;
- stress-loss limits at risk factor level for less sophisticated trading businesses;
- regulatory capital limits;
- nominal limits for specific risk items;
- absolute loss thresholds; and
- risk concentration limits.

Qualitative risk appetite measures include business mandates, specific product and trading strategies, and process breakdown tolerance levels. There is zero tolerance for operating outside of any legislation or supervisory regulations in respect of market risk.

Utilisation of ETL limits and market risk exposure against stress exposure limits are monitored daily. Monitoring includes the reporting of limit breaches, causes thereof and the rectification of the breaches to appropriate management and governance committees. The market risk portfolio is stressed on a quarterly basis to ensure that the group's earnings volatility limits will not be breached.

INTEREST RATE RISK IN THE BANKING BOOK

A change in interest rates affects the group's short-term financial performance (earnings) and its long-term economic value. The group has both earnings sensitivity and NAV sensitivity limits in place to protect against volatility in the income statement and balance sheet, respectively. Since earnings volatility and NAV volatility are inversely related, the group seeks to optimise these two measures.

EQUITY INVESTMENT RISK

Quantitative and qualitative investment risk limits are set annually in line with the group's risk appetite. Qualitative aspects are expressed in terms of strategic business mix, business activity and zero tolerance for operating outside legislative or regulatory constraints. Quantitative nominal value limits are set at a group level and then set for business activities and business units. The entire investment risk portfolio is also managed by considering concentration factors, such as geographic distribution, investment value size, counterparty exposure and industry concentrations.

Regulatory capital limits are applied to restrict the balance sheet size on a risk-adjusted basis. Rating agencies' guidance is considered in the setting of limits and monitoring of actual performance against limits to limit portfolio size equity exposure (carrying value) as a percentage of Tier 1 capital.

A key element of monitoring equity investment risk is an assessment of potential earnings volatility that may arise from underlying activities. The portfolio is stressed on a quarterly basis to ensure that earnings volatility remains within appropriate levels.

OPERATIONAL RISK

Operational risk appetite is set at group and business level and includes qualitative and quantitative statements. Operational risk appetite is set as the total annual operational loss amount the group is willing to accept at various confidence/probability levels. This process includes setting:

- a risk appetite profile and monitoring the actual operational risk profile against appetite;
- operational loss thresholds and measuring these against actual loss experience; and
- other quantitative and qualitative measures including key risk indicators and zero tolerance statements.

Risk appetite levels are based on management's appetite for operational risk and they consider historical loss experience, current actual risk exposures and the willingness of management to accept risk in pursuit of strategic objectives. For different probability levels, current actual risk exposures are estimated using internal loss data and operational risk scenarios. Actual risk exposures are monitored against the set operational risk appetite profile.

Annualised loss thresholds are defined for reporting and escalation of losses. Loss thresholds are derived from set risk appetite profile probability levels. Qualitative expressions of risk appetite emphasise risk culture and the relationship between risk and management action.

Recovery and resolution regime

Financial Stability Board (FSB) member countries are required to have recovery and resolution plans in place for all systemically significant financial institutions as per the *Key Attributes of Effective Resolution Regimes*. The PA adopted this requirement and has, as part of the first phase, required D-SIBs 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 FSB and PA has been incorporated into the group's comprehensive recovery plan.

RECOVERY PLANNING

The purpose of the recovery plan is to document how the group's board and management, including its operating businesses and key subsidiaries, namely FRB (including foreign branches), Aldermore, FirstRand Namibia and FNB Botswana, will recover from a severe stress event/scenario that threatens their commercial viability.

The recovery plan:

- analyses the potential for severe stress in the group that could cause material disruption to the financial system;
- considers the type of stress event(s) that would be necessary to trigger its activation;
- analyses how the entity might potentially be affected by the event(s);
- considers how to limit the impact of the event(s) and reduce or prevent any negative contagion across the group;
- lists a menu of potential recovery actions available to the board and management to counteract the event(s); and
- assesses how the entity might recover from the event(s) as a result of those actions.

The recovery plan forces 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 reconcile these exposures to its own risk appetite and strategy. Strategies to optimise the balance sheet structure and preserve the group's critical functions to support the recovery from a severe stress event with the least negative impact are considered. This process enables banks to better understand the critical functions for customers and the financial system, as well as which assets are most marketable to facilitate recovery. Where inefficiencies are identified, these can be addressed to ensure the group is more streamlined, adaptable and resilient to stress.

FirstRand has submitted multiple annually revised versions of its recovery plan to the PA, most recently in December 2019.

RESOLUTION FRAMEWORK

The SARB released a discussion paper on South Africa's intended approach to bank resolution on 23 July 2019. The closing date for public comment was 31 August 2019. The discussion paper outlined the objectives of the resolution framework, and the planning and the conducting of a resolution with an emphasis on open-bank resolution. Open-bank resolution is applicable to systemically important institutions where the bank continues to function in its existing form under its own licence. The intended bank resolution provides more clarity on the regulator's approach to further enhance financial stability in the country.

The discussion paper is a first draft and is likely to be revised and expanded in future. Comments received on the discussion paper will assist the SARB in drafting the regulatory standards for resolution once the Financial Sector Laws Amendment Bill (FSLAB) is promulgated. The FSLAB was tabled in Parliament by the Minister of Finance on 20 August 2020.

The FSLAB introduced a new tranche of loss-absorbing instruments, i.e. flac instruments, which are subordinated to other unsecured creditors and intended for bail-in in resolution. Flac requirements will be applicable to banks with open bank resolution plans. The SARB acknowledges the international approaches towards calibration of total loss-absorbing capacity but has not detailed how the quantum of required flac will be calculated for relevant institutions, nor the deadline for compliance. PwC, appointed by the World Bank and SARB, conducted a survey to analyse various aspects relevant to flac instrument requirements. The survey was completed during the first quarter of 2020 and the results are currently subject to review by the SARB.

An amendment to the FSLAB included the establishment of the Corporation for Deposit Insurance (CoDI) and is designed to protect depositors' funds and enhance financial stability. The SARB has commenced with a project to consider the complexities of operationalising a deposit insurance scheme in South Africa, and has also released several discussion documents. The first discussion document, *Coverage and reporting rules for deposit insurance in South Africa*, was released in April 2020 with the banking industry providing comments to the SARB in June 2020.

The SARB published a second document, *The deposit insurance funding model and the implication for banks*, on 1 September 2020 and comments are due by 16 October 2020.

Link between financial statements and regulatory exposures

BASIS OF CONSOLIDATION

Consolidation of all group entities is in accordance with IFRS for accounting purposes and in accordance with the requirements of the Regulations for regulatory purposes. 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 rowspan="2">SHAREHOLDING</th><th colspan="3">REGULATORY*</th><th rowspan="2">IFRS</th></tr>
<tr><th>BANKING, SECURITY FIRM, FINANCIAL</th><th>INSURANCE</th><th>COMMERCIAL</th></tr>
<tr><td>Less than 10%</td><td colspan="2">Aggregate of investments (CET1, AT1 and Tier 2):
• Amount exceeding 10% CET1 capital – deduction against corresponding component of capital.
• Up to 10% – risk weight based on nature of instrument and measurement approach.</td><td rowspan="2">Standardised approach:
• Minimum risk weight of 100%.
Internal rating-based approach:
• Maximum risk weight of 1 250%.</td><td rowspan="2">Financial assets at mandatory fair value through profit or loss, designated fair value through profit or loss or fair value through other comprehensive income.
Where the substance of the transaction indicates that the group is able to exercise significant influence or joint control over the entity, equity accounting is applied.</td></tr>
<tr><td>Between 10% and 20%</td><td colspan="2">CET1 capital:
• Individual investments in excess of 10% CET1 – deduction against CET1 capital.
• Individual investments up to 10% apply threshold rules.
AT1 and Tier 2:
• Deduct against corresponding component of capital.</td></tr>
<tr><td>Between 20% and 50%</td><td>Legal or de facto support (other significant shareholder) – proportionately consolidate.
No other significant shareholder – apply threshold rules.</td><td rowspan="2">• Apply deduction methodology, with 100% derecognition of IFRS NAV.
• Cost of investment subject to threshold rules.</td><td rowspan="2">Standardised and internal rating-based approach:
• Individual investment greater than 15% of CET1, AT1 and 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%.
• Aggregate of investments exceeding 60% of CET1, AT1 and Tier 2: excess risk weighted at 1 250% (standardised only).</td><td>Equity account where the substance of the transaction indicates that the group has the ability to exercise significant influence or joint control, but does not control the entity.</td></tr>
<tr><td>Greater than 50%</td><td>Entity conducting trading activities/other bank, security firm or financial entity – consolidate.</td><td>Consolidate, unless the substance of the transaction indicates that the group does not control the entity, in which case equity accounting will apply.</td></tr>
</table>

* *As per the Regulations.*

Threshold rules

As per Regulation 38(5), investments are aggregated as part of threshold deductions (significant investments, mortgage servicing rights and deferred tax assets relating to temporary differences). Aggregate investments up to 15% are risk weighted at 250% and amounts exceeding 15% are deducted against CET1 capital.

Insurance entities

Under the insurance category, material wholly-owned insurance subsidiaries incorporated in South Africa include FirstRand Life Assurance Limited with a NAV of R813 million (2019: R856 million), FirstRand Insurance Services Company Limited with a NAV of R405 million (2019: R489 million) and FirstRand Short-Term Insurance (STI) with a NAV of R204 million (2019: R150 million).

MAPPING OF FINANCIAL STATEMENT CATEGORIES TO REGULATORY RISK CATEGORIES

Pillar 3 disclosure is prepared in accordance with the regulatory frameworks applicable to the group while the annual financial statements are prepared in accordance with IFRS. The amount included under regulatory scope excludes balances related to insurance entities. The risk measurement approaches to calculate regulatory capital, applicable to each of the risk frameworks, are described on page 23. The following table provides the differences between the amounts included in the balance sheet and the amounts included in the regulatory frameworks.

LI1: MAPPING OF FINANCIAL STATEMENT CATEGORIES WITH REGULATORY FRAMEWORKS – ASSETS AND LIABILITIES

	As at 30 June 2020							
	Carrying values							
			Items under regulatory frameworks					
R million	Statement of financial position	Regulatory scope	Credit risk	Counter-party credit risk	Securiti-sation	Market risk	Equity invest-ment risk	No capital/ deducted from capital
Assets								
Cash and cash equivalents	136 002	135 901	107 886	23 329	4 686	–	–	–
Derivative financial instruments*	147 515	147 515	–	145 698	1 817	128 573	–	–
Commodities	21 344	21 344	1 372	–	–	21 344	–	–
Investment securities**	297 469	290 450	190 247	–	–	87 120	24 198	–
Advances#	1 261 715	1 261 715	1 154 622	24 041	83 052	–	–	–
Other assets†	11 256	11 074	11 074	–	–	–	–	–
Current tax asset	598	566	566	–	–	–	–	–
Non-current assets and disposal groups held for sale	3 065	3 065	3 065	–	–	–	–	–
Reinsurance assets	240	–	–	–	–	–	–	–
Investments in associates	6 882	6 882	–	–	–	–	6 882	–
Investments in joint ventures	1 749	1 756	–	–	–	–	1 756	–
Property and equipment	21 369	21 356	21 356	–	–	–	–	–
Intangible assets	11 638	11 208	–	–	–	–	–	11 208
Investment properties	722	722	722	–	–	–	–	–
Defined benefit post-employment asset	–	–	–	–	–	–	–	–
Deferred income tax asset	4 975	4 401	4 166	–	–	–	–	235
Investment in subsidiaries	–	1 080	–	–	–	–	1 080	–
Total assets	1 926 539	1 919 035	1 495 076	193 068	89 555	237 037	33 916	11 443
Liabilities								
Short trading positions	5 062	5 062	–	–	–	5 062	–	–
Derivative financial instruments	162 193	162 193	–	160 376	1 817	144 426	–	–
Creditors, accruals and provisions	21 038	20 520	–	–	5	–	–	20 515
Current tax liability	499	497	–	–	–	–	–	497
Liabilities directly associated with disposal groups held for sale	1 427	1 427	1 427	–	–	–	–	–
Deposits	1 535 015	1 534 977	–	26 938	48 041	–	–	1 459 998
Employee liabilities	8 820	8 752	–	–	–	–	–	8 752
Other liabilities	8 203	8 203	–	–	–	–	–	8 203
Policyholder liabilities	6 430	–	–	–	–	–	–	–
Tier 2 liabilities	24 614	22 618	–	–	–	–	–	22 618
Deferred income tax liability	1 318	1 298	–	–	–	–	–	1 298
Amounts due to holding company and fellow subsidiary companies	–	263	–	–	–	–	–	263
Total liabilities	1 774 619	1 765 810	1 427	187 314	49 863	149 488	–	1 522 144

* *The amounts shown in the regulatory scope column do not equal the sum of the amounts shown in the remaining columns due to derivative financial instruments subject to regulatory capital for both counterparty credit risk, securitisations and market risk (trading book).*

** *The amounts shown in the regulatory scope column do not equal the sum of the amounts shown in the remaining columns due to investment securities subject to regulatory capital under credit and market risk frameworks, and listed and unlisted equities under the equity investment risk framework.*

Advances net of impairments.

† *In the prior year, these amounts were described as accounts receivable. The description as "other assets" is more appropriate, based on the nature of the assets.*

The amounts from different balance sheet line items included in the risk frameworks are described in the following table.

BALANCE SHEET LINE ITEMS INCLUDED IN DIFFERENT RISK FRAMEWORKS

RISK FRAMEWORK	DESCRIPTION
Credit risk	Cash and cash equivalents and debt investment securities. Advances included in the credit risk framework are shown net of impairments in the balance sheet, while impairments are not used to reduce advances when determining the regulatory EAD. EAD also includes off-balance sheet items, such as guarantees, irrevocable commitments, letters of credit and credit derivatives. Credit risk mitigation is included in the calculation of EAD. Other assets including accounts receivable; non-current assets (and related liabilities) and disposal groups held for sale, if applicable; current tax assets; property and equipment; investment properties and deferred tax assets related to temporary differences are included in the credit risk framework.
Counterparty credit risk	Collateral cash and deposits as part of netting agreements, derivative financial assets and liabilities and reverse repurchase advances. Exposures included in counterparty credit risk relate to trading and banking book activities.
Securitisations	Cash, advances, derivative financial instruments held for trading, payables and deposits. Capital is determined on the investment security note exposure retained by the group.
Market risk	Derivative financial instruments (assets and liabilities), commodities, held for trading and elected fair value investment securities and short trading position liabilities.
Equity investment risk	Listed and non-listed equity investment securities, non-current assets held for sale related to equity investments, if applicable, and investments in associates, joint ventures and subsidiaries.
No capital/deducted from capital	Intangible assets, defined benefit post-employment assets and deferred tax assets excluding temporary differences are deducted from capital.

LI2: SOURCES OF DIFFERENCE BETWEEN REGULATORY EXPOSURE AMOUNTS AND CARRYING VALUE IN FINANCIAL STATEMENTS

	As at 30 June 2020				
	Items subject to regulatory frameworks				
R million	Credit risk	Counter-party credit risk	Securiti-sation	Market risk	Equity investment risk
Assets carrying value per regulatory scope of consolidation	1 495 076	193 068	89 555	237 037	33 916
Liabilities carrying value per regulatory scope of consolidation	1 427	187 314	49 863	149 488	–
Total net amount under regulatory scope of consolidation	1 493 649	5 754	39 692	87 549	33 916
Off-balance sheet amounts	176 652	–	3 831	–	–
Differences in valuations	286 979	75 406	–	–	–
Differences due to netting rules and credit risk mitigation	(263 957)	(52 456)	–	–	
Difference due to potential future exposure for counterparty credit risk	–	17 029	–	–	–
Difference due to provisions	44 816	–	–	–	–
Differences due to prudential filters	(93 956)	–	(1 677)	–	(22 779)
Exposure amounts considered for regulatory purposes	1 644 183	45 733	41 846	87 549	11 137
Reconciliation to regulatory amounts in Pillar 3 tables					
CR6: AIRB – FRBSA EAD post-credit conversion factors (CCF) and credit risk mitigation (CRM)	1 094 445	–	–	–	–
CR4: Standardised approach on- and off-balance sheet amount of exposure post-CCF and post-CRM	530 893	–	–	–	–
CR10: Specialised lending exposures under slotting on- and off-balance sheet amount	18 845	–	–	–	–
CCR1: EAD post-CRM	–	42 421	–	–	–
CCR3: Standardised approach for derivatives for subsidiaries in the rest of Africa and foreign branches – total credit exposure	–	3 312	–	–	–
SEC1: Total securitisation exposures in the banking book	–	–	41 846	–	–
Carrying value of investments*	–	–	–	–	11 137
Total	1 644 183	45 733	41 846	87 549	11 137

* *For the carrying value of investments refer to page 172 of this report.*

PRUDENT VALUATIONS

Valuation methodology

The group measures certain assets and liabilities at fair value.

Fair value is the price that would be received (when selling an asset) or paid (to transfer a liability) in an orderly transaction between market participants at the measurement date, i.e. an exit price. Fair value is, therefore, a market-based measurement and when measuring fair value, the group uses the assumptions that market participants would use when pricing an asset or liability under current market conditions, including assumptions about risk. When determining fair value, it is presumed that the entity is a going concern and the fair value is, therefore, not an amount that represents a forced transaction, involuntary liquidation or distressed sale.

Fair value measurements are determined by the group on both a recurring and non-recurring basis.

Recurring financial instruments

Recurring fair value measurements include assets and liabilities that IFRS requires or permits to be measured at fair value at every reporting date. This includes financial assets and financial liabilities, and non-financial assets, including investment properties and commodities that the group measures at fair value at the end of each reporting period.

Non-recurring fair value measurements

Non-recurring fair value measurements are those triggered by particular circumstances and include:

- the classification of assets and liabilities as non-current assets or disposal groups held for sale under IFRS 5 where the asset's measurement is based on the fair value less costs to sell due to the fair value less costs to sell being lower than the carrying amount; and
- IAS 36 where the recoverable amount is based on fair value less costs to sell.

These fair value measurements are determined on a case-by-case basis as they occur within each reporting period.

Valuation process

The group classifies assets and liabilities measured at fair value using a fair value hierarchy that reflects whether observable or unobservable inputs are used in determining the fair value of the item. Fair value may be determined using unadjusted quoted prices in active markets for identical assets and liabilities where it is readily available and the price represents actual and regularly occurring market transactions. If this information is not available, fair value is measured using another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

Where a valuation model is applied and the group cannot mark-to-market, it applies a mark-to-model approach, subject to valuation adjustments. Mark-to-model is defined as any valuation which has to be benchmarked, extrapolated or otherwise calculated from a market input. The group will consider the following in assessing whether mark-to-model valuation is appropriate:

- as far as possible, market inputs are sourced in line with market prices;
- generally accepted valuation methodologies are used for particular products unless deemed inappropriate by the relevant governance forums;
- where a model has been developed in-house, it is based on appropriate assumptions, which have been assessed and challenged by suitably qualified parties independent of the development process;
- formal change control procedures are in place;
- awareness of the weaknesses of the models used and appropriate reflection in the valuation output;
- the model is subject to periodic review to determine the accuracy of its performance; and
- valuation adjustments are only made when appropriate, e.g. to cover uncertainty of the model valuation. The group considers factors such as counterparty and own credit risk when making appropriate valuation adjustments.

FINANCIAL INSTRUMENTS

Fair value hierarchy	Valuation methodology
Instruments where fair value is determined using unadjusted quoted prices in an active market The fair value of these instruments is determined using unadjusted quoted prices in an active market for identical assets. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.	This category includes listed bonds and equity, exchange-traded derivatives and short-trading positions. The price within the bid/ask spread that is most representative of fair value in the circumstances.
Instruments where fair value is determined using inputs from observable market data or an inactive market Valuation uses quoted prices in an active market of similar instruments or valuation models using observable inputs from observable market data.	This category includes loans and advances to customers, equities listed in an inactive market, certain debt instruments, OTC derivatives or exchange-traded derivatives where a market price is not available, deposits, other liabilities and Tier 2 liabilities. Valuation techniques include: • discounted cash flows; • option pricing models; • industry standard models; • price/earnings models; and • JSE debt market bond pricing model.
Instruments where fair value is determined using inputs from unobservable data The group applies its own assumptions about what market participants assume in pricing assets and liabilities.	This category includes certain loans and advances to customers, certain OTC derivatives such as equity options, investments in debt instruments, certain deposits such as credit-linked notes and certain other liabilities. Valuation techniques include: • discounted cash flows; • option pricing models; • industry standard models; • price/earnings models; • third-party valuations; and • adjusted market prices.

Non-financial assets

- A market participant's ability to generate economic benefits by using the assets in its highest and best use or by selling it to another market participant that will use the asset in its highest and best use is taken into account.
- Include the use of the asset that is physically possible, legally permissible and financially feasible.
- In determining the fair value of the group’s investment properties and commodities, the highest and best use of the assets is their current use.

Validation process

The group has established control frameworks and processes at a business level to independently validate its valuation techniques and inputs used to determine its fair value measurements. Valuation inputs are independently sourced but where an independent source is not available, inputs are subject to the independent validation process. At an operating business level, valuation specialists are responsible for the selection, implementation and any changes to the valuation techniques used to determine fair value measurements. Valuation committees comprising key management representatives have been established in each operating business and at an overall group level, and are responsible for overseeing the valuation control process and considering the appropriateness of the valuation techniques applied in fair value measurement. The valuation models and methodologies are subject to independent review and approval at a business level by the technical teams, valuation committees and relevant risk committees annually or more frequently, if considered appropriate.

Prudent valuation adjustments

Capital regulatory frameworks require financial institutions to apply prudent valuation to all fair value assets and liabilities. The difference between the prudent value and the fair value in terms of IFRS, called prudent valuation adjustments (PVAs), is directly deducted from CET1 capital. The following table provides descriptions of the different PVAs.

PVAs	DESCRIPTION
Close-out uncertainty, of which:	
Mid-market value: market price uncertainty	This adjustment is required should there be uncertainty around the absolute level at which positions are fair-valued under financial reporting standards.
Close-out costs	A close-out cost PVA is calculated at a defined valuation exposure level (price or curve bucketing segment). This adjustment is incremental to any exit price provisions or adjustments already considered in financial reporting.
Concentration	This PVA is an estimate of the valuation impact arising from concentrated valuation positions that a bank may have at any point in time. It should capture the risk associated with holding a relatively large position in relation to the market liquidity.
Early termination	Banks will estimate an early termination PVA that considers the potential losses arising from the early termination of client trades.
Model risk	This PVA considers the variation in valuation estimates arising due to the potential existence of a range of models or model calibrations and the lack of a firm exit price for the specific product.
Operational risk	This PVA considers the potential losses that may be incurred as a result of operational risk related to valuation processes.
Investing and funding costs	Reflects the valuation uncertainty in the funding costs that other users of Pillar 3 data would factor into the exit prices for a position or portfolio. It includes funding valuation adjustments or derivative exposures.
Unearned credit spreads	PVA to take account of the valuation uncertainty in the adjustment necessary to include the current value of expected losses due to counterparty default on derivative positions, including the valuation uncertainty on CVAs.
Future administrative costs	This adjustment considers the administrative costs and future hedging costs over the expected life of the exposures for which a direct exit price is not applied for the close-out costs. This valuation adjustment has to include the operational costs arising from hedging, administration and settlement of contracts in the portfolio. The future administrative costs are incurred by the portfolio or position but are not reflected in the core valuation model or the prices used to calibrate inputs to that model.
Other	Other PVAs which are required to take into account factors that will influence the exit price but which do not fall in any of the categories listed above.

The types of financial instruments for which the highest amounts of PVA are observed are interest rate-related financial instruments including investment securities and derivatives. The following table provides a breakdown of the different PVAs as at 30 June 2020.

PV1: PRUDENT VALUATION ADJUSTMENTS

	As at 30 June 2020							
R million	**Equity**	**Interest rates**	**Foreign exchange**	**Credit**	**Commo-dities**	**Total**	**Of which: In the trading book**	**Of which: In the banking book**
1. Close-out uncertainty, of which:	**–**	**346**	**1**	**–**	**2**	**349**	**287**	**62**
2. *Mid-market value*	**–**	**134**	**–**	**–**	**1**	**135**	**108**	**27**
3. *Close-out cost*	**–**	**212**	**1**	**–**	**1**	**214**	**179**	**35**
12. **Total adjustment**	**–**	**346**	**1**	**–**	**2**	**349**	**287**	**62**

	As at 30 June 2019							
R million	Equity	Interest rates	Foreign exchange	Credit	Commo-dities	Total	Of which: In the trading book	Of which: In the banking book
1. Close-out uncertainty, of which:	–	330	13	(2)	2	344	289	55
2. *Mid-market value*	–	177	–	(2)	–	176	153	23
3. *Close-out cost*	–	153	13	–	2	168	136	32
12. **Total adjustment**	–	330	13	(2)	2	344	289	55

Mid-market value and close-out cost are the most significant PVAs for the group. Other PVAs, namely concentration, early termination, model risk and future administrative costs, are considered in the calibration of these PVAs and balance sheet reserves, although not separately disclosed.

The group does not calculate the PVA for operational risk, investing and funding costs or unearned credit spreads. Lines 4-11 of *PV1: Prudent valuation adjustments* have, therefore, been omitted.

Capital management

The group actively manages capital aligned to strategy and risk appetite/profile. The optimal level and composition of capital is determined after taking the following into account:

- prudential requirements, including any prescribed buffer;
- rating agencies' considerations;
- investor expectations;
- peer comparisons;
- strategic and organic growth plans;
- economic and regulatory capital requirements;
- proposed regulatory, tax and accounting changes;
- macro environment and stress test impacts; and
- issuance of capital instruments.

The capital planning process ensures that the CET1, Tier 1 and total capital adequacy ratios remain within or above target ranges and regulatory minimums across economic and business cycles. Capital is managed on a forward-looking basis and the group remains appropriately capitalised under a range of normal and severe stress scenarios, which include expansion initiatives, as well as ongoing regulatory, accounting and tax developments. The group aims to back all economic risk with loss-absorbing capital and remains well capitalised in the current environment. FirstRand actively manages its capital stack to ensure an efficient capital structure, closely aligned to group internal targets.

CAPITAL ADEQUACY AND LEVERAGE

The following diagram defines the main components of capital and leverage as per the Regulations.

TOTAL QUALIFYING CAPITAL AND RESERVES =

TIER 1 CAPITAL

CET1 CAPITAL

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

Deductions

- goodwill and intangibles;
- deferred tax assets (other than temporary differences);
- investment in own shares;
- excess expected losses over provisions under the AIRB approach;
- cash flow hedging reserve;
- investments in financial, banking and insurance institutions*; and
- other.

AT1 CAPITAL

- NCNR preference shares (subject to haircut);
- AT1 capital instruments; and
- instruments issued out of consolidated subsidiaries to third parties.

Deductions

- investments in financial, banking and insurance institutions* (AT1 instruments); and
- surplus third-party capital.

+

TIER 2 CAPITAL

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

Deductions

- investment in financial, banking and insurance institutions* (Tier 2 instruments); and
- surplus third-party capital.

CAPITAL RATIOS

QUALIFYING CAPITAL		RWA		RATIOS
CET1 capital	÷	TOTAL OF: + Credit + Counterparty credit + Operational + Market + Equity investment + Other and threshold items	=	CET1 %
TIER 1 capital				TIER 1 %
TOTAL capital				TOTAL %

LEVERAGE RATIO =

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;
- 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; and
- regulatory adjustments.

* *As per Regulation 38(5) threshold rules. The full deduction method is applied to insurance entities, i.e. NAV for insurance entities is derecognised from consolidated IFRS NAV.*

YEAR UNDER REVIEW

In response to the COVID-19 pandemic, the PA implemented temporary measures to provide additional capacity to counter economic risks to the financial system and promote ongoing lending to the economy. The PA published *Directive 2 of 2020*, *Matters related to temporary capital relief to alleviate risks posed by the COVID-19 pandemic*, which temporarily reduced the Pillar 2A capital requirement from 1% to 0%, effective 6 April 2020. Banks in South Africa will also be allowed to draw down against the capital conservation buffer as the PA considers this to be a period of financial stress. The minimum leverage ratio requirement has not been adjusted for any COVID-19 relief measures.

Directive 4 of 2020, *Capital framework for South Africa based on the Basel III framework*, was published on 27 August 2020, and incorporated the reduction in the Pillar 2A capital requirement to 0%. Banks are also required to disclose their D-SIB add-ons as part of its regulatory disclosures. The D-SIB requirement for both the group and bank is 1.5%.

In addition, the Prudential Regulation Authority reduced the UK countercyclical buffer (CCyB) requirement from 1% to 0% in March 2020. This reduced the group's CCyB requirement from 18 bps at 30 June 2019 to nil at 30 June 2020.

The group's internal targets have not been adjusted for the COVID-19 temporary relief measures as they are aligned to the minimum requirements incorporating a fully phased-in Pillar 2A requirement.

The group and bank maintained strong CET1 ratios with buffers in excess of the regulatory minimums. Capital and leverage ratios at 30 June 2020 are summarised in the following table.

CAPITAL ADEQUACY AND LEVERAGE POSITIONS

	Capital			Leverage
%	CET1	Tier 1	Total	Total
Regulatory minimum*	7.0	8.5	10.5	4.0
Internal target	11.0 – 12.0	>12.0	>14.25	>5.5
FirstRand actual**				
– Including unappropriated profits	**11.5**	**12.1**	**14.5**	**7.1**
– Excluding unappropriated profits	11.4	12.0	14.4	7.0
FRB actual,#**				
– Including unappropriated profits	**12.3**	**12.8**	**15.7**	**6.7**
– Excluding unappropriated profits	12.3	12.7	15.7	6.7
FRBSA actual,#**				
– Including unappropriated profits	**11.9**	**12.4**	**15.5**	**6.4**
– Excluding unappropriated profits	11.8	12.2	15.3	6.3

* *Excludes the bank-specific capital requirements, i.e. individual capital requirement (Pillar 2B) and D-SIB add-on.*

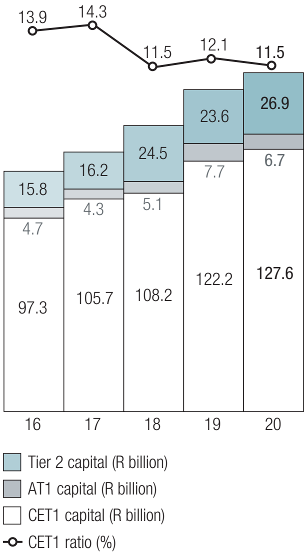
** *Includes the transitional impact of IFRS 9.*

\# *FRB includes foreign branches and FRBSA excludes foreign branches.*

The capital and leverage information included in the following sections relate to FRB including foreign branches.

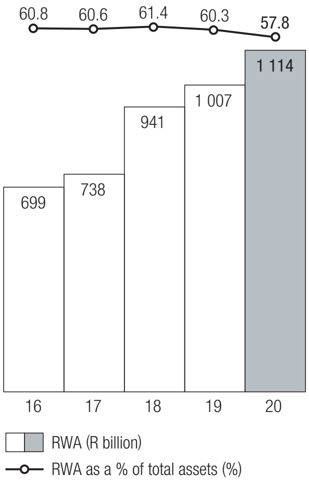
The graphs below provide a five-year view of the capital adequacy, RWA and leverage positions of the group and bank.

FIRSTRAND CAPITAL ADEQUACY*

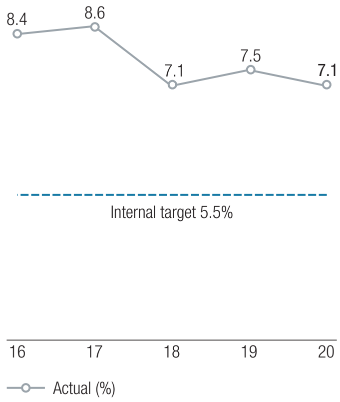


* *Includes unappropriated profits.*

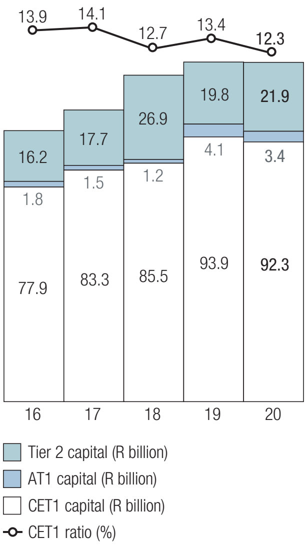
FIRSTRAND RWA HISTORY



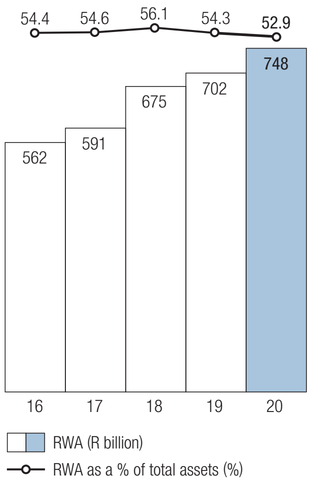
FIRSTRAND LEVERAGE*



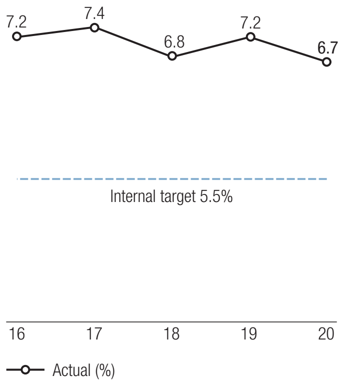
FRB CAPITAL ADEQUACY*



FRB RWA HISTORY



FRB LEVERAGE*



* *Includes unappropriated profits.*

Note: 2016 to 2018 figures are based on IAS 39 and 2019 to 2020 on IFRS 9.

The decrease in RWA to total assets for the group and bank is a function of the growth in total assets, specifically in derivative assets, as well as capital optimisation.

The Basel III leverage ratio is a supplementary measure to the risk-based capital ratios and is a function of Tier 1 capital, and total on- and off-balance sheet exposures. The decrease in the leverage ratio to June 2020 mainly relates to an increase in total exposures and movement in Tier 1 capital for the group and bank.

Supply of capital

The tables below summarise the qualifying capital components and related movements for the group and bank.

COMPOSITION OF CAPITAL

	FirstRand		FRB*	
	As at 30 June			
R million	**2020**	2019	**2020**	2019
CET1 capital excluding unappropriated profits	**126 903**	113 429	**91 964**	85 403
Unappropriated profits	**744**	8 765	**354**	8 483
CET1 capital including unappropriated profits	**127 647**	122 194	**92 318**	93 886
AT 1 capital	**6 665**	7 652	**3 412**	4 120
Tier 1 capital	**134 312**	129 846	**95 730**	98 006
Tier 2 capital	**26 944**	23 648	**21 936**	19 830
Total qualifying capital	**161 256**	153 494	**117 666**	117 836

* *FRB includes foreign branches.*

The drivers below explain the movement in the different components of capital and relate to the balances including unappropriated profits.

FIRSTRAND KEY DRIVERS: 2020 vs 2019

CET1	▲	• Net earnings generation was negatively impacted by COVID-19, however, this was offset by an increase in the foreign currency translation reserve due to the depreciation of the rand. • Reduction in CET1 due to the transitional impact of IFRS 9.
AT1	▼	• Redemption of the Aldermore contingent convertible security in April 2020 and additional 10% haircut on the group's NCNR preference shares, partly offset by FRB's AT1 tap issuance in July 2019 and movement in third-party capital.
Tier 2	▲	• Benefit from foreign currency translation movements and increased surplus provisions over expected losses, partly offset by the redemption of the FRB15 in March 2020 and movement in third-party capital.

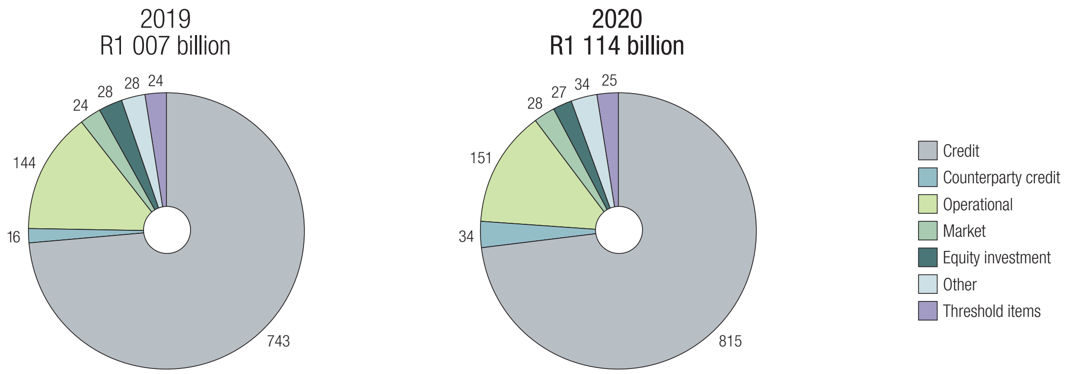
FRB KEY DRIVERS: 2020 vs 2019

CET1	▼	• Net earnings generation was negatively impacted by COVID-19. • Reduction in CET1 due to the transitional impact of IFRS 9.
AT1	▼	• Impairment for intergroup AT1 investment partly offset by additional tap issuance in July 2019.
Tier 2	▲	• Benefit from foreign currency translation movements and increased surplus provisions over expected losses, partly offset by the redemption of the FRB15 in March 2020.

FirstRand demand for capital

The charts and table below summarise the year-on-year movements in RWA.

FIRSTRAND RWA ANALYSIS



KEY DRIVERS: 2020 VS 2019		
Credit	▲	• Significant increase due to the depreciation of the rand, as well as risk migration and the impact of rating downgrades on sovereign and corporate exposures. • Organic growth at muted levels was partly offset by financial resource optimisation strategies.
Counterparty credit	▲	• Increased risk positions and mark-to-market movements on the back of rand depreciation against major currencies.
Operational	▲	• Recalibration of risk scenarios and an increase in gross income used to calculate the capital floor requirements for entities on the advanced measurement approach. • Increase in gross income for entities on basic approaches (basic indicator and standardised approach).
Market	▲	• Market volatility due to the COVID-19 pandemic and ratings downgrades were partly offset by the reduced market risk multiplier and refinement of methodologies.
Equity investment	▼	• Fair value adjustments and impairment of investments.
Other	▲	• An increase in property and equipment due to implementation of IFRS 16 on 1 July 2019 and growth in other assets.
Threshold items	▲	• Increase in the deferred income tax assets, including the transitional impact of IFRS 9, partly offset by a decrease in investments in financial, banking and insurance entities.

FIRSTRAND OV1: OVERVIEW OF RWA

R million	RWA As at 30 June 2020	RWA As at 31 March 2020	RWA As at 30 June 2019	Minimum capital requirement* As at 30 June 2020
1. **Credit risk (excluding counterparty credit risk)**	**786 183**	784 263	704 725	**82 549**
2. – Standardised approach	**313 949**	312 249	250 438	**32 965**
3. – AIRB	**472 234**	472 014	454 287	**49 584**
12. **Securitisation exposures in banking book**	**29 140**	41 391	37 792	**3 060**
13. – IRB ratings-based approach	**–**	–	–	**–**
14. – IRB supervisory formula approach	**2 074**	2 227	2 180	**218**
15. – Standardised approach/simplified supervisory formula approach	**27 066**	39 164	35 612	**2 842**
Total credit risk	**815 323**	825 654	742 517	**85 609**
4. **Counterparty credit risk****	**16 376**	16 425	7 814	**1 719**
5. – Standardised approach	**16 376**	16 425	7 814	**1 719**
10. **Credit valuation adjustment**	**17 422**	14 533	8 254	**1 829**
7. **Equity positions in banking book under market-based approach#**	**27 397**	29 490	27 901	**2 877**
11. **Settlement risk**	**–**	–	–	**–**
16. **Market risk**	**28 352**	21 926	24 523	**2 977**
17. – Standardised approach	**12 021**	9 302	11 252	**1 262**
18. – Internal model approach	**16 331**	12 624	13 271	**1 715**
19. **Operational risk**	**139 332**	135 440	137 573	**14 630**
20. – Basic indicator approach	**15 721**	15 000	14 697	**1 651**
21. – Standardised approach	**25 616**	25 260	25 516	**2 690**
22. – Advanced measurement approach	**97 995**	95 180	97 360	**10 289**
23. **Amounts below the thresholds for deduction (subject to 250% risk weight)**	**24 811**	24 061	23 971	**2 605**
24. **Floor adjustment**	**11 914**	13 399	6 169	**1 251**
Other assets	**33 394**	35 424	28 433	**3 506**
25. **Total**	**1 114 321**	1 116 352	1 007 155	**117 003**

* *Capital requirement calculated at 10.50% of RWA. The minimum requirement excludes the bank-specific capital requirements, but includes the CCyB requirement. The difference to the BCBS base minimum (8%) relates to the buffer add-ons for Pillar 2A, CCyB and capital conservation as prescribed in the Regulations. The Pillar 2A and CCyB requirements were 0% at 30 June 2020.*

** *The current exposure and standardised methods are applied to counterparty credit risk. The group does not apply the internal model method to counterparty credit risk (row 6 of OV1 template). Implementation of SA-CCR is 1 January 2021.*

Implementation of the capital requirements for equity investment in funds is 1 January 2021. Rows 12 – 14 of the OV1 template have, therefore, been excluded from this table.

FIRSTRAND OVERVIEW OF CREDIT RWA

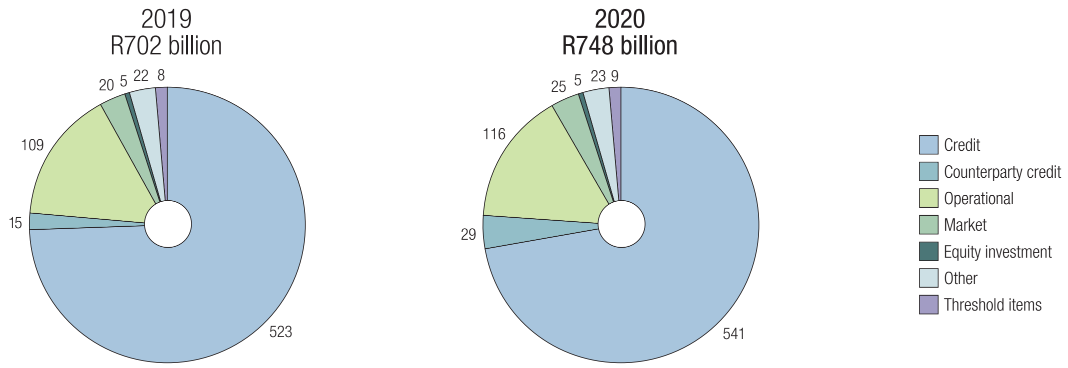
	As at 30 June 2020			
	RWA			
R million	**Advanced approach**	**Standardised approach**	**Total**	**Capital requirement***
– Corporate, banks and sovereigns	**217 845**	**213 860**	**431 705**	**45 329**
– SMEs	**63 574**	**65 141**	**128 715**	**13 515**
– Residential mortgages	**75 390**	**8 704**	**84 094**	**8 830**
– Qualifying revolving retail	**39 799**	**7 876**	**47 675**	**5 006**
– Other retail	**75 626**	**18 368**	**93 994**	**9 869**
– Securitisation exposure	**2 074**	**27 066**	**29 140**	**3 060**
Total credit risk	**474 308**	**341 015**	**815 323**	**85 609**

* *Capital requirement calculated at 10.50% of RWA. The minimum requirement excludes the bank-specific capital requirements, but includes the CCyB requirement. The difference to the BCBS base minimum (8%) relates to the buffer add-ons for Pillar 2A, CCyB and capital conservation as prescribed in the Regulations. The Pillar 2A and CCyB requirements were 0% at 30 June 2020.*

FRB demand for capital

The charts and table below summarise the year-on-year movements in RWA.

FRB RWA ANALYSIS



KEY DRIVERS: 2020 vs 2019

Credit	▲	• Increase due to risk migration, impact of rating downgrades on corporate exposures and depreciation of the rand. • Organic growth at muted levels was partly offset by financial resource optimisation strategies.
Counterparty credit	▲	• Increased risk positions and mark-to-market movements on the back of rand depreciation against major currencies.
Operational	▲	• Recalibration of risk scenarios and increase in gross income used to calculate the capital floor requirements for entities on the advanced measurement approach. • Increase in gross income for entities on the standardised approach.
Market	▲	• Market volatility due to the COVID-19 pandemic and rating downgrades were partly offset by the reduced market risk multiplier and refinement of methodologies.
Other	▲	• An increase in property and equipment due to implementation of IFRS 16 on 1 July 2019 and growth in other assets.
Threshold items	▲	• Increase in the deferred income tax assets, including the transitional impact of IFRS 9, partly offset by a decrease in investments in financial and banking entities.

FRB OV1: OVERVIEW OF RWA

R million	RWA			Minimum capital requirement*
	As at 30 June 2020	As at 31 March 2020	As at 30 June 2019	As at 30 June 2020
1. **Credit risk (excluding counterparty credit risk)**	531 641	528 820	513 609	55 822
2. – Standardised approach	42 279	40 402	43 980	4 439
3. – AIRB	489 362	488 418	469 629	51 383
12. **Securitisation exposures in banking book**	9 047	16 773	9 693	950
14. – IRB supervisory formula approach	2 074	2 227	2 181	218
15. – Standardised approach/simplified supervisory formula approach	6 973	14 546	7 512	732
Total credit risk	540 688	545 593	523 302	56 772
4. **Counterparty credit risk****	13 624	13 051	7 077	1 430
5. – Standardised approach	13 624	13 051	7 077	1 430
10. **Credit valuation adjustment**	15 745	12 973	7 408	1 653
7. **Equity positions in banking book under market-based approach**#	4 603	5 711	5 211	483
16. **Market risk**	25 694	19 440	19 953	2 698
17. – Standardised approach	9 363	6 816	6 682	983
18. – Internal model approach	16 331	12 624	13 271	1 715
19. **Operational risk**	100 371	98 479	100 682	10 539
21. – Standardised approach	4 806	4 998	5 142	505
22. – Advanced measurement approach	95 565	93 481	95 540	10 034
23. **Amounts below the thresholds for deduction (subject to 250% risk weight)**	8 797	8 098	8 188	924
24. **Floor adjustment**	15 501	15 131	7 796	1 628
Other assets	23 056	25 014	22 031	2 421
25. **Total**	748 079	743 490	701 648	78 548

* *Capital requirement calculated at 10.50% of RWA. The minimum requirement excludes the bank-specific capital requirements, but includes the CCyB requirement. The difference to the BCBS base minimum (8%) relates to the buffer add-ons for Pillar 2A, CCyB and capital conservation as prescribed in the Regulations. The Pillar 2A and CCyB requirements were 0% at 30 June 2020.*

** *The current exposure and standardised methods are applied to counterparty credit risk. The group does not apply the internal model method to counterparty credit risk (row 6 of OV1 template). Implementation of SA-CCR is 1 January 2021.*

Implementation of the capital requirements for equity investment in funds is 1 January 2021. Rows 12 – 14 of the OV1 template have, therefore, been excluded from this table.

FRB OVERVIEW OF CREDIT RWA

R million	As at 30 June 2020			
	RWA			
	Advanced approach	Standardised approach	Total	Capital requirement*
– Corporate, banks and sovereigns	234 973	27 042	262 015	27 512
– SMEs	63 574	1 303	64 877	6 812
– Residential mortgages	75 390	–	75 390	7 916
– Qualifying revolving retail	39 799	8 234	48 033	5 043
– Other retail	75 626	5 700	81 326	8 539
– Securitisation exposure	2 074	6 973	9 047	950
Total credit risk	491 436	49 252	540 688	56 772

* *Capital requirement calculated at 10.50% of RWA. The minimum requirement excludes the bank-specific capital requirements, but includes the CCyB requirement. The difference to the BCBS base minimum (8%) relates to the buffer add-ons for Pillar 2A, CCyB and capital conservation as prescribed in the Regulations. The Pillar 2A and CCyB requirements were 0% at 30 June 2020.*

CAPITAL ADEQUACY POSITION FOR THE GROUP, ITS REGULATED SUBSIDIARIES AND THE BANK'S FOREIGN BRANCHES

The group's registered banking subsidiaries and foreign branches must comply with PA regulations and those of their respective in-country regulators, with primary focus placed on Tier 1 and total capital adequacy ratios. The group's approach is that all entities must be adequately capitalised on a standalone basis. Based on the outcome of detailed stress testing, each entity targets a capital level in excess of in-country regulatory minimums.

Adequate controls and processes are in place to ensure that each entity is adequately capitalised to meet regulatory and economic capital requirements. Capital generated by subsidiaries/branches in excess of targeted levels is returned to FirstRand, usually in the form of dividends or return of profits. During the year, RMB Nigeria declared and paid a dividend to FREMA. FREMA is in the process of converting the naira dividend into dollars, and this repatriation is expected to be concluded over a lengthy period, given dollar liquidity constraints in Nigeria. No further restrictions were experienced on the repayment of dividends or profits for the remaining group entities.

In line with international practice, certain in-country regulators have adopted similar COVID-19 temporary relief measures for their minimum regulatory requirements. The revised minimum requirements, RWA and capital adequacy positions of FirstRand, its regulated subsidiaries and the bank's foreign branches are summarised in the table below.

RWA AND CAPITAL ADEQUACY POSITIONS OF FIRSTRAND, ITS REGULATED SUBSIDIARIES AND THE BANK'S FOREIGN BRANCHES

	As at 30 June				
	2020				2019
	Total minimum requirement %	RWA* R million	Tier 1 %	Total capital adequacy %	Total capital adequacy %
Basel III (PA regulations)					
FirstRand**	10.5†	1 114 321	12.1	14.5	15.2
FirstRand Bank**,#		748 079	12.8	15.7	16.8
FirstRand Bank South Africa**		703 893	12.4	15.5	16.8
FirstRand Bank London		41 603	14.8	15.9	12.2
FirstRand Bank India		2 615	31.5	31.8	29.8
FirstRand Bank Guernsey		512	12.9	12.9	16.7
Basel III (local regulations)					
Aldermore Bank	12.3	137 257	14.1	16.6	15.7
FNB Namibia‡	10.0	30 982	15.2	17.6	19.4
Basel II (local regulations)					
FNB Mozambique	12.0	2 083	27.3	27.2	16.8
RMB Nigeria	10.0	4 660	44.9	44.9	44.8
FNB Botswana‡	12.5	27 110	16.4	21.4	17.4
FNB Eswatini	8.0	4 791	21.2	22.1	23.3
First National Bank Ghana‡	11.5	2 429	50.5	51.4	99.0
Basel I (local regulations)					
FNB Tanzania	14.5	1 298	20.5	20.5	23.9
FNB Lesotho	8.0	898	14.7	17.0	15.1
FNB Zambia	10.0	3 976	16.7	23.2	24.2

* *RWA for entities outside of South Africa converted to rands using the closing rate at 30 June 2020.*

** *Includes unappropriated profits.*

\# *Includes foreign branches.*

† *Excludes the bank-specific requirements, i.e. individual capital requirement (Pillar 2B) and D-SIB add-on.*

‡ *Total minimum requirement adjusted for COVID-19 relief measures. Effective April 2020 for both FNB Botswana and FNB Namibia, and March 2020 for First National Bank Ghana.*

ICAAP

ICAAP is key to the group's decision-making processes and is deeply embedded across the group. Best practice, standards and methodologies are adopted on an ongoing basis to assess the overall risk profile of the group.

ICAAP impacts the following:

- strategy and risk appetite;
- risk assessment and management;
- forward-looking capital planning:
  - budget and earnings volatility;
  - stress and scenario analysis;
  - informing capital targets; and
  - dividend decisions.
- performance measurement; and
- recovery planning, which is an extension of ICAAP.

A key ICAAP input is an assessment of economic risk, with the outcome used to assess the group's capital position and targeted level of capitalisation, i.e. the higher of economic and regulatory capital.

ECONOMIC CAPITAL

Economic capital is included in the group's strategic capital planning, risk measurement and portfolio management. Economic capital is incorporated in the group's internal target assessment, specifically focusing on the level of loss-absorbing capital required to cover the group's economic risk. It is defined as an internal measure of risk which estimates the amount of capital required to cover unexpected losses. A granular bottom-up calculation, incorporating correlations, concentration risks and diversification benefits attributable to the group's aggregate portfolio, forms the basis for the risk-based capital methodology. The group continues to enhance the use of economic capital by facilitating risk-based decisions, including capital allocation.

The assessment of economic risk aligns with FirstRand's economic capital framework to ensure the group remains solvent at a confidence interval of 99.93%, and that it can deliver on its commitments to stakeholders over a one-year horizon. The economic capital framework is subject to annual review and appropriate governance, and covers the following:

- the risk universe;
- consistent standards and measurement for each risk type, where relevant;
- continuous refinement of risk drivers, sensitivities and correlations;
- transparency and verifiable results, subject to rigorous governance processes; and
- alignment and integration with the group's risk and capital frameworks.

Regular reviews of the economic capital position are carried out across businesses, enabling efficient portfolio optimisation with respect to financial resource management and portfolio behaviour. At 30 June 2020, the group reported the following economic capital multiples (loss-absorbing capital/economic capital requirement) on a post-diversification basis.

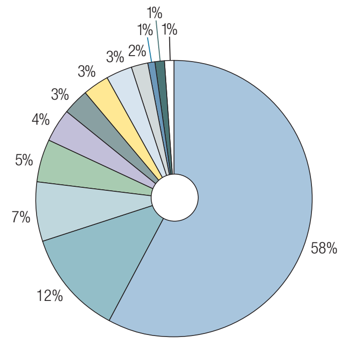
ECONOMIC CAPITAL MULTIPLE

	2020
FirstRand	**1.5 times**
FRBSA	**1.6 times**

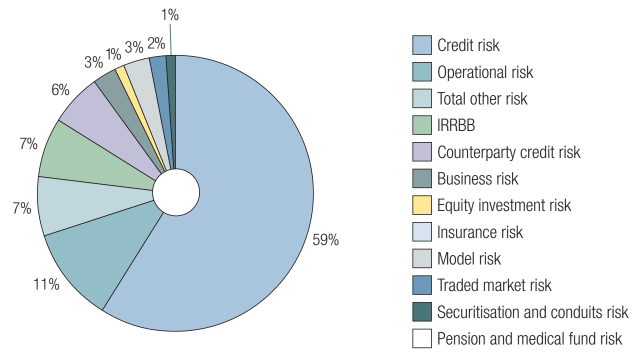
Economic capital incorporates inter-risk aggregation/diversification. Intra-risk aggregation/diversification is included within risk types. Various approaches (such as variance-covariance, copula, etc.), which vary in complexity, are used in aggregating economic capital for risk types.

The following graphs unpack the economic capital requirement per risk type (post diversification) at 30 June 2020.

FIRSTRAND ECONOMIC CAPITAL PER RISK TYPE (POST DIVERSIFICATION)



FRBSA ECONOMIC CAPITAL PER RISK TYPE (POST DIVERSIFICATION)



Funding and liquidity risk

INTRODUCTION AND OBJECTIVES

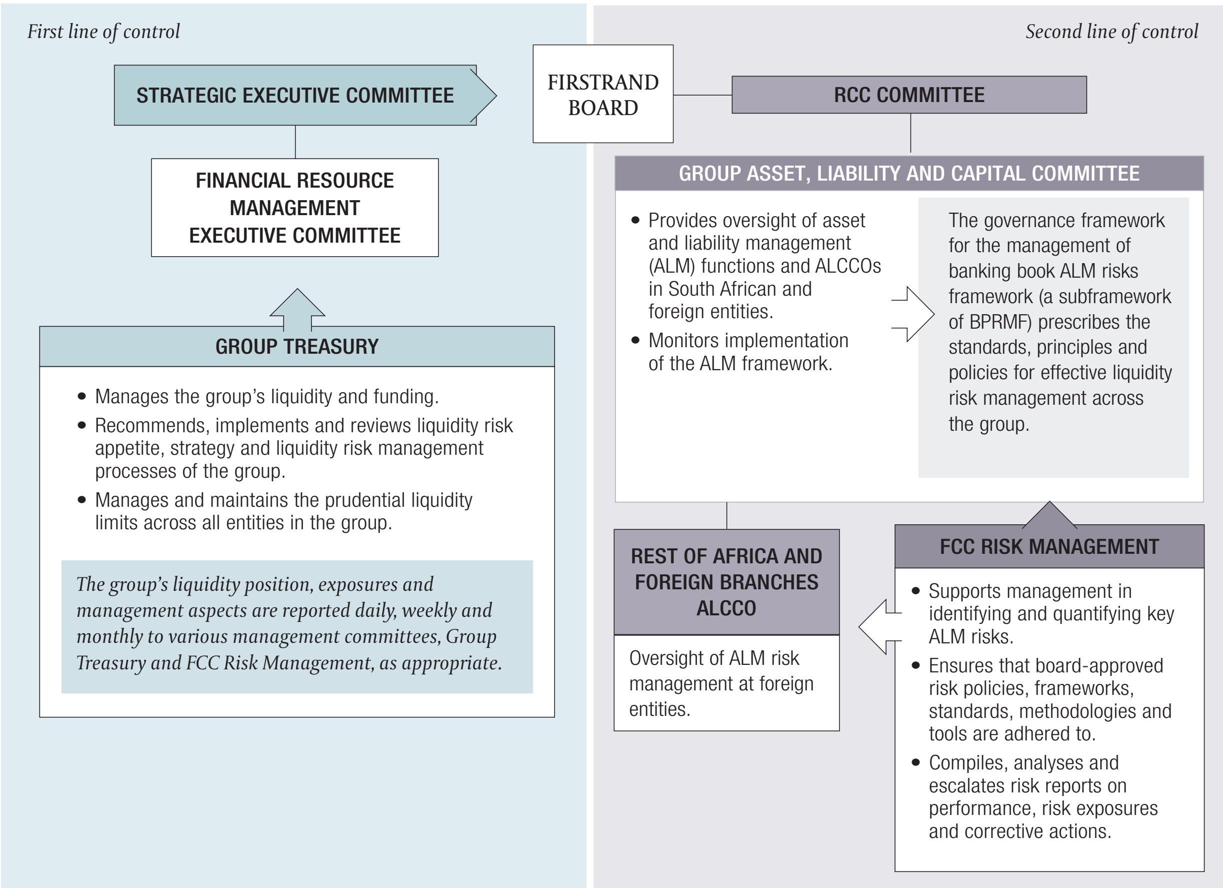
The group aims to fund its activities in an efficient and flexible manner, from diverse and sustainable funding pools, whilst operating within prudential limits and incorporating rating agency requirements. The group's objective is to maintain and enhance its deposit market share by appropriately rewarding depositors, and targets a funding profile with natural liquidity risk offsets. Due to the liquidity risk introduced by its business activities, the group optimises its funding composition within structural and regulatory constraints to enable business to operate in an efficient and sustainable manner.

Compliance with prudential liquidity ratios influences the group's funding strategy, particularly as it seeks to price appropriately for liquidity on a risk-adjusted basis. The group continues to offer innovative and competitive products to further grow its deposit franchise whilst also optimising its institutional funding profile. These initiatives continue to improve the group's funding and liquidity profile.

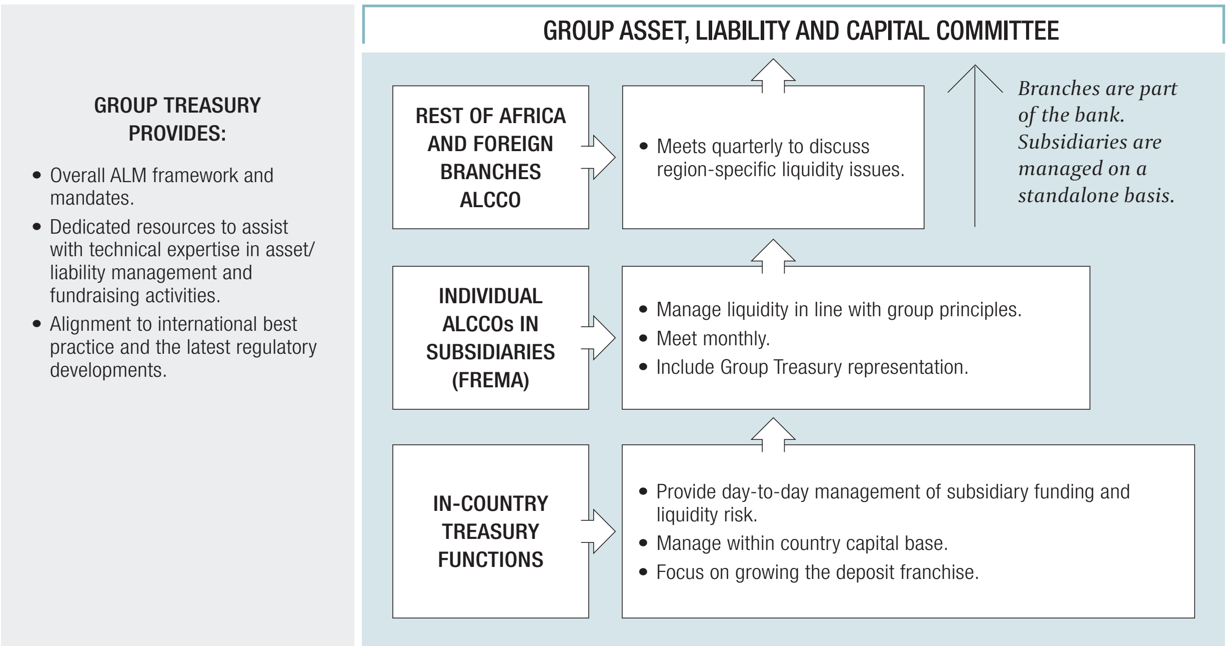
The group entered the COVID-19 crisis in a strong liquidity position and remains well funded, with adequate liquidity buffers to meet both prudential liquidity requirements and internal targets. In order to allow markets to continue to operate smoothly and provide banks with temporary liquidity relief during the crisis, the PA issued *Directive 1 of 2020, Temporary measures to aid compliance with the liquidity coverage ratio during the Coronavirus (COVID-19) pandemic stress period,* which temporarily reduced the prudential LCR requirement from 100% to 80%, effective 1 April 2020. The pandemic continues to impact the South African economy negatively, and key risk metrics and early warning indicators are closely monitored. The group regularly forecasts its liquidity position and uses scenario analysis to inform decision-making. FirstRand continues to hold appropriate liquidity buffers and can access the required funding to withstand anticipated near-term liquidity risks.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

GROUP AND BANK



REST OF AFRICA AND FOREIGN BRANCHES



FUNDING MANAGEMENT

South Africa is characterised by a low discretionary savings rate and a higher degree of contractual savings captured by institutions (pension funds, life insurers and asset managers). A portion of these contractual savings translate into banks' institutional funding, which is riskier from a liquidity perspective than funding raised through banks' deposit franchises. South African corporates and the public sector also make use of financial intermediaries that provide bulking and maturity transformation services for their cyclical cash surpluses. Liquidity risk is, therefore, structurally higher in South Africa than in most financial markets. The risk is, however, to some extent mitigated by the following market dynamics:

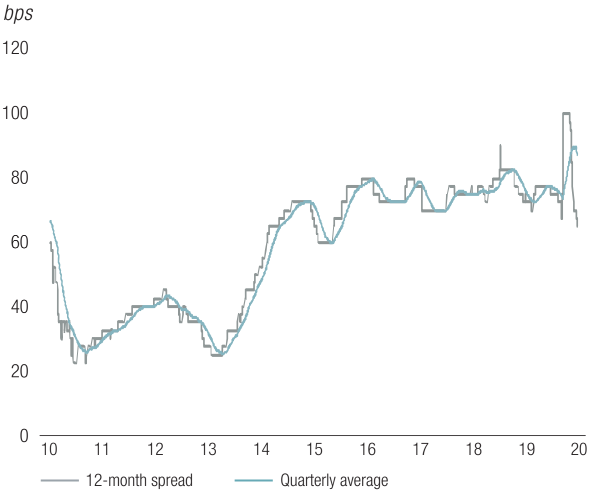
- concentration of customer current accounts with the large South African banks;
- the closed rand system, where rand transactions are cleared and settled through registered banks and clearing institutions domiciled in South Africa;
- the prudential exchange control framework; and
- South African banks' low dependence on foreign currency funding.

Considering the structural features of the South African market, the group's focus remains on achieving an improved risk-adjusted and diversified funding profile, enabling it to meet prudential liquidity requirements.

In line with the South African banking industry, FirstRand raises a large proportion of its funding from the institutional market. To maximise efficiency and flexibility in accessing institutional funding opportunities, both domestic and international debt programmes are utilised. The group's strategy for domestic vanilla public issuances is to offer benchmark tenor bonds to meet investor requirements and facilitate secondary market liquidity. This strategy enables the group to identify cost-effective funding opportunities whilst maintaining an understanding of available market liquidity.

The following graph is indicative of the market cost of institutional funding, measured as the spread paid on the bank's 12-month money market instruments. Funding spreads drifted lower in early 2020, rising abruptly following the onset of the COVID-19 crisis. Spreads breached global financial crisis levels and remained elevated from March to May 2020. Funding spreads started to normalise in late May 2020, as liquidity relief measures took effect and market volatility subsided, with spreads returning to pre-crisis levels by the end of the financial year.

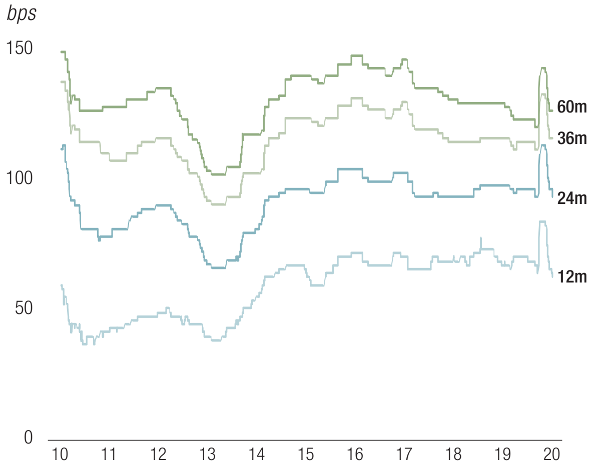
12-MONTH MID-MARKET FUNDING SPREAD



Sources: Bloomberg (RMBP screen) and Reuters.

The following graph illustrates that longer-dated funding spreads have remained elevated for some time. Since 2016, however, funding spreads for maturities greater than three years have started trending downwards, interrupted by the upward COVID-19 spike.

LONG-TERM FUNDING SPREADS



Sources: Bloomberg (RMBP screen) and Reuters.

Funding measurement and activity

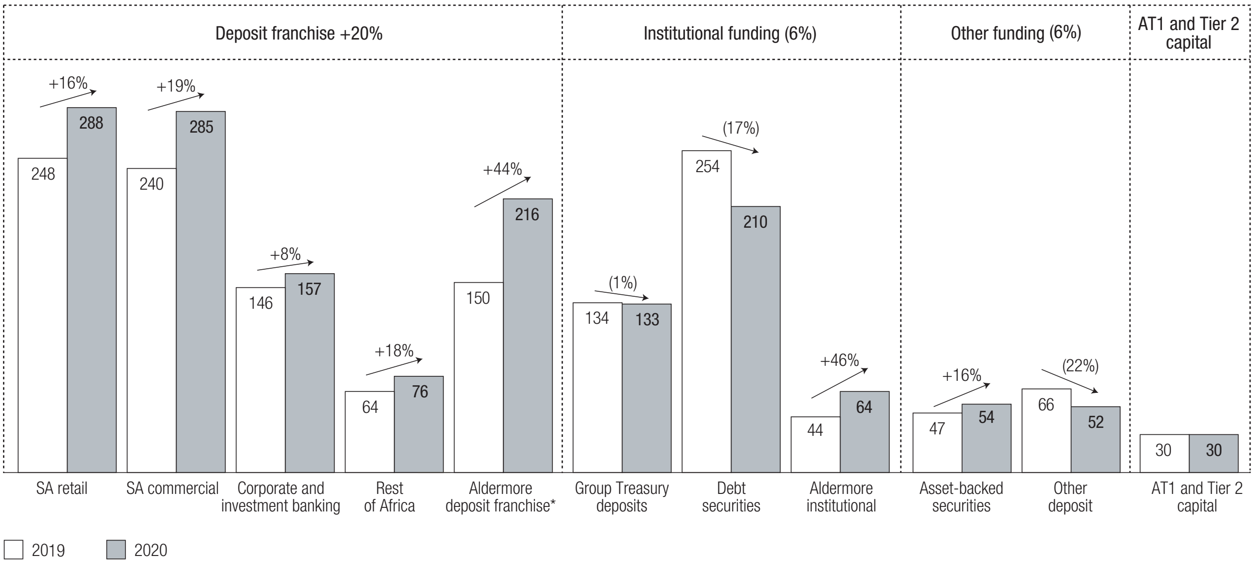
FRB remains the primary debt-issuing entity in the group and generates a greater proportion of its funding from deposits compared to the South African industry aggregate. Its funding profile also reflects the structural features described previously.

The group manages its funding profile by source, counterparty type, market, product and currency. The deposit franchise remains the most efficient and stable source of funding, representing 65% of total group funding liabilities at June 2020 (2019: 60%).

Growing the deposit franchise across all market segments remains the group's primary focus from a funding perspective, with continued emphasis on savings and investment products. The group continues to develop and refine its product offering to attract a greater proportion of available funding with improved client pricing adjusted for source and behaviour. In addition to customer deposits, the group accesses the domestic money markets frequently and the debt capital markets from time to time. The group issues various capital and funding instruments in the capital markets on an auction and reverse-enquiry basis, with strong support from domestic and international investors.

The following graph provides a segmental analysis of the group's funding base.

GROUP'S FUNDING PORTFOLIO GROWTH
R billion



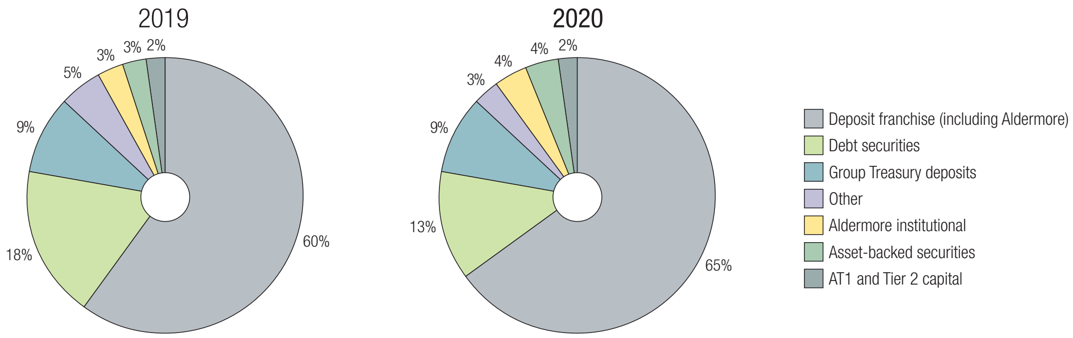
Note 1: Percentage change is based on actual (not rounded) numbers shown in the bar graphs above.

Note 2: Asset-backed securities include Aldermore's securitisation transactions.

* *Aldermore deposits increased 21% in pounds.*

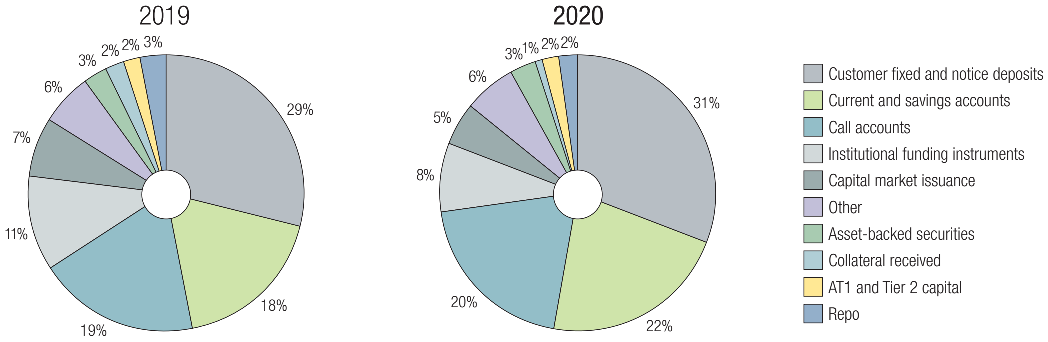
The graphs below show that the group's funding mix has improved, with further growth in deposits relative to institutional funding sources.

GROUP'S FUNDING MIX



The following graph illustrates the group's funding instruments by type.

GROUP FUNDING BY INSTRUMENT TYPE



The group's strategy to grow its deposit and transactional banking franchise naturally results in a significant proportion of contractually short-dated funding. Although these deposits are cyclical in nature, reflecting each customer's transactional and savings requirements, when viewed in aggregate overall portfolio activity is more stable, resulting in an improved liquidity risk profile.

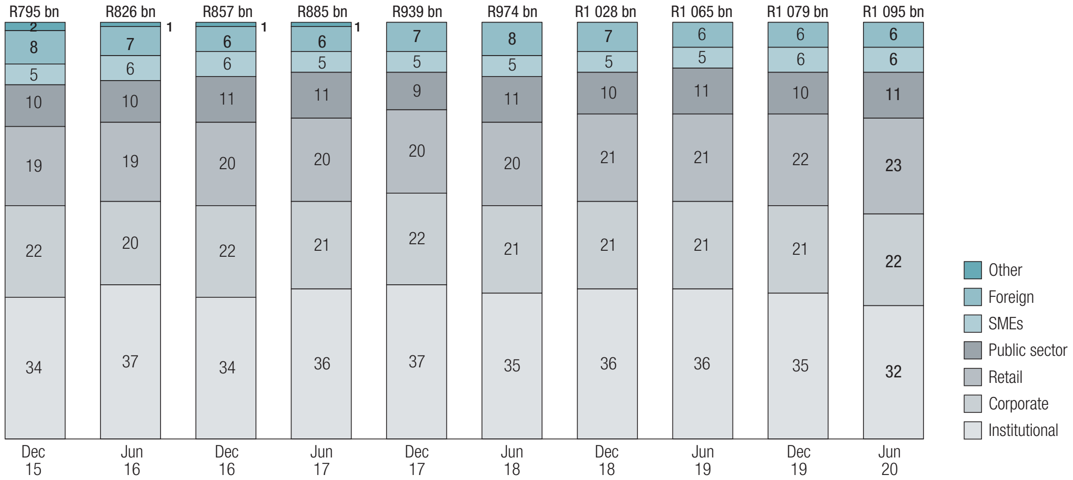
The table below provides an analysis of the bank's (excluding foreign branches) funding sources per counterparty type.

FRBSA FUNDING SOURCES PER COUNTERPARTY TYPE

	As at 30 June				
	2020				2019
% of funding liabilities	**Total**	**Short term**	**Medium term**	**Long term**	Total
Institutional funding	**31.7**	**10.7**	**4.0**	**17.0**	36.1
Deposit franchise	**68.3**	**54.8**	**7.9**	**5.6**	63.9
Corporate	**22.1**	**19.3**	**2.1**	**0.7**	20.3
Retail	**23.0**	**18.2**	**3.3**	**1.5**	20.8
SMEs	**5.6**	**4.7**	**0.6**	**0.3**	5.3
Governments and parastatals	**11.0**	**9.5**	**1.1**	**0.4**	11.1
Foreign	**6.6**	**3.1**	**0.8**	**2.7**	6.3
Other	**–**	**–**	**–**	**–**	0.1
Total	**100.0**	**65.5**	**11.9**	**22.6**	100.0

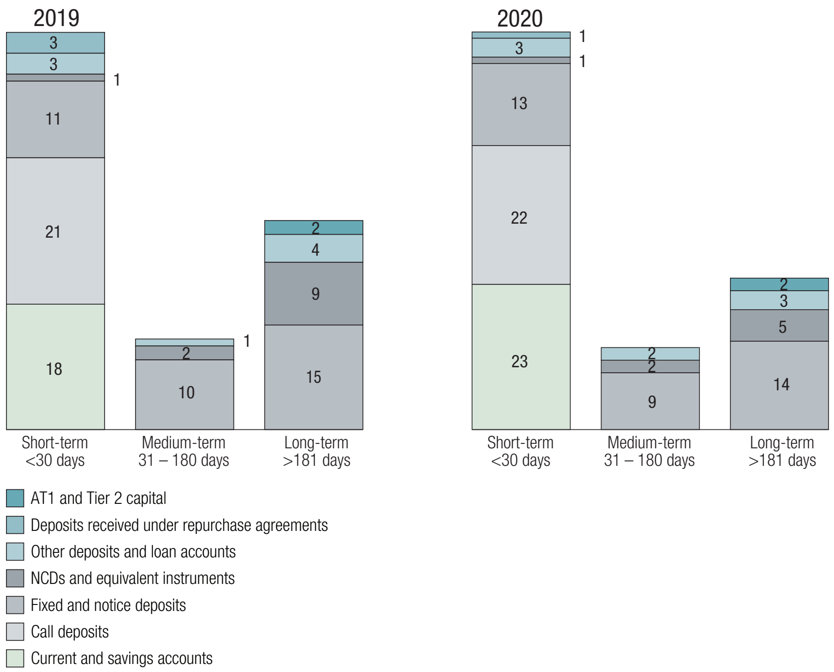
FRBSA FUNDING ANALYSIS BY SOURCE

%



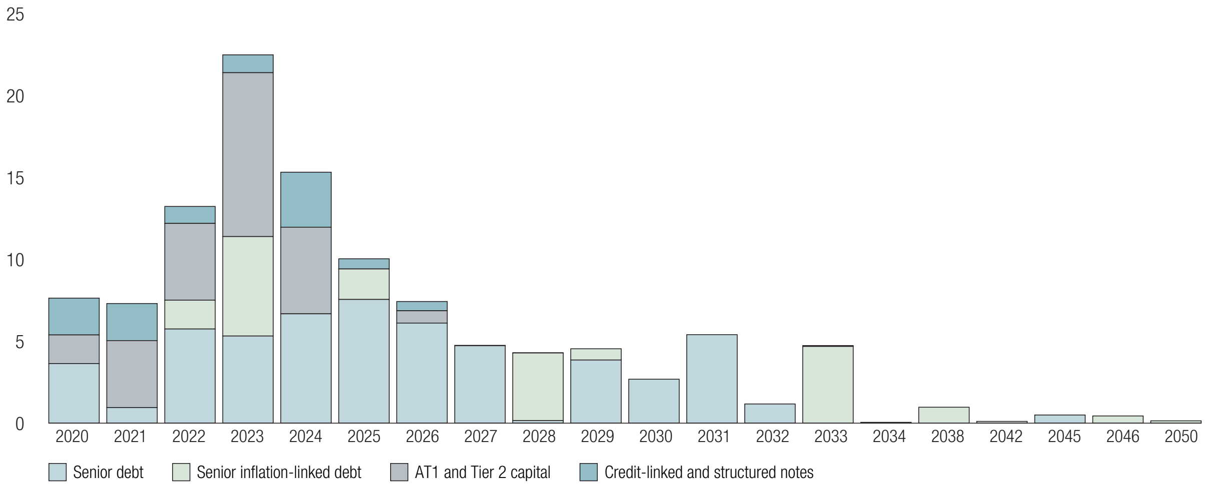
GROUP'S FUNDING LIABILITIES BY INSTRUMENT TYPE AND TERM

%



The maturity profile of the bank's capital market instruments is depicted in the following chart. The bank does not have significant instrument-specific concentration risk in any one year and seeks to efficiently issue across the maturity spectrum, taking pricing and investor demand into consideration.

MATURITY PROFILE OF FRB* CAPITAL MARKET INSTRUMENTS
R billion



* *Including foreign branches.*

Funding structure of foreign operations

In line with the group's strategy to build strong deposit franchises in all its operations, 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 relevant funds transfer pricing rates. Any excess over and above in-country capacity is funded by the group's dollar funding platforms. This is a temporary arrangement, which allows these entities to develop adequate in-country deposit bases.
- No deposit franchises – all activities are funded by the group's dollar funding platforms.

In all categories, the pricing of funding is determined from established in-country funds transfer pricing.

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. Group Treasury, therefore, must ensure that any resources provided to the foreign entities are priced appropriately.

Funds transfer pricing

The group operates a funds transfer pricing framework which incorporates liquidity costs and benefits as well as regulatory friction costs in product pricing and performance measurement for all on- and off-balance sheet activities. Where fixed-rate commitments are undertaken (fixed-rate loans or fixed-rate deposits), transfer pricing also includes the cost of hedges to immunise business against interest rate risk. Businesses are effectively incentivised to:

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

FOREIGN CURRENCY BALANCE SHEET

The active management of foreign currency liquidity risk remains a focus given the group's operations in the UK and rest of Africa.

MotoNovo

MotoNovo has been fully integrated with Aldermore and is now supported by Aldermore's funding platform, with new business funded via a combination of on-balance sheet deposits, institutional and structured funding.

MotoNovo's back book (originated prior to May 2019) forms part of the bank's London branch and remains funded through existing funding mechanisms. This book continues to run down through attrition and asset sales, releasing funding capacity to be redeployed as required.

Aldermore

Aldermore actively follows a diversified and flexible funding strategy and is predominantly funded by retail, business and corporate deposits. These account for approximately 79% of total funding with the deposit franchise totalling £11 billion at June 2020.

Aldermore's funding strategy is complemented by its continued access to institutional funding. Notwithstanding the end of the Bank of England's Term Funding Scheme (TFS), Aldermore returned to the securitisation market in September 2019 with its third prime residential mortgage-backed securitisation, Oak 3, and an auto warehouse facility to support the growth of MotoNovo. Aldermore continues to access capital markets as and when opportunities arise to optimise its funding profile and cost of funds.

Aldermore's liquid asset composition remains prudent with an LCR well in excess of the regulatory minimum, and the liquidity risk position managed to more stringent internal parameters. Aldermore has maintained a diverse portfolio of HQLA, which has been managed within a prudent risk appetite throughout the year.

Risk management approach

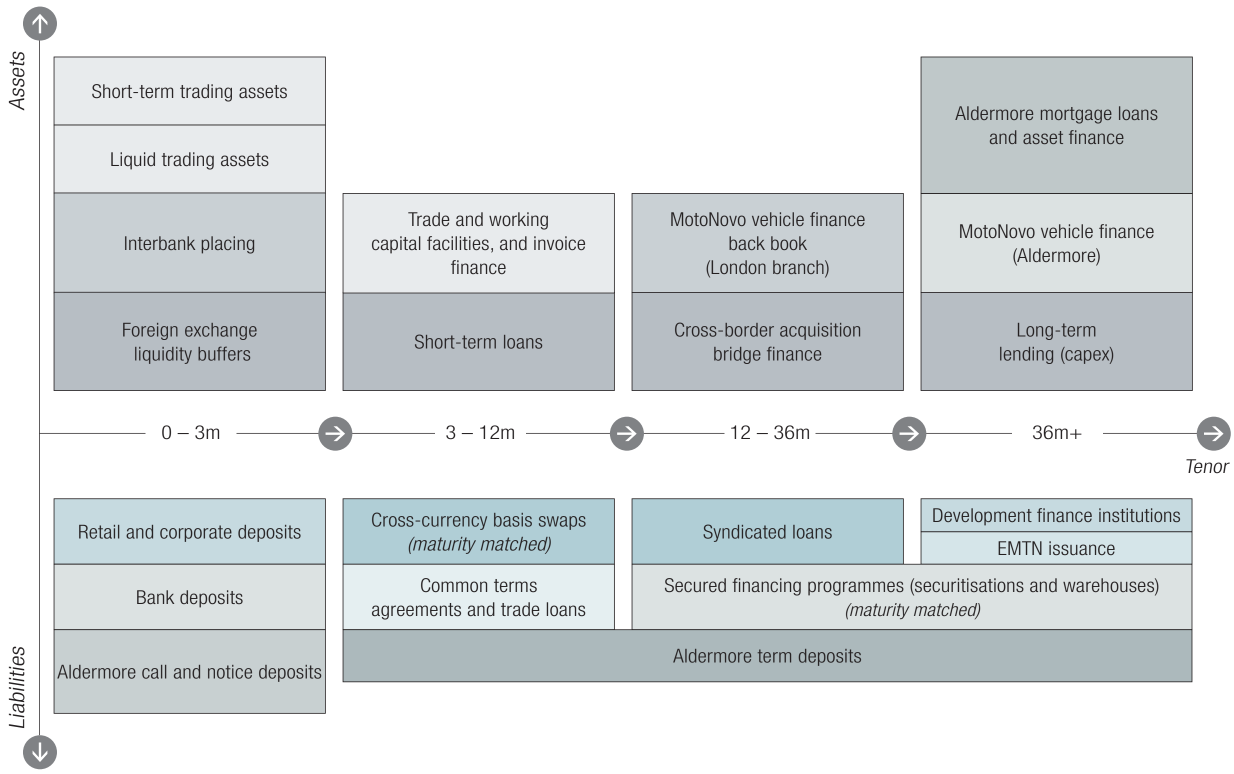
The group seeks to avoid undue liquidity risk exposure and thus maintains liquidity risk within the risk appetite approved by the board and risk committee. As an authorised dealer, the bank is subject to foreign currency macro-prudential limits as set out in the *Exchange Control Circular 9/2016*, issued by the SARB. From a risk management perspective, the group utilises internally derived foreign currency balance sheet measures based on its economic risk assessment and has set internal limits below those allowed by the macro-prudential framework. This limit applies to the group's exposure to foreign branches, foreign currency assets and guarantees.

FirstRand's foreign currency activities, specifically lending and trade finance, have steadily increased over the past few years. 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.

Philosophy on foreign currency external debt

The key determinant of an institution's ability to fund and refinance foreign currency exposures is sovereign risk and its associated external financing requirement. The group's framework for the management of external debt considers sources of sovereign risk, foreign currency funding capacity, and the macroeconomic vulnerabilities of South Africa. To determine South Africa's foreign currency funding capacity, the group considers the external debt of all South African entities (private and public sector, and financial institutions), as all these entities utilise the South African system's capacity, namely confidence and export receipts. The group thus employs a self-imposed structural borrowing limit and a liquidity risk limit more onerous than that allowed by regulations.

GRAPHICAL REPRESENTATION OF THE FOREIGN CURRENCY BALANCE SHEET



LIQUIDITY RISK MANAGEMENT

Overview

Liquidity risk is a consequential risk that may result from other risks. The group, therefore, continuously monitors and analyses the potential impact of other risks and events on its funding and liquidity position to ensure that the group's activities preserve and improve funding stability. This ensures that the group is able to operate through periods of stress when access to funding could be 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 its normal course of business, financial position or reputation.

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 high-quality, highly liquid assets are held either to be sold into the market or to 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.
• Setting liquidity risk tolerance. • Setting liquidity strategy. • Ensuring substantial diversification of funding sources. • Assessing the impact of future funding and liquidity needs taking into account expected liquidity shortfalls or excesses. • Setting the approach to liquidity management in different currencies and countries. • Ensuring adequate liquidity ratios. • Ensuring an appropriate structural liquidity gap. • 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). • Managing intragroup liquidity. • Managing central bank clearing. • Managing net daily cash positions. • Managing and maintaining market access. • 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. • 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 maintain its financial position for continuing operations. The plan is designed 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.

The plan is reviewed annually and tested regularly via a group-wide liquidity stress simulation exercise to ensure it remains up to date, relevant and familiar to all key personnel within the group who have a role to play, should it ever experience an extreme liquidity stress event.

LIQUIDITY RISK POSITION

The following table summarises the group's available sources of liquidity.

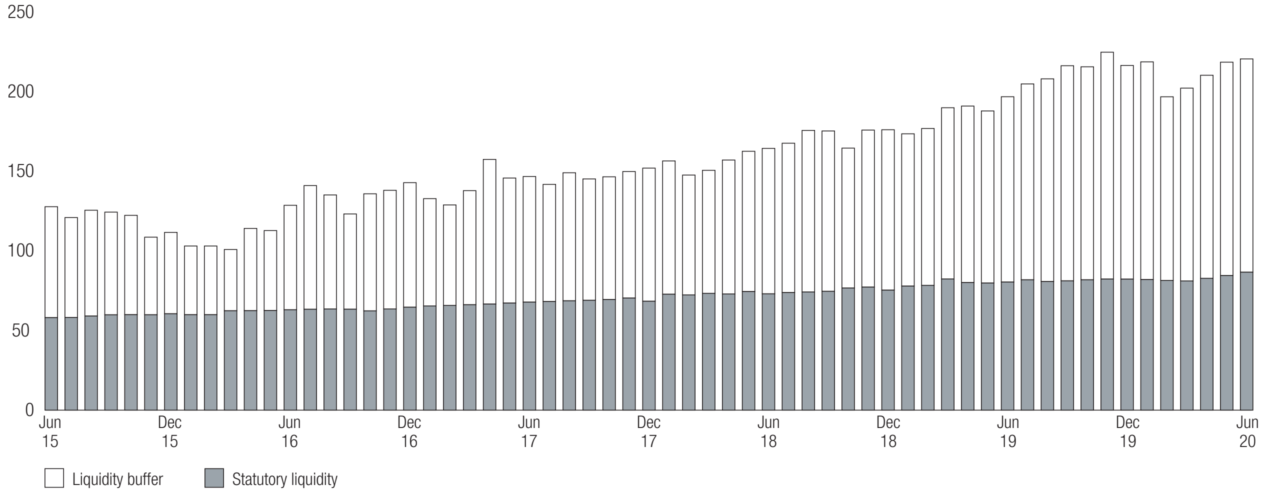
FIRSTRAND'S COMPOSITION OF LIQUID ASSETS

	As at 30 June	
R billion	**2020**	2019
Cash and deposits with central banks	**60**	43
Government bonds and bills	**169**	151
Other liquid assets	**51**	55
Total liquid assets	**280**	249

The group's portfolio of high-quality liquid assets provides a liquidity buffer against unexpected liquidity stress events or market disruptions, and serves to facilitate the changing liquidity needs of the operating businesses. The composition and quantum of available liquid assets are defined behaviourally by considering both the funding liquidity-at-risk and the market liquidity depth of these instruments. Additional liquidity overlays in excess of prudential requirements are determined based on stress testing and scenario analysis of cash inflows and outflows.

The group has built its liquid asset holdings in accordance with asset growth, risk appetite and regulatory requirements. The portfolio of high-quality liquid assets is continuously assessed and actively managed to ensure optimal composition, cost and quantum.

FRBSA LIQUIDITY BUFFER AND STATUTORY LIQUIDITY REQUIREMENTS
R billion



Liquidity ratios for the group and bank at June 2020 are summarised below.

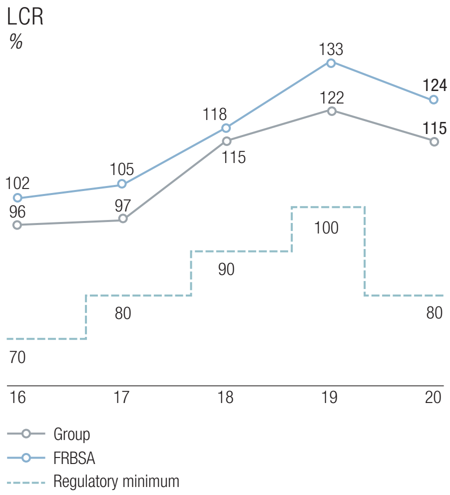
	Group*		FRBSA*	
%	**LCR****	**NSFR**	**LCR****	**NSFR**
Regulatory minimum#	80	100	80	100
Actual	115	117	124	116

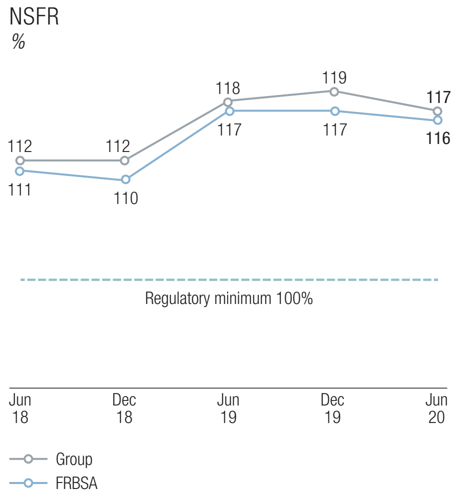
* *The group's LCR and NSFR include the bank's operations in South Africa, and all registered banks and foreign branches in the group. The FRBSA LCR and NSFR reflect South African operations only.*

** *The LCR is calculated as a simple average of 91 days of daily observations over the period ended 30 June 2020 for FRBSA and the London branch. The remaining banking entities, including Aldermore, and the India and Guernsey branches, are based on the month-end or quarter-end values. The figures are based on the regulatory submissions to the PA.*

In line with Directive 1 of 2020, the LCR requirement reduced from 100% to 80%, effective 1 April 2020. There were no changes to the NSFR minimum requirement.

The graphs below provide an overview of the group and bank's liquidity ratios.





Funding from institutional clients is a large contributor to the group's net cash outflows measured under the LCR. Other significant contributors to cash outflows are corporate funding and off-balance sheet facilities granted to clients. The group continues to execute on strategies to increase deposit franchise funding and reduce reliance on institutional sources.

Standardised disclosures

In terms of Regulation 43 of the Regulations, the following additional standardised disclosures are required:

- Key prudential metrics (at consolidated group level).
- Capital:
  - composition of regulatory capital;
  - reconciliation of regulatory capital to balance sheet; and
  - main features of regulatory capital instruments.
- Leverage:
  - summary comparison of accounting assets vs leverage ratio exposure measure; and
  - leverage ratio common disclosure template.
- Liquidity:
  - LCR; and
  - NSFR.

Refer to https://www.firstrand.co.za/investors/basel-pillar-3-disclosure/.

Scan with your smart device's QR code reader to access the standard disclosure templates on the group's website.

Regulatory update

COVID-19 REGULATORY UPDATE

In response to the COVID-19 pandemic, the PA implemented the following temporary measures to provide capital and liquidity relief to enable banks to counter economic risks to the financial system as a whole.

- *Directive 1 of 2020, Temporary measures to aid compliance with the liquidity coverage ratio during the Coronavirus (COVID-19) pandemic stress period*

  Given the financial market turmoil and reduced market liquidity, banks could find it increasingly difficult to comply with the prescribed 100% LCR requirement set out in the Regulations. The PA, therefore, deemed it appropriate to temporarily amend the minimum requirement specified for banks' compliance with LCR to 80%, effective 1 April 2020. The period for which the relief will remain in place is dependent on how the crisis evolves and its impact on the banking system, but a return to the 100% limit will be phased in. This action was consistent with measures taken by international regulators and provided the system with capacity to utilise liquidity buffers built up since 2015. As this is a temporary change in the limit, when the 100% limit is restored the buffers will need to be replenished.

- *Directive 2 of 2020, Matters related to temporary capital relief to alleviate risks posed by the COVID-19 pandemic*

  The PA considers the COVID-19 pandemic to be a stress event posing risk to the entire financial system and has, therefore, temporarily reduced the Pillar 2A capital requirement from 1% to 0%, effective 6 April 2020. Any bank or banking group will also be allowed to draw down against its capital conservation buffer while the directive remains in place. In the event that banks or banking groups enter the capital conservation buffer, they will be required to consult the PA.

- *Directive 3 of 2020, Matters related to the treatment of restructured credit exposures due to the Coronavirus (COVID-19) pandemic*

  The banking sector has been encouraged to continue to extend credit to sectors in need, particularly households and small businesses, and to provide relief measures to reduce the strain on these sectors in an effort to sustain the local economy and maintain financial stability. The PA has been supportive of the various COVID-19 relief initiatives offered to customers, such as payment holidays being offered by banks in order to provide relief to certain borrowers in the retail sector in an effort to mitigate the impact of the pandemic. The PA is also cognizant of the possible effect of the pandemic on the corporate sector. The PA has, therefore, decided to amend the requirements specified in Directive 7 of 2015 to provide temporary relief on the minimum capital requirements for banks, controlling companies and branches of foreign institutions relating to credit risk during this time.

- *Guidance Note 4 of 2020, Recommendations on the distribution of dividends on ordinary shares and payment of cash bonuses to executive officers and material risk takers, in light of the negative economic impact of the Coronavirus Disease (COVID-19) pandemic and the temporary regulatory capital relief provided by the Prudential Authority*

  The PA indicated in this guidance note that the general expectation is that no distribution of dividends on ordinary shares take place in 2020 and that the payment of cash bonuses to executive officers and material risk takers also not be made during the same period. The PA further expects banks' boards to take appropriate action in respect of the accrual, vesting and payment of variable remuneration, in a manner that is aligned to the principles enumerated in the guidance note and in accordance with the relevant legal requirements, as applicable.

BASEL III REFORMS	The PA issued *Guidance Note 7 of 2020, Proposed implementation dates in respect of specified regulatory reforms*. The implementation of these reforms has been further postponed given the impact of the COVID-19 pandemic. The following reforms have been postponed to 1 January 2021 from 1 October 2020: • standardised approach to counterparty credit risk; • capital requirement for bank exposures to central counterparties; and • capital requirements for banks' equity investments in funds. The proposed implementation dates for the revisions of the securitisation framework and large exposures framework have been delayed to 1 April 2021.
LCR	To fully comply with the LCR requirement, the group holds a diversified pool of available HQLA, which is constrained by the limited availability of these assets in the South African market. To assist the industry to comply with the LCR, the PA introduced the committed liquidity facility (CLF). *Guidance Note 5 of 2019, Continued provision of a committed liquidity facility by South African Reserve Bank to banks*, was released on 27 August 2019, and provides revised guidelines and conditions relating to the continued provision of the CLF, specifically covering the period from 1 December 2019 to 30 November 2020. The guidance note also reiterates the PA's intention to phase out the CLF by 1 December 2021. The PA will, in consultation with banks, investigate possible alternatives to the CLF, if necessary.
FINANCIAL CONGLOMERATES	The Financial Sector Regulation Act empowers the PA to designate a group of companies as a financial conglomerate and to also regulate and supervise such designated financial conglomerates. The PA is also empowered to issue prudential standards relating to financial conglomerates, and these must be complied with by the holding companies of such financial conglomerates. On 4 March 2020, the PA published draft financial conglomerate standards for a second round of informal consultation. The amendments to the standards have been based on comments received during the July 2018 consultation together with developments in the regulatory approach to financial institutions. Comments on the draft standards and an impact assessment study were provided by the banking industry in June 2020. Once the financial conglomerate standards have been finalised, the reporting templates for the standards will be drafted for further consultation.

Credit risk

INTRODUCTION AND OBJECTIVES

Credit risk is 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.

Credit risk management across the group is split into three distinct portfolios, which are aligned to customer profiles. These portfolios are retail, commercial and corporate:

- retail credit is offered by FNB, WesBank and Aldermore to individuals and SMEs with a turnover of up to R12.5 million;
- commercial credit focuses on relationship banking offered by FNB and WesBank to companies that are mainly single-banked, and asset and invoice finance in Aldermore; and
- corporate credit is offered by RMB and WesBank to large corporate multi-banked customers.

As advances are split across the operating businesses, default risk is allocated to the income-receiving portfolio.

The goal of credit risk management is to maximise the group's measure of economic profit, 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 twofold:

Risk control: Appropriate limits are placed on the assumption of credit risk and steps 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 group's return and risk appetite, and credit risk appetite frameworks. 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.

Based on the group's credit risk appetite, as measured on 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 risk appetite, credit origination strategy, risk quantification and measurement, as well as collection and recovery of delinquent accounts.

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

Credit risk appetite measures are set in line with overall risk appetite. The aim is to deliver an earnings profile that will perform within acceptable levels of volatility determined by the group's overall risk appetite. In setting credit risk appetite measures:

- credit risk appetite is aligned to the overall group risk appetite;
- credit risk appetite is determined using both a top-down group credit risk appetite and an aggregated bottom-up assessment of the business unit-level credit risk appetites; and
- stress testing is used to enable the measurement of the financial performance and the credit volatility profile of the different credit business units at a portfolio, segment, operating business and ultimately diversified group-wide level.

Formulated business unit-level credit risk appetite statements are annually reviewed and approved, and risk limits are reported quarterly to and monitored by business unit credit or executive committees and the relevant portfolio credit policy and risk appetite approval committees (subcommittees of the group credit risk management committee). In the credit risk appetite process, ERM group credit risk management is responsible for:

- setting the requirements in the credit risk appetite framework;
- articulating a top-down group credit risk appetite statement;
- assessing alignment between the top-down statement with aggregation of the individual business unit credit risk appetite statements;
- reporting risk appetite breaches to the FirstRand credit risk management committee jointly with the credit portfolio heads; and
- reporting risk appetite breaches to the RCC committee jointly with the operating business chief risk officers (CROs).

Types of credit risk limits are outlined below.

BUSINESS UNIT LIMITS	
Counterparty limits	Borrower's risk grades are mapped to the FirstRand rating scale.
Collateral limits	For secured loans, limits are based on collateral profiles, e.g. loan-to-value bands.
Capacity limits	Measures of customer affordability.
Concentration limits	Limits for concentrations to, for example, customer segments or high collateral risk.
PORTFOLIO-LEVEL LIMITS	
Additional limits for subportfolios are subject to excessive loss volatility.	

YEAR UNDER REVIEW AND FOCUS AREAS

YEAR UNDER REVIEW	RISK MANAGEMENT FOCUS AREAS
● COVID-19 created significant economic dislocation, directly impacting consumers and businesses, particularly in industries impacted by lockdown measures. ● This required an immediate credit risk management response across various disciplines, including the development of payment relief programmes, assessment of impairments within the context of the deteriorating growth outlook, and credit origination incorporating industry and high-frequency transactional data. ● The impact of climate risk on the group's lending book and pressure on the agricultural sector increased default risk for climate-sensitive areas. ● The group continued to monitor the sovereign rating outlook and ratings of associated entities with proactive revisions, where required. ● The group continued to roll out data architecture refinements related to BCBS 239 to further enhance group credit risk data aggregation and reporting. ● The group continued to focus on and strengthen credit risk management disciplines across the group's subsidiaries in the rest of Africa.	● The group's strong customer relationships and associated high-frequency data and platform focus enabled rapid and comprehensive COVID-19 responses across the credit value chain. ● The group continues to monitor COVID-19 developments and adjust its credit risk response as new trends emerge or the outlook changes. ● Despite challenging economic conditions, the group is benefiting from prudent risk mitigation measures. ● The group continues to review risk appetite and credit origination strategies on an ongoing basis. ● The group ensures it has a comprehensive programme structure in place to manage adoption of Basel III reforms. ● The group leverages BCBS 239 activities to integrate credit risk aggregation and reporting, and credit risk stress testing activities. ● The group monitors changes to credit portfolio composition and assesses the need for additional prudential limits. ● The group continues to focus on the validation and refinement of IFRS 9 models (which came into effect on 1 July 2018).

Credit risk reporting

Reporting of credit risk information follows the credit governance structure illustrated on the next page. The credit portfolio committees (retail, commercial and wholesale) report to the FirstRand credit risk management committee on the risk profile of the advances in each portfolio on a biannual basis. These reports include a review of portfolio trends and the quality of new business originated to enable an aggregated credit portfolio view for the group.

Each quarter ERM provides the RCC committee with an aggregated credit risk profile report of each portfolio with inputs from credit portfolio reports and business CRO reports. It includes:

- an overview of key credit financial indicators;
- significant credit observations from the respective credit portfolios, such as risk appetite breaches; and
- significant regulatory and credit model-related issues.

Segment/operating business CROs report quarterly on the credit risk profile and include a high-level overview of advances split by portfolio to business risk and executive committees.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

CREDIT RISK GOVERNANCE STRUCTURE

FIRSTRAND BOARD

Second line of risk control

LARGE EXPOSURES COMMITTEE

- Approves credit applications >10% of group's qualifying capital.

RCC COMMITTEE

Reviews reports on:

- adequacy and robustness of credit risk identification, management and control; and
- current and projected credit risk profile.

ERM GROUP CREDIT RISK MANAGEMENT

- Provides an independent view of the credit risk profile.
- Responsible for credit risk governance.
- Provides independent validation of credit measurement and models.
- Monitors implementation of credit risk related frameworks across the group.
- Implements methodologies and capabilities.
- Facilitates credit risk appetite processes.

MODEL RISK AND VALIDATION COMMITTEE

- Reviews credit risk capital, credit rating, estimation and provision models.

CREDIT RISK MANAGEMENT COMMITTEE

- Oversees credit risk exposures, profile and management across the group.
- Monitors implementation of the credit risk management framework (CRMF).

The CRMF (a subframework of BPRMF) prescribes the governance structures, roles, responsibilities and lines of accountability for credit risk management.

First line of risk control

- Retail credit policy and risk appetite approval subcommittee
- Commercial credit policy and risk appetite approval subcommittee
- FirstRand credit impairments committee
- Retail credit portfolio committee
- Commercial credit portfolio committee
- Retail and SME retail credit technical committee
- Wholesale and SME corporate credit technical committee
- Aldermore model management committee
- Aldermore credit committee
- Wholesale credit committee

Second line of control

BUSINESS CREDIT RISK FUNCTIONS

Portfolio heads (retail, commercial, corporate)

- Accountable to the group's governance forums.
- Ensure alignment with credit origination strategy and appetite.
- Implement and assess frameworks/policy compliance.
- Calculate volatility profile for aggregate portfolios.

Third line of control

GIA

- Provides independent assurance to the FirstRand audit committee.
- Verifies compliance with the CRMF, and adequacy and effectiveness of credit risk management.
- Identifies deficiencies and internal control shortcomings.
- Verifies appropriateness and use of the credit rating systems, credit risk models and scorecards.

CREDIT ASSETS

CREDIT ASSETS BY TYPE, SEGMENT AND PA APPROACH

	As at 30 June				
	2020				2019
		AIRB approach	Standardised approach subsidiaries and foreign branches		
	Total	FRBSA	Regulated banking entities in the rest of Africa	Other subsidiaries and foreign branches	Total
On-balance sheet exposures	1 663 842	1 110 297	111 754	441 791	1 514 795
Cash and short-term funds	125 771	89 508	16 054	20 209	93 266
– Money at call and short notice	79 930	63 293	8 220	8 417	53 283
– Balances with central banks	45 841	26 215	7 834	11 792	39 983
Gross advances*	1 311 095	873 426	66 741	370 928	1 239 914
Less: impairments**	49 380	36 776	4 697	7 907	34 162
Net advances	1 261 715	836 650	62 044	363 021	1 205 752
Debt investment securities (excluding non-recourse investments)#	276 356	184 139	33 656	58 561	215 777
Off-balance sheet exposures	176 652	155 270	7 759	13 623	188 517
Total contingencies†	42 120	38 300	3 440	380	47 006
– Guarantees	33 609	30 392	2 838	379	38 273
– Letters of credit	8 511	7 908	602	1	8 733
Irrevocable commitments	127 658	110 096	4 319	13 243	136 580
Credit derivatives	6 874	6 874	–	–	4 931
Total	1 840 494	1 265 567	119 513	455 414	1 703 312

* *The business split of gross advances is provided in the CR1: Credit quality of assets table.*

** *Impairments include expected credit loss on both on- and off-balance sheet exposures.*

Debt investment securities are net of allowances and impairments.

† *Includes acceptances.*

CREDIT QUALITY OF ASSETS

The group has adopted IFRS 9, which uses an expected credit loss (ECL) model for the recognition of impairment losses. The ECL model considers the significant changes to assets credit risk and the expected loss that will arise in the event of default. In determining whether an impairment loss should be recognised, the group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans. The objective of the measurement of an impairment loss is to produce a quantitative measure of the group's credit risk exposure.

The group adopted the PD/LGD approach for the calculation of ECL for advances. The ECL is based on an average of three macroeconomic scenarios incorporating a base scenario, upside scenario and downside scenario, weighted by the probability of occurrence. Regression modelling techniques are used to determine which borrower and transaction characteristics are predictive of certain behaviours, based on relationships observed in historical data related to the group of accounts to which the model will be applied. This results in the production of models that are used to predict impairment parameters (PD, LGD and EAD) based on the predictive characteristics identified through the regression process.

Impairment of financial assets

Adequacy of impairments is assessed through the ongoing review of the quality of credit exposures in line with IFRS 9 requirements. Individual advances are classified into one of the following categories and an impairment allowance recognised accordingly:

Credit risk has not increased significantly since initial recognition (stage 1)	Credit risk has increased significantly since initial recognition, but asset is not credit impaired (stage 2)	Asset has become credit impaired since initial recognition (stage 3)	Purchased or originated credit impaired
12-month expected credit losses are recognised.	Lifetime expected credit losses (LECL) recognised.	LECL recognised.	Movement in LECL since initial recognition.

IMPAIRMENT CLASSIFICATION

DESCRIPTION	
Determination of whether the credit risk of financial instruments has increased significantly since initial recognition	In order to determine whether an advance has experienced a significant increase in credit risk, the PD of the asset calculated at the origination date is compared to that calculated at the reporting date. The origination date is defined as the most recent date at which the group has repriced an advance/facility. A change in terms results in derecognition of the original advance/facility and recognition of a new advance/facility. Significant increase in credit risk test thresholds are reassessed and, if necessary, updated, on at least an annual basis. Any facility that is more than 30 days past due, or in the case of instalment-based products one instalment past due, is automatically considered to have experienced a significant increase in credit risk. In addition to the quantitative assessment based on PDs, qualitative considerations are applied when determining whether individual exposures have experienced a significant increase in credit risk. One such qualitative consideration is the appearance of wholesale and commercial SME facilities on a credit watch list. Any up-to-date facility that has undergone a distressed restructure (i.e. a modification of contractual cash flows to prevent a client from going into arrears) will be considered to have experienced a significant increase in credit risk and will be disclosed within stage 2 at a minimum. The credit risk on an exposure is no longer considered to be significantly higher than at origination if no qualitative indicators of a significant increase in credit risk are triggered, and if comparison of the reporting date PD to the origination date PD no longer indicates that a significant increase in credit risk has occurred. No minimum period for transition from stage 2 back to stage 1 is applied, with the exception of cured distressed restructured exposures that are required to remain in stage 2 for a minimum period of six months before re-entering stage 1, as per the requirements of SARB Directive 7 of 2015.
Credit-impaired financial assets	Advances are considered credit impaired if they meet the definition of default. The group's definition of default applied for calculating provisions under IFRS 9 has been aligned to the definition applied for regulatory capital calculations across all portfolios, as well as those applied in operational management of credit and for internal risk management purposes. Exposures are considered to be in default when they are more than 90 days past due or, in the case of amortising products, have more than three unpaid instalments. In addition, an exposure is considered to have defaulted when there are qualitative indicators that the borrower is unlikely to pay their credit obligations in full without any recourse by the group to actions such as the realisation of security. Indicators of unlikeliness to pay are determined based on the requirements of Regulation 67 of the Banks Act. Examples include application for bankruptcy or obligor insolvency. Any distressed restructures of accounts which have experienced a significant increase in credit risk since initial recognition are defined as default events. Retail accounts are considered to no longer be in default if they meet the stringent cure definition, which has been determined at portfolio level based on analysis of re-defaulted rates. Curing from default within wholesale is determined judgementally through a committee process.
Purchased or originated credit impaired	Financial assets that meet the above-mentioned definition of credit-impaired at initial recognition.

IMPAIRMENT ASSESSMENT

IMPAIRMENT CLASSIFICATION	DESCRIPTION
Significant increase in credit risk since initial recognition	Quantitative and qualitative factors are considered when determining whether there has been a significant increase in credit risk. **Quantitative test:** The PDs used to perform the test for a significant increase in credit risk are calculated by applying the PD model in force as at the reporting date. This model is retro-applied using data as at the origination date to determine origination date PDs. **Qualitative test:** Furthermore, a qualitative assessment is performed in order to assess if additional exposures should be migrated from stage 1 to stage 2. This assessment would consider, at a minimum, forward-looking information not taken into account in the quantitative assessment. Origination date PDs are measured at initial recognition of an instrument, unless there has been a subsequent risk-based repricing or a change in terms has taken place, which requires the derecognition of the initial advance and recognition of a new advance. Where the models used to determine PDs cannot discriminate good credit risks from bad credit risks effectively at initial recognition due to a lack of behavioural information, proxy origination dates of up to six months post initial recognition are applied. Where proxy origination dates are applied, early qualitative indicators of significant increase in credit risk, such as fraudulent account activity or partial arrears, are applied to trigger movement into stage 2. Reporting date PDs are calculated on a forward-looking basis, with PDs adjusted where appropriate to incorporate the impacts of multiple forward-looking macroeconomic scenarios.
Credit-impaired financial assets	Exposures are classified as stage 3 if there are qualitative indicators that the obligor is unlikely to pay his/her/its credit obligations in full without any recourse by the group to action, such as the realisation of security. Distressed restructures of accounts in stage 2 are also considered to be default events. For a retail account to cure from stage 3 to either stage 2 or stage 1, the account needs to meet a stringent cure definition. Cure definitions are determined on a portfolio level with reference to suitable analysis and are set such that the probability of a previously cured account re-defaulting is equivalent to the probability of default for an account that has not defaulted in the past. In most retail portfolios curing is set at 12 consecutive payments. For wholesale exposures, cures are assessed on a case-by-case basis, subsequent to an analysis by the relevant debt restructuring credit committee. A default event is a separate default event only if an account has met the portfolio-specific cure definition prior to the second or subsequent default. Default events that are not separate are treated as a single default event when developing LGD models and the associated term structures.

PD, EAD and LGD estimates that are derived from regulatory capital models are used in models to determine stage 1 estimates. The outputs from the regulatory capital models are used as inputs into term structure models used for stage 2 and 3 ECL calculations.

For credit risk measurement requirements FirstRand employs the AIRB approach for FRBSA and the standardised approach for the remaining group entities. The following table *CR1: Credit quality of assets*, provides a breakdown of defaulted exposures, non-defaulted exposures and impairment allowances split between the standardised approach specific and general accounting provisions and AIRB accounting provisions. Under the IFRS 9 ECL model these provisions represent the following:

REGULATORY CLASSIFICATION	ECL IMPAIRMENT CLASSIFICATION (IFRS 9)
Standardised and AIRB approaches	
General provision	Stage 1 and 2 impairments – performing book
Specific provision	Stage 3 impairments – non-performing book

Use of an ECL model results in earlier recognition of impairments, which generally leads to an increase in provisions held on the performing book. The approach applied under IFRS 9 for the calculation of specific provisions does not result in significant changes in coverage held for defaulted accounts.

The following tables provide the credit quality of advances in the in-force portfolio.

CR1: CREDIT QUALITY OF ASSETS

	As at 30 June 2020						
	Gross carrying values of			Of which ECL accounting provisions for credit losses on standardised approach exposures#			
R million	Defaulted exposures*	Non-defaulted exposures**	Allowances/ impairments	Allocated in regulatory category of specific	Allocated in regulatory category of general	Of which ECL accounting provisions for credit losses on AIRB exposures	Net value
1. **Gross advances**	57 281	1 253 814	49 380	4 564	7 764	37 052	1 261 715
FNB	36 195	440 810	30 306	3 492	3 061	23 753	446 699
– Retail	24 968	288 252	19 953	792	843	18 318	293 267
– Commercial	7 030	100 886	6 028	339	254	5 435	101 888
– Rest of Africa	4 197	51 672	4 325	2 361	1 964	–	51 544
WesBank	11 128	120 000	6 367	11	8	6 348	124 761
RMB investment banking	2 282	284 983	5 378	–	–	5 378	281 887
RMB corporate banking	853	71 586	1 436	–	–	1 436	71 003
Aldermore	5 096	264 572	3 458	811	2 647	–	266 210
FCC (including Group Treasury)	1 727	71 863	2 435	250	2 048	137	71 155
2. **Debt investment securities†**	–	276 474	118	–	–	–	276 356
3. **Off-balance sheet exposures**	601	176 051	–	–	–	–	176 652
4. **Total**	57 882	1 706 339	49 498	4 564	7 764	37 052	1 714 723

* *Defaulted exposure is stage 3/NPLs.*

** *Non-defaulted exposures is the sum of stage 1 and stage 2 gross advances.*

ECL = expected credit loss.

† *Exclude non-recourse investments.*

CR1: CREDIT QUALITY OF ASSETS

R million	As at 30 June 2019						
	Gross carrying values of			Of which ECL accounting provisions for credit losses on standardised approach exposures#		Of which ECL accounting provisions for credit losses on AIRB exposures	
	Defaulted exposures*	Non-defaulted exposures**	Allowances/ impairments	Allocated in regulatory category of specific	Allocated in regulatory category of general		Net value
1. **Gross advances**	41 349	1 198 565	34 162	3 613	5 752	24 797	1 205 752
FNB	27 253	435 534	22 265	2 933	2 476	16 856	440 522
– Retail	18 735	283 821	14 731	719	606	13 406	287 825
– Commercial	4 556	100 575	3 812	192	170	3 450	101 319
– Rest of Africa	3 962	51 138	3 722	2 022	1 700	–	51 378
WesBank	7 667	126 420	4 694	3	10	4 681	129 393
RMB investment banking	2 544	289 299	3 285	–	945	2 340	288 558
RMB corporate banking	343	61 101	877	–	217	660	60 567
Aldermore	2 322	189 168	968	436	532	–	190 522
FCC (including Group Treasury)	1 220	97 043	2 073	241	1 572	260	96 190
2. **Debt investment securities†**	–	215 903	126	–	–	126	215 777
3. **Off-balance sheet exposures**	546	187 971	–	–	–	–	188 517
4. **Total**	41 895	1 602 439	34 288	3 613	5 752	24 923	1 610 046

* *Defaulted exposure is stage 3/NPLs.*

** *Non-defaulted exposures is the sum of stage 1 and stage 2 gross advances.*

ECL = expected credit loss.

† *Exclude non-recourse investments.*

CR2: CHANGES IN STOCK OF DEFAULTED ADVANCES, DEBT SECURITIES AND OFF-BALANCE SHEET EXPOSURES

R million	Total
1. **Defaulted credit exposures at 30 June 2019**	**41 895**
2. Advances defaulted	**33 374**
3. Return to non-defaulted status	**(2 544)**
4. Amounts written off	**(14 362)**
5. Other changes	**(481)**
6. **Defaulted credit exposures at 30 June 2020**	**57 882**

Age analysis of credit exposures

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 the group's loans and advances, debt securities and off-balance sheet items. In the tables defaulted exposures represent stage 3/NPLs, non-defaulted exposures are the sum of stage 1 and stage 2 gross advances, and allowances/impairments are total balance sheet provisions.

AGE ANALYSIS OF CREDIT EXPOSURES

	As at 30 June 2020			
	Gross carrying values of			
R million	Defaulted exposures	Non-defaulted exposures	Allowances/ impairments	Net value
FNB	**36 195**	**440 810**	**30 306**	**446 699**
– Retail	**24 968**	**288 252**	**19 953**	**293 267**
– Commercial*	**7 030**	**100 886**	**6 028**	**101 888**
– Rest of Africa	**4 197**	**51 672**	**4 325**	**51 544**
WesBank	**11 128**	**120 000**	**6 367**	**124 761**
RMB investment banking	**2 282**	**284 983**	**5 378**	**281 887**
RMB corporate banking	**853**	**71 586**	**1 436**	**71 003**
Aldermore	**5 096**	**264 572**	**3 458**	**266 210**
FCC (including Group Treasury)	**1 727**	**71 863**	**2 435**	**71 155**
Total	**57 281**	**1 253 814**	**49 380**	**1 261 715**
Percentage of total book (%)	**4.5**	**99.4**	**3.9**	**100.0**

* *Includes public sector.*

	As at 30 June 2019			
	Gross carrying values of			
R million	Defaulted exposures	Non-defaulted exposures	Allowances/ impairments	Net value
FNB	27 253	435 534	22 265	440 522
– Retail	18 735	283 821	14 731	287 825
– Commercial*	4 556	100 575	3 812	101 319
– Rest of Africa	3 962	51 138	3 722	51 378
WesBank	7 667	126 420	4 694	129 393
RMB investment banking	2 544	289 299	3 285	288 558
RMB corporate banking	343	61 101	877	60 567
Aldermore	2 322	189 168	968	190 522
FCC (including Group Treasury)	1 220	97 043	2 073	96 190
Total	41 349	1 198 565	34 162	1 205 752
Percentage of total book (%)	3.4	99.4	2.8	100.0

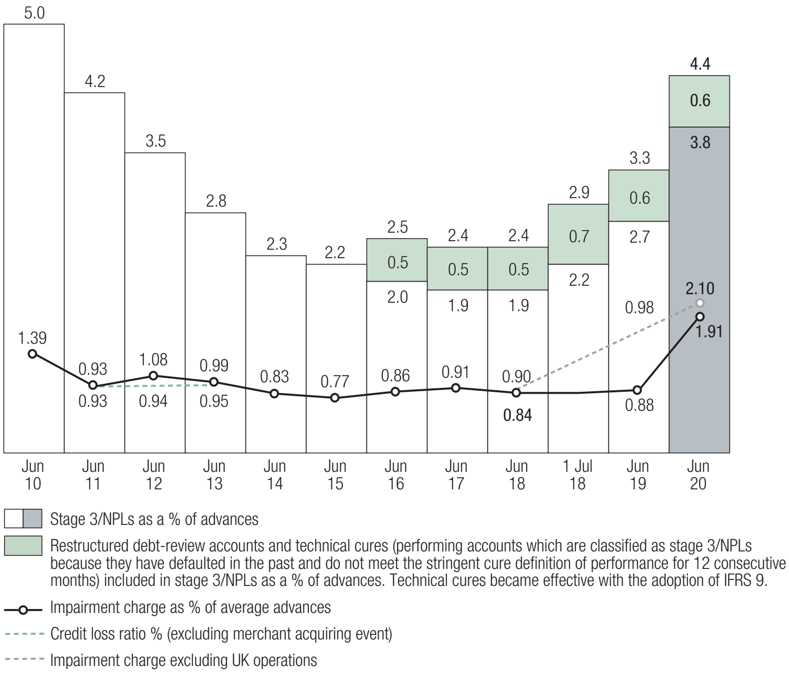
* *Includes public sector.*

Income statement impairment charge

Impairments are recognised through the creation of an impairment reserve and an impairment charge in the income statement. Exposures considered uncollectable are written off against the reserve for loan impairments. Subsequent recoveries against these facilities decrease the credit impairment charge in the income statement in the year of recovery. The following chart shows the history of the NPL ratio and the income statement impairment charge.

NPLs AND IMPAIRMENT HISTORY

%



Note: 2010 to 2018 figures are based on IAS 39 and 2019 to 2020 on IFRS 9.

Refer to pages 149 to 150 of the group's *Analysis of financial results for the year ended 30 June 2020*, available on the group's website at www.firstrand.co.za/investors/financial-results/, for a description of normalised performance.

Sector and geographical analysis of defaulted advances

The sector and geographical analysis of defaulted exposures are based on where the credit risk originates, i.e. the geography and sector of operation.

SECTOR DEFAULTED ADVANCES*

	As at 30 June 2020			
R million	**Defaulted advances before write-offs**	**Less: write-offs excluding interest in suspense**	**Defaulted advances net of write-offs**	**Specific impairments**
Agriculture	**3 181**	**272**	**2 909**	**969**
Financial institutions	**569**	**263**	**306**	**211**
Building and property development	**2 700**	**282**	**2 418**	**1 300**
Government, Land Bank and public authorities	**1 199**	**7**	**1 192**	**27**
Individuals	**50 519**	**10 516**	**40 003**	**17 452**
Manufacturing and commerce	**5 684**	**1 707**	**3 977**	**1 798**
Mining	**175**	**38**	**137**	**79**
Transport and communication	**1 536**	**320**	**1 216**	**421**
Other services	**6 081**	**957**	**5 123**	**2 416**
Total	**71 644**	**14 362**	**57 281**	**24 673**

	As at 30 June 2019			
R million	Defaulted advances before write-offs	Less: write-offs excluding interest in suspense	Defaulted advances net of write-offs	Specific impairments
Agriculture	2 505	112	2 393	764
Financial institutions	561	115	446	306
Building and property development	2 095	288	1 807	904
Government, Land Bank and public authorities	97	12	85	4
Individuals	34 924	6 211	28 713	12 769
Manufacturing and commerce	4 654	782	3 872	1 754
Mining	847	291	556	98
Transport and communication	722	128	594	311
Other services	3 546	663	2 883	1 585
Total	49 951	8 602	41 349	18 495

* *There were no defaulted advances in the banks sector during 2019 and 2020.*

GEOGRAPHIC DEFAULTED ADVANCES*

R million	Defaulted advances before write-offs	Less: write-offs excluding interest in suspense	Defaulted advances net of write-offs	Specific impairments
	As at 30 June 2020			
South Africa	**57 893**	**11 739**	**46 155**	**20 099**
Rest of Africa	**5 783**	**1 427**	**4 356**	**2 787**
UK	**7 873**	**1 192**	**6 680**	**1 698**
Other Europe	**2**	**–**	**1**	**1**
Australasia	**–**	**–**	**–**	**–**
Asia	**93**	**4**	**89**	**88**
Total	**71 644**	**14 362**	**57 281**	**24 673**

R million	Defaulted advances before write-offs	Less: write-offs excluding interest in suspense	Defaulted advances net of write-offs	Specific impairments
	As at 30 June 2019			
South Africa	40 074	6 829	33 245	15 003
Rest of Africa	4 575	343	4 232	2 609
UK	4 566	1 161	3 405	861
Other Europe	102	102	–	–
Australasia	569	167	402	–
Asia	65	–	65	22
Total	49 951	8 602	41 349	18 495

There were no exposures in North America and South America during 2019 and 2020.

SECTOR AND GEOGRAPHIC DEFAULTED DEBT INVESTMENT SECURITIES AND OFF-BALANCE SHEET EXPOSURES*

	Defaulted advances before write-offs	
R million	**As at 30 June 2020**	As at 30 June 2019
Off-balance sheet items		
Sector**	**601**	546
– Agriculture	**32**	14
– Financial institutions	**8**	9
– Building and property development	**46**	65
– Government, Land Bank and public authorities	**22**	21
– Individuals	**137**	265
– Manufacturing and commerce	**257**	109
– Mining	**3**	20
– Transport and communication	**27**	2
– Other services	**69**	41
Geography – South Africa	**601**	546

* *There were no defaulted debt investment securities or write-offs during 2019 and 2020.*

** *There were no defaulted off-balance sheet items in the banks sector during 2019 and 2020.*

Restructured exposures

A restructure is defined as any formal agreement between the customer and the group to amend contractual amounts due (or the timing thereof). This can be initiated by the customer, the group or a third party, for example a debt management company. A restructure is defined as a distressed restructure where it is entered into:

- from a position of arrears;
- where an account was in arrears at any point during the previous six months; or
- from an up-to-date position, in order to prevent the customer from going into arrears.

This section describes restructures and distressed restructures that are concluded as part of the normal course of business. Details regarding restructures entered into as part of COVID-19 relief efforts are provided in a separate subsection below.

Distressed restructuring is regarded as objective evidence of impairment. Classification of distressed restructures adheres to the relevant regulatory requirements. Restructured exposures shown below are applicable to South African operations. Retail restructured exposures include loans under debt review of R5.3 billion. Restructured exposures are classified as impaired once the group determines it is probable that it will be unable to collect all principal and interest due according to the new terms and conditions of the restructured agreement. Unimpaired restructures include those that are considered performing and not distressed.

RESTRUCTURED EXPOSURES SPLIT BETWEEN IMPAIRED AND NOT IMPAIRED*

	As at 30 June 2020			As at 30 June 2019		
R million	**Impaired**	**Not impaired**	**Total**	Impaired	Not impaired	Total
Advances	**5 354**	**9 432**	**14 786**	4 562	6 549	11 111
Off-balance sheet exposures	**3**	**394**	**397**	5	195	200
Total	**5 357**	**9 826**	**15 183**	4 567	6 744	11 311

* *There were no restructured debt investment securities (excluding non-recourse investments and equities) in 2020 and 2019.*

COVID-19 restructures

The group offered financial relief to retail and commercial customers through various mechanisms in response to COVID-19. These included the following:

- additional facilities or new loans being granted;
- restructure of existing exposures with no change in the present value of the estimated future cash flows; and
- restructure of existing exposures with a change in the present value of the estimated future cash flows.

Debt relief measures for wholesale clients were undertaken on a case-by-case basis within the boundaries of existing credit risk management processes.

Exposures on which relief was offered were assessed to determine whether the requirement for relief is expected to be temporary or permanent in nature. Where the requirement for relief is expected to be temporary in nature and the account to which the relief has been applied was up to date as at 29 February 2020, the relief is considered to be a COVID-19 restructure as defined in the PA's *Directive 3 of 2020*, *Matters related to the treatment of restructured credit exposures due to the Coronavirus (COVID-19) pandemic*. COVID-19 restructures are not treated as distressed restructures. Where the requirement for relief is not expected to be temporary in nature or the account to which relief has been applied was not up to date as at 29 February 2020, the exposure was treated as a distressed restructure.

Additional relief has been provided to commercial customers through National Treasury's SME loan guarantee scheme. This scheme provides loans, substantially guaranteed by government, to eligible businesses to assist with operational expenses where such assistance is required due to the economic impacts of the COVID-19 lockdown.

LOANS GRANTED THROUGH THE SME LOAN GUARANTEE SCHEME SPLIT BETWEEN DRAWN AND UNDRAWN EXPOSURE

	As at 30 June 2020		
R million	**Drawn**	**Undrawn**	**Total**
Commercial advances	**345**	**445**	**790**
Total	**345**	**445**	**790**

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.

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, achieved through setting maximum exposure guidelines to individual counterparties. The group constantly reviews its concentration levels and sets maximum exposure guidelines for these. Excesses are reported to the RCC committee.

Geographic, industry and residual maturity concentration risk

Geographically, most of the group's exposures are in South Africa. The following tables provide the geographical, industry and residual maturity split of gross advances after deduction of interest in suspense, and debt investment securities (excluding non-recourse investments and off-balance sheet exposures).

BREAKDOWN OF EXPOSURES ACROSS GEOGRAPHICAL AREAS

	As at 30 June			
	2020		2019	
R million	**Gross advances and debt investment securities***	**Significant off-balance sheet exposures**	Gross advances and debt investment securities*	Significant off-balance sheet exposures
South Africa	**1 033 674**	**138 006**	1 007 864	142 837
Rest of Africa	**151 025**	**14 284**	128 293	16 110
United Kingdom	**341 854**	**13 725**	269 562	19 019
Other Europe	**27 548**	**5 678**	25 551	3 785
North America	**18 392**	**1 284**	7 734	885
South America	**3**	**2**	178	–
Australasia	**685**	**–**	528	93
Asia	**14 391**	**3 673**	16 107	5 788
Total	**1 587 572**	**176 652**	1 455 817	188 517

* *Debt investment securities exclude non-recourse investments.*

BREAKDOWN OF EXPOSURES ACROSS INDUSTRIES

	As at 30 June			
	2020		2019	
R million	Gross advances and debt investment securities*	Significant off-balance sheet exposures	Gross advances and debt investment securities*	Significant off-balance sheet exposures
Agriculture	**45 632**	**1 640**	43 718	2 286
Banks and financial services	**234 761**	**32 181**	238 009	25 770
Building and property development	**77 229**	**3 973**	67 376	5 164
Government, Land Bank and public authorities	**234 404**	**6 014**	189 761	2 384
Individuals	**656 480**	**57 840**	605 685	67 556
Manufacturing and commerce	**142 012**	**39 806**	137 333	39 915
Mining	**25 391**	**12 528**	12 354	18 626
Transport and communication	**32 630**	**11 548**	31 844	10 449
Other services	**139 033**	**11 122**	129 737	16 367
Total	**1 587 572**	**176 652**	1 455 817	188 517

* *Debt investment securities exclude non-recourse investments.*

BREAKDOWN OF EXPOSURES BY RESIDUAL MATURITY

	As at 30 June			
	2020		2019	
R million	Gross advances and debt investment securities*	Significant off-balance sheet exposures	Gross advances and debt investment securities*	Significant off-balance sheet exposures
Less than one year (including call)	**515 035**	**168 778**	473 155	183 194
Between 1 year and 5 years	**595 670**	**5 888**	493 641	4 094
Over 5 years	**427 381**	**1 986**	446 452	1 229
Non-contractual amounts	**49 486**	**–**	42 569	–
Total	**1 587 572**	**176 652**	1455 817	188 517

* *Debt investment securities exclude non-recourse investments.*

CREDIT RISK MITIGATION

The group's credit risk mitigation approach is described on page 25.

Furthermore, it is the group's policy that all items of collateral are valued at the inception of a transaction and at various points throughout the life of a transaction, either through physical inspection or indexation methods, as appropriate. For corporate and commercial portfolios, the value of collateral is reviewed as part of the annual facility review. For mortgage portfolios, collateral valuations are updated on an ongoing basis through statistical indexation models. In the event of default, however, more detailed reviews and valuations of collateral are performed, which yield a more accurate financial impact.

Limited on- and off-balance sheet netting is used in the process of determining exposure to credit risk. RMB and FNB apply netting for corporate, SME corporate, banks, securities firms, public sector and sovereign exposures based on facility type, natural set-off, net exposure determination rules and ceding rules. The policies followed are documented and strictly governed by the applicable regulatory clauses.

CR3: CREDIT RISK MITIGATION TECHNIQUES

	As at 30 June 2020				
	Exposures*				
	Unsecured	Secured by collateral		Secured by financial guarantees	
R million	carrying value	Carrying value	Secured amount	Carrying value	Secured amount
Advances	**238 428**	**1 023 287**	**1 023 287**	**8 507**	**8 507**
Debt securities	**81 738**	**194 618**	**194 618**	**–**	**–**
Total advances and debt securities	**320 166**	**1 217 905**	**1 217 905**	**8 507**	**8 507**
Of which defaulted	**5 147**	**27 461**	**27 461**	**–**	**–**

* *No exposures were secured by credit derivatives during the year.*

	As at 30 June 2019				
	Exposures*				
	Unsecured	Secured by collateral		Secured by financial guarantees	
R million	carrying value	Carrying value	Secured amount	Carrying value	Secured amount
Advances	189 720	1 016 032	1 016 032	13 376	13 376
Debt securities	53 593	162 184	162 184	–	–
Total advances and debt securities	243 313	1 178 216	1 178 216	13 376	13 376
Of which defaulted	3 398	19 456	19 456	–	–

* *No exposures were secured by credit derivatives during the year.*

CREDIT RISK UNDER STANDARDISED APPROACH

For regulatory capital purposes, the group predominantly uses the AIRB approach for FRBSA exposures, and the standardised approach for the group's other legal entities, the bank's foreign branches and Aldermore. Due to the relatively small 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, only S&P Global Ratings (S&P) ratings are used. As external ratings are not available for all jurisdictions and for certain parts of the portfolio, the group uses its internally developed mapping between FR grades and S&P grades (refer to the *Mapping of FirstRand (FR) grades to rating agency scales* on page 85).

For cases where the bank invests in particular debt issuance, the risk weight of claims is based on these assessments. If the investment is not in a specific assessed issuance, then the following factors apply when determining the applicable assessments in accordance with Basel prescriptions:

- borrower's issuer assessment;
- borrower's specific assessment on issued debt;
- ranking of the unassessed claim; and
- the entire amount of credit risk exposure the bank has.

The following table provides the credit risk exposures, credit risk mitigation effects and RWA for standardised approach exposures per asset class. RWA density is the ratio of RWA to exposures post-CCF and -CRM. There are no exposures to multilateral development banks, secured by commercial real estate, equity, past due advances, higher-risk categories and other asset categories. Rows 3 and 9 – 13 were therefore excluded from this table.

CR4: STANDARDISED APPROACH – CREDIT RISK EXPOSURE AND CREDIT RISK MITIGATION EFFECTS

	As at 30 June 2020					
	Exposures before CCF and CRM		Exposure post-CCF and -CRM		RWA and RWA density	
R million	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density %
Asset classes						
1. Sovereigns and their central banks	100 500	59	104 794	–	37 803	36.07
2. Non-central government public sector entities	4 204	975	2 545	–	1 149	45.15
4. Banks	26 759	5	54 156	5	6 449	11.91
5. Securities firms	2	45	2	–	–	–
6. Corporates	168 825	26 148	134 464	1 695	137 767	101.18
7. Regulatory retail portfolios	80 376	18 323	103 492	32	65 162	62.94
8. Secured by residential property	179 353	4 482	178 669	478	65 619	36.63
14. **Total**	560 019	50 037	578 122	2 210	313 949	54.10

	As at 30 June 2019					
	Exposures before CCF and CRM		Exposure post-CCF and -CRM		RWA and RWA density	
R million	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density %
Asset classes						
1. Sovereigns and their central banks	61 719	187	31 170	–	26 911	0.86
2. Non-central government public sector entities	4 000	810	1 170	–	1 038	0.89
4. Banks	12 958	272	10 015	260	3 439	0.33
5. Securities firms	1	–	1	–	–	–
6. Corporates	105 529	24 032	86 249	6 363	113 072	1.22
7. Regulatory retail portfolios	67 610	13 320	34 841	24	54 273	1.56
8. Secured by residential property	141 847	8 272	121 894	1 278	51 705	0.42
14. **Total**	393 664	46 893	285 340	7 925	250 438	85.40

The following tables provide a breakdown of exposures rated through the standardised approach by asset class to show the effect of credit risk mitigation. Further breakdown by risk weight per asset class is shown where the risk weights used are those prescribed in the Regulations and will differ primarily by asset class as well as credit rating. There are no exposures to multilateral development banks, secured by commercial real estate, equity, past due advances, higher-risk categories and other asset categories. Rows 3 and 9 – 13 were therefore excluded from this table.

CR5: STANDARDISED APPROACH – EXPOSURES BY ASSET CLASSES AND RISK WEIGHTS

	As at 30 June 2020									
	Risk weight									Total credit exposures amount (post-CCF and post-CRM)
R million	0%	10%	20%	35%	50%	75%	100%	150%	Others	
Asset classes										
1. Sovereigns and their central banks	**56 354**	**–**	**203**	**–**	**15 579**	**–**	**18 202**	**14 457**	**–**	**104 795**
2. Non-central government public sector entities	**–**	**–**	**3**	**–**	**2 542**	**–**	**–**	**–**	**–**	**2 545**
4. Banks	**35 116**	**–**	**16 242**	**–**	**1 235**	**–**	**1 031**	**537**	**–**	**54 161**
5. Securities firms	**–**	**–**	**–**	**–**	**2**	**–**	**–**	**–**	**–**	**2**
6. Corporates	**–**	**–**	**4 060**	**–**	**3 207**	**3 977**	**120 789**	**4 126**	**–**	**136 159**
7. Regulatory retail portfolios	**250**	**–**	**–**	**–**	**157**	**101 369**	**1 514**	**234**	**–**	**103 524**
8. Secured by residential property	**50**	**–**	**–**	**177 495**	**–**	**1 602**	**–**	**–**	**–**	**179 147**
14. **Total**	**91 770**	**–**	**20 508**	**177 495**	**22 722**	**106 948**	**141 536**	**19 354**	**–**	**580 333**

	As at 30 June 2019									
	Risk weight									Total credit exposures amount (post-CCF and post-CRM)
R million	0%	10%	20%	35%	50%	75%	100%	150%	Others	
Asset classes										
1. Sovereigns and their central banks	32 699	–	6 931	–	706	–	7 663	12 879	–	31 170
2. Non-central government public sector entities	–	–	3	–	2 250	–	681	–	–	1 171
4. Banks	–	–	7 275	–	1 456	–	721	823	–	10 276
5. Securities firms	–	–	–	–	1	–	–	–	–	1
6. Corporates	3	–	786	–	13 830	1 053	75 043	1 896	–	92 610
7. Regulatory retail portfolios	237	–	–	–	106	78 781	1 660	39	–	34 865
8. Secured by residential property	52	–	–	150 285	–	1 058	–	–	–	123 172
14. **Total**	32 991	–	14 995	150 285	18 349	80 892	85 768	15 637	–	293 265

CREDIT RISK UNDER AIRB APPROACH

The use of quantitative models is crucial to the successful management of credit risk, with models being applied across the credit value chain to drive business decisions and to measure and report on credit risk.

Technical requirements for the development of credit risk models are captured in model-type specific model development frameworks, while model governance, validation and implementation requirements are articulated in the group's model risk management framework for credit risk. Where applicable, independent validation of credit risk models is performed according to requirements articulated in model-type specific independent validation frameworks.

Credit risk models are widely employed in the assessment of capital requirements, origination, 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 AIRB approach requirements and the group's model building frameworks. Credit risk approaches employed across the group are shown in the following table.

Basel approach	FRBSA	Remaining group entities
AIRB	✓	
Standardised approach	✓	✓

The following table provides the EAD composition per major portfolio within the group (including Aldermore), for each of the credit approaches.

EAD % per portfolio	AIRB	Standardised approach
Retail	62	38
Commercial	58	42
Corporate	69	31

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 three primary credit risk components:

- probability of default;
- exposure at default; and
- loss given default.

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	
Definition	• The probability of a counterparty defaulting on any of its obligations over the next 12 months. • A measure of the counterparty's ability and willingness to repay facilities granted.
Dimensions	• Time-driven: counterparty is in arrears for more than 90 days or three instalments. • Event-driven: there is reason to believe that the exposure will not be recovered in full and has been classified as such.
Application	• All credit portfolios. • Recognition of NPLs for accounting.
PD measures	• Through-the-cycle PD measures reflect long-term, average default expectations over the course of the economic cycle. Through-the-cycle PDs are inputs in economic and regulatory capital calculations. • Point-in-time PD measures reflect default expectations in the current economic environment and thus tend to be more volatile than through-the-cycle PDs. Point-in-time PDs are used in credit portfolio management, including risk appetite and portfolio monitoring.
Measure application	• Probability of default is used in the management of exposure to credit risk.

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. These mappings are reviewed and updated on a regular basis. The group currently only uses mapping to S&P rating scales.

MAPPING OF FIRSTRAND GRADES TO RATING AGENCY SCALES

FR RATING	MIDPOINT PD	INTERNATIONAL SCALE MAPPING
1 – 14	0.06%	AAA, AA+, AA, AA-, A+, A, A-
15 – 25	0.29%	BBB+, BBB(upper), BBB, BBB-(upper), BBB-, BB+(upper)
26 – 32	0.77%	BB+, BB(upper), BB, BB-(upper)
33 – 39	1.44%	BB-, B+(upper)
40 – 53	2.52%	B+
54 – 83	6.18%	B(upper), B, B-(upper)
84 – 90	13.68%	B-
91 – 99	59.11%	CCC+, CCC
100	100%	D (defaulted)

- FR1 is the lowest PD and FR100 the highest.
- External ratings have also been mapped to the master rating scale for reporting purposes.

EXPOSURE AT DEFAULT	
Definition	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 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.
Application	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	
Definition	The economic loss on a particular facility upon default of the counterparty is expressed as a percentage of exposure outstanding at the time of default.
Dependent on	• Type, quality and level of subordination. • Value of collateral held compared to the size of overall exposure. • Effectiveness of the recovery process and timing of cash flows received during the work-out or restructuring process.
Application	• All credit portfolios. • Recognition of NPLs for accounting.
Distinctions	• Long-run expected LGDs (long-run LGDs). • LGDs reflective of downturn conditions: – more conservative assessment of risk, incorporating 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; and – used in the calculation of regulatory capital estimates.

Expected loss

Expected loss (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 regulatory parameters, through-the-cycle PD and downturn LGD, whilst impairment calculations are driven by IFRS requirements.

CREDIT RISK MODEL DEVELOPMENT AND APPROVAL

Requirements for the model development and validation process, including governance requirements, implementation requirements and associated roles and responsibilities, are articulated in the group's model risk management framework for credit risk and apply to all credit risk models used across the group.

Roles and responsibilities related to the model risk management process, as well as model governance and validation requirements, are defined in this framework with reference to the stages of the credit risk model life cycle. Governance and validation requirements for new model developments also apply to significant model changes, which are defined as changes to the structure of a model or model rating factors.

The following roles are defined to ensure that model risk is adequately managed across the credit value chain and throughout the credit risk model life cycle.

- **Model owne**r – responsible for the overall performance of the model, including ensuring that the model is implemented correctly and used appropriately. The model owner should be the head of credit for the portfolio within which the model will be applied, unless model ownership has been delegated to an appropriate central function.
- **Model developer** – responsible for the development of the model, using appropriate methodologies that align with the intended model use and for producing appropriate model documentation. The model developer should be a senior analyst in the business unit in which the model will be used, unless model development has been outsourced to an appropriate central function.
- **Model validator** – sets the framework against which the model will be validated and performs the independent validation of the model in accordance with the relevant approved model validation framework. The model validator should be in ERM, unless independent validation has been delegated to another function or area that is independent from the model owner and model developer.
- **Model approver** – responsible for the final approval of the model for its intended use. Model approval is the responsibility of the RCC committee or its designated subcommittee, and the final model approver is dependent on model type and model risk classification.
- **GIA** – responsible for monitoring adherence to the requirements of the model risk management framework for credit risk and other related policies and frameworks.

The model governance and validation process for each stage of the credit risk model life cycle is described in the following table. This is applicable to new model developments and significant model changes.

MODEL GOVERNANCE AND VALIDATION IN THE CREDIT MODEL LIFE CYCLE

LIFE CYCLE STAGE	DESCRIPTION	MODEL GOVERNANCE AND VALIDATION
Model development	New models, updates and calibrations.	Model and documentation sign-off by model owner. Approval by retail/wholesale technical committee.
Independent validation	Independent review of model, underlying methodology and results.	In line with requirements of regulatory capital model validation frameworks.
Model approval	Final approval indicating model may be implemented and used as intended.	Approval by: • Model risk and validation committee (MRVC). • RCC committee (for material models). • PA (if required by PA communication policy).
Model implementation	Into production environment.	Model owner sign-off.
Post-implementation review	Confirmation of successful model implementation.	Model owner sign-off. Noted at MRVC. Material models noted at RCC committee.
Ongoing monitoring and validation	Confirmation of continued model relevance and accuracy.	Model owner and technical committee sign-off results. Annual independent validation noted at: • MRVC. • RCC committee (material models). • PA (if required by PA communication policy).

AIRB models

AIRB models are developed in alignment with regulatory requirements for measurement of credit risk regulatory capital. Models used within retail portfolios are developed using methodologies described in the retail AIRB model development and validation framework. Corporate models are developed using statistical, expert judgement and hybrid and simulation approaches, with the approach selected according to the characteristics of the exposures modelled.

Parameter floors are applied to the model outputs as follows, in accordance with regulatory requirements:

- PDs – 0.3%;
- residential mortgage LGDs – 10%; and
- EADs – 100% of drawn exposure.

The time lapse between the default event and closure of the exposure depends on the type of collateral (if any) assigned to the underlying exposure. Within secured portfolios, write-off takes place once collateral perfection has occurred, or once it has been subjectively established that asset recovery will not be possible. Within unsecured portfolios, write-off occurs once an exposure has been in default for a specified period of time or has missed a specified number of payments, as articulated in product-level write-off policies.

The table below gives an overview of the key AIRB models used for regulatory capital calculation within each portfolio, including a breakdown of the individual models applied and a description of the modelling methodologies.

PORTFOLIO	NUMBER OF MODELS	MODEL TYPE	MODEL DESCRIPTION
Large corporate portfolios (RMB and WesBank) Private sector counterparties, including corporates and securities firms, and public sector counterparties. Products include loan facilities, structured finance facilities, contingent products and derivative instruments.	13	**PD**	• Internally developed statistical rating models using internal and external data covering full economic cycles are used and results supplemented with qualitative assessments based on international rating agency methodologies. • All ratings (and associated PDs) are reviewed by the wholesale credit committee and, if necessary, final adjustments made to ratings to reflect information not captured by the models.
		LGD	• LGD estimates are based on modelling a combination of internal and suitably adjusted international data with the wholesale credit committee responsible for reviewing and approving LGDs. The LGD models consider the type of collateral underlying the exposure.
		EAD	• EAD estimates are based on suitably adjusted international data. The credit conversion factor approach is typically used to inform the EAD estimation process. The same committee process responsible for reviewing and approving PDs is applied to the review and approval of EADs.
Low default portfolios: sovereign and bank exposures South African and non-South African banks, local and foreign currency sovereign and sub-sovereign exposures.	10	**PD**	• PDs are based on internally developed statistical and expert judgement models, which are used in conjunction with external rating agency ratings and structured peer group analysis to determine final ratings. PD models are calibrated using external default data and credit spread market data. • All ratings (and associated PDs) are reviewed by the wholesale credit committee and, if necessary, final adjustments made to ratings to reflect information not captured by the models.
		LGD	• LGD estimates are based on modelling a combination of internal and suitably adjusted international data which are reviewed by the same committee process responsible for reviewing and approving PDs. The LGD models consider the type of collateral underlying the exposure.
		EAD	• Estimation is based on regulatory guidelines with credit conversion factors used as appropriate. External data and expert judgement are used due to the low default nature of the exposures.
Specialised lending portfolios (RMB, FNB commercial) Exposures to private-sector counterparties for the financing of project finance, high volatility commercial real estate, and income-producing real estate.	4	**PD**	• The rating systems are 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. • All ratings (and associated PDs) are reviewed by the wholesale credit committee and, if necessary, final adjustments made to ratings to reflect information not captured by the models.
		LGD	• The LGD estimation process is similar to that followed for PD with simulation and expert judgement used as appropriate.
		EAD	• EAD estimates are based on internal as well as suitably adjusted external data. The credit conversion factor approach is typically used to inform the EAD estimation process.

PORTFOLIO	NUMBER OF MODELS	MODEL TYPE	MODEL DESCRIPTION
Commercial portfolios (FNB commercial, WesBank) Exposures to SME corporate and retail clients. Products include loan facilities, contingent products and term lending products.	12	**PD**	• **SME corporate** – counterparties are scored using financial statement information in addition to other internal risk drivers, the output of which is calibrated to internal historical default data. • **SME retail** – 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.
		LGD	• **SME corporate** – recovery rates are largely determined by collateral type and these have been set with reference to internal historical loss data, external data and Basel guidelines. • **SME retail** – LGD estimates are applied on a portfolio level, estimated from internal historical default and recovery experience.
		EAD	• **SME corporate** – portfolio-level credit conversion factors are estimated on the basis of the group's internal historical experience and benchmarked against international studies. • **SME retail** – EAD estimates are applied on a portfolio level, estimated from internal historical default and recovery experience.
Residential mortgages (FNB retail) Exposures to individuals for financing of residential properties.	15	**PD**	• Portfolios/products 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.
		LGD	• LGD estimates are based on subsegmentation with reference to collateral or product type, time in default and post-default payment behaviour. Final estimates are based on associated analyses and modelling of historical internal loss data.
		EAD	• EAD estimates are based on subsegmentation with reference to product-level analyses and modelling of historical internal exposure data.
Qualifying revolving retail exposures (FNB retail) Exposures to individuals providing a revolving limit through credit card or overdraft facility.	9	**PD**	• Portfolios/products 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.
		LGD	• LGD estimates are based on subsegmentation with reference to product type. Final estimates are based on associated analyses and modelling of historical internal loss data.
		EAD	• 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 vs budget in the case of credit cards.
Other exposures (FNB personal loans, WesBank loans and vehicle asset finance (VAF))	15	**PD**	• Portfolios/products 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.
		LGD	• LGD estimates are based on subsegmentation with reference to collateral (in the case of WesBank VAF) or product type and time in default. Final estimates are based on associated analyses and modelling of historical internal loss data.
		EAD	• EAD estimates are based on subsegmentation with reference to product-level analyses and modelling of historical internal exposure data.

Use of credit risk measures

Credit risk management encompasses the following:

- 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 LIFE CYCLE

	CORPORATE	RETAIL
Determination of portfolio and client acquisition strategy	• Assessment of overall portfolio credit risk determined by PD, EAD and LGD. • Acquisition and overall strategy set in terms of appropriate limits and group risk appetite.	• Same measures as for corporate. • 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. • Group credit risk appetite.	• Same measures as for corporate. • Modelled versus actual experience is evaluated in setting of risk appetite.
Profitability analysis and pricing decisions	• PD, EAD and LGD used to determine pricing. • Economic profit used for profitability.	• Same measures as for corporate.
Credit approval	• Consideration of application's ratings. • Credit risk appetite limits. • 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). • 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. • Additional capital for large transactions that will increase concentration risk.	• Same measures as for corporate. • Monthly analysis of portfolio and risk movements used in portfolio management and credit strategy decisions.
Impairments	• Macroeconomic models, PD, EAD and LGD used for stage 1, stage 2 and stage 3 ECL. • Judgemental assessment to determine adequacy of impairments.	• Macroeconomic models, PD, EAD and LGD used for stage 1, stage 2 and stage 3 ECL.
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 business and business unit risk committee meetings. • Quarterly portfolio reports submitted to credit risk management and RCC committees.	• Portfolio reports discussed at business and business unit risk committee meetings. • Quarterly portfolio reports submitted to credit risk management and RCC committees.

Credit risk exposures by portfolio and PD range

The following tables provide the main parameters used for the calculation of capital requirements for the exposures in the AIRB models split by asset class and shown within fixed regulatory PD ranges. These exposures are for FRBSA, where AIRB models are applied. The information in the different columns is explained as follows:

- regulatory supplied CCF are used;
- CRM measures applied are described on page 25;
- number of obligors corresponds to the number of counterparties in the PD band;
- average PD and LGD are weighted by EAD;
- average maturity is the obligor maturity in years weighted by EAD;
- RWA density is the total RWA to EAD post-CRM; and
- provisions are only included on a total basis.

CR6: AIRB – FRBSA CREDIT RISK EXPOSURES BY PORTFOLIO AND PD RANGE

	Total FRBSA					
	As at 30 June 2020					
PD scale	Original on-balance sheet gross exposures R million	Off-balance sheet exposures pre-CCF R million	Average CCF %	EAD post-CRM and post-CCF R million	Average PD %	Number of obligors
0.00 to < 0.15	48 826	19 487	38.80	53 615	0.08	137 250
0.15 to < 0.25	45 242	34 277	51.17	60 998	0.19	123 062
0.25 to < 0.50	276 868	74 457	54.98	298 900	0.43	370 109
0.50 to < 0.75	94 644	30 626	47.29	106 810	0.64	269 722
0.75 to < 2.50	273 841	85 167	47.74	324 194	1.54	1 822 107
2.50 to < 10.00	142 300	29 075	44.36	157 718	4.56	2 806 106
10.00 to < 100.00	46 921	5 263	45.21	49 660	27.87	1 993 751
100.00 (default)	46 416	37	–	46 334	100.00	956 992
Total	975 058	278 389	49.02	1 098 229	6.78	8 479 099

	Total FRBSA					
	As at 30 June 2020					
PD scale	Average LGD %	Average maturity years	RWA R million*	RWA density %	Expected loss R million	Provisions R million
0.00 to < 0.15	28.37	0.45	4 105	7.66	12	
0.15 to < 0.25	30.90	1.16	12 768	20.93	36	
0.25 to < 0.50	17.87	1.70	64 151	21.46	212	
0.50 to < 0.75	23.49	1.08	30 941	28.97	154	
0.75 to < 2.50	27.40	0.81	145 308	44.82	1 403	
2.50 to < 10.00	40.39	0.69	120 608	76.47	3 030	
10.00 to < 100.00	39.67	0.56	56 890	114.56	5 565	
100.00 (default)	46.12	0.54	24 475	52.82	20 695	
Total	27.88	1.04	459 246	41.82	31 107	34 477

* *The difference between the OV1: Overview of RWA and CR6 templates RWA is due to slotting.*

CR6: AIRB – FRBSA CREDIT RISK EXPOSURES BY PORTFOLIO AND PD RANGE continued

	Total FRBSA					
	As at 30 June 2019					
PD scale	Original on-balance sheet gross exposures R million	Off-balance sheet exposures pre-CCF R million	Average CCF %	EAD post-CRM and post-CCF R million	Average PD %	Number of obligors
0.00 to < 0.15	38 213	19 864	36.14	39 511	0.07	130 579
0.15 to < 0.25	46 272	37 225	55.14	55 718	0.17	89 490
0.25 to < 0.50	324 088	73 996	48.57	315 957	0.39	261 834
0.50 to < 0.75	86 525	21 756	51.65	95 289	0.66	488 821
0.75 to < 2.50	297 707	74 321	51.29	317 264	1.58	2 430 894
2.50 to < 10.00	154 493	29 001	28.65	165 794	4.69	3 036 294
10.00 to < 100.00	38 233	3 322	41.67	39 728	24.95	1 169 845
100.00 (default)	33 548	–	–	33 390	100.00	1 635 769
Total	1 019 079	259 485	47.28	1 062 651	5.47	9 243 526

	Total FRBSA					
	As at 30 June 2019					
PD scale	Average LGD %	Average maturity years	RWA R million*	RWA density %	Expected loss R million	Provisions R million
0.00 to < 0.15	26.07	0.65	2 987	7.56	9	
0.15 to < 0.25	31.21	1.35	12 456	22.35	29	
0.25 to < 0.50	18.51	2.02	70 600	22.34	222	
0.50 to < 0.75	26.01	0.87	28 714	30.13	159	
0.75 to < 2.50	27.92	0.83	142 189	44.82	1 248	
2.50 to < 10.00	38.58	0.46	116 085	70.02	2 368	
10.00 to < 100.00	39.14	0.68	46 223	116.35	2 910	
100.00 (default)	46.48	0.43	19 739	59.12	11 359	
Total	27.72	1.13	438 993	41.31	18 304	24 579

* *The difference between the OV1: Overview of RWA and CR6 templates RWA is due to slotting.*

CR6: AIRB – FRBSA CREDIT RISK EXPOSURES BY PORTFOLIO AND PD RANGE continued

	Corporate					
	As at 30 June 2020					
PD scale	Original on-balance sheet gross exposures R million	Off-balance sheet exposures pre-CCF R million	Average CCF %	EAD post-CRM and post-CCF R million	Average PD %	Number of obligors
0.00 to < 0.15	5 465	433	45.01	5 303	0.09	1
0.15 to < 0.25	28 602	18 776	50.93	36 258	0.20	46
0.25 to < 0.50	45 125	34 082	47.84	59 264	0.39	93
0.50 to < 0.75	22 387	7 568	50.89	23 361	0.68	76
0.75 to < 2.50	43 339	24 862	54.91	56 033	1.60	211
2.50 to < 10.00	14 833	6 233	50.77	17 287	4.78	121
10.00 to < 100.00	2 209	1 218	51.53	2 877	13.26	93
100.00 (default)	2 137	37	–	2 135	100.00	10
Total	164 097	93 209	50.81	202 518	2.33	651

	Corporate					
	As at 30 June 2020					
PD scale	Average LGD %	Average maturity years	RWA R million	RWA density %	Expected loss R million	Provisions R million
0.00 to < 0.15	30.00	1.37	722	13.61	1	
0.15 to < 0.25	31.04	1.62	9 153	25.24	22	
0.25 to < 0.50	31.05	1.83	25 200	42.52	72	
0.50 to < 0.75	26.05	1.78	9 707	41.55	41	
0.75 to < 2.50	31.34	2.14	42 185	75.29	291	
2.50 to < 10.00	37.68	1.66	20 075	116.13	297	
10.00 to < 100.00	36.19	1.23	4 403	153.04	130	
100.00 (default)	43.35	1.69	–	–	958	
Total	31.29	1.83	111 445	55.03	1 812	3 207

CR6: AIRB – FRBSA CREDIT RISK EXPOSURES BY PORTFOLIO AND PD RANGE continued

	Corporate					
	As at 30 June 2019					
PD scale	Original on-balance sheet gross exposures R million	Off-balance sheet exposures pre-CCF R million	Average CCF %	EAD post-CRM and post-CCF R million	Average PD %	Number of obligors
0.00 to < 0.15	3 538	1 320	45.02	3 295	0.08	1
0.15 to < 0.25	14 195	20 185	50.63	23 834	0.17	29
0.25 to < 0.50	64 091	34 711	50.02	77 021	0.38	134
0.50 to < 0.75	23 892	7 302	49.42	24 470	0.73	83
0.75 to < 2.50	43 120	17 206	52.88	49 694	1.77	202
2.50 to < 10.00	6 903	2 025	50.92	7 756	5.27	104
10.00 to < 100.00	1 796	819	48.82	2 179	10.34	69
100.00 (default)	2 201	–	–	2 201	100.00	10
Total	159 736	83 568	50.63	190 450	2.22	632

	Corporate					
	As at 30 June 2019					
PD scale	Average LGD %	Average maturity years	RWA R million	RWA density %	Expected loss R million	Provisions R million
0.00 to < 0.15	32.50	1.74	526	15.96	1	
0.15 to < 0.25	29.42	1.98	5 991	25.14	12	
0.25 to < 0.50	31.29	1.67	30 732	39.90	90	
0.50 to < 0.75	30.99	1.75	12 597	51.48	55	
0.75 to < 2.50	32.45	1.98	38 581	77.64	288	
2.50 to < 10.00	38.29	1.58	9 682	124.83	151	
10.00 to < 100.00	36.38	1.74	3 499	160.58	81	
100.00 (default)	40.78	1.02	–	–	835	
Total	31.79	1.79	101 608	53.35	1 513	2 222

CR6: AIRB – FRBSA CREDIT RISK EXPOSURES BY PORTFOLIO AND PD RANGE continued

	Specialised lending					
	As at 30 June 2020					
PD scale	Original on-balance sheet gross exposures R million	Off-balance sheet exposures pre-CCF R million	Average CCF %	EAD post-CRM and post-CCF R million	Average PD %	Number of obligors
0.00 to < 0.15	105	–	–	105	0.07	1
0.15 to < 0.25	1 809	163	–	1 809	0.20	4
0.25 to < 0.50	35 751	2 880	61.42	35 946	0.38	31
0.50 to < 0.75	10 469	441	57.55	10 615	0.70	46
0.75 to < 2.50	22 508	957	39.66	22 924	1.54	437
2.50 to < 10.00	5 465	144	12.61	5 538	4.32	560
10.00 to < 100.00	2 192	1	58.00	2 193	15.61	383
100.00 (default)	1 365	–	–	1 365	100.00	32
Total	79 664	4 586	52.79	80 495	3.12	1 494

	Specialised lending					
	As at 30 June 2020					
PD scale	Average LGD %	Average maturity years	RWA R million	RWA density %	Expected loss R million	Provisions R million
0.00 to < 0.15	20.56	2.95	14	13.33	–	
0.15 to < 0.25	24.08	3.19	517	28.58	1	
0.25 to < 0.50	16.77	2.00	7 811	21.73	23	
0.50 to < 0.75	23.22	2.54	4 742	44.67	17	
0.75 to < 2.50	27.88	2.43	16 029	69.92	102	
2.50 to < 10.00	28.32	3.04	5 450	98.41	63	
10.00 to < 100.00	21.91	3.19	2 762	125.95	80	
100.00 (default)	50.29	4.97	–	–	687	
Total	22.46	2.38	37 325	46.37	973	1 098

CR6: AIRB – FRBSA CREDIT RISK EXPOSURES BY PORTFOLIO AND PD RANGE continued

	Specialised lending					
	As at 30 June 2019					
PD scale	Original on-balance sheet gross exposures R million	Off-balance sheet exposures pre-CCF R million	Average CCF %	EAD post-CRM and post-CCF R million	Average PD %	Number of obligors
0.00 to < 0.15	44	–	–	44	0.06	–
0.15 to < 0.25	1 039	68	–	1 039	0.17	2
0.25 to < 0.50	33 056	7 912	58.01	35 061	0.35	32
0.50 to < 0.75	8 191	759	57.81	8 470	0.74	66
0.75 to < 2.50	21 076	1 288	40.93	21 652	1.74	691
2.50 to < 10.00	3 602	128	46.21	3 730	3.62	397
10.00 to < 100.00	3 620	26	61.68	3 656	16.65	167
100.00 (default)	648	–	–	648	100.00	28
Total	71 276	10 181	55.31	74 300	2.63	1 383

	Specialised lending					
	As at 30 June 2019					
PD scale	Average LGD %	Average maturity years	RWA R million	RWA density %	Expected loss R million	Provisions R million
0.00 to < 0.15	20.00	1.00	3	6.82	–	
0.15 to < 0.25	21.56	4.23	294	28.30	–	
0.25 to < 0.50	17.86	2.45	8 689	24.78	22	
0.50 to < 0.75	22.94	2.36	3 651	43.11	14	
0.75 to < 2.50	29.78	2.32	16 114	74.42	119	
2.50 to < 10.00	24.31	2.93	3 007	80.62	33	
10.00 to < 100.00	23.14	3.86	4 749	130.25	139	
100.00 (default)	55.21	4.98	–	–	358	
Total	22.87	2.54	36 507	49.14	685	507

CR6: AIRB – FRBSA CREDIT RISK EXPOSURES BY PORTFOLIO AND PD RANGE continued

	Sovereign					
	As at 30 June 2020					
PD scale	Original on-balance sheet gross exposures R million	Off-balance sheet exposures pre-CCF R million	Average CCF %	EAD post-CRM and post-CCF R million	Average PD %	Number of obligors
0.00 to < 0.15	5 035	–	–	5 035	0.04	2
0.15 to < 0.25	–	–	–	–	–	–
0.25 to < 0.50	136 513	7 928	54.93	139 546	0.48	19
0.50 to < 0.75	902	80	18.46	944	0.62	45
0.75 to < 2.50	2 339	598	52.57	2 678	1.99	33
2.50 to < 10.00	2 514	1 186	54.10	2 677	4.96	1 134
10.00 to < 100.00	–	1 359	50.51	686	10.08	7
100.00 (default)	1 106	–	–	1 102	100.00	2
Total	148 409	11 151	53.92	152 668	1.33	1 242

	Sovereign					
	As at 30 June 2020					
PD scale	Average LGD %	Average maturity years	RWA R million	RWA density %	Expected loss R million	Provisions R million
0.00 to < 0.15	18.79	0.89	249	4.95	–	
0.15 to < 0.25	–	–	–	–	–	
0.25 to < 0.50	8.00	2.13	17 728	12.70	51	
0.50 to < 0.75	25.13	3.43	473	50.11	1	
0.75 to < 2.50	24.61	1.63	1 681	62.77	14	
2.50 to < 10.00	7.60	3.02	748	27.94	10	
10.00 to < 100.00	20.95	3.07	250	36.44	14	
100.00 (default)	2.50	1.01	–	–	28	
Total	8.76	2.10	21 129	13.84	118	190

CR6: AIRB – FRBSA CREDIT RISK EXPOSURES BY PORTFOLIO AND PD RANGE continued

	Sovereign					
	As at 30 June 2019					
PD scale	Original on-balance sheet gross exposures R million	Off-balance sheet exposures pre-CCF R million	Average CCF %	EAD post-CRM and post-CCF R million	Average PD %	Number of obligors
0.00 to < 0.15	7 872	–	–	7 872	0.04	2
0.15 to < 0.25	32	–	–	2	0.17	2
0.25 to < 0.50	154 418	2 942	52.07	140 909	0.40	38
0.50 to < 0.75	178	175	–	234	0.64	46
0.75 to < 2.50	3 926	2 119	51.46	4 498	2.35	43
2.50 to < 10.00	317	124	16.51	381	3.66	259
10.00 to < 100.00	251	73	58.00	219	10.07	1
100.00 (default)	107	–	–	107	100.00	2
Total	167 101	5 433	49.52	154 222	0.53	393

	Sovereign					
	As at 30 June 2019					
PD scale	Average LGD %	Average maturity years	RWA R million	RWA density %	Expected loss R million	Provisions R million
0.00 to < 0.15	17.77	0.90	336	4.27	1	
0.15 to < 0.25	20.79	0.18	–	–	–	
0.25 to < 0.50	8.09	2.72	17 062	12.11	46	
0.50 to < 0.75	25.62	1.92	104	44.44	–	
0.75 to < 2.50	17.97	3.35	2 328	51.76	19	
2.50 to < 10.00	40.20	1.59	439	115.22	6	
10.00 to < 100.00	10.00	1.00	91	41.55	2	
100.00 (default)	2.54	1.20	–	–	3	
Total	8.98	2.64	20 360	13.20	77	245

CR6: AIRB – FRBSA CREDIT RISK EXPOSURES BY PORTFOLIO AND PD RANGE continued

	Banks and securities firms					
	As at 30 June 2020					
PD scale	Original on-balance sheet gross exposures R million	Off-balance sheet exposures pre-CCF R million	Average CCF %	EAD post-CRM and post-CCF R million	Average PD %	Number of obligors
0.00 to < 0.15	27 883	3 494	41.58	26 929	0.07	46
0.15 to < 0.25	8 795	5 014	56.20	11 745	0.17	36
0.25 to < 0.50	24 372	3 410	45.11	12 111	0.43	63
0.50 to < 0.75	5 484	1 143	53.67	6 103	0.67	29
0.75 to < 2.50	634	471	34.66	1 000	1.55	46
2.50 to < 10.00	951	2 055	20.94	1 442	4.72	40
10.00 to < 100.00	225	314	20.84	291	13.17	24
100.00 (default)	–	–	–	–	–	–
Total	68 344	15 901	44.53	59 621	0.42	284

	Banks and securities firms					
	As at 30 June 2020					
PD scale	Average LGD %	Average maturity years	RWA R million	RWA density %	Expected loss R million	Provisions R million
0.00 to < 0.15	29.59	0.45	2 439	9.06	6	
0.15 to < 0.25	31.58	0.46	2 354	20.04	6	
0.25 to < 0.50	25.96	1.11	4 891	40.38	15	
0.50 to < 0.75	24.28	2.26	3 177	52.06	9	
0.75 to < 2.50	48.01	1.15	1 180	118.00	7	
2.50 to < 10.00	47.56	0.90	2 055	142.51	32	
10.00 to < 100.00	41.35	0.85	507	174.23	14	
100.00 (default)	–	–	–	–	–	
Total	29.50	0.79	16 603	27.85	89	61

CR6: AIRB – FRBSA CREDIT RISK EXPOSURES BY PORTFOLIO AND PD RANGE continued

	Banks and securities firms					
	As at 30 June 2019					
PD scale	Original on-balance sheet gross exposures R million	Off-balance sheet exposures pre-CCF R million	Average CCF %	EAD post-CRM and post-CCF R million	Average PD %	Number of obligors
0.00 to < 0.15	16 535	3 142	38.43	12 688	0.06	58
0.15 to < 0.25	20 533	4 799	55.27	12 689	0.16	41
0.25 to < 0.50	39 410	3 897	48.34	17 026	0.39	82
0.50 to < 0.75	3 514	1 090	42.42	3 560	0.65	48
0.75 to < 2.50	30 405	1 067	22.15	3 222	2.01	93
2.50 to < 10.00	1 160	1 152	19.89	938	4.99	271
10.00 to < 100.00	197	138	33.97	76	14.39	31
100.00 (default)	–	–	–	–	–	–
Total	111 754	15 285	43.95	50 199	0.48	624

	Banks and securities firms					
	As at 30 June 2019					
PD scale	Average LGD %	Average maturity years	RWA R million	RWA density %	Expected loss R million	Provisions R million*
0.00 to < 0.15	29.48	1.01	1 554	12.25	2	
0.15 to < 0.25	36.46	0.99	3 101	24.44	7	
0.25 to < 0.50	32.47	0.95	6 892	40.48	21	
0.50 to < 0.75	32.44	1.46	1 747	49.07	7	
0.75 to < 2.50	51.74	0.99	4 007	124.36	34	
2.50 to < 10.00	42.56	1.11	1 261	134.43	21	
10.00 to < 100.00	33.30	0.82	90	118.42	4	
100.00 (default)	–	–	–	–	–	
Total	34.15	1.02	18 652	37.16	96	102

* *There were no provisions for banks and securities firms during the year.*

CR6: AIRB – FRBSA CREDIT RISK EXPOSURES BY PORTFOLIO AND PD RANGE continued

	SME corporate					
	As at 30 June 2020					
PD scale	**Original on-balance sheet gross exposures R million**	**Off-balance sheet exposures pre-CCF R million**	**Average CCF %**	**EAD post-CRM and post-CCF R million**	**Average PD %**	**Number of obligors**
0.00 to < 0.15	–	–	–	–	–	–
0.15 to < 0.25	655	413	5.54	677	0.18	50
0.25 to < 0.50	9 451	3 940	94.36	13 171	0.27	4 053
0.50 to < 0.75	8 801	7 677	36.62	11 915	0.57	5 569
0.75 to < 2.50	28 627	10 732	20.62	33 020	1.52	13 822
2.50 to < 10.00	15 851	5 856	25.71	18 366	4.05	8 890
10.00 to < 100.00	3 705	710	16.72	3 942	21.28	1 913
100.00 (default)	2 865	–	0.29	2 865	100.00	2 600
Total	**69 955**	**29 328**	**35.43**	**83 956**	**6.02**	**36 897**

	SME corporate					
	As at 30 June 2020					
PD scale	**Average LGD %**	**Average maturity years**	**RWA R million**	**RWA density %**	**Expected loss R million**	**Provisions R million**
0.00 to < 0.15	–	–	–	–	–	
0.15 to < 0.25	9.12	1.04	41	6.06	–	
0.25 to < 0.50	26.96	1.17	4 024	30.55	10	
0.50 to < 0.75	19.70	2.53	3 616	30.35	13	
0.75 to < 2.50	21.75	2.00	14 605	44.23	108	
2.50 to < 10.00	23.92	2.07	11 894	64.76	178	
10.00 to < 100.00	23.49	1.91	4 625	117.33	207	
100.00 (default)	41.52	2.76	1 034	36.09	1 124	
Total	**23.41**	**1.98**	**39 839**	**47.45**	**1 640**	**1 266**

CR6: AIRB – FRBSA CREDIT RISK EXPOSURES BY PORTFOLIO AND PD RANGE continued

	SME corporate					
	As at 30 June 2017					
PD scale	Original on-balance sheet gross exposures R million	Off-balance sheet exposures pre-CCF R million	Average CCF %	EAD post-CRM and post-CCF R million	Average PD %	Number of obligors
0.00 to < 0.15	–	–	–	–	–	–
0.15 to < 0.25	6 427	5 631	88.82	11 428	0.17	88
0.25 to < 0.50	8 131	4 760	0.06	9 914	0.43	5 192
0.50 to < 0.75	4 819	2 055	0.02	5 697	0.61	2 376
0.75 to < 2.50	32 737	8 249	2.55	36 359	1.49	14 203
2.50 to < 10.00	13 280	3 422	2.73	14 610	4.24	4 148
10.00 to < 100.00	2 553	404	0.53	2 957	20.95	432
100.00 (default)	2 147	–	–	2 147	100.00	1 013
Total	70 094	24 521	21.66	83 112	4.84	27 452

	SME corporate					
	As at 30 June 2017					
PD scale	Average LGD %	Average maturity years	RWA R million	RWA density %	Expected loss R million	Provisions R million
0.00 to < 0.15	–	–	–	–	–	
0.15 to < 0.25	26.34	1.00	2 587	22.64	5	
0.25 to < 0.50	22.29	2.46	3 103	31.30	9	
0.50 to < 0.75	20.20	2.51	1 881	33.02	7	
0.75 to < 2.50	20.13	2.07	15 412	42.39	111	
2.50 to < 10.00	19.12	1.98	7 804	53.42	118	
10.00 to < 100.00	19.16	1.68	2 843	96.14	130	
100.00 (default)	42.77	2.77	72	3.35	919	
Total	21.62	1.99	33 702	40.55	1 299	1 130

CR6: AIRB – FRBSA CREDIT RISK EXPOSURES BY PORTFOLIO AND PD RANGE continued

	SME retail					
	As at 30 June 2020					
PD scale	Original on-balance sheet gross exposures R million	Off-balance sheet exposures pre-CCF R million	Average CCF %	EAD post-CRM and post-CCF R million	Average PD %	Number of obligors
0.00 to < 0.15	26	15	46.99	33	0.08	92
0.15 to < 0.25	3	13	76.56	14	0.21	131
0.25 to < 0.50	859	273	31.03	996	0.35	5 155
0.50 to < 0.75	2 242	1 231	29.54	2 988	0.56	9 074
0.75 to < 2.50	26 998	11 571	1.16	35 561	1.68	713 037
2.50 to < 10.00	22 275	3 193	3.04	24 957	4.24	1 545 797
10.00 to < 100.00	8 060	514	0.86	8 264	35.66	91 125
100.00 (default)	6 147	–	–	6 147	100.00	122 240
Total	66 610	16 810	4.17	78 960	13.64	2 486 651

	SME retail					
	As at 30 June 2020					
PD scale	Average LGD %	Average maturity years	RWA R million	RWA density %	Expected loss R million	Provisions R million
0.00 to < 0.15	31.68	3.19	3	9.09	–	
0.15 to < 0.25	58.64	–	4	28.57	–	
0.25 to < 0.50	39.75	0.05	246	24.70	1	
0.50 to < 0.75	26.55	0.03	642	21.49	4	
0.75 to < 2.50	33.68	0.47	15 239	42.85	201	
2.50 to < 10.00	37.98	0.65	14 534	58.24	415	
10.00 to < 100.00	39.93	0.88	7 475	90.45	1 185	
100.00 (default)	52.52	0.90	3 949	64.24	3 609	
Total	36.97	0.58	42 092	53.31	5 415	5 651

CR6: AIRB – FRBSA CREDIT RISK EXPOSURES BY PORTFOLIO AND PD RANGE continued

	SME retail					
	As at 30 June 2019					
PD scale	Original on-balance sheet gross exposures R million	Off-balance sheet exposures pre-CCF R million	Average CCF %	EAD post-CRM and post-CCF R million	Average PD %	Number of obligors
0.00 to < 0.15	48	25	–	60	0.08	580
0.15 to < 0.25	19	78	–	46	0.21	1 961
0.25 to < 0.50	1 984	1 181	3.58	2 501	0.40	15 662
0.50 to < 0.75	1 762	518	10.40	2 018	0.59	13 132
0.75 to < 2.50	28 829	10 953	0.34	37 307	1.70	684 613
2.50 to < 10.00	24 240	3 218	0.20	26 762	4.02	857 625
10.00 to < 100.00	4 472	216	0.83	4 578	29.02	46 816
100.00 (default)	3 368	–	–	3 210	100.00	56 589
Total	64 722	16 189	0.87	76 482	8.20	1 676 978

	SME retail					
	As at 30 June 2019					
PD scale	Average LGD %	Average maturity years	RWA R million	RWA density %	Expected loss R million	Provisions R million
0.00 to < 0.15	41.12	1.85	6	10.00	–	
0.15 to < 0.25	76.95	0.04	16	34.78	–	
0.25 to < 0.50	32.20	0.02	526	21.03	3	
0.50 to < 0.75	24.01	0.06	405	20.07	3	
0.75 to < 2.50	33.60	0.57	16 024	42.95	214	
2.50 to < 10.00	38.36	0.86	15 672	58.56	430	
10.00 to < 100.00	41.03	0.82	4 342	94.84	575	
100.00 (default)	53.54	0.89	2 651	82.59	2 124	
Total	36.28	0.67	39 642	51.83	3 349	3 319

CR6: AIRB – FRBSA CREDIT RISK EXPOSURES BY PORTFOLIO AND PD RANGE continued

	Retail mortgages					
	As at 30 June 2020					
PD scale	Original on-balance sheet gross exposures R million	Off-balance sheet exposures pre-CCF R million	Average CCF %	EAD post-CRM and post-CCF R million	Average PD %	Number of obligors
0.00 to < 0.15	9 831	10 312	25.17	12 426	0.09	21 824
0.15 to < 0.25	4 879	5 827	38.95	7 148	0.18	10 444
0.25 to < 0.50	21 692	12 070	50.77	27 821	0.39	31 903
0.50 to < 0.75	38 382	7 475	39.51	41 335	0.63	43 777
0.75 to < 2.50	98 479	23 262	62.86	113 100	1.39	168 360
2.50 to < 10.00	22 496	3 320	44.23	23 965	4.32	34 906
10.00 to < 100.00	9 047	350	52.46	9 231	29.31	15 160
100.00 (default)	12 707	–	–	12 666	100.00	21 408
Total	217 513	62 616	48.26	247 692	7.42	347 782

	Retail mortgages					
	As at 30 June 2020					
PD scale	Average LGD %	Average maturity years*	RWA R million	RWA density %	Expected loss R million	Provisions R million
0.00 to < 0.15	16.14	–	463	3.73	2	
0.15 to < 0.25	15.09	–	425	5.95	2	
0.25 to < 0.50	15.30	–	2 977	10.70	17	
0.50 to < 0.75	16.84	–	6 827	16.52	44	
0.75 to < 2.50	17.33	–	32 300	28.56	278	
2.50 to < 10.00	17.61	–	13 239	55.24	181	
10.00 to < 100.00	16.53	–	8 301	89.93	454	
100.00 (default)	24.92	–	10 856	85.71	2 360	
Total	17.28	–	75 388	30.44	3 338	3 846

* *Average maturity not applied for the retail mortgages RWA calculation.*

CR6: AIRB – FRBSA CREDIT RISK EXPOSURES BY PORTFOLIO AND PD RANGE continued

	Retail mortgages					
	As at 30 June 2019					
PD scale	Original on-balance sheet gross exposures R million	Off-balance sheet exposures pre-CCF R million	Average CCF %	EAD post-CRM and post-CCF R million	Average PD %	Number of obligors
0.00 to < 0.15	9 462	10 533	28.20	12 432	0.08	22 285
0.15 to < 0.25	3 308	2 875	27.83	4 108	0.18	8 188
0.25 to < 0.50	20 655	11 667	56.98	27 302	0.39	30 680
0.50 to < 0.75	38 606	2 528	56.35	40 030	0.62	58 513
0.75 to < 2.50	82 911	19 124	89.31	99 992	1.34	151 498
2.50 to < 10.00	38 023	11 135	6.14	38 707	4.93	54 940
10.00 to < 100.00	7 403	889	14.10	7 528	26.48	12 964
100.00 (default)	9 564	–	–	9 564	100.00	19 331
Total	209 932	58 751	50.61	239 663	6.33	358 399

	Retail mortgages					
	As at 30 June 2019					
PD scale	Average LGD %	Average maturity* years	RWA R million	RWA density %	Expected loss R million	Provisions R million
0.00 to < 0.15	14.59		403	3.24	2	
0.15 to < 0.25	15.62		251	6.11	1	
0.25 to < 0.50	14.16		2 726	9.98	15	
0.50 to < 0.75	15.90		6 181	15.44	40	
0.75 to < 2.50	16.22		25 707	25.71	215	
2.50 to < 10.00	15.20		20 005	51.68	289	
10.00 to < 100.00	15.71		6 507	86.44	324	
100.00 (default)	23.54		9 174	95.92	1 643	
Total	15.95		70 954	29.61	2 529	2 495

* *Average maturity not applied for the retail mortgage RWA calculation.*

CR6: AIRB – FRBSA CREDIT RISK EXPOSURES BY PORTFOLIO AND PD RANGE continued

	Retail revolving					
	As at 30 June 2020					
PD scale	Original on-balance sheet gross exposures R million	Off-balance sheet exposures pre-CCF R million	Average CCF %	EAD post-CRM and post-CCF R million	Average PD %	Number of obligors
0.00 to < 0.15	449	5 115	62.52	3 647	0.12	115 015
0.15 to < 0.25	485	3 963	70.14	3 265	0.20	111 788
0.25 to < 0.50	2 162	9 651	70.89	9 004	0.36	320 292
0.50 to < 0.75	2 063	4 889	72.24	5 594	0.63	184 085
0.75 to < 2.50	10 581	12 402	71.28	19 420	1.46	633 600
2.50 to < 10.00	15 605	6 995	78.31	21 083	4.74	588 106
10.00 to < 100.00	4 835	784	86.65	5 515	25.24	169 242
100.00 (default)	3 945	–	–	3 910	100.00	302 455
Total	40 125	43 799	71.57	71 438	9.33	2 424 583

	Retail revolving					
	As at 30 June 2020					
PD scale	Average LGD %	Average maturity* years	RWA R million	RWA density %	Expected loss R million	Provisions R million
0.00 to < 0.15	71.02	–	195	5.35	3	
0.15 to < 0.25	69.26	–	256	7.84	5	
0.25 to < 0.50	69.43	–	1 129	12.54	22	
0.50 to < 0.75	69.86	–	1 109	19.82	25	
0.75 to < 2.50	70.19	–	7 271	37.44	199	
2.50 to < 10.00	71.81	–	18 439	87.46	717	
10.00 to < 100.00	69.94	–	9 478	171.86	966	
100.00 (default)	78.59	–	1 923	49.18	2 982	
Total	70.99	–	39 800	55.71	4 919	5 360

* *Average maturity not applied for the retail revolving RWA calculation.*

CR6: AIRB – FRBSA CREDIT RISK EXPOSURES BY PORTFOLIO AND PD RANGE continued

	Retail revolving					
	As at 30 June 2019					
PD scale	Original on-balance sheet gross exposures R million	Off-balance sheet exposures pre-CCF R million	Average CCF %	EAD post-CRM and post-CCF R million	Average PD %	Number of obligors
0.00 to < 0.15	711	4 825	49.63	3 105	0.11	107 627
0.15 to < 0.25	715	3 572	51.61	2 558	0.21	78 553
0.25 to < 0.50	2 026	6 820	55.92	5 839	0.35	202 730
0.50 to < 0.75	2 459	6 841	71.93	7 380	0.62	388 412
0.75 to < 2.50	12 429	14 019	68.56	22 042	1.50	1 187 137
2.50 to < 10.00	16 226	7 290	74.55	21 661	4.65	1 406 037
10.00 to < 100.00	4 385	692	77.77	4 924	24.64	816 188
100.00 (default)	3 288	–	–	3 288	100.00	1 321 449
Total	42 239	44 059	64.82	70 797	8.35	5 508 133

	Retail revolving					
	As at 30 June 2019					
PD scale	Average LGD %	Average maturity* years	RWA R million	RWA density %	Expected loss R million	Provisions R million
0.00 to < 0.15	71.92		156	5.02	3	
0.15 to < 0.25	71.59		211	8.25	4	
0.25 to < 0.50	71.01		748	12.81	15	
0.50 to < 0.75	70.25		1 454	19.70	32	
0.75 to < 2.50	70.45		8 439	38.29	233	
2.50 to < 10.00	71.67		18 634	86.03	722	
10.00 to < 100.00	70.31		8 650	175.67	850	
100.00 (default)	76.26		2 363	71.87	2 464	
Total	71.21		40 655	57.42	4 323	3 978

* *Average maturity not applied for the retail revolving RWA calculation.*

CR6: AIRB – FRBSA CREDIT RISK EXPOSURES BY PORTFOLIO AND PD RANGE continued

	Other retail					
	As at 30 June 2020					
PD scale	Original on-balance sheet gross exposures R million	Off-balance sheet exposures pre-CCF R million	Average CCF %	EAD post-CRM and post-CCF R million	Average PD %	Number of obligors
0.00 to < 0.15	32	118	94.98	137	0.09	269
0.15 to < 0.25	14	108	71.13	82	0.18	563
0.25 to < 0.50	943	223	88.61	1 041	0.42	8 500
0.50 to < 0.75	3 914	122	71.64	3 955	0.56	27 021
0.75 to < 2.50	40 336	312	109.61	40 458	1.75	292 561
2.50 to < 10.00	42 310	93	100.66	42 403	4.94	626 552
10.00 to < 100.00	16 648	13	99.98	16 661	30.77	1 715 804
100.00 (default)	16 144	–	–	16 144	100.00	508 245
Total	120 341	989	93.28	120 881	19.94	3 179 515

	Other retail					
	As at 30 June 2020					
PD scale	Average LGD %	Average maturity* years	RWA R million	RWA density %	Expected loss R million	Provisions R million
0.00 to < 0.15	54.84	–	20	14.60	–	
0.15 to < 0.25	52.61	–	18	21.95	–	
0.25 to < 0.50	20.18	–	145	13.93	1	
0.50 to < 0.75	20.36	–	648	16.38	–	
0.75 to < 2.50	28.03	–	14 818	36.63	203	
2.50 to < 10.00	50.70	–	34 174	80.59	1 137	
10.00 to < 100.00	49.84	–	19 089	114.57	2 515	
100.00 (default)	56.27	–	6 713	41.58	8 947	
Total	42.49	–	75 625	62.56	12 803	13 798

* *Average maturity not applied for the other retail RWA calculation.*

CR6: AIRB – FRBSA CREDIT RISK EXPOSURES BY PORTFOLIO AND PD RANGE continued

	Other retail					
	As at 30 June 2019					
PD scale	Original on-balance sheet gross exposures R million	Off-balance sheet exposures pre-CCF R million	Average CCF %	EAD post-CRM and post-CCF R million	Average PD %	Number of obligors
0.00 to < 0.15	3	19	61.67	15	0.09	26
0.15 to < 0.25	4	17	61.19	14	0.20	626
0.25 to < 0.50	317	106	63.07	384	0.43	7 284
0.50 to < 0.75	3 104	488	66.95	3 430	0.55	26 145
0.75 to < 2.50	42 274	296	75.85	42 498	1.75	392 414
2.50 to < 10.00	50 742	507	147.97	51 249	5.01	712 513
10.00 to < 100.00	13 556	65	325.97	13 621	28.61	293 177
100.00 (default)	12 225	–	–	12 225	100.00	237 347
Total	122 225	1 498	107.04	123 436	15.76	1 669 532

	Other retail					
	As at 30 June 2019					
PD scale	Average LGD %	Average maturity* years	RWA R million	RWA density %	Expected loss R million	Provisions R million
0.00 to < 0.15	74.77		3	20.00	–	
0.15 to < 0.25	76.12		5	35.71	–	
0.25 to < 0.50	45.45		122	31.77	1	
0.50 to < 0.75	24.97		694	20.23	1	
0.75 to < 2.50	28.04		15 577	36.65	15	
2.50 to < 10.00	48.90		39 581	77.23	598	
10.00 to < 100.00	49.74		15 452	113.44	805	
100.00 (default)	56.17		5 479	44.82	3 013	
Total	41.86		76 913	62.31	4 433	10 798

* *Average maturity not applied for the other retail RWA calculation.*

Effect on RWA of credit derivatives used as credit risk mitigation techniques

The following table illustrates the effect of credit derivatives on the capital requirement calculation under the AIRB approach. As the group does not apply the foundation internal ratings-based approach, the rows related to this approach have been excluded from the CR7 table. Pre-credit derivatives RWA (before taking credit derivatives' mitigation effect into account) has been selected to assess the impact of credit derivatives on RWA, irrespective of how the credit risk mitigation technique feeds into the RWA calculation. No credit derivatives were applied as credit risk mitigation during the year. There were no exposures in the equity and purchased receivables portfolios in the year under review. Rows 14 and 16 were therefore excluded from this table.

CR7: AIRB – EFFECT ON RWA OF CREDIT DERIVATIVES USED AS CREDIT RISK MITIGATION TECHNIQUES

	Pre-credit derivatives RWA	
R million	**As at 30 June 2020**	As at 30 June 2019
2. Sovereign	**21 129**	20 361
4. Banks and securities firms	**16 603**	18 429
6. Corporate	**111 444**	101 631
8. Specialised lending	**50 312**	51 997
SME corporate	**39 840**	33 703
9. Retail revolving	**39 800**	40 655
10. Retail mortgages	**75 390**	70 954
11. SME retail	**42 090**	39 645
12. Other retail	**75 626**	76 912
17. **Total**	**472 234**	454 287

RWA flow statement of credit risk exposure under AIRB

The calculation of credit RWA for FRBSA is based on internally developed, quantitative models in line with the AIRB approach. The three credit risk measures, namely PD, EAD and LGD, are used along with prescribed correlations (dependent on the asset class) and estimates of maturity, where applicable, to derive credit RWA. The quantitative models also adhere to the AIRB requirements related to annual validation.

For the remaining entities, credit RWA is based on the standardised approach where regulatory risk weights are prescribed per asset class. Even though the remaining entities do not have regulatory approval to use the AIRB approach, internally developed quantitative models are used for the internal assessment of credit risk.

The following table presents a flow statement explaining variations in the credit RWA determined under the AIRB approach.

CR8: RWA FLOW STATEMENT OF CREDIT RISK EXPOSURES UNDER AIRB

R million	**RWA**
1. **RWA at 31 March 2020**	**472 014**
2. Asset size	**(1 675)**
3. Asset quality	**1 895**
4. Model updates	**–**
5. Methodology and policy	**–**
6. Acquisitions and disposals	**–**
7. Foreign exchange movements	**–**
8. Other	**–**
9. **RWA at 30 June 2020***	**472 234**

* *The RWA represents credit risk exposures excluding securitisation exposure per FirstRand Overview of credit RWA table on page 46.*

Backtesting of PD per portfolio

The following table provides backtesting data to validate the reliability of PD calculations. Comparison of the PD used in AIRB capital calculations with the effective default rates of bank obligors is done using a minimum five-year average annual default rate to allow for stable quantities to be compared.

CR9: AIRB – BACKTESTING OF PD PER PORTFOLIO

	Corporate							
	As at 30 June 2020							
				Number of obligors		Defaulted obligors		
PD scale	External rating equivalent	**Weighted average PD %**	**Arithmetic average PD by obligors %**	**End of prior year**	**End of current year**	**During current year**	**New during current year**	**Average historical annual default rate %**
0.00 to < 0.12	AAA, AA, A	**0.09**	**–**	**1**	**1**	**–**	**–**	**–**
0.12 to < 0.45	BBB	**0.28**	**0.04**	**118**	**90**	**–**	**–**	**–**
0.45 to < 1.08	BB+, BB	**0.62**	**0.14**	**144**	**142**	**–**	**–**	**–**
1.08 to < 1.80	BB-	**1.37**	**0.27**	**101**	**127**	**–**	**–**	**–**
1.80 to < 3.23	B+	**2.45**	**0.25**	**85**	**67**	**–**	**–**	**–**
3.23 to < 9.12	B	**4.78**	**0.88**	**104**	**121**	**–**	**–**	**–**
9.12 to < 18.23	B-	**10.07**	**0.87**	**51**	**56**	**–**	**–**	**–**
18.23 to < 99.99	Below B-	**22.71**	**1.27**	**18**	**37**	**–**	**–**	**–**
100 (default)	Defaulted	**100.00**	**1.54**	**10**	**10**	**10**	**–**	**100.00**
Total		**2.33**	**0.47**	**632**	**651**	**10**	**–**	**0.35**

	Corporate							
	As at 30 June 2019							
				Number of obligors		Defaulted obligors		
PD scale	External rating equivalent	Weighted average PD %	Arithmetic average PD by obligors %	End of prior year	End of current year	During current year	New during current year	Average historical annual default rate %
0.00 to < 0.12	AAA, AA, A	0.08	–	7	1	–	–	–
0.12 to < 0.45	BBB	0.29	0.05	124	118	–	–	–
0.45 to < 1.08	BB+, BB	0.64	0.15	164	144	–	–	–
1.08 to < 1.80	BB-	1.44	0.23	100	101	–	–	–
1.80 to < 3.23	B+	2.45	0.33	89	85	–	–	–
3.23 to < 9.12	B	5.27	0.87	90	104	–	–	–
9.12 to < 18.23	B-	10.07	0.81	51	51	–	–	–
18.23 to < 99.99	Below B-	35.96	1.02	11	18	–	–	–
100 (default)	Defaulted	100.00	100.00	8	10	10	2	100.00
Total		2.22	0.38	644	632	10	2	0.43

CR9: AIRB – BACKTESTING OF PD PER PORTFOLIO continued

	Specialised lending							
	As at 30 June 2020							
				Number of obligors		**Defaulted obligors**		
PD scale	External rating equivalent	**Weighted average PD %**	**Arithmetic average PD by obligors %**	**End of prior year**	**End of current year**	**During current year**	**New during current year**	**Average historical annual default rate %**
0.00 to < 0.12	AAA, AA, A	**0.07**	**0.06**	**–**	**1**	**–**	**–**	**–**
0.12 to < 0.45	BBB	**0.35**	**0.11**	**25**	**30**	**–**	**–**	**–**
0.45 to < 1.08	BB+, BB	**0.70**	**0.59**	**254**	**120**	**–**	**–**	**–**
1.08 to < 1.80	BB-	**1.41**	**1.23**	**291**	**239**	**1**	**1**	**–**
1.80 to < 3.23	B+	**2.46**	**2.24**	**389**	**218**	**11**	**11**	**–**
3.23 to < 9.12	B	**5.02**	**6.64**	**211**	**380**	**14**	**14**	**–**
9.12 to < 18.23	B-	**12.09**	**11.42**	**158**	**350**	**20**	**20**	**–**
18.23 to < 99.99	Below B-	**24.81**	**23.52**	**27**	**124**	**41**	**41**	**–**
100 (default)	Defaulted	**100.00**	**79.08**	**28**	**32**	**206**	**199**	**100.00**
Total		**3.12**	**5.73**	**1 383**	**1 494**	**293**	**286**	**5.37**

	Specialised lending							
	As at 30 June 2019							
				Number of obligors		Defaulted obligors		
PD scale	External rating equivalent	Weighted average PD %	Arithmetic average PD by obligors %	End of prior year	End of current year	During current year	New during current year	Average historical annual default rate %
0.00 to < 0.12	AAA, AA, A	0.06	–	1	–	–	–	–
0.12 to < 0.45	BBB	0.33	0.06	21	25	–	–	–
0.45 to < 1.08	BB+, BB	0.74	0.76	250	254	–	–	–
1.08 to < 1.80	BB-	1.49	1.28	293	291	4	4	–
1.80 to < 3.23	B+	2.46	2.33	432	389	9	9	–
3.23 to < 9.12	B	4.23	4.26	149	211	–	–	–
9.12 to < 18.23	B-	12.73	11.85	58	158	30	30	–
18.23 to < 99.99	Below B-	27.01	27.08	13	27	6	6	–
100 (default)	Defaulted	100.00	76.21	29	28	220	9	100.00
Total		2.63	5.93	1 246	1 383	269	58	0.21

CR9: AIRB – BACKTESTING OF PD PER PORTFOLIO continued

	Sovereign							
	As at 30 June 2020							
				Number of obligors		**Defaulted obligors**		
PD scale	External rating equivalent	**Weighted average PD %**	**Arithmetic average PD by obligors %**	**End of prior year**	**End of current year**	**During current year**	**New during current year**	**Average historical annual default rate %**
0.00 to < 0.12	AAA, AA, A	**0.04**	**–**	**2**	**2**	**–**	**–**	**–**
0.12 to < 0.45	BBB	**0.40**	**0.24**	**30**	**6**	**–**	**–**	**–**
0.45 to < 1.08	BB+, BB	**0.48**	**0.50**	**67**	**66**	**–**	**–**	**–**
1.08 to < 1.80	BB-	**1.66**	**1.28**	**25**	**18**	**–**	**–**	**–**
1.80 to < 3.23	B+	**2.43**	**2.33**	**28**	**28**	**–**	**–**	**–**
3.23 to < 9.12	B	**4.98**	**6.69**	**238**	**1 113**	**–**	**–**	**–**
9.12 to < 18.23	B-	**10.07**	**43.50**	**2**	**7**	**–**	**–**	**–**
18.23 to < 99.99	Below B-	**–**	**117.30**	**–**	**–**	**–**	**–**	**–**
100 (default)	Defaulted	**100.00**	**5.56**	**1**	**2**	**4**	**1**	**100.00**
Total		**1.33**	**21.48**	**393**	**1 242**	**4**	**1**	**0.14**

	Sovereign							
	As at 30 June 2019							
				Number of obligors		Defaulted obligors		
PD scale	External rating equivalent	Weighted average PD %	Arithmetic average PD by obligors %	End of prior year	End of current year	During current year	New during current year	Average historical annual default rate %
0.00 to < 0.12	AAA, AA, A	0.04	–	2	2	–	–	–
0.12 to < 0.45	BBB	0.40	0.26	140	30	–	–	–
0.45 to < 1.08	BB+, BB	0.52	0.53	52	67	–	–	–
1.08 to < 1.80	BB-	1.57	1.14	26	25	–	–	–
1.80 to < 3.23	B+	2.45	2.16	25	28	–	–	–
3.23 to < 9.12	B	4.41	5.80	86	238	24	–	0.05
9.12 to < 18.23	B-	10.07	10.01	6	2	–	–	–
18.23 to < 99.99	Below B-	34.67	38.60	10	–	–	–	–
100 (default)	Defaulted	100.00	100.00	1	1	2	–	100.00
Total		0.53	7.95	348	393	26	–	0.12

CR9: AIRB – BACKTESTING OF PD PER PORTFOLIO continued

	Banks and securities firms							
	As at 30 June 2020							
				Number of obligors		**Defaulted obligors**		
PD scale	External rating equivalent	**Weighted average PD %**	**Arithmetic average PD by obligors %**	**End of prior year**	**End of current year**	**During current year**	**New during current year**	**Average historical annual default rate %**
0.00 to < 0.12	AAA, AA, A	**0.07**	**0.01**	**56**	**46**	**–**	**–**	**–**
0.12 to < 0.45	BBB	**0.21**	**0.05**	**113**	**64**	**–**	**–**	**–**
0.45 to < 1.08	BB+, BB	**0.56**	**0.13**	**46**	**66**	**–**	**–**	**–**
1.08 to < 1.80	BB-	**1.23**	**0.08**	**35**	**19**	**–**	**–**	**–**
1.80 to < 3.23	B+	**2.45**	**0.22**	**28**	**25**	**–**	**–**	**–**
3.23 to < 9.12	B	**4.72**	**0.67**	**252**	**40**	**–**	**–**	**–**
9.12 to < 18.23	B-	**10.07**	**0.57**	**84**	**16**	**–**	**–**	**–**
18.23 to < 99.99	Below B-	**25.95**	**0.77**	**9**	**8**	**–**	**–**	**–**
100 (default)	Defaulted	**100.00**	**0.35**	**1**	**–**	**1**	**–**	**100.00**
Total		**0.42**	**0.31**	**624**	**284**	**1**	**–**	**0.00**

	Banks and securities firms							
	As at 30 June 2019							
				Number of obligors		Defaulted obligors		
PD scale	External rating equivalent	Weighted average PD %	Arithmetic average PD by obligors %	End of prior year	End of current year	During current year	New during current year	Average historical annual default rate %
0.00 to < 0.12	AAA, AA, A	0.06	0.01	56	56	–	–	–
0.12 to < 0.45	BBB	0.25	0.07	113	113	–	–	–
0.45 to < 1.08	BB+, BB	0.55	0.09	46	46	–	–	–
1.08 to < 1.80	BB-	1.15	0.09	35	35	–	–	–
1.80 to < 3.23	B+	2.45	0.24	28	28	–	–	–
3.23 to < 9.12	B	5.33	0.69	52	252	–	–	–
9.12 to < 18.23	B-	10.07	0.78	28	84	–	–	–
18.23 to < 99.99	Below B-	35.96	0.54	9	9	–	–	–
100 (default)	Defaulted	100.00	100.00	–	1	1	1	100.00
Total		0.48	0.38	367	624	1	1	1.19

CR9: AIRB – BACKTESTING OF PD PER PORTFOLIO continued

	SME corporate							
	As at 30 June 2020							
				Number of obligors		**Defaulted obligors**		
PD scale	External rating equivalent	**Weighted average PD %**	**Arithmetic average PD by obligors %**	**End of prior year**	**End of current year**	**During current year**	**New during current year**	**Average historical annual default rate %**
0.00 to < 0.12	AAA, AA, A	**0.08**	**0.08**	**17**	**5**	**1**	**1**	**–**
0.12 to < 0.45	BBB	**0.26**	**0.36**	**4 882**	**3 952**	**91**	**90**	**0.21**
0.45 to < 1.08	BB+, BB	**0.69**	**0.79**	**9 549**	**12 511**	**562**	**558**	**0.43**
1.08 to < 1.80	BB-	**1.38**	**1.40**	**4 191**	**4 257**	**434**	**434**	**0.89**
1.80 to < 3.23	B+	**2.39**	**2.37**	**3 911**	**4 228**	**900**	**900**	**1.14**
3.23 to < 9.12	B	**4.59**	**4.28**	**3 444**	**7 283**	**272**	**269**	**1.94**
9.12 to < 18.23	B-	**13.77**	**12.44**	**301**	**968**	**145**	**145**	**7.81**
18.23 to < 99.99	Below B-	**28.46**	**29.95**	**162**	**1 093**	**215**	**207**	**10.66**
100 (default)	Defaulted	**100.00**	**100.00**	**995**	**2 600**	**8 720**	**7 335**	**100.00**
Total		**6.02**	**6.46**	**27 452**	**36 897**	**11 340**	**9 939**	**3.10**

	SME corporate							
	As at 30 June 2019							
				Number of obligors		Defaulted obligors		
PD scale	External rating equivalent	Weighted average PD %	Arithmetic average PD by obligors %	End of prior year	End of current year	During current year	New during current year	Average historical annual default rate %
0.00 to < 0.12	AAA, AA, A	0.07	0.06	19	17	–	–	0.01
0.12 to < 0.45	BBB	0.29	0.40	4 852	4 882	22	22	0.37
0.45 to < 1.08	BB+, BB	0.80	0.87	10 238	9 549	88	88	0.35
1.08 to < 1.80	BB-	1.37	1.38	3 634	4 191	136	128	0.59
1.80 to < 3.23	B+	2.33	2.42	2 840	3 911	131	102	1.24
3.23 to < 9.12	B	4.71	4.49	2 557	3 444	241	238	3.58
9.12 to < 18.23	B-	13.14	12.73	465	301	146	145	5.86
18.23 to < 99.99	Below B-	26.79	27.80	111	162	144	144	8.17
100 (default)	Defaulted	100.00	100.00	2 343	995	6 711	3 433	100.00
Total		4.84	6.27	27 059	27 452	7 619	4 300	4.94

CR9: AIRB – BACKTESTING OF PD PER PORTFOLIO continued

	SME retail							
	As at 30 June 2020							
				Number of obligors		Defaulted obligors		
PD scale	External rating equivalent	Weighted average PD %	Arithmetic average PD by obligors %	End of prior year	End of current year	During current year	New during current year	Average historical annual default rate %
0.00 to < 0.12	AAA, AA, A	**0.08**	**0.09**	**387**	**79**	**3**	**3**	**0.30**
0.12 to < 0.45	BBB	**0.34**	**0.35**	**16 758**	**4 637**	**43**	**43**	**0.62**
0.45 to < 1.08	BB+, BB	**0.72**	**0.84**	**37 523**	**32 140**	**151**	**151**	**1.32**
1.08 to < 1.80	BB-	**1.32**	**1.42**	**214 920**	**246 942**	**3 294**	**3 292**	**0.70**
1.80 to < 3.23	B+	**2.44**	**2.32**	**516 718**	**515 939**	**32 820**	**32 813**	**2.54**
3.23 to < 9.12	B	**5.18**	**5.59**	**785 828**	**1 472 739**	**98 564**	**98 555**	**7.38**
9.12 to < 18.23	B-	**13.10**	**13.77**	**27 526**	**49 437**	**4 922**	**4 907**	**19.96**
18.23 to < 99.99	Below B-	**44.73**	**44.74**	**20 729**	**42 498**	**9 551**	**9 452**	**45.97**
100 (default)	Defaulted	**99.95**	**99.98**	**56 589**	**122 240**	**147 272**	**106 575**	**100.00**
Total		**13.64**	**8.64**	**1 676 978**	**2 486 651**	**296 620**	**255 791**	**6.64**

	SME retail							
	As at 30 June 2019							
				Number of obligors		Defaulted obligors		
PD scale	External rating equivalent	Weighted average PD %	Arithmetic average PD by obligors %	End of prior year	End of current year	During current year	New during current year	Average historical annual default rate %
0.00 to < 0.12	AAA, AA, A	0.08	0.07	358	387	5	5	0.26
0.12 to < 0.45	BBB	0.39	0.34	65 990	16 758	715	715	0.61
0.45 to < 1.08	BB+, BB	0.75	0.82	38 372	37 523	366	355	1.31
1.08 to < 1.80	BB-	1.32	1.41	178 140	214 920	2 487	2 471	0.69
1.80 to < 3.23	B+	2.46	2.33	542 524	516 718	53 662	53 550	2.54
3.23 to < 9.12	B	5.02	5.39	532 575	785 828	55 571	55 485	7.25
9.12 to < 18.23	B-	12.94	13.26	40 743	27 526	5 372	5 307	19.12
18.23 to < 99.99	Below B-	38.63	40.19	13 794	20 729	4 054	3 856	46.40
100 (default)	Defaulted	100.00	100.00	40 325	56 589	26 538	8 033	100.00
Total		8.20	7.98	1 452 821	1 676 978	148 770	129 777	6.61

CR9: AIRB – BACKTESTING OF PD PER PORTFOLIO continued

	Retail mortgages							
	As at 30 June 2020							
				Number of obligors		**Defaulted obligors**		
PD scale	External rating equivalent	**Weighted average PD %**	**Arithmetic average PD by obligors %**	**End of prior year**	**End of current year**	**During current year**	**New during current year**	**Average historical annual default rate %**
0.00 to < 0.12	AAA, AA, A	**0.08**	**0.08**	**19 861**	**19 669**	**–**	**–**	**–**
0.12 to < 0.45	BBB	**0.31**	**0.29**	**32 220**	**37 254**	**3**	**–**	**–**
0.45 to < 1.08	BB+, BB	**0.73**	**0.75**	**105 934**	**99 011**	**26**	**–**	**0.01**
1.08 to < 1.80	BB-	**1.36**	**1.38**	**82 042**	**68 350**	**54**	**–**	**0.01**
1.80 to < 3.23	B+	**2.32**	**2.35**	**46 468**	**59 658**	**79**	**–**	**0.02**
3.23 to < 9.12	B	**4.82**	**4.75**	**37 418**	**25 606**	**120**	**–**	**0.04**
9.12 to < 18.23	B-	**12.50**	**12.46**	**8 599**	**6 579**	**63**	**3**	**0.11**
18.23 to < 99.99	Below B-	**39.22**	**41.39**	**6 526**	**10 247**	**100**	**–**	**0.40**
100 (default)	Defaulted	**100.00**	**100.00**	**19 331**	**21 408**	**9 631**	**145**	**100.00**
Total		**7.42**	**7.93**	**358 399**	**347 782**	**10 076**	**148**	**0.07**

	Retail mortgages							
	As at 30 June 2019							
				Number of obligors		Defaulted obligors		
PD scale	External rating equivalent	Weighted average PD %	Arithmetic average PD by obligors %	End of prior year	End of current year	During current year	New during current year	Average historical annual default rate %
0.00 to < 0.12	AAA, AA, A	0.08	0.08	19 398	19 861	4	–	–
0.12 to < 0.45	BBB	0.32	0.29	38 843	32 220	8	–	–
0.45 to < 1.08	BB+, BB	0.71	0.71	100 964	105 934	46	–	0.06
1.08 to < 1.80	BB-	1.35	1.37	78 537	82 042	119	–	0.04
1.80 to < 3.23	B+	2.40	2.41	46 781	46 468	206	–	0.06
3.23 to < 9.12	B	5.20	4.97	41 910	37 418	233	–	0.10
9.12 to < 18.23	B-	12.55	12.22	9 862	8 599	163	–	0.23
18.23 to < 99.99	Below B-	36.64	39.20	7 857	6 526	223	–	0.86
100 (default)	Defaulted	100.00	100.00	16 537	19 331	9 323	118	100.00
Total		6.33	7.66	360 689	358 399	10 325	118	0.07

CR9: AIRB – BACKTESTING OF PD PER PORTFOLIO continued

	Retail revolving							
	As at 30 June 2020							
				Number of obligors		**Defaulted obligors**		
PD scale	External rating equivalent	**Weighted average PD %**	**Arithmetic average PD by obligors %**	**End of prior year**	**End of current year**	**During current year**	**New during current year**	**Average historical annual default rate %**
0.00 to < 0.12	AAA, AA, A	**0.09**	**0.09**	**77 877**	**53 151**	**27**	**–**	**0.01**
0.12 to < 0.45	BBB	**0.27**	**0.28**	**286 392**	**441 158**	**239**	**1**	**0.02**
0.45 to < 1.08	BB+, BB	**0.74**	**0.75**	**721 771**	**427 549**	**296**	**3**	**0.02**
1.08 to < 1.80	BB-	**1.41**	**1.40**	**499 355**	**253 128**	**219**	**4**	**0.04**
1.80 to < 3.23	B+	**2.46**	**2.45**	**692 747**	**333 579**	**344**	**3**	**0.06**
3.23 to < 9.12	B	**5.11**	**5.15**	**1 024 063**	**424 066**	**553**	**10**	**0.13**
9.12 to < 18.23	B-	**11.97**	**12.20**	**411 433**	**102 446**	**467**	**2**	**0.28**
18.23 to < 99.99	Below B-	**40.29**	**40.37**	**473 046**	**87 051**	**1 828**	**18**	**0.67**
100 (default)	Defaulted	**100.00**	**100.00**	**1 321 449**	**302 455**	**90 030**	**3 679**	**100.00**
Total		**9.33**	**7.84**	**5 508 133**	**2 424 583**	**94 003**	**3 720**	**0.20**

	Retail revolving							
	As at 30 June 2019							
				Number of obligors		Defaulted obligors		
PD scale	External rating equivalent	Weighted average PD %	Arithmetic average PD by obligors %	End of prior year	End of current year	During current year	New during current year	Average historical annual default rate %
0.00 to < 0.12	AAA, AA, A	0.10	0.09	176 531	77 877	71	6	0.01
0.12 to < 0.45	BBB	0.28	0.28	338 490	286 392	240	16	0.02
0.45 to < 1.08	BB+, BB	0.73	0.74	652 217	721 771	2 141	17	0.02
1.08 to < 1.80	BB-	1.41	1.42	493 617	499 355	3 205	16	0.04
1.80 to < 3.23	B+	2.45	2.46	625 273	692 747	6 821	64	0.06
3.23 to < 9.12	B	5.07	5.38	886 764	1 024 063	24 579	864	0.12
9.12 to < 18.23	B-	11.79	12.72	365 532	411 433	22 694	2 348	0.29
18.23 to < 99.99	Below B-	39.09	39.26	428 382	473 046	40 197	6 390	0.72
100 (default)	Defaulted	100.00	100.00	1 122 453	1 321 449	245 908	35 121	100.00
Total		8.35	7.79	5 089 259	5 508 133	345 856	44 842	0.20

CR9: AIRB – BACKTESTING OF PD PER PORTFOLIO continued

	Other retail							
	As at 30 June 2020							
				Number of obligors		**Defaulted obligors**		
PD scale	External rating equivalent	**Weighted average PD %**	**Arithmetic average PD by obligors %**	**End of prior year**	**End of current year**	**During current year**	**New during current year**	**Average historical annual default rate %**
0.00 to < 0.12	AAA, AA, A	**0.09**	**0.04**	**16**	**1 400**	**47**	**6**	**0.03**
0.12 to < 0.45	BBB	**0.39**	**0.06**	**43 771**	**48 017**	**73**	**6**	**0.02**
0.45 to < 1.08	BB+, BB	**0.72**	**0.71**	**124 637**	**100 010**	**246**	**31**	**0.03**
1.08 to < 1.80	BB-	**1.50**	**1.51**	**230 849**	**185 329**	**493**	**108**	**0.03**
1.80 to < 3.23	B+	**2.35**	**2.45**	**213 531**	**187 512**	**4 740**	**397**	**0.05**
3.23 to < 9.12	B	**5.31**	**5.68**	**495 983**	**458 257**	**12 602**	**1 162**	**0.15**
9.12 to < 18.23	B-	**12.14**	**13.02**	**206 645**	**293 967**	**38 745**	**2 280**	**0.31**
18.23 to < 99.99	Below B-	**39.15**	**35.54**	**154 188**	**1 396 778**	**335 673**	**39 530**	**0.72**
100 (default)	Defaulted	**100.00**	**100.00**	**199 912**	**508 245**	**401 481**	**112 571**	**100.00**
Total		**19.94**	**7.37**	**1 669 532**	**3 179 515**	**794 100**	**156 091**	**0.35**

	Other retail							
	As at 30 June 2019							
				Number of obligors		Defaulted obligors		
PD scale	External rating equivalent	Weighted average PD %*	Arithmetic average PD by obligors %	End of prior year	End of current year	During current year	New during current year	Average historical annual default rate %
0.00 to < 0.12	AAA, AA, A	0.07	0.07	122	16	–	–	0.07
0.12 to < 0.45	BBB	0.36	0.04	4 684	43 771	39	1	0.06
0.45 to < 1.08	BB+, BB	0.73	0.72	59 080	124 637	162	11	0.03
1.08 to < 1.80	BB-	1.50	1.49	183 017	230 849	345	56	0.03
1.80 to < 3.23	B+	2.35	2.41	283 233	213 531	653	109	0.07
3.23 to < 9.12	B	5.29	5.68	525 726	495 983	1 127	69	0.18
9.12 to < 18.23	B-	11.93	12.32	166 045	206 645	1 374	29	0.40
18.23 to < 99.99	Below B-	38.42	38.09	166 808	154 188	22 873	2 094	1.24
100 (default)	Defaulted	100.00	100.00	117 291	199 912	154 960	50 554	100.00
Total		15.76	7.60	1 506 006	1 669 532	181 533	52 923	0.51

Specialised lending exposures under slotting approach

The following table provides information relating to specialised lending exposures that are rated through the slotting approach. The exposures are split among regulatory asset classes.

CR10: AIRB SPECIALISED LENDING

R million		As at 30 June 2020							
		Other than high-volatility commercial estate*							
					Exposure amount				
Regulatory categories	**Remaining maturity**	**On-balance sheet amount**	**Off-balance sheet amount**	**Risk weight**	**Project finance**	**Income-producing real estate**	**Total**	**RWA**	**Expected losses**
Strong	Less than 2.5 years	**–**	**–**	**50%**	**–**	**–**	**–**	**–**	**–**
	Equal to or more than 2.5 years	**10 640**	**238**	**70%**	**10 736**	**–**	**10 736**	**7 966**	**43**
Good	Less than 2.5 years	**–**	**–**	**70%**	**–**	**–**	**–**	**–**	**–**
	Equal to or more than 2.5 years	**5 365**	**51**	**90%**	**5 320**	**17**	**5 337**	**5 093**	**43**
Satisfactory		**2 448**	**–**	**115%**	**2 137**	**311**	**2 448**	**2 995**	**71**
Weak		**69**	**–**	**250%**	**–**	**69**	**69**	**184**	**7**
Default		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total		**18 522**	**289**		**18 193**	**397**	**18 590**	**16 238**	**164**

* *There were no high-volatility commercial real estate exposures during the year. For specialised lending exposures other than high-volatility commercial real estate, there were no exposures to object finance or commodities asset classes during the year.*

R million		As at 30 June 2019							
		Other than high-volatility commercial real estate*							
					Exposure amount				
Regulatory categories	Remaining maturity	On-balance sheet amount	Off-balance sheet amount	Risk weight	Project finance	Income-producing real estate	Total	RWA	Expected losses
Strong	Less than 2.5 years	–	–	50%	–	–	–	–	–
	Equal to or more than 2.5 years	11 809	2 213	70%	12 850	–	12 850	9 535	51
Good	Less than 2.5 years	–	–	70%	–	–	–	–	–
	Equal to or more than 2.5 years	4 013	282	90%	4 083	22	4 105	3 916	33
Satisfactory		1 835	–	115%	1 689	147	1 835	2 246	53
Weak		12	–	250%	–	12	12	33	1
Total		17 669	2 495		18 622	181	18 802	15 730	138

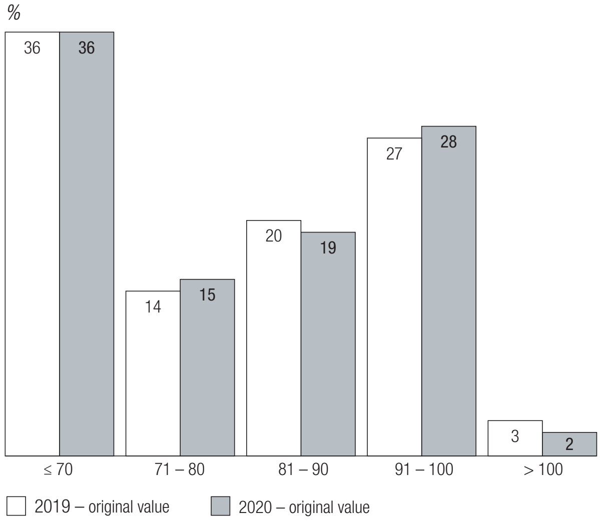
* *There were no high-volatility commercial real estate exposures during the year. For specialised lending exposures other than high-volatility commercial real estate, there were no exposures to object finance or commodities asset classes during the year.*

RISK ANALYSIS

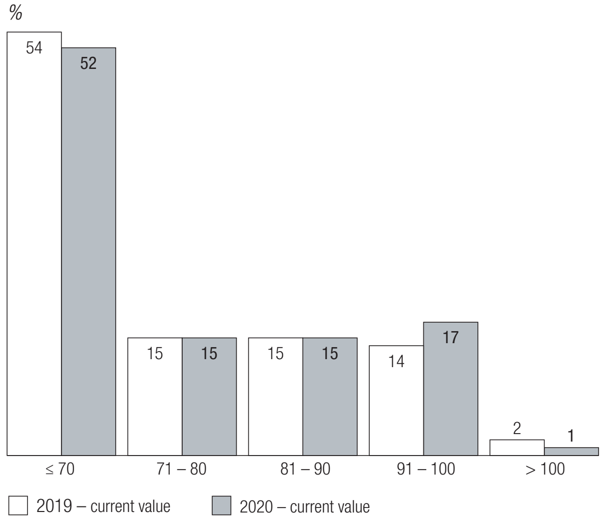
The graphs below provide loan balance-to-value ratios and age distributions of residential mortgages.

Loan-to-value (LTV) ratios for new business are an important consideration in the credit origination process. The group, however, places more emphasis on counterparty creditworthiness as opposed to relying only on the underlying security. LTVs have increased due to increased loan extension to main-banked clients, with higher LTVs offered to better-rated existing clients.

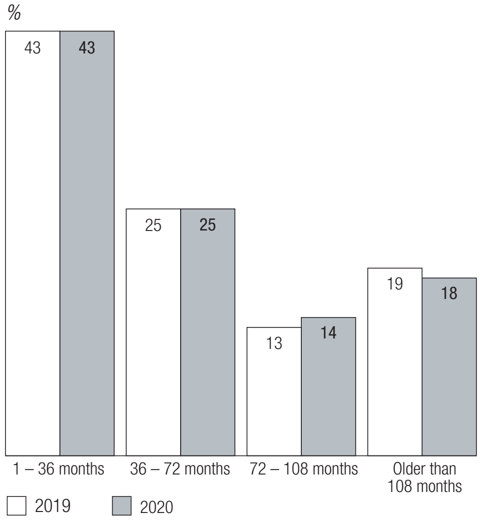
RESIDENTIAL MORTGAGES
BALANCE-TO-ORIGINAL VALUE



RESIDENTIAL MORTGAGES
BALANCE-TO-MARKET VALUE



RESIDENTIAL MORTGAGES
AGE DISTRIBUTION TOTAL



Note: The above loan balance-to-value ratios and age distributions have been restated to only include performing accounts.

The overall vintage performance across portfolios deteriorated in the last quarter of the financial year given the impact of the pandemic and resultant lockdowns. A considerable number of risk mitigation actions were implemented across the retail portfolios. New payouts decreased in the fourth quarter compared to the same period in 2019 due to strengthened underwriting criteria, reduced demand and the partial closure of deeds offices over this period. As such, credit growth remained weak compared to prior years.

Vintage performance metrics were also affected by relief measures provided to customers who suffered income loss during the lockdown period. Specifically, agreements under relief did not roll into default. For the calculation of vintage performance, exposures that were subject to COVID-19 relief are excluded from the point of relief.

Vintages have been adjusted to allow for the reduced period that these accounts would have been at risk of default. To provide an indication of the extent to which different charts observed 12-month vintage performance, the vintage graph include a breakdown of exposures originated per month and which subsequently took COVID-19 relief within the first year. As COVID-19 relief was offered from March 2020, this breakdown reflects new business charts from April 2019.

FNB residential mortgages

The following graph shows arrears in the residential mortgage portfolio. It includes accounts with at least one payment in arrears, expressed as a percentage of total advances. Early arrears increased considerably during lockdown but started to show recovery in June 2020 as lockdown eased.

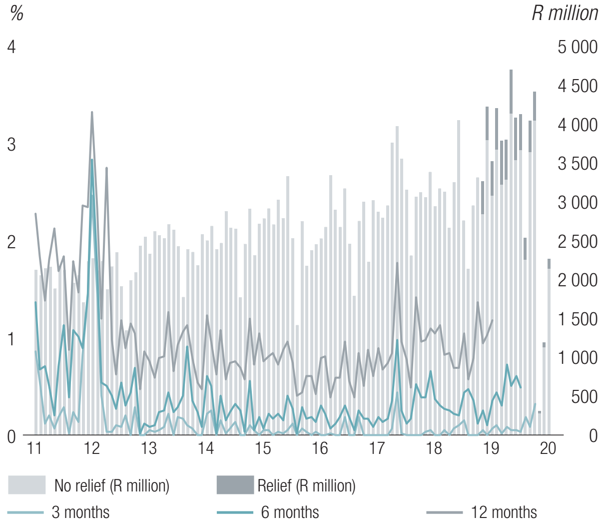
FNB RESIDENTIAL MORTGAGE ARREARS

FNB continues to pursue a risk-adjusted approach to residential mortgage origination, which has yielded positive results in managing the risk-return profile. New vintages remain stable and within risk triggers, however, an increase has been noted in the six- and 12-month vintages for origination since May 2019, impacted by lockdown measures.

The vintage metrics were partially affected by payment relief offered, with c.12% of business originated since May 2019 opting for payment relief within a year of origination.

This will be closely monitored for post-relief payment experience. Underwriting criteria have been tightened for new business originated from April 2020 onwards.

FNB RESIDENTIAL MORTGAGE VINTAGE ANALYSIS



FNB card

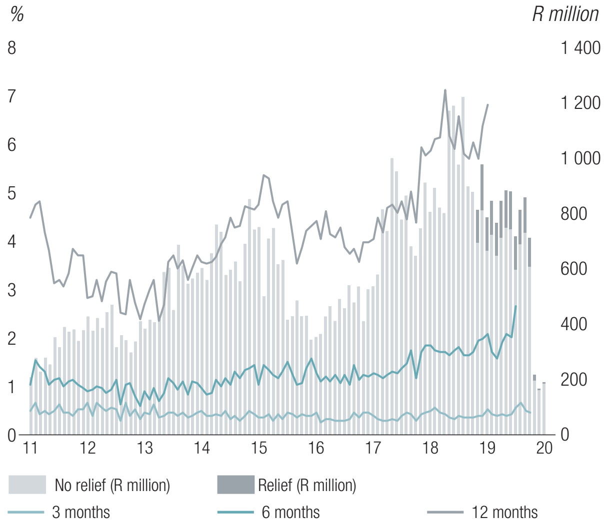
The vintages analysis below include new credit card sales and credit limit increases granted.

Vintages show that the previously reducing trend has reverted to an increasing trend, with increases in the six- and 12-month vintages for originations since May 2019 showing the effects of lockdown.

The vintages were partially affected by payment relief offered, with c.16% of business originated since May 2019 opting for payment relief within the first year of origination.

Post-relief payment experience will be closely monitored. Risk criteria were tightened for new business originated from April 2020.

FNB CARD VINTAGE ANALYSIS



Note: Credit card vintages have been restated to include new credit card sales as well as any credit limit increases. Vintages were previously based on new credit card sales only.

FNB personal loans

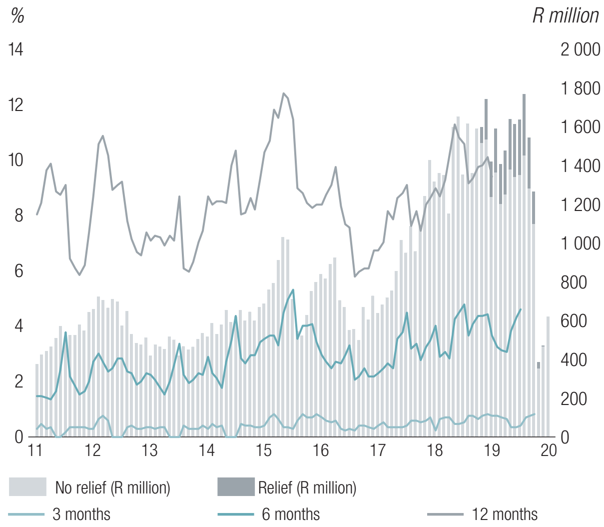
New vintages remain within risk triggers, however, an increase in the three- and six-month vintages was noted for origination since September 2019, and further showing the effects of lockdown measures.

These vintage metrics were partially impacted by payment relief offered, with c.15% of business originated since September 2019 opting for payment relief within the first year of origination.

Post-relief payment experience will be closely monitored. Underwriting criteria were tightened for new business originated from April 2020.

Despite the current challenging macro conditions, overall performance remains within thresholds.

FNB PERSONAL LOANS VINTAGE ANALYSIS



Note: Personal loans vintages have been restated to normalise for "take a break" (i.e. where customers do not need to make a payment in January). The vintage points were therefore restated to accommodate fewer payments due when the period includes a "take a break" month.

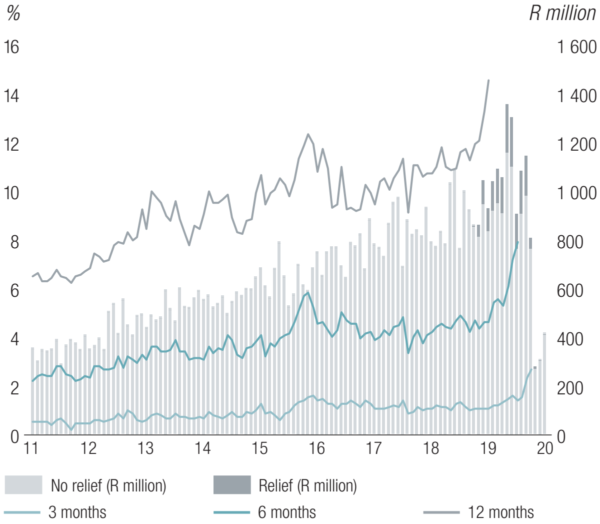
DirectAxis loans

New vintages in DirectAxis exceeded 12-month risk triggers for origination since May 2019, with default rates accelerating during lockdown. Corresponding increases in the three- and six-month vintages are evident for origination since October 2019 and February 2020, respectively. Strong risk mitigation actions were implemented in April 2019.

The vintage metrics are partially affected by payment relief offered, with c.13% of business originated since September 2019 opting for payment relief within the first year of origination.

The post-relief payment experience will be closely monitored. Underwriting criteria were tightened for new business originated since April 2020.

DIRECTAXIS LOANS VINTAGE ANALYSIS

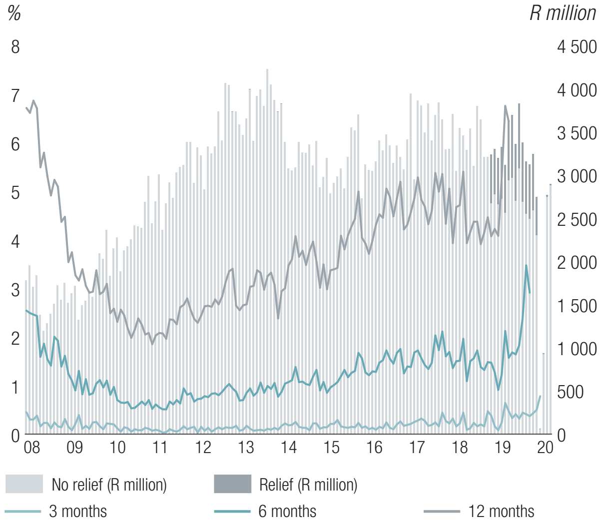


Note: The DirectAxis debt review accounts are reflected as default (12-month vintage), aligned to FNB personal loans since July 2018. Prior to this date, debt review was reflected in their respective stages.

WesBank retail VAF

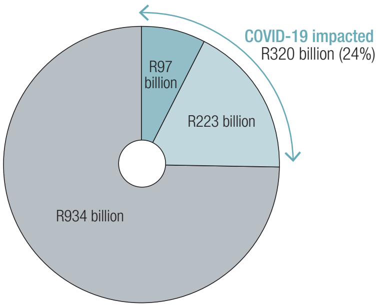
As anticipated, default rates in WesBank VAF retail show increased strain due to lockdown. This is despite the credit risk tightening changes made in 2019 and WesBank's focus on origination in low-risk buckets. Prior to COVID-19, the improving trend in vintages was evident. Approximately 77% of payment relief accounts have been on the books longer than 12 months.

WESBANK RETAIL VAF VINTAGE ANALYSIS



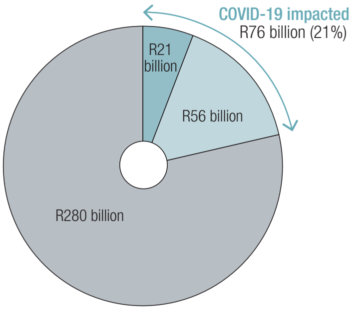
The graphs below provide additional information on the sectors most significantly impacted by COVID-19.

TOTAL GROUP (PERFORMING BOOK)



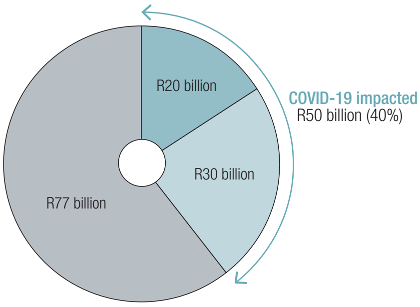
- COVID-19 impacted advances – no relief
- COVID-19 impacted advances – relief taken up
- Performing advances not affected by COVID-19

CORPORATE (PERFORMING BOOK)



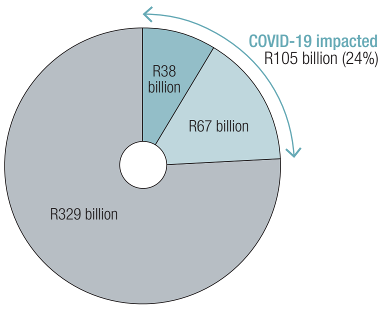
- COVID-19 impacted advances – no relief
- COVID-19 impacted advances – relief taken up
- Performing advances not affected by COVID-19

COMMERCIAL (PERFORMING BOOK)



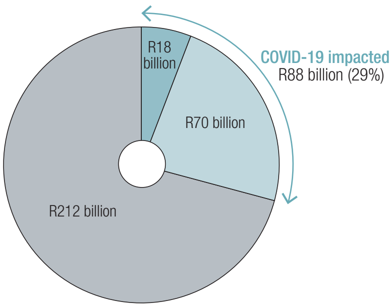
- COVID-19 impacted advances – no relief
- COVID-19 impacted advances – relief taken up
- Performing advances not affected by COVID-19

RETAIL (PERFORMING BOOK)



- COVID-19 impacted advances – no relief
- COVID-19 impacted advances – relief taken up
- Performing advances not affected by COVID-19

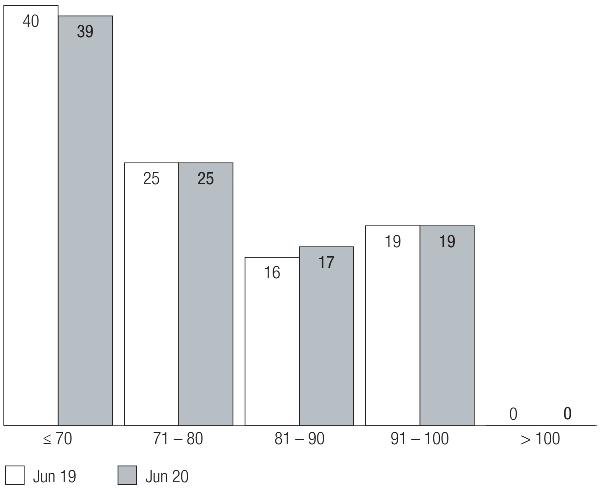
UK OPERATIONS (PERFORMING BOOK)



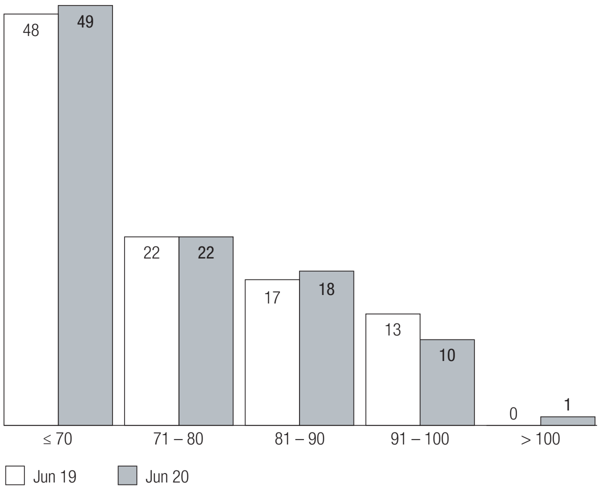
- COVID-19 impacted advances – no relief
- COVID-19 impacted advances – relief taken up
- Performing advances not affected by COVID-19

Aldermore residential mortgage and buy to let

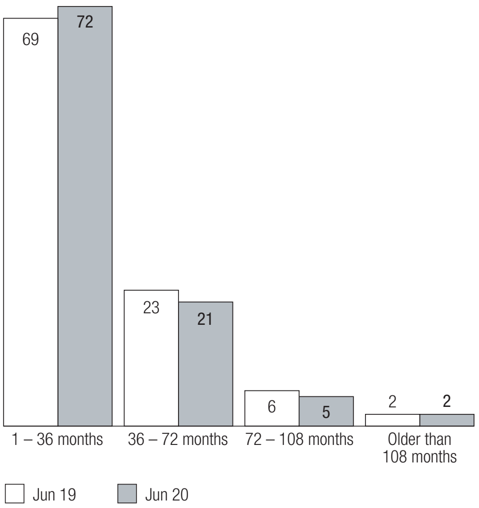
ALDERMORE RESIDENTIAL MORTGAGES
BALANCE-TO-ORIGINAL VALUE
%



ALDERMORE RESIDENTIAL MORTGAGES
BALANCE-TO-MARKET VALUE
%



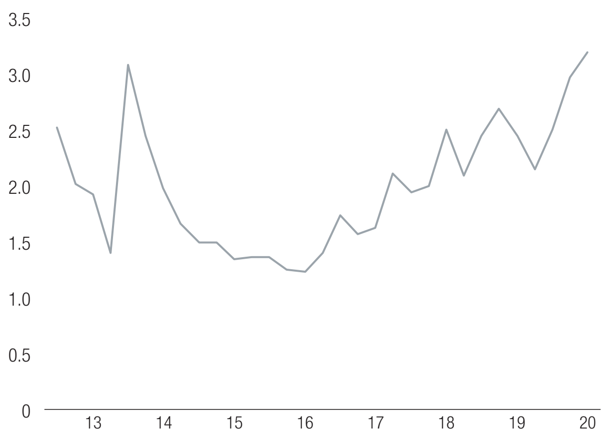
ALDERMORE RESIDENTIAL MORTGAGES
AGE DISTRIBUTION
%



The following graph shows arrears in the Aldermore residential loans portfolio. Arrears levels increased in December 2013 as an acquired mortgage portfolio was migrated to Aldermore systems. Arrears levels subsequently reduced as the portfolio grew rapidly, and started to gradually increase through 2017 – 2019 due to maturing of the book and slowdown in growth. Customers on payment deferral arrangements are excluded from the arrears. More recently, arrears levels have been affected by COVID-19 due to customers who have not yet asked for forbearance or who have become distressed post an initial payment holiday. Collections staff have been focused heavily on the processing of payment holidays and therefore some business-as-usual (BAU) collection activity has been reduced.

Arrears include 502 accounts totalling £67.8 million, comprising 3.25% of the portfolio (compared to the February 2020 (pre-pandemic) position of 194 accounts totalling £25.6 million, or 1.24% of the portfolio).

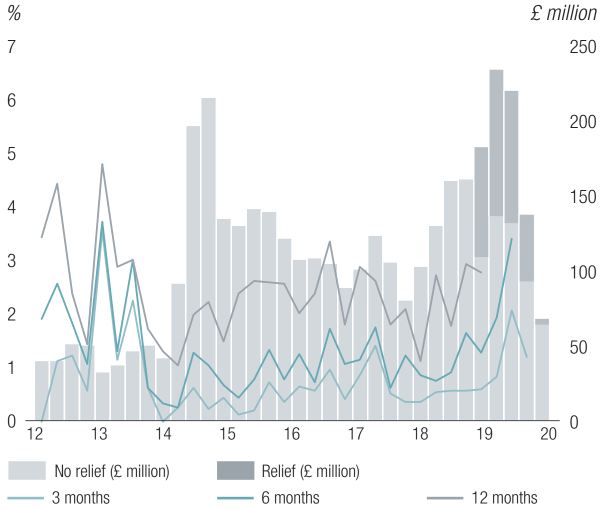
ALDERMORE RESIDENTIAL MORTGAGE ARREARS



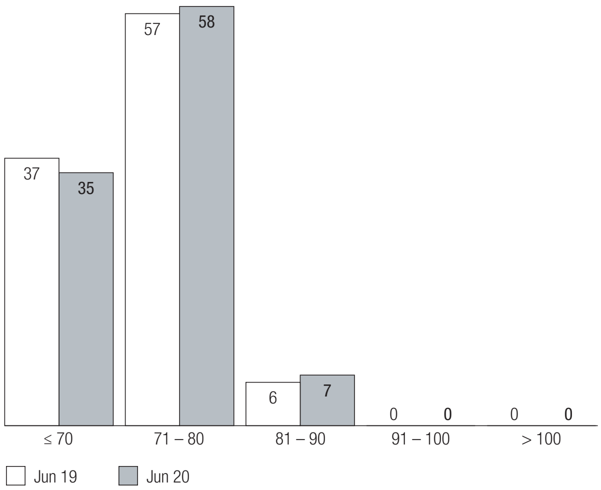
For standard residential mortgages, Aldermore typically operates in a higher LTV range than the larger High Street banks, but uses experienced manual underwriting to identify low-to medium-risk lending opportunities within that range. Aldermore covers a wide range of applications within this business, including helping first-time buyers and self-employed customers.

The credit loss ratio for the portfolio was 27.7 bps at June 2020.

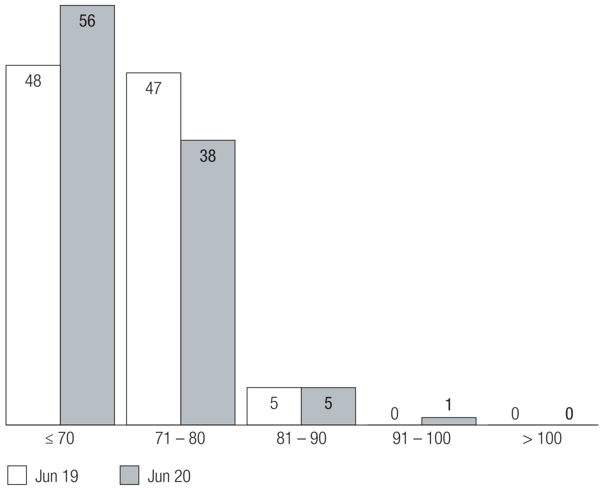
ALDERMORE RESIDENTIAL MORTGAGES VINTAGE ANALYSIS



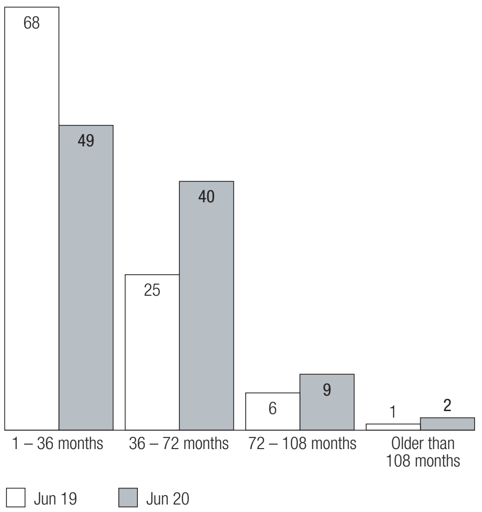
ALDERMORE BUY-TO-LET
BALANCE-TO-ORIGINAL VALUE
%



ALDERMORE BUY-TO-LET
BALANCE-TO-MARKET VALUE
%



ALDERMORE BUY-TO-LET
AGE DISTRIBUTION
%

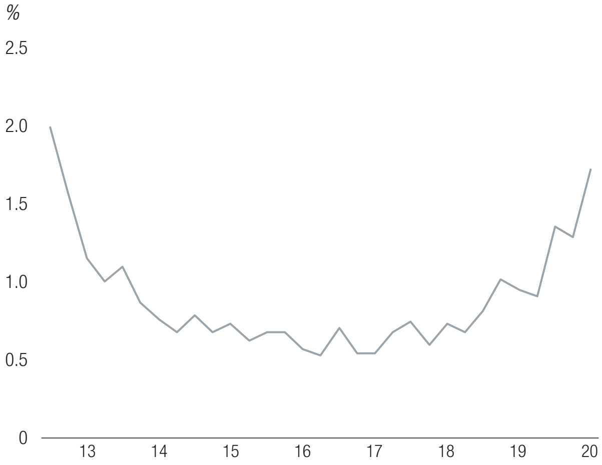


Aldermore operates a growing and competitive buy-to-let business which prior to COVID-19 was experiencing a good credit risk performance. Arrears levels were low and had been relatively stable since 2014. As with residential mortgages, arrears levels are now being affected by COVID-19 as some customers have not yet asked for forbearance or have become distressed following an initial payment holiday. Collections have focused on the processing of payment holidays and therefore some BAU collection activity has been reduced.

With the deployment of the new buy-to-let underwriting standards in January 2017 (affordability) and September 2017 (portfolio landlords), greater rigour is being applied to affordability assessment for this portfolio.

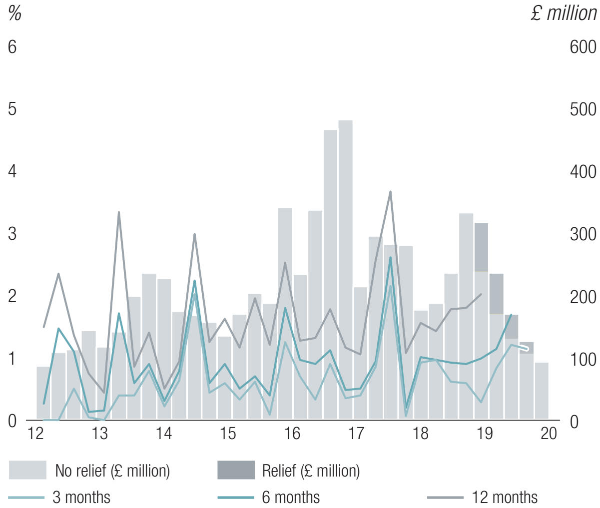
Current arrears levels are 459 accounts totalling £91.1 million, 1.73% of the portfolio (compared to the pre-COVID-19 February 2020 position of 127 accounts, to the value of £23.9 million, comprising 0.46% of the portfolio).

ALDERMORE BUY-TO-LET ARREARS



Credit loss ratio for the portfolio was 15.3 bps at the end of the financial year.

ALDERMORE BUY-TO-LET VINTAGE ANALYSIS



Counterparty credit risk

INTRODUCTION AND OBJECTIVES

Counterparty credit risk is the risk of a counterparty to a contract, transaction or agreement defaulting prior to the final settlement of the transaction's cash flows.

Counterparty credit risk measures a counterparty's ability to satisfy its obligations under a contract that has positive economic value to the group 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 a risk taken mainly in the group's trading and securities financing businesses. The objective of counterparty credit risk management is to ensure that this risk is appropriately measured, analysed and reported on, and is only taken within specified limits in line with the group's return and risk appetite framework as mandated by the board.

YEAR UNDER REVIEW AND FOCUS AREAS

PERIOD UNDER REVIEW	RISK MANAGEMENT FOCUS AREAS
• Enhanced governance around the group's internal counterparty credit risk exposure assessment methodology and the reporting tools for internal derivative credit portfolio reporting. • Performed quarterly impact assessments on the BCBS's proposed Basel III post-crisis regulatory reforms and communicated results to the PA. • Finalised model validation of SA-CCR ahead of the anticipated regulatory go-live date. • Prepared final assessment of the group's readiness to comply with BCBS 239 from a counterparty credit risk perspective with review performed by GIA. • Built infrastructure to aid in the implementation of the Basel margin requirements for non-centrally cleared derivatives.	• Finalise implementation of SA-CCR. The proposed implementation date is 1 January 2021. • Ongoing focus on preparing for the implementation of Basel margin requirements for non-centrally cleared derivatives, expected to go live in 2021. • Validate the economic capital model for counterparty credit risk exposure and prepare for full parallel reporting with the regulatory methodology. • Ongoing embedment of BCBS 239 requirements and compliance. • Commence the project to enable the standardised approach for credit valuation adjustment (SA-CVA) regulation expected to go live in 2023, as part of the PA's Basel credit reforms roadmap.

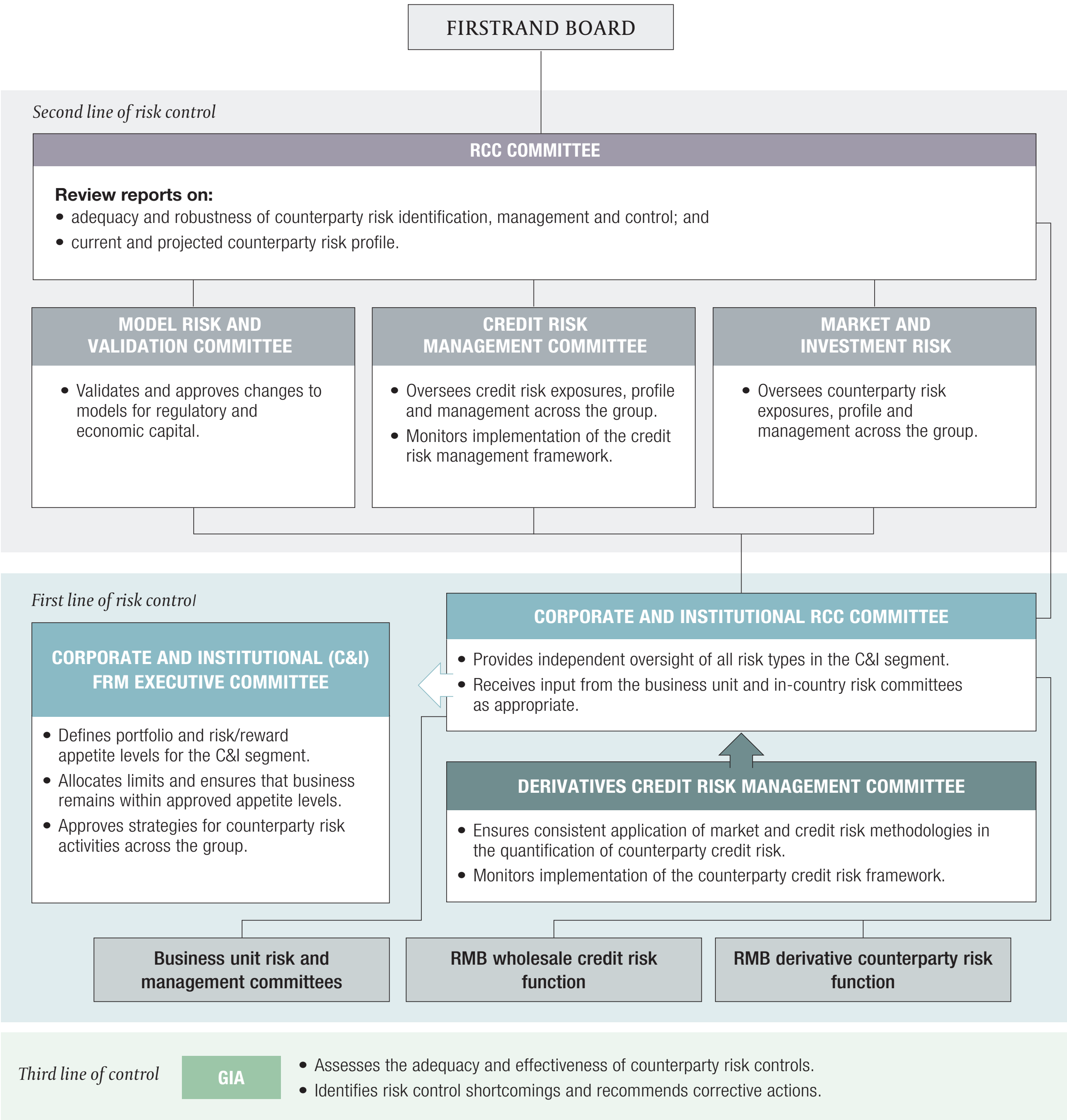
ORGANISATIONAL STRUCTURE AND GOVERNANCE

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

Counterparty credit risk is managed on the basis of the principles, approaches, policies and processes set out in the credit risk management framework for wholesale credit exposures. In this respect, counterparty credit risk governance aligns closely with the group's credit risk governance framework, with mandates and responsibilities cascading from the board through the Corporate and Institutional RCC committee to the respective credit committees and subcommittees, as well as deployed and central risk management functions. Refer to the *Risk governance* section and organisational structure and governance in the *Credit risk* section of this report 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.

COUNTERPARTY CREDIT RISK GOVERNANCE STRUCTURE



ASSESSMENT AND MANAGEMENT

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. The quantification of risk exposure is described in the following diagram.

QUANTIFICATION OF COUNTERPARTY CREDIT RISK EXPOSURE

QUANTIFICATION OF EXPOSURE

Quantification methodologies:
- Over the life of a product.
- Under distressed market conditions.
- Used to determine risk limits.

Individual counterparty risk limits

Overall limits allocated to products

Regulatory capital limits

ASSESSMENT AND APPROVAL

Relevant technical committees

Derivative counterparty risk management committee

Market and investment risk committee

BUSINESS AND RISK MANAGEMENT RESPONSIBILITIES

- Quantify exposure and risk.
- Manage facility utilisation within approved credit limits.
- Monitor counterparty creditworthiness to ensure early identification of high-risk exposures.
- Review facilities at certain intervals.
- Manage collateral.
- Manage high-risk (watch list) exposures.
- Manage collections and work-out process for defaulted assets.
- Report counterparty credit risk.

RISK FUNCTIONS

- Review limits annually.
- Monitor exposures daily.
- Prepare desk-level reports to ensure sufficient limit available prior to additional trades.

Potential future exposure is applied for non-margined exposure and the ETL method is applied for margined exposure internally to estimate counterparty credit risk exposure at counterparty and/or portfolio level. These exposures are monitored daily against limits. Excesses and covenant breaches are managed in accordance with the excess approval and escalation mandates.

Counterparty credit risk mitigation

The group's counterparty credit risk mitigation approach is described on page 26.

Wrong-way risk exposure

Wrong-way risk exposure occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty. The methods applied in managing counterparty credit limits, exposures and collateral create visibility on portfolio concentrations and exposures, which may be a source of wrong-way risk. These areas are monitored and managed within the relevant exposure mandates.

Credit valuation adjustment (CVA)

CVA is an adjustment to the fair value (or price) of derivative instruments to account for counterparty credit risk. Thus, CVA is commonly viewed as the price of counterparty credit risk. This price depends on counterparty credit spreads as well as on the market risk factors that drive derivatives' value and, therefore, exposure.

- The current CVA framework is being revised by the BCBS with the intention to implement new standards by January 2023. The rationale for revising the current framework is as follows:
  - capturing all CVA risks and better recognition of CVA hedges;
  - alignment with industry practices for accounting purposes; and
  - alignment with proposed revisions of the market risk framework.

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

In rare instances, FirstRand has signed ISDA agreements where both parties would be required to post additional collateral in the event of a credit rating downgrade. The additional collateral to be provided by the group in the event of a credit rating downgrade is not material and would not adversely impact its financial position. The group is phasing out ISDA agreements with these provisions. The number of trades with counterparties with these types of agreements (and the associated risk) is also immaterial.

When assessing the portfolio in aggregate, the collateral that the group would need to provide 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.

COUNTERPARTY CREDIT EXPOSURE

The *CCR1: Analysis of counterparty credit risk* table on the following page provides an overview of the counterparty credit risk arising from the group's derivative and structured finance transactions. SA-CCR has not been implemented yet. Therefore, the information provided in row 1 corresponds to the requirements of the standardised method as applied by FRBSA. The group calculates counterparty credit risk exposures under the standardised method for FRBSA and uses the current exposure method for the other group entities. 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 (alpha).

The comprehensive approach for credit risk mitigation is used to calculate the exposure for collateralised transactions other than collateralised OTC derivative transactions that are subject to the current exposure method. This approach is typically applied to securities financing and repo type transactions.

The following table provides an explanation of the approaches used in the *CCR1: Analysis of counterparty credit risk* table at the bottom of the page.

Replacement cost	The replacement cost for trades that are not subject to margining requirements is the loss that would occur if a counterparty were to default and was immediately closed out of its transactions. For margined trades, the replacement cost is the loss that would occur if a counterparty were to default at present or at a future date, assuming that the close-out and replacement of transactions occurred simultaneously. Under the current exposure method, the current replacement cost is determined by marking contracts to market, thus capturing the current exposure without any need for estimation.
Potential future exposure	The potential increase in the exposure between the present and the end of the margin period of risk. An add-on factor is applied to the replacement cost to determine the potential future exposure over the remaining life of the contract.
Effective expected positive exposure (EEPE)	The weighted average of the effective expected exposure over the first year, or, if all the contracts in the netting set mature before one year, over the time period of the longest-maturity contract in the netting set, where the weights represent the proportion of an individual expected exposure over the entire time interval.
EAD post-CRM	Refers to the amount relevant to the calculated capital requirement over applying credit risk mitigation techniques, credit valuation adjustments and specific wrong-way adjustments.

CCR1 provides a comprehensive view of the methods used to calculate counterparty credit risk regulatory requirements and the main parameters used within each method. The exposures reported exclude CVA charges and exposures cleared through central clearing counterparties (CCP).

CCR1: ANALYSIS OF COUNTERPARTY CREDIT RISK BY APPROACH FOR FRBSA

	As at 30 June 2020					
R million	**Replacement cost**	**Potential future exposure**	**EEPE**	**Alpha used for computing regulatory EAD**	**EAD post-CRM**	**RWA**
1. Standardised approach (for derivatives)*	**11 594**	**17 029**		**1.4**	**40 073**	**13 827**
4. Comprehensive approach for credit risk mitigation for security financing transactions**					**2 348**	**2 348**
6. **Total**	**11 594**	**17 029**			**42 421**	**16 175**

** EEPE is not calculated under the standardised approach (for derivatives). The information in line 1 represents the current exposure method.*

*** Replacement cost, potential future exposure, EEPE and alpha used for computing regulatory EAD are not calculated under the comprehensive approach for credit mitigation for security financing transactions.*

	As at 30 June 2019					
R million	Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
1. Standardised approach (for derivatives)*	4 226	10 083		1.4	20 033	5 790
4. Comprehensive approach for credit risk mitigation for security financing transactions**					4 132	1 876
6. **Total**	4 226	10 083			24 165	7 666

** EEPE is not calculated under the standardised approach (for derivatives). The information in line 1 represents the current exposure method.*

*** Replacement cost, potential future exposure, EEPE and alpha used for computing regulatory EAD are not calculated under the comprehensive approach for credit mitigation for security financing transactions.*

The changes in counterparty exposure numbers year-on-year are attributable to factors which include changes in market prices, an increase in trade volumes, and expiry of trades and hedges. Counterparty credit risk portfolio exposures increased year-on-year as a result of increased trading volumes, mainly in foreign exchange, interest rate and commodity derivatives for securities entities. The overall increase in RWA was mainly attributable to an increase in foreign exchange and interest rate swap transactions to facilitate client hedging. The largest drivers by sector were international banks and corporates. In addition, currency volatility noted in the second half of the year due to the impact of COVID-19 also resulted in increased risk and mark-to-market exposures on currency trades. Replacement cost, potential future exposure and alpha used for computing regulatory EAD, EAD post-CRM and RWA are not inputs into the VaR model calculation for security financing transactions. Row 5 of CCR1 is, therefore, excluded from these tables.

The following table provides the EAD post-CRM and RWA amounts for portfolios subject to the standardised CVA capital charge. As the group does not apply the advanced approach for CVA charge, rows 1 and 2 are excluded from CCR2. The increase in CVA RWA was mainly driven by a combination of increased exposure in interest rate swaps, contracts for difference and entities that had credit rating changes.

CCR2: CVA CAPITAL CHARGE

	As at 30 June 2020		As at 30 June 2019	
R million	**EAD post-CRM**	**RWA***	EAD post-CRM	RWA
3. All portfolios subject to the standardised CVA capital charge	**40 073**	**17 422**	21 756	8 254
4. **Total subject to the CVA capital charge**	**40 073**	**17 422**	21 756	8 254

* *CVA RWA includes rest of Africa and foreign subsidiaries.*

CCR3: STANDARDISED APPROACH – EXPOSURES BY REGULATORY PORTFOLIO AND RISK WEIGHTS*

	As at 30 June 2020					
	Risk weight**					
R million	**0%**	**20%**	**50%**	**100%**	**150%**	**Total credit exposure**
Asset classes#						
Sovereigns	**–**	**–**	**–**	**1 226**	**–**	**1 226**
Banks	**1 336**	**–**	**–**	**1**	**129**	**1 466**
Securities firms	**–**	**–**	**1**	**–**	**–**	**1**
Corporates	**1**	**1**	**32**	**438**	**142**	**614**
Regulatory retail portfolios	**–**	**–**	**–**	**–**	**5**	**5**
Total	**1 337**	**1**	**33**	**1 665**	**276**	**3 312**

* *These exposures are for the subsidiaries in the rest of Africa and foreign branches.*

** *There were no exposures in the 10%, 35% and 75% risk weight buckets at 30 June 2020.*

\# *There were no exposures in the non-central government public sector entities, multilateral development banks and other asset classes at 30 June 2020.*

	As at 30 June 2019					
	Risk weight**					
R million	0%	20%	50%	100%	150%	Total credit exposure
Asset classes#						
Sovereigns	–	–	–	383	16	399
Banks	–	1	34	–	–	35
Corporates	–	–	20	101	6	126
Total	–	1	54	484	22	560

* *These exposures are for the subsidiaries in the rest of Africa and foreign branches.*

** *There were no exposures in the 0%, 10%, 35% and 75% risk weight buckets at 30 June 2019.*

\# *There were no exposures in the non-central government public sector entities, multilateral development banks, securities firms, regulatory retail portfolios and other asset classes at 30 June 2019.*

The increase in credit exposure from 2019 to 2020 is due to increase in risk and mark-to-market exposures as well as counterparty rating downgrades in Nigeria, Namibia and India.

The following tables provide the counterparty credit risk exposures per portfolio and PD range where the AIRB approach is used for credit risk. They also include the main parameters used in the calculation of RWA. These exposures are for FRBSA, where AIRB for credit risk is applied.

The information provided in the different columns is explained as follows:

- EAD post-CRM, gross of accounting provisions;
- average PD is the obligor-grade PD weighted by EAD;
- average LGD is the obligor-grade LGD weighted EAD;
- average maturity in years is obligor maturity weighted by EAD; and
- RWA density is total RWA to EAD post-CRM.

CCR4: AIRB – COUNTERPARTY CREDIT RISK EXPOSURES BY PORTFOLIO AND PD RANGE

	Total FRBSA						
	As at 30 June 2020						
PD scale	**EAD post-CRM R million**	**Average PD %**	**Number of obligors**	**Average LGD %**	**Average maturity years**	**RWA R million**	**RWA density %**
0.00 to <0.15	**12 536**	**0.07**	**38**	**28.44**	**1.30**	**1 422**	**11.34**
0.15 to <0.25	**4 146**	**0.18**	**134**	**19.52**	**0.96**	**727**	**17.53**
0.25 to <0.50	**18 160**	**0.39**	**182**	**31.95**	**1.41**	**4 578**	**25.21**
0.50 to <0.75	**2 090**	**0.70**	**79**	**29.02**	**2.94**	**1 060**	**50.97**
0.75 to <2.50	**5 839**	**1.68**	**265**	**24.66**	**1.87**	**3 214**	**55.04**
2.50 to <10.00	**1 957**	**5.29**	**84**	**36.52**	**3.09**	**2 911**	**148.75**
10.00 to <100.00	**228**	**19.41**	**33**	**25.08**	**0.90**	**271**	**118.86**
100.00 (default)	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**44 956**		**815**			**14 183**	**31.55**

	Total FRBSA						
	As at 30 June 2019						
PD scale	EAD post-CRM R million	Average PD %	Number of obligors	Average LGD %	Average maturity years	RWA R million	RWA density %
0.00 to <0.15	4 146	0.08	38	21.71	1.20	478	11.53
0.15 to <0.25	2 201	0.17	100	13.73	0.64	278	12.63
0.25 to <0.50	7 074	0.39	210	23.78	1.89	2 233	31.57
0.50 to <0.75	653	0.70	74	24.45	5.02	325	49.77
0.75 to <2.50	3 808	1.59	282	24.19	1.45	2 227	58.48
2.50 to <10.00	375	6.94	65	19.68	4.62	345	92.00
10.00 to <100.00	52	18.15	32	13.71	0.77	27	51.92
100.00 (default)	–	–	–	–	–	–	–
Total	18 309		801			5 913	32.29

The increases in exposure and RWA across all PD bands is due to increased EAD, trade volumes mainly in foreign exchange, interest rate and commodity derivatives, and volatility in foreign exchange rates.

The FRBSA movements were mainly driven by movements in securities, public sector and local government and corporates (refer to the subsections of CCR4 tables on pages 137 to 139).

CCR4: AIRB – COUNTERPARTY CREDIT RISK EXPOSURES BY PORTFOLIO AND PD RANGE continued

	Banks						
	As at 30 June 2020						
PD scale	**EAD post-CRM R million**	**Average PD %**	**Number of obligors**	**Average LGD %**	**Average maturity years**	**RWA R million**	**RWA density %**
0.00 to <0.15	**7 002**	**0.07**	**28**	**26.48**	**1.43**	**903**	**12.90**
0.15 to <0.25	**1 003**	**0.16**	**7**	**36.72**	**1.55**	**333**	**33.20**
0.25 to <0.50	**2 340**	**0.45**	**17**	**29.41**	**1.37**	**1 128**	**48.21**
0.50 to <0.75	**–**	**–**	**–**	**–**	**–**	**–**	**–**
0.75 to <2.50	**462**	**1.16**	**3**	**39.88**	**1.03**	**339**	**73.38**
2.50 to <10.00	**140**	**4.93**	**5**	**44.57**	**1.05**	**193**	**137.86**
10.00 to <100.00	**24**	**15.55**	**8**	**38.77**	**1.00**	**41**	**170.83**
100.00 (default)	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Subtotal	**10 971**		**68**			**2 938**	**26.77**

	Banks						
	As at 30 June 2019						
PD scale	EAD post-CRM R million	Average PD %	Number of obligors	Average LGD %	Average maturity years	RWA R million	RWA density %
0.00 to <0.15	2 322	0.07	32	19.23	1.40	236	10.16
0.15 to <0.25	87	0.17	6	42.34	2.64	48	55.17
0.25 to <0.50	768	0.41	13	27.59	1.54	323	42.06
0.50 to <0.75	14	0.74	1	31.00	4.84	12	85.71
0.75 to <2.50	33	1.20	4	37.97	1.28	29	87.88
2.50 to <10.00	3	4.93	6	45.78	1.00	3	100.00
10.00 to <100.00	3	30.97	7	45.07	1.00	9	300.00
100.00 (default)	–	–	–	–	–	–	–
Subtotal	3 230		69			660	20.43

The overall increase in exposure and RWA was driven by an increase in risk and mark-to-market positions across all the asset classes, driven by foreign exchange and interest rate in the 0.00 to <0.15 PD band.

CCR4: AIRB – COUNTERPARTY CREDIT RISK EXPOSURES BY PORTFOLIO AND PD RANGE continued

	Securities						
	As at 30 June 2020						
PD scale	**EAD post-CRM R million**	**Average PD %**	**Number of obligors**	**Average LGD %**	**Average maturity years**	**RWA R million**	**RWA density %**
0.00 to <0.15	**5 270**	**0.07**	**8**	**30.32**	**1.13**	**468**	**8.88**
0.15 to <0.25	**2 710**	**0.18**	**88**	**11.90**	**0.64**	**291**	**10.74**
0.25 to <0.50	**10 170**	**0.37**	**60**	**38.22**	**0.56**	**1 384**	**13.61**
0.50 to <0.75	**360**	**0.74**	**33**	**20.41**	**0.76**	**148**	**41.08**
0.75 to <2.50	**2 421**	**2.04**	**136**	**13.44**	**0.98**	**814**	**33.62**
2.50 to <10.00	**212**	**4.83**	**19**	**37.10**	**8.30**	**325**	**153.30**
10.00 to <100.00	**35**	**29.32**	**5**	**6.06**	**0.39**	**12**	**34.29**
100.00 (default)	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Subtotal	**21 178**		**349**			**3 442**	**16.25**

	Securities						
	As at 30 June 2019						
PD scale	EAD post-CRM R million	Average PD %	Number of obligors	Average LGD %	Average maturity years	RWA R million	RWA density %
0.00 to <0.15	1 750	0.09	4	24.09	0.91	228	13.03
0.15 to <0.25	1 793	0.17	73	12.47	0.58	201	11.21
0.25 to <0.50	4 189	0.38	51	21.99	1.15	995	23.75
0.50 to <0.75	148	0.73	22	12.1	0.39	31	20.95
0.75 to <2.50	2 823	1.50	140	21.04	0.95	1 386	49.10
2.50 to <10.00	58	4.93	14	12.98	7.98	34	58.62
10.00 to <100.00	15	10.07	9	10.8	1.66	8	53.33
100.00 (default)	–	–	–	–	–	–	–
Subtotal	10 776		313			2 883	26.75

The increase in exposure and RWA in the 0.25 to <0.50 PD band was mainly driven by an increase in interest rates, the effect of currency volatility on cross-currency exposures and cross-currency swaps traded with securities firms during the year.

CCR4: AIRB – COUNTERPARTY CREDIT RISK EXPOSURES BY PORTFOLIO AND PD RANGE continued

	Corporate						
	As at 30 June 2020						
PD scale	**EAD post-CRM R million**	**Average PD %**	**Number of obligors**	**Average LGD %**	**Average maturity years**	**RWA R million**	**RWA density %**
0.00 to <0.15	**212**	**0.09**	**1**	**45.00**	**1.00**	**39**	**18.40**
0.15 to <0.25	**410**	**0.21**	**33**	**28.62**	**1.67**	**102**	**24.88**
0.25 to <0.50	**1 970**	**0.41**	**80**	**28.08**	**2.62**	**927**	**47.06**
0.50 to <0.75	**1 200**	**0.72**	**31**	**33.41**	**1.35**	**611**	**50.92**
0.75 to <2.50	**1 595**	**1.31**	**102**	**36.06**	**1.26**	**1 066**	**66.83**
2.50 to <10.00	**450**	**4.69**	**55**	**40.28**	**1.35**	**573**	**127.33**
10.00 to <100.00	**145**	**19.18**	**19**	**26.58**	**1.00**	**189**	**130.34**
100.00 (default)	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Subtotal	**5 982**		**321**			**3 507**	**58.63**

	Corporate						
	As at 30 June 2019						
PD scale	EAD post-CRM R million	Average PD %	Number of obligors	Average LGD %	Average maturity years	RWA R million	RWA density %
0.00 to <0.15	65	0.08	1	45.00	1.00	12	18.46
0.15 to <0.25	292	0.17	16	13.12	0.46	26	8.90
0.25 to <0.50	1 045	0.38	113	25.86	2.34	377	36.08
0.50 to <0.75	204	0.74	42	26.34	1.89	88	43.14
0.75 to <2.50	467	1.68	121	35.47	1.18	343	73.45
2.50 to <10.00	16	4.24	38	48.67	1.06	23	143.75
10.00 to <100.00	34	20.32	16	11.82	0.37	10	29.41
100.00 (default)	–	–	–	–	–	–	–
Subtotal	2 123		347			879	41.40

The increase in exposure across all PD bands was mainly driven by an increase in risk and mark-to-market positions to facilitate hedging activities for clients.

CCR4: AIRB – COUNTERPARTY CREDIT RISK EXPOSURES BY PORTFOLIO AND PD RANGE continued

	Public sector and local government						
	As at 30 June 2020						
PD scale	**EAD post-CRM R million**	**Average PD %**	**Number of obligors**	**Average LGD %**	**Average maturity years**	**RWA R million**	**RWA density %**
0.00 to <0.15	**–**	**–**	**–**	**–**	**–**	**–**	**–**
0.15 to <0.25	**20**	**1.00**	**2**	**1.00**	**0.40**	**1**	**5.00**
0.25 to <0.50	**110**	**44.00**	**5**	**36.00**	**1.14**	**44**	**40.00**
0.50 to <0.75	**–**	**–**	**–**	**–**	**–**	**–**	**–**
0.75 to <2.50	**–**	**–**	**1**	**–**	**1.45**	**–**	**–**
2.50 to <10.00	**670**	**714.00**	**1**	**201.00**	**2.63**	**714**	**106.57**
10.00 to <100.00	**24**	**29.00**	**1**	**7.00**	**1.00**	**29**	**120.83**
100.00 (default)	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Subtotal	**824**		**10**			**788**	**95.63**

	Public sector and local government						
	As at 30 June 2019						
PD scale	EAD post-CRM R million	Average PD %	Number of obligors	Average LGD %	Average maturity years	RWA R million	RWA density %
0.00 to <0.15	–	–	–	–	–	–	–
0.15 to <0.25	25	1.00	2	2.00	0.22	1	4.00
0.25 to <0.50	23	10.00	5	7.00	2.12	10	43.48
0.50 to <0.75	–	–	–	–	–	–	–
0.75 to <2.50	269	252.00	2	81.00	3.37	252	93.68
2.50 to <10.00	–	–	3	–	1.00	–	–
10.00 to <100.00	–	–	–	–	–	–	–
100.00 (default)	–	–	–	–	–	–	–
Subtotal	317		12			263	82.97

The movement of exposure from the 0.75 to <2.50 PD band in 2019 to the 2.50 to <10.00 PD band in 2020 was due to the sovereign downgrade.

CCR4: AIRB – COUNTERPARTY CREDIT RISK EXPOSURES BY PORTFOLIO AND PD RANGE continued

	Sovereign						
	As at 30 June 2020						
PD scale	**EAD post-CRM R million**	**Average PD %**	**Number of obligors**	**Average LGD %**	**Average maturity years**	**RWA R million**	**RWA density %**
0.00 to <0.15	**–**	**–**	**–**	**–**	**–**	**–**	**–**
0.15 to <0.25	**3**	**0.17**	**4**	**11.75**	**0.38**	**–**	**–**
0.25 to <0.50	**–**	**–**	**–**	**–**	**–**	**–**	**–**
0.50 to <0.75	**10**	**0.60**	**1**	**5.00**	**0.10**	**1**	**10.00**
0.75 to <2.50	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.50 to <10.00	**–**	**–**	**–**	**–**	**–**	**–**	**–**
10.00 to <100.00	**–**	**–**	**–**	**–**	**–**	**–**	**–**
100.00 (default)	**–**	**0.26**	**–**	**10.28**	**–**	**–**	**–**
Subtotal	**13**		**5**			**1**	**7.69**

	Sovereign						
	A s at 30 June 2019						
PD scale	EAD post-CRM R million	Average PD %	Number of obligors	Average LGD %	Average maturity years	RWA R million	RWA density %
0.00 to <0.15	–	–	–	–	–	–	–
0.15 to <0.25	4	2.00	3	2.00	2.56	2	50.00
0.25 to <0.50	111	83.00	4	46.00	2.33	83	74.77
0.50 to <0.75	–	–	–	–	–	–	–
0.75 to <2.50	–	–	–	–	–	–	–
2.50 to <10.00	–	–	–	–	–	–	–
10.00 to <100.00	–	–	–	–	–	–	–
100.00 (default)	–	–	–	–	–	–	–
Subtotal	115		7			85	73.91

The reduction in exposure and RWA, mainly in the 0.25 to <0.50 PD band, was driven by a decrease in low-base sovereign exposures across the lower PD bands. The decrease in RWA density from 2019 to 2020 was due to the reduction of sovereign exposure and risk mitigation applied in 2020.

CCR4: AIRB – COUNTERPARTY CREDIT RISK EXPOSURES BY PORTFOLIO AND PD RANGE continued

	Other						
	As at 30 June 2020						
PD scale	**EAD post-CRM R million**	**Average PD %**	**Number of obligors**	**Average LGD %**	**Average maturity years**	**RWA R million**	**RWA density %**
0.00 to <0.15	**52**	**0.08**	**1**	**33.00**	**3.05**	**12**	**23.08**
0.15 to <0.25	**–**	**–**	**–**	**–**	**–**	**–**	**–**
0.25 to <0.50	**3 570**	**0.39**	**20**	**17.84**	**3.20**	**1 095**	**30.65**
0.50 to <0.75	**520**	**0.63**	**14**	**25.38**	**8.26**	**300**	**57.69**
0.75 to <2.50	**1 361**	**1.62**	**23**	**27.48**	**4.36**	**995**	**73.11**
2.50 to <10.00	**485**	**6.63**	**4**	**39.44**	**3.66**	**1 106**	**228.04**
10.00 to <100.00	**–**	**–**	**–**	**–**	**–**	**–**	**–**
100.00 (default)	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Subtotal	**5 988**		**62**			**3 508**	**58.58**

	Other						
	As at 30 June 2019						
PD scale	EAD post-CRM R million	Average PD %	Number of obligors	Average LGD %	Average maturity years	RWA R million	RWA density %
0.00 to <0.15	9	0.08	1	28.00	4.06	2	22.22
0.15 to <0.25	–	–	–	–	–	–	–
0.25 to <0.50	938	0.39	24	24.16	4.94	445	47.44
0.50 to <0.75	287	0.66	9	29.15	9.64	194	67.60
0.75 to <2.50	216	1.67	15	32.58	6.19	217	100.46
2.50 to <10.00	298	7.50	4	19.22	4.19	285	95.64
10.00 to <100.00	–	–	–	–	–	–	–
100.00 (default)	–	–	–	–	–	–	–
Subtotal	1 748		53			1 143	65.39

The increase in RWA was driven by a migration in exposures across the higher PD bands.

The following tables provide the composition of collateral for counterparty credit risk exposures per category for collateral used in derivative transactions, split between fair value of collateral received and posted collateral. “Segregated” refers to collateral which is held in a bankruptcy-remote manner and “unsegregated” to collateral not held in a bankruptcy-remote manner. The increase in unsegregated collateral received was due to collateral received on the back of increased trading in foreign exchange, interest rate and equity derivatives. The reduction in collateral securities in security finance transactions was driven by a reduction in local government securities as the underlying on new trades. Many security finance transactions are short-dated in nature.

CCR5: COMPOSITION OF COLLATERAL FOR COUNTERPARTY CREDIT RISK EXPOSURE PER COLLATERAL CATEGORY*

	As at 30 June 2020					
	Collateral used in derivative transactions				**Collateral used in security finance transactions**	
	Fair value of collateral received		**Fair value of posted collateral**		**Fair value of collateral received**	**Fair value of posted collateral**
R million	**Segregated**	**Unsegregated**	**Segregated**	**Unsegregated**		
Cash – domestic currency	**11 295**	**477**	**–**	**73**	**–**	**–**
Cash – other currencies	**–**	**8 819**	**–**	**22 940**	**–**	**–**
Domestic sovereign debt	**–**	**3**	**–**	**–**	**33 759**	**37 109**
Other sovereign debt	**–**	**–**	**–**	**–**	**98**	**98**
Government agency debt	**–**	**–**	**–**	**–**	**246**	**–**
Corporate bonds	**–**	**–**	**–**	**–**	**160**	**–**
Other collateral	**–**	**3 494**	**–**	**–**	**253**	**–**
Total	**11 295**	**12 793**	**–**	**23 013**	**34 516**	**37 207**

* *There was no collateral in the equity securities category during the year.*

	As at 30 June 2019					
	Collateral used in derivative transactions				Collateral used in security finance transactions	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
R million	Segregated	Unsegregated	Segregated	Unsegregated		
Cash – domestic currency	7 987	7 289	–	20 119	–	–
Cash – other currencies	–	2 613	–	–	–	–
Domestic sovereign debt	–	4	–	–	297 239	292 136
Other sovereign debt	–	–	–	–	41	41
Government agency debt	–	–	–	–	4 880	4 842
Corporate bonds	–	–	–	–	1 235	1 408
Other collateral	–	54	–	–	–	–
Total	7 987	9 960	–	20 119	303 395	298 427

* *There was no collateral in the equity securities and other collateral categories during the year.*

The decrease was driven mainly by a reduction in domestic sovereign debt holdings and sovereign debt issued collateral year-on-year. The decrease in collateral used in security finance transactions in 2020 related to the exclusion of internal trades previously included.

The group employs credit derivatives as indicated in the following tables.

CCR6: CREDIT DERIVATIVES

	As at 30 June 2020		As at 30 June 2019	
R million	**Protection bought**	**Protection sold**	Protection bought	Protection sold
Notionals*				
– Single-name credit default swaps	**13 426**	**6 950**	12 973	4 930
Total notionals	**13 426**	**6 950**	12 973	4 930
Fair values	**17**	**(288)**	12	(48)
– Positive fair value (asset)	**61**	**87**	378	837
– Negative fair value (liability)	**(44)**	**(375)**	(366)	(885)

* *There were no credit derivatives in the index credit default swaps, total return swaps, credit options and other credit derivative categories during the year.*

The template *CCR7: RWA flow statements of CCR exposures under the internal model method* is not applicable as the group does not use the internal model method for measuring EAD of counterparty credit risk EAD.

The group's exposure to central counterparties (central clearing houses) and related RWA is provided below.

CCR8: EXPOSURES TO CENTRAL COUNTERPARTIES

	As at 30 June 2020		As at 30 June 2019	
R million	**EAD post-CRM**	**RWA**	EAD post-CRM	RWA
2. Exposures for trade at qualifying central counterparties (excluding initial margin and default fund contributions) of which:	**8 449**	**169**	5 556	111
3. – OTC derivatives	**1 194**	**24**	659	13
4. – Exchange-traded derivatives	**7 255**	**145**	4 897	98
5. – Securities financing transactions	**–**	**–**	–	–
6. – Netting sets where cross-product netting has been approved	**–**	**–**	–	–
7. Segregated initial margin*	**11 289**		7 987	
8. Non-segregated initial margin	**–**	**–**	–	–
9. Pre-funded default fund contributions	**371**	**32**	319	37
10. Unfunded default fund contributions	**–**	**–**	–	–
1. **Total exposures to qualifying central counterparties****	**20 109**	**201**	13 862	148

* *RWA is not determined on segregation initial margin.*

** *There were no exposures to non-qualifying central counterparties (rows 11 – 20 of the CCR8 template) for the year.*

Securitisations

INTRODUCTION AND OBJECTIVES

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

Objectives of securitisation activities

Securitisation enables the group to access funding markets at ratings that are typically higher than its own corporate credit rating. This 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 the cost of on-balance sheet financing and to 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.

Exposures intended to be securitised or resecuritised in the future

FirstRand uses securitisation primarily as a funding tool. The ability to securitise assets depends on the availability of eligible assets, investor appetite for securitisation paper and the availability of alternative funding sources. All assets on the group's balance sheet are viewed as available for securitisation within market constraints. The group obtains the required internal and external approvals for any proposed transactions.

Resecuritisation

A resecuritisation exposure is a securitisation exposure where the risk associated with an underlying pool of exposures is tranched and at least one of the underlying exposures is itself a securitisation exposure.

The group's asset-backed commercial paper conduits occasionally acquire securitisation paper, which is managed as part of the underlying portfolio. This, however, represents a minimal portion of the total portfolio and is disclosed as a resecuritisation exposure for regulatory capital purposes.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

THE GROUP'S ROLE IN SECURITISATION AND CONDUIT STRUCTURES

Transaction	Originator	Sponsor	Servicer	Investor	Liquidity provider	Credit enhancement provider	Swap counterparty
Own securitisations							
Nitro 6	✓	✓	✓				✓
Nitro 7	✓	✓	✓				✓
FAST Issuer	✓	✓	✓	✓			✓
Turbo Finance 6	✓	✓	✓	✓			
Turbo Finance 7	✓	✓	✓	✓			
Turbo Finance 8	✓	✓	✓	✓			
MotoPark	✓	✓	✓	✓			
MotoFirst	✓	✓	✓	✓			
MotoWay	✓	✓	✓	✓			✓
Oak 2	✓	✓	✓	✓			
Oak 3	✓	✓	✓	✓			
MotoMore	✓	✓	✓	✓			
Conduit structures							
iVuzi*		✓	✓		✓	✓	✓
iNkotha**			✓				
iNguza**	✓		✓				✓
Third party							
Homes Obligor Mortgage Enhanced Securities					✓		
Private Residential Mortgages 2					✓		
Superdrive Investments				✓			
Velocity Finance Issuer Trust				✓			✓
Velocity Finance (RF) Limited				✓			✓
Clover Capital				✓			

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

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

The board is ultimately responsible for determining risk appetite and risk limits for the group. The RCC committee provides independent oversight and monitoring and, in turn, has delegated the responsibility for securitisation exposures to group ALCCO. ALCCO also maintains responsibility on behalf of the board for the allocation of sublimits and any remedial action in the event of limit breaches. The FirstRand wholesale credit committee approves credit limits for retained securitisation exposures per special purpose vehicle (SPV).

ASSESSMENT AND MANAGEMENT

Oversight and risk mitigation

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

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

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

Some governance and management processes in place to monitor securitisation-related risks are outlined below:

- rigorous internal approval processes are in place for proposed securitisations, and transactions are reviewed by ALCCO, the RCC committee and the board against approved limits;
- changes to retained exposures (as a result of rating changes, reviews, note redemptions and credit losses) are reflected in the monthly BA500 regulatory return for FRBSA and the quarterly BA600 for other entities; and
- transaction investor reports, alignment with SPV financial reporting and the impact of underlying asset performance are reflected on the semi-annual BA501 regulatory return.

The group does not employ credit risk mitigation techniques to hedge credit risk on retained securitisation tranches.

Summary of accounting policies for securitisation activities

From an accounting perspective, traditional securitisations are treated as sales transactions. At inception, the assets are sold to an SPV at carrying value and no gains or losses are recognised. For synthetic securitisations, 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, FRI and FRB for financial reporting purposes. Any retained notes are accounted for as investment securities in the banking book. Liabilities resulting from securitisation vehicles are accounted for in line with group accounting policies for liabilities, provisions and contingent liabilities.

Year under review

MOTOWAY LIMITED

MotoWay Limited (MotoWay) was concluded in September 2019 and is a securitisation of MotoNovo's back book receivables. The total transaction size was £583 million. The initial cash reserve requirement amount was 0.7%, increasing to 2.75% of the outstanding receivables amount at the end of each month. In May 2020, an additional £160 million portfolio of receivables was sold by the London branch to MotoWay.

FAST ISSUER

In October 2019, the FAST Issuer revolving period was extended for a further 12 months to end in September 2020. Certain structural changes were made to the subordinated notes. The subordinated loan of R87 million was fully redeemed and there was a partial redemption of C notes amounting to R459 million. The rest of the C notes were redeemed using the excess spread in the structure and the cash reserve was increased from 2% to 4%.

VELOCITY FINANCE (RF) LIMITED

In October 2019, Velocity Finance (RF) Limited made its tenth issuance consisting of R300 million at fixed rates and R2.1 billion at floating rates. The bank purchased the A notes of each issuance, to the amount of R282 million and R1.985 billion, respectively. Furthermore, Velocity Finance (RF) Limited made its 11th and 12th issuances on 20 January 2020 and 17 March 2020, respectively. For the 11th issuance, fixed series A notes of R284 million and B notes of R17 million were issued. Floating A notes for R1.087 billion and B notes for R63 million were issued. For the 12th issuance, fixed series A notes for R376 million and B notes for R24 million were issued. Floating series A notes for R3.119 million and B notes for R182 million were issued. The bank purchased the A notes of each issuance.

TURBO FINANCE 6

In December 2019, the early redemption clean-up call on the Turbo 6 was exercised and all outstanding notes were redeemed.

TURBO FINANCE 7

In April 2020, the early redemption clean-up call on the Turbo 7 was exercised and all outstanding notes were redeemed.

External credit assessment institutions

The group employs eligible ratings issued by nominated external credit assessment institutions (ECAIs) to risk weight its securitisation and resecuritisation exposures where the use is permitted. The ECAIs nominated by the group for this purpose are Global Credit Ratings (GCR), Moody's, S&P, Fitch and DBRS Ratings Limited (DBRS). The following tables show the traditional securitisations currently in issue and the ratings distribution of any exposures retained. Global scale ratings are used for internal risk management purposes and regulatory capital reporting.

TRADITIONAL SECURITISATIONS TRANSACTIONS*

*Traditional securitisations***	Asset type	Rating agency	Year initiated	Expected close
Nitro 6	Retail auto loans	GCR	2018	2025
Nitro 7	Retail auto loans	Moody's	2019	2027
FAST Issuer	Retail auto loans		2016	2025
Turbo Finance 6	Retail auto loans	S&P and Moody's	2016	2023
Turbo Finance 7	Retail auto loans	S&P and Moody's	2016	2023
Turbo Finance 8	Retail auto loans	S&P and Moody's	2018	2026
MotoPark	Retail auto loans	DBRS and S&P	2018	2025
MotoFirst	Retail auto loans		2017	2026
MotoWay	Retail auto loans		2019	2023

		Assets outstanding#		Notes outstanding		Retained exposure	
R million	Assets securitised	**June 2020**	June 2019	**June 2020**	June 2019	**June 2020**	June 2019
Nitro 6	2 000	**745**	1 262	**676**	1 213	**–**	–
Nitro 7	2 000	**1 391**	2 091	**1 358**	2 089	**–**	–
FAST Issuer	8 475	**10 727**	9 608	**10 243**	9 213	**1 527**	2 092
Turbo Finance 6	8 463	**–**	1 256	**–**	1 053	**–**	296
Turbo Finance 7	12 255	**–**	2 662	**–**	2 280	**–**	405
Turbo Finance 8	8 570	**3 660**	5 696	**3 431**	5 216	**203**	180
MotoPark	11 570	**7 555**	10 893	**6 862**	9 784	**6 889**	9 813
MotoFirst	12 877	**11 766**	14 436	**9 700**	12 864	**1 059**	846
MotoWay	12 491	**12 622**	–	**11 992**	–	**1 918**	–
Total	78 701	**48 466**	47 904	**44 262**	43 712	**11 596**	13 632

* *Include transactions structured by the group and exclude third-party transactions.*

** *Aldermore's Oak securitisations have not derecognised assets in terms of the securitisation framework and therefore remain on balance sheet.*

Assets outstanding do not include cash reserves.

Securitisation exposures in the banking book

The following tables provide a breakdown of the group's traditional securitisation exposures in the banking book for the retail and corporate portfolios where the group acts as originator, sponsor, investor, or originator and sponsor.

SEC1: SECURITISATION EXPOSURE IN THE BANKING BOOK PER PORTFOLIO

	As at 30 June 2020				
	Traditional securitisations				
R million	Group acts as originator	Group acts as sponsor	Group acts as investor	Group acts as originator and sponsor	Total
1. **Retail**					
4. – Auto loans	**11 596**	**–**	**26 419**	**–**	**38 015**
6. **Corporate**					
7. – Loans to corporates	**–**	**–**	**–**	**3 831**	**3 831**
Total	**11 596**	**–**	**26 419**	**3 831**	**41 846**

	As at 30 June 2019				
	Traditional securitisations				
R million	Group acts as originator	Group acts as sponsor	Group acts as investor	Group acts as originator and sponsor	Total
1. **Retail**					
4. – Auto loans	13 633	–	27 854	–	41 486
6. **Corporate**					
7. – Loans to corporates	–	–	–	5 152	5 152
Total	13 633	–	27 854	5 152	46 638

There were no residential mortgage, credit card or resecuritisation exposures in the retail portfolio (rows 2, 3 and 5 of the *SEC1* template) and no commercial mortgage, lease and receivables, other corporate or resecuritisation exposures in the corporate portfolio (rows 8 – 11 of the *SEC1* template).

The regulatory approaches for securitisation exposures in the following tables are explained below.

Internal ratings-based (IRB) approach	**Ratings-based approach (RBA)** Securitisation exposures to notes rated by an ECAI and held in an entity that uses the IRB approach.
	Internal assessment approach (IAA) The group does not use IAA for calculating risk weighted assets on securitisation exposures.
	Supervisory formula approach (SFA) Where SFA is used, these exposures are captured in the IRB SFA column.
Standardised approach	Exposures subject to the look-through approach are disclosed in the simplified supervisory approach (SSFA).
Unrated notes	Exposures to unrated notes are risk weighted at 1 250%.

There were no synthetic securitisations during the year under review.

SEC3: TRADITIONAL SECURITISATION EXPOSURES IN THE BANKING BOOK AND ASSOCIATED REGULATORY CAPITAL REQUIREMENTS – BANK ACTING AS ORIGINATOR OR AS SPONSOR

	As at 30 June 2020*								
	Exposure values by risk weighted (RW) bands					**Exposure values by regulatory approach**			
						IRB		**SA**	
R million	**≤20% RW**	**>20% to 50% RW**	**>50% to 100% RW**	**>100% to <1 250% RW**	**1 250% RW**	**RBA**	**SFA**	**SSFA**	**1 250%**
Securitisation									
4. – Retail	**1 527**	**6 084**	**2 378**	**–**	**1 607**	**–**	**1 527**	**8 462**	**1 607**
5. – Corporate	**–**	**3 831**	**–**	**–**	**–**	**–**	**–**	**3 831**	**–**
Total	**1 527**	**9 915**	**2 378**	**–**	**1 607**	**–**	**1 527**	**12 293**	**1 607**

* *There were no resecuritisations or synthetic securitisations (rows 6 – 15 of the SEC3 template) during the year under review.*

** *Capital requirement calculated at 10.50% of RWA. The minimum requirement excludes the bank-specific requirements, but includes the CCyB requirement. The difference to the BCBS base minimum (8%) relates to the buffer add-ons for Pillar 2A, CCyB and capital conservation as prescribed in the Regulations. The Pillar 2A and CCyB requirements were 0% at 30 June 2020.*

	As at 30 June 2019*								
	Exposure values by RW bands					Exposure values by regulatory approach			
						IRB		SA	
R million	≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1 250% RW	1 250% RW	RBA	SFA	SSFA	1 250%
Securitisation									
4. – Retail	1 602	9 128	540	177	2 186	–	1 534	9 913	2 186
5. – Corporate	–	5 152	–	–	–	–	–	5 152	–
Total	1 602	14 280	540	177	2 186	–	1 534	15 065	2 186

* *There were no resecuritisations or synthetic securitisations (rows 6 – 15 of the SEC3 template) in 2019.*

** *Capital requirement calculated at 11.680% of RWA. The minimum requirement excludes the bank-specific requirements, but includes the CCyB requirement. The difference to the BCBS base minimum (8%) relates to the buffer add-ons for Pillar 2A, CCyB and capital conservation as prescribed in the Regulations.*

	As at 30 June 2020							
	RWA by regulatory approach				Minimum capital requirement**			
	IRB		SA		IRB		SA	
	RBA	SFA	SSFA	1 250%	RBA	SFA	SSFA	1 250%
	–	**113**	**5 420**	**20 094**	**–**	**12**	**569**	**2 110**
	–	**–**	**1 553**	**–**	**–**	**–**	**163**	**–**
	–	**113**	**6 973**	**20 094**	**–**	**12**	**732**	**2 110**

	As at 30 June 2019							
	RWA by regulatory approach				Minimum capital requirement**			
	IRB		SA		IRB		SA	
	RBA	SFA	SSFA	1 250%	RBA	SFA	SSFA	1 250%
	–	114	5 737	27 327	–	13	670	3 192
	–	–	2 548	–	–	–	298	–
	–	114	8 285	27 327	–	13	968	3 192

SEC4: TRADITIONAL SECURITISATION EXPOSURES IN THE BANKING BOOK AND ASSOCIATED CAPITAL REQUIREMENTS – BANK ACTING AS INVESTOR

	As at 30 June 2020*						
	Exposure values by RW bands**	Exposure values by regulatory approach#		RWA by regulatory approach		Minimum capital requirement†	
		IRB		IRB		IRB	
R million	≤20% RW	RBA	SFA	RBA	SFA	RBA	SFA
Securitisation							
4. – Retail	**26 419**	**–**	**26 419**	**–**	**1 960**	**–**	**206**
5. – Corporate	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**26 419**	**–**	**26 419**	**–**	**1 960**	**–**	**206**

* *There were no resecuritisations or synthetic securitisations (rows 6 – 15 of the SEC4 template) during the year under review.*

** *There were no exposures in the >20% to 50%, >50% to 100%, >100% to <1 250% and 1 250% RW bands.*

\# *There were no exposures under the standardised approach or to unrated notes risk weighted at 1 250%.*

† *Capital requirement calculated at 10.50%. The minimum requirement excludes the bank-specific requirements, but includes the CCyB requirement. The difference to the BCBS base minimum (8%) relates to the buffer add-ons for Pillar 2A, CCyB and capital conservation as prescribed in the Regulations. The Pillar 2A and CCyB requirements were 0% at 30 June 2020.*

	As at 30 June 2019*						
	Exposure values by RW bands**	Exposure values by regulatory approach#		RWA by regulatory approach		Minimum capital requirement†	
		IRB		IRB		IRB	
R million	≤20% RW	RBA	SFA	RBA	SFA	RBA	SFA
Securitisation							
4. – Retail	27 854	–	27 854	–	2 067	–	241
5. – Corporate	–	–	–	–	–	–	–
Total	27 854	–	27 854	–	2 067	–	241

* *There were no resecuritisations or synthetic securitisations (rows 6 – 15 of the SEC4 template) in 2019.*

** *There were no exposures in the >20% to 50%, >50% to 100%, >100% to <1 250% and 1 250% RW bands.*

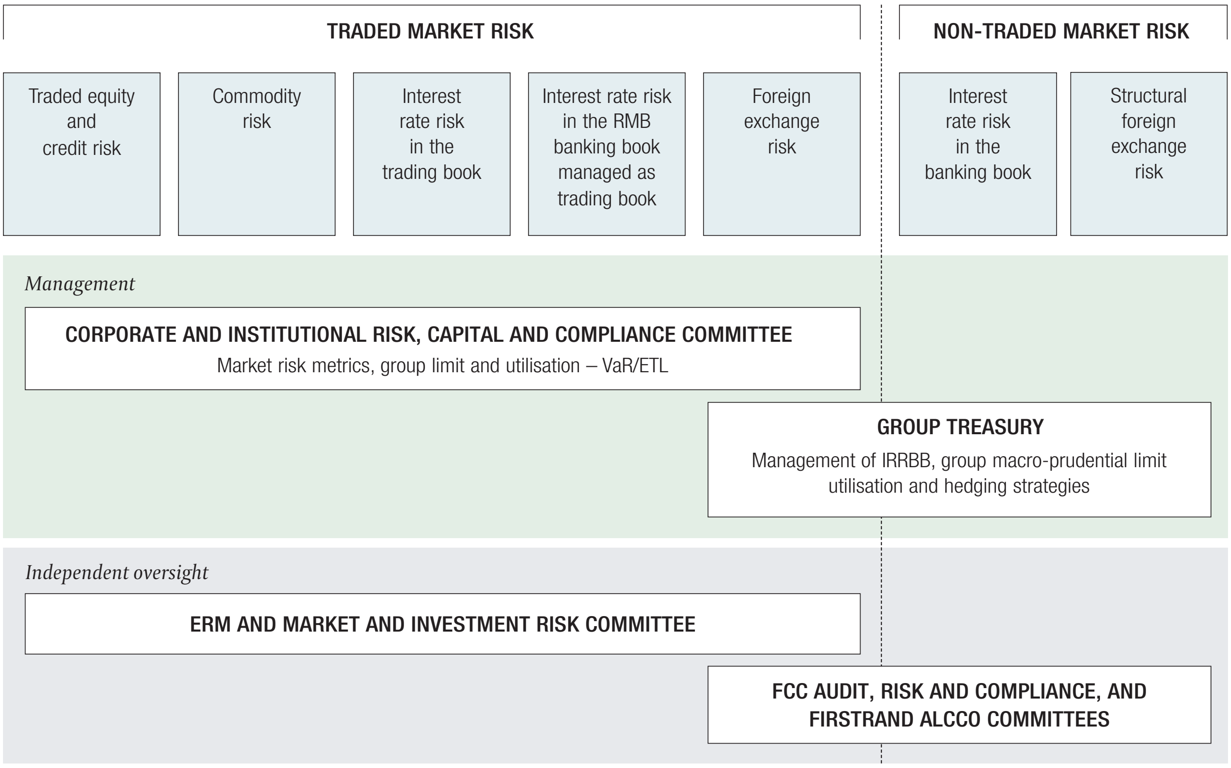
\# *There were no exposures under the standardised approach or to unrated notes risk weighted at 1 250%.*

† *Capital requirement calculated at 11.680%. The minimum requirement excludes the bank-specific requirements, but includes the CCyB requirement. The difference to the BCBS base minimum (8%) relates to the buffer add-ons for Pillar 2A, CCyB and capital conservation as prescribed in the Regulations.*

Market risk

The group distinguishes between **traded market risk** and **non-traded market risk**. The following diagram describes the traded and non-traded market risks and the governance bodies responsible for managing these risks.

TRADED AND NON-TRADED MARKET RISK ELEMENTS



Traded market risk

INTRODUCTION AND OBJECTIVES

Traded market risk activities

Traded market risk is the risk of adverse revaluation of any financial instrument as a consequence of changes in market prices or rates.

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

The group's objective is to manage and control market risk exposures, based on three pillars, each with its own objective:

- strategic business mix – ensure that RMB's current and future strategies, spanning various activities and geographies, achieve their growth and return targets within acceptable levels of risk;
- financial performance – optimise portfolio performance and manage the interplay between growth and ROE given the differentiated risk/return characteristics of activities; and
- risk and capital impact – only accept an appropriate level of risk commensurate with performance objectives and market opportunity.

The nature of hedging and risk mitigation strategies performed across the group corresponds to the market risk management instruments available in each operating jurisdiction. These strategies range from the use of traditional market instruments, such as interest rate swaps, to more sophisticated hedging strategies to address a combination of risk factors arising at portfolio level.

The group uses global and industry accepted models and operating platforms to measure market risk. These operating platforms support regulatory reporting, external disclosures and internal management reporting for market risk. The risk infrastructure incorporates the relevant legal entities and business units, and provides the basis for reporting on risk positions, capital adequacy and limit utilisation to the relevant governance and management functions on a regular and *ad hoc* basis. Established units in risk management functions assume responsibility for measurement, analysis and reporting of risk while promoting sufficient quality and integrity of risk-related data. The VaR and sVaR calculations and aggregations are performed daily by these operating platforms and risk measures are compared to limits. Breaches are escalated to senior management.

Interest rate risk in the banking book activities under the market risk framework

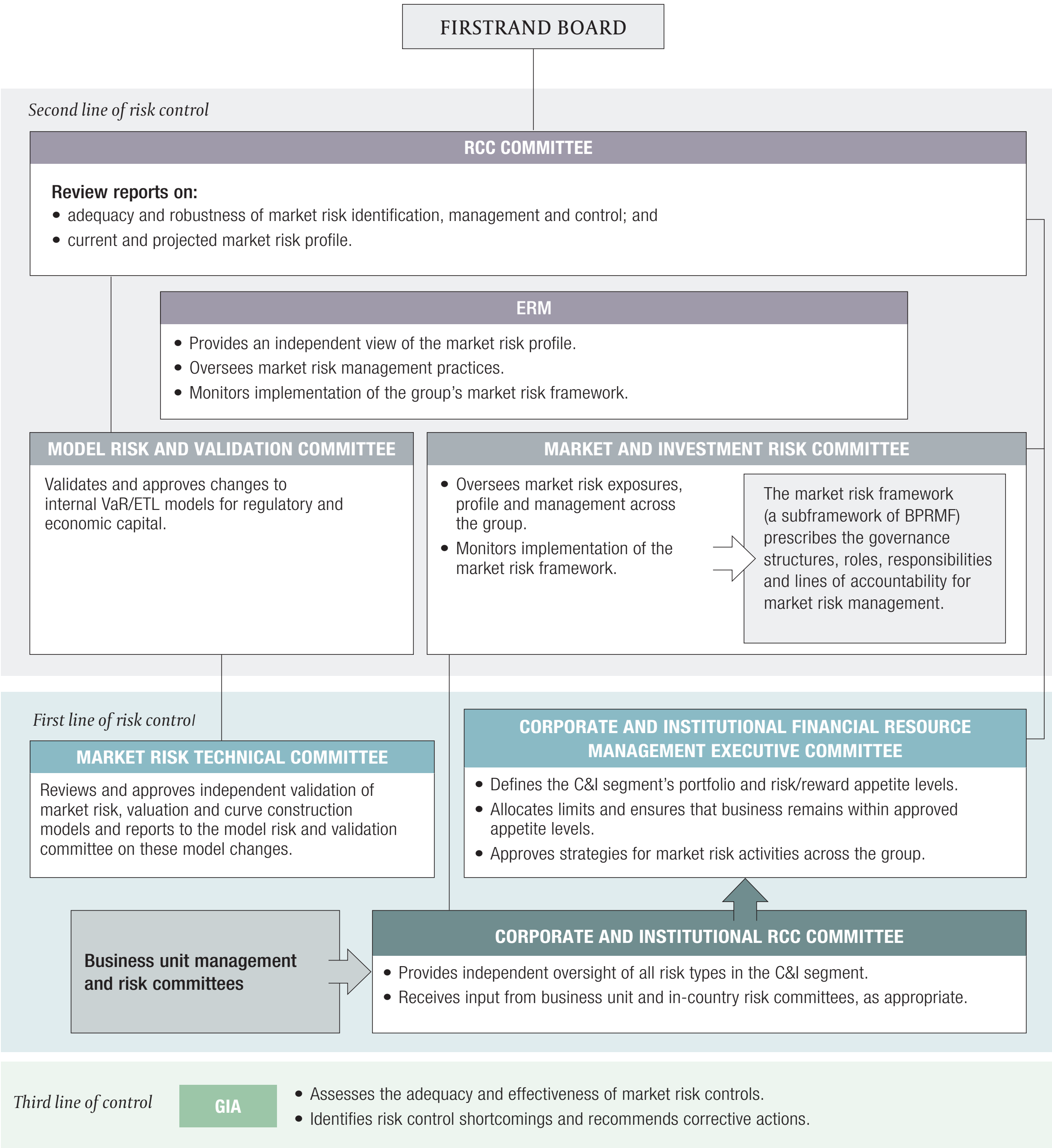
Management and monitoring of interest rate risk in the banking book are split between the RMB banking book and the remaining domestic banking book. RMB manages the majority of its banking book under the market risk framework, with risk measured and monitored in conjunction with the trading book and management oversight provided by the FirstRand market and investment risk committee (MIRC). The RMB banking book interest rate risk exposure was R136 million on a 10-day ETL basis at 30 June 2020 (2019: R55 million). Interest rate risk in the remaining domestic banking book is discussed in the *Interest rate risk in the banking book* section.

YEAR UNDER REVIEW AND FOCUS AREAS

YEAR UNDER REVIEW	RISK MANAGEMENT FOCUS AREAS
• Global financial markets continue to be volatile, with reduced liquidity as a result of the uncertainty due to the COVID-19 pandemic. • Overall diversified levels of market risk increased over the year under review, but remained within tolerance. Market risk models performed well during the period of heightened volatility. • The group continued to successfully implement Murex, a trade and risk management platform used to trade instruments across global financial markets and manage the risk associated with these trades.	• The group continues to review and adapt its operating platform for market risk activities, including platform capabilities across both front office and risk management areas in all jurisdictions. This includes progress on the market risk platform installation. • Alignment of market risk processes, analyses and reporting in line with changes in regulatory requirements. • The BCBS's document, *Fundamental review of the trading book*, remains a priority and the group continues to work with both regulators and the banking industry to understand, provide input on and implement these regulations. • The group continues to implement the requirements of BCBS 239 relating to market risk and embed compliance.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

TRADED MARKET RISK GOVERNANCE STRUCTURE



Market risk reporting

High-quality risk reporting enables senior management and governance committees to make well-considered decisions to achieve objectives and manage key risks. The group regularly reviews the content of market risk reports to ensure relevance and that reporting adequately and accurately reflects the group's market risk profile. Market risk reporting follows the market risk governance structure on the previous page. The frequency of each report aligns with the timing of governance committee meetings and content is driven by information requirements of the target audience.

Market risk reports are provided to the Corporate and Institutional FRM executive committee, the Corporate and Institutional RCC committee and MIRC on a quarterly basis. Daily and monthly reports on market risk movements, risk factors and limit utilisation are provided to senior management and executive committees, as appropriate. Information in market risk reports includes, but is not limited to:

- ETL/VaR, sVaR and specific risks;
- utilisation of the above against predefined limits;
- concentrations and risk build-ups;
- governance issues, such as limit breaches;
- risk factor sensitivities, stress test results and earnings volatility;
- nominal exposures;
- profit and loss attribution;
- risk and profit trends;
- internal model backtesting results;
- model risk; and
- *ad hoc* reporting to MIRC during stress periods and specific events outside of the normal governance cycle.

Model risk reports on counterparty credit and market risk, valuation and curve construction models, as well as on the independent validation of models, are provided to the FirstRand model risk and validation committee and the Corporate and Institutional RCC committee on a quarterly basis. Information in the model risk reports includes, but is not limited to, an overview of activities of the market risk technical committee, approval of independently validated models, model risk classifications, and material issues and corrective actions.

INTERNAL MODELS APPROACH (IMA): DOMESTIC TRADING PORTFOLIOS

The internal VaR model for general market risk was approved by the PA for domestic trading units. 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.

The risk related to market risk-taking activities is measured as the higher of the group's internal ETL measure (as a proxy for economic capital) and regulatory capital based on VaR plus sVaR. The 10-day holding period used in calculation of a 10-day VaR, 10-day sVaR and ETL is directly modelled on the group's operating platform.

Market risk in the trading book for the group is taken and managed by RMB using risk limits approved by the Corporate and Institutional FRM executive committee and MIRC. ETL/VaR limits are set for portfolios and risk types, with market liquidity being a primary factor in determining the level of limits set. Market risk limits are governed according to the market risk framework. The ETL/VaR model is designed to take into account a comprehensive set of risk factors across all asset classes.

VaR enables the group to apply a consistent measure across all trading desks and products. It allows a comparison of risk in different businesses, and provides a means of aggregating and netting positions in a portfolio to reflect correlations and offsets between different asset classes. Furthermore, it facilitates comparisons of market risk both over time and against daily trading results.

QUANTIFICATION OF RISK EXPOSURES

ETL	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 set of scenarios 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 (2008/2009). The ETL is liquidity adjusted 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 and sVaR	VaR is calculated at the 99%, 10-day actual holding period level using data from the past 260 trading days. For regulatory capital purposes, this is supplemented with an sVaR, calibrated to a one-year period of stress observed in history (2008/2009). The choice of period 2008/2009 is based on the assessment of the most volatile period in recent history. sVaR calculations are based on the same systems, trade information and processes as VaR calculations. The only difference is that sVaR is supplemented with historical risk factor scenarios (historical simulation method) as an input for the full revaluation methodology. The historical factor scenarios include historical market data from a period of significant financial stress, characterised by high volatilities in recent history. When simulating potential movements in risk factors, both absolute and relative risk factors are used. VaR calculations over a holding period of one day are used as an additional tool in the assessment of market risk. The updating of historical scenarios is kept within the one-month regulatory requirement and is monitored on a daily basis.

The group's VaR is subject to the limitations of this methodology, namely:

- historical simulation VaR may not provide an accurate estimate of future market movements;
- the use of a 99% confidence level does not reflect the extent of potential losses beyond that percentile – ETL is a better measure to quantify losses beyond that percentile (but still subject to similar limitations as stated for VaR);
- the use of a one-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 in one day;
- as exposures and risk factors can change during daily trading, exposures and risk factors are not necessarily captured in the VaR calibration which uses end-of-day market 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. Recognising its limitations, VaR is supplemented with stress testing to evaluate the potential impact on portfolio values of more extreme, though plausible, events or movements in a set of financial variables.

The group does not apply the incremental risk charge or comprehensive risk capital charge approach.

Risk concentrations

Risk concentrations 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 utilisation against these limits are monitored continuously, based on the regulatory building block approach.

RWA flow statement for IMA market risk exposures

Regulatory capital for domestic trading units is based on the internal VaR model supplemented with sVaR. VaR is calculated at the 99%, 10-day actual holding period level using data from the past 260 trading days. sVaR is calculated using a predefined static stress period (2008/2009). VaR calculations over a holding period of one day are used as an additional tool in the assessment of market risk.

The group's subsidiaries in the rest of Africa and the bank's foreign branches are measured using the regulatory standardised approach for regulatory capital and an internal stress loss methodology for internal measurement of risk. Capital is calculated for general and specific market risk using the Basel III standardised duration methodology.

The following flow statement explains the variations in the market risk RWA determined under IMA.

MR2: RWA FLOW STATEMENT OF MARKET RISK EXPOSURES UNDER IMA*

R million	VaR	sVaR	Total RWA
1. **RWA at 31 March 2020**	**4 649**	**7 975**	**12 624**
2. Movement in risk levels	**3 736**	**(29)**	**3 707**
3. Model updates/changes	–	–	–
4. Methodology and policy	–	–	–
5. Acquisitions and disposals	–	–	–
6. Foreign exchange movements	–	–	–
7. Other	–	–	–
8. **RWA at 30 June 2020**	**8 385**	**7 946**	**16 331**

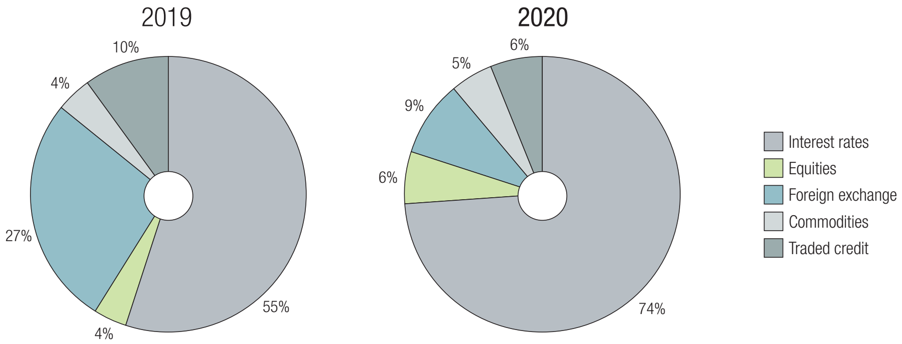
* *The group does not use the incremental risk charge and comprehensive risk measure approaches.*

The movement in market risk RWA for the year ended 30 June 2020 relates to the scenarios for calculating rolling VaR updated to reflect recent market volatilities and the impact of the COVID-19 pandemic. This has resulted in increased VaR for most desks, with the most significant impact on the inflation desk. This has also resulted in VaR being greater than sVaR, indicating that the current scenarios are more stressed than the 2008/09 scenarios used to calculate sVaR.

VaR exposure per asset class

The following chart shows the distribution of exposures per asset class across the group's trading activities at 30 June 2020 based on the VaR methodology. Interest rate risk represented the most significant exposure at 30 June 2020. Towards the latter part of the financial year, scenarios used to calculate VaR were updated to incorporate recent market volatilities which together, with the impact of the COVID-19 pandemic, resulted in increased VaR for most desks. The highest impact was on the interest rates asset class, hence the increase in that asset class.

TRADED MARKET RISK VaR EXPOSURE PER ASSET CLASS FOR THE GROUP EXCLUDING SUBSIDIARIES IN THE REST OF AFRICA (EXCLUDING DIVERSIFICATION EFFECTS ACROSS JURISDICTIONS)



IMA values

The group does not use the incremental risk charge (rows 9 – 12 of the MR3 template) and comprehensive risk measure (rows 13 – 17 of the MR3 template) approaches.

MR3: IMA VALUES FOR TRADED MARKET RISK

		FRBSA*						
		As at 30 June 2020						
R million		Equities	Interest rates	Foreign exchange	Commodities	Traded credit	Diversification effect	Diversified total
	VaR (10-day 99%)							
1.	Maximum value	164.6	355.0	103.4	32.6	56.4		381.1
2.	Average value	20.8	178.7	41.4	14.5	18.9		152.4
3.	Minimum value	4.6	72.1	11.4	6.2	7.5		58.3
4.	Period end	17.3	300.4	76.2	14.7	14.1	(128.2)	294.6
	sVaR (10-day 99%)							
5.	Maximum value	105.5	356.8	247.0	42.8	31.5		437.4
6.	Average value	25.3	171.4	74.6	19.2	20.5		192.7
7.	Minimum value	0.7	110.4	12.5	5.0	7.1		97.7
8.	Period end	12.4	199.9	47.7	20.6	12.1	(137.7)	155.0
	VaR (1-day 99%)							
	Maximum value	43.9	197.2	252.4	18.4	26.6		199.9
	Average value	8.0	89.6	22.1	7.5	12.8		94.5
	Minimum value	1.9	27.4	7.3	1.8	5.1		28.2
	Period end	11.2	134.3	17.1	8.3	11.4	(67.2)	115.2

* *The IMA values for traded market risk are based on FRBSA, which excludes the foreign branches and subsidiaries in the rest of Africa, which are reported on in the standardised approach for market risk.*

R million		FRBSA* As at 30 June 2019 Equities	Interest rates	Foreign exchange	Commodities	Traded credit	Diversification effect	Diversified total
	VaR (10-day 99%)							
1.	Maximum value	132.3	169.5	164.3	38.6	99.7		329.0
2.	Average value	18.1	85.3	71.2	21.4	36.1		141.6
3.	Minimum value	1.0	29.4	3.3	3.9	10.1		19.9
4.	Period end	15.4	152.5	46.2	11.2	20.8	(120.8)	125.4
	sVaR (10-day 99%)							
5.	Maximum value	96.5	388.9	228.1	74.8	30.4		455.7
6.	Average value	25.5	138.8	91.6	37.6	17.2		192.0
7.	Minimum value	1.9	52.7	8.5	7.1	8.7		71.4
8.	Period end	10.9	318.4	142.5	10.6	15.8	(102.8)	395.4
	VaR (1-day 99%)							
	Maximum value	47.3	82.5	85.9	17.5	31.0		105.6
	Average value	7.4	34.6	25.9	8.3	14.7		52.1
	Minimum value	0.4	10.2	2.8	1.4	3.6		5.9
	Period end	5.9	59.9	15.8	6.1	16.1	(12.0)	91.8

* *The IMA values for traded market risk are based on FRBSA, which excludes the foreign branches and subsidiaries in the rest of Africa, which are reported on in the standardised approach for market risk.*

The increase in market risk across the group for the year ended 30 June 2020 relates to the scenarios for calculating rolling VaR updated to reflect recent market volatilities, and the impact of the COVID-19 pandemic. This has resulted in increased VaR for most desks, with the most significant impact on the inflation desk.

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. Stress test calibrations are reviewed regularly to ensure that results are indicative of the possible impact of severely distressed and event-driven market conditions. Stress and scenario analyses are regularly reported to and considered by the relevant governance bodies.

Earnings volatility

A key element of the group’s return and risk appetite framework is an assessment of potential earnings volatility that may arise from underlying exposures. 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.

Regulatory backtesting

Backtesting is performed to verify the predictive ability of the VaR model and ensure ongoing appropriateness. The backtesting process is a regulatory requirement and seeks to estimate the performance of the regulatory VaR model. Performance is measured by the number of exceptions to the results produced by the model, i.e. net trading profit and loss in one trading day is greater than the estimated VaR for the same trading day. The group’s procedures could be underestimating VaR if exceptions occur regularly (a 99% confidence interval indicates that one exception will occur in 100 days).

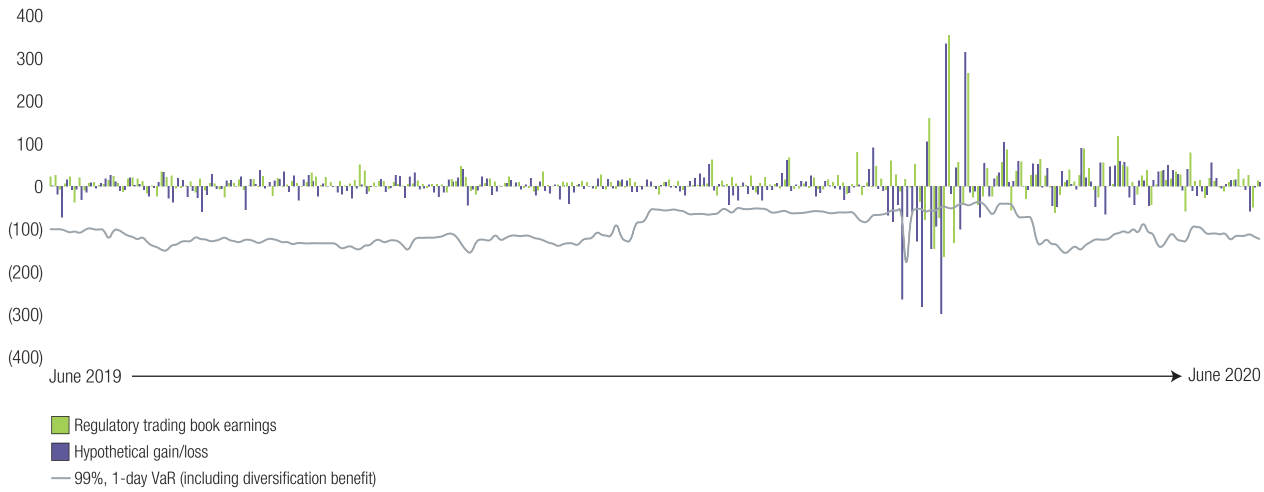
The regulatory standard for backtesting is to measure daily actual and hypothetical changes in portfolio value against VaR at the 99th percentile (one-day holding period equivalent). The number of breaches over a period of 250 trading days is calculated, and should the number exceed that which is considered appropriate, the model is recalibrated.

Backtesting: daily regulatory trading book earnings versus 1-day, 99% VaR

The group monitors its daily domestic 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 year ended 30 June 2020.

MR4: COMPARISON OF VaR ESTIMATES WITH GAINS AND LOSSES FOR FRBSA

R million



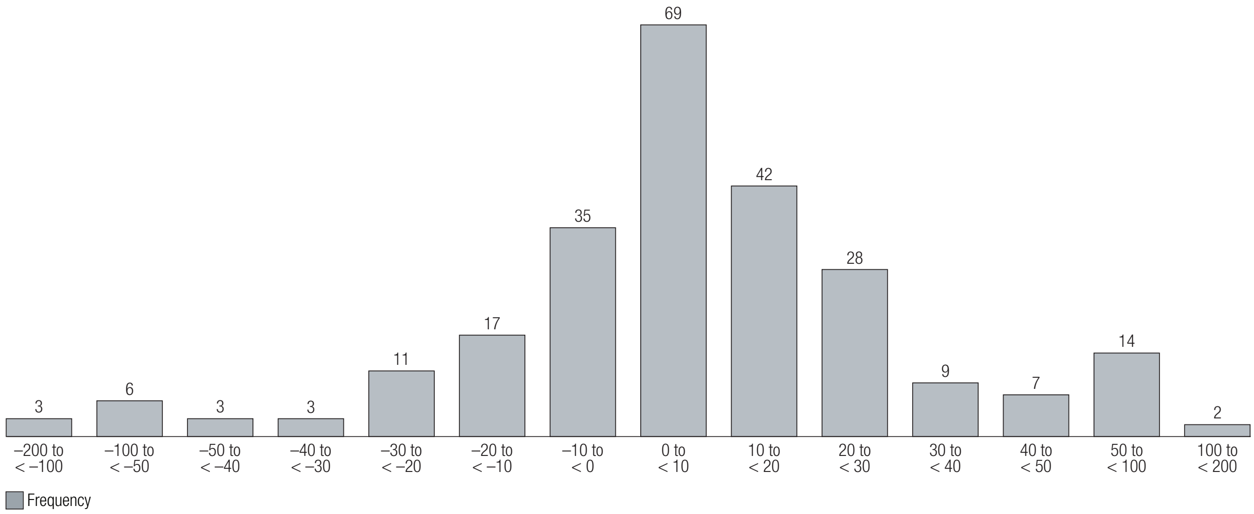
The increase in the 99%, 1-day VaR was mainly due to the scenarios being used to calculate rolling VaR, which incorporate recent market volatilities and the impact of the COVID-19 pandemic. This has largely driven an increased VaR for most desks with most significant impact on the inflation desk. Trading book earnings did exceed 1-day VaR towards the last quarter in the year due to the recent market volatilities and the impact of the COVID-19 pandemic, combined with the decrease in the interest rate and the sovereign ratings downgrade. Despite the number of breaches observed, the group's internal model continues to quantify market risk appropriately and although VaR has increased significantly, the underlying market risk exposure remains within limits.

Distribution of daily trading earnings from trading units

The following histogram shows the daily revenue for the group's domestic trading units for the year ended 30 June 2020. The results are skewed towards profitability.

FRBSA DISTRIBUTION OF DAILY EARNINGS – FREQUENCY

Days in a period – number of observations



STANDARDISED APPROACH: GENERAL AND SPECIFIC RISK

The bank's India and London branches and the group's subsidiaries in the rest of Africa also have market risk exposure. The India and London branches are measured and managed on the same basis as the domestic portfolios for internal measurement, 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. Under the standardised approach, capital is calculated for general market risk and specific risk. Capital for specific risk is held in addition to general market risk capital.

General market risk capital	The general market risk capital calculation is based on the duration methodology. To calculate the general market risk capital charge, the long or short position (at current market value) of each debt instrument and other sources of interest rate exposure, including derivatives, is distributed into appropriate time bands by maturity. The long and short positions in each time band are then summed respectively and multiplied by the appropriate risk weight factor (reflecting the price sensitivity of the positions to changes in interest rates) to determine the risk weighted long and short market risk positions for each time band.

Specific risk capital	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 total regulatory specific risk capital amount is the sum of equity-specific risk and interest rate-specific risk, and is based on the Basel III standardised approach duration method.

FRBSA's balance sheet is exposed to interest rate and equity-specific risk. The bank's India and London branches and the group's subsidiaries in the rest of Africa are exposed to interest rate and foreign exchange (general risk). Aldermore is exposed to foreign exchange (general risk).

MR1: MARKET RISK UNDER STANDARDISED APPROACH – RISK WEIGHTED ASSETS

	RWA			
	Group		FRB*	
R million	**As at 30 June 2020**	As at 30 June 2019	**As at 30 June 2020**	As at 30 June 2019
Outright products				
1. Interest rate risk	**7 726**	7 890	**6 184**	3 929
– Specific risk	**6 254**	5 507	**5 777**	3 679
– General risk	**1 472**	2 383	**407**	250
2. Equity risk	**787**	641	**787**	640
– Specific risk	**787**	641	**787**	640
– General risk	**–**	–	**–**	–
3. Foreign exchange risk	**3 508**	2 721	**2 392**	2 113
– Traded market risk	**719**	509	**259**	16
– Non-traded market risk	**2 789**	2 212	**2 133**	2 097
4. Commodity risk	**–**	–	**–**	–
9. **Total**	**12 021**	11 252	**9 363**	6 682

* *FRB includes foreign branches.*

Market risk was contained within acceptable stress loss limits and effectively managed across the subsidiaries during the year.

Options are excluded from using IMA (rows 5 – 7 of the MR1 template are therefore excluded), (refer to *MR3: IMA values for traded market risk* table) and securitisations (row 8 of the MR1 template are therefore excluded) are capitalised under the securitisation framework (refer to the *Securitisation* section).

The increase in standardised RWA relates mainly to interest rate specific risk driven by the rating downgrades of certain issuers whose bonds and other market instruments the bank invests in, partly offset by a decrease in the rest of Africa subsidiaries' fixed income portfolio denominated in foreign currency, which consequently also reduced the interest rate general risk.

Non-traded market risk

For non-traded market risk, the group distinguishes between **interest rate risk in the banking book** and **structural foreign exchange risk**. The following table describes how these risks are measured, managed and governed.

RISK AND JURISDICTION	RISK MEASURE	MANAGED BY	OVERSIGHT
Interest rate risk in the banking book			
Domestic – FNB, WesBank and FCC	• 12-month earnings sensitivity. • Economic sensitivity of open risk position.	Group Treasury	FCC Risk Management Group ALCCO
Subsidiaries in the rest of Africa, the bank's foreign branches and Aldermore	• 12-month earnings sensitivity. • Economic sensitivity of open risk position.	In-country management	Group Treasury FCC Risk Management In-country ALCCOs Rest of Africa and foreign branches ALCCO
Structural foreign exchange			
Group	• Total capital in a functional currency other than rand. • Impact of translation back to rand reflected in group's income statement. • Foreign currency translation reserve value.	Group Treasury	Group ALCCO FCC Risk Management

Interest rate risk in the banking book

INTRODUCTION AND OBJECTIVES

Interest rate risk in the banking book relates to the sensitivity of a bank's financial position and earnings to unexpected, adverse movements in interest rates.

Interest rate risk in the banking book (IRRBB) originates from the differing repricing characteristics of balance sheet positions/instruments, 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 the group's earnings being vulnerable to interest rate cuts, or conversely benefiting from interest rate hikes.

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

Hedges are in place to protect the group's net interest margin. These hedges are actively monitored along with macroeconomic factors impacting domestic rates, as well as rates in the other countries where the group operates.

Effect of interbank offer rate reform

The reform and replacement of benchmark interest rates with alternative risk-free rates has become a priority for global regulators. These reforms are at various stages globally. At present, the sterling overnight index average (SONIA) and the secured overnight financing rate (SOFR) are set to become the pound/dollar Interbank Offered Rate (IBOR). Due to differences in the manner in which the pound/dollar London Interbank Offered Rate (LIBOR) and the SONIA/SOFR are determined, adjustments may have to be applied to contracts that reference the pound/dollar LIBOR when the SONIA/SOFR officially replaces the pound/dollar LIBOR, to ensure economic equivalency on transition. The Financial Conduct Authority in the UK and industry working groups are currently reviewing various methodologies for calculating these adjustments, to ensure an orderly transition to SONIA/SOFR and to minimise the risks arising from transition.

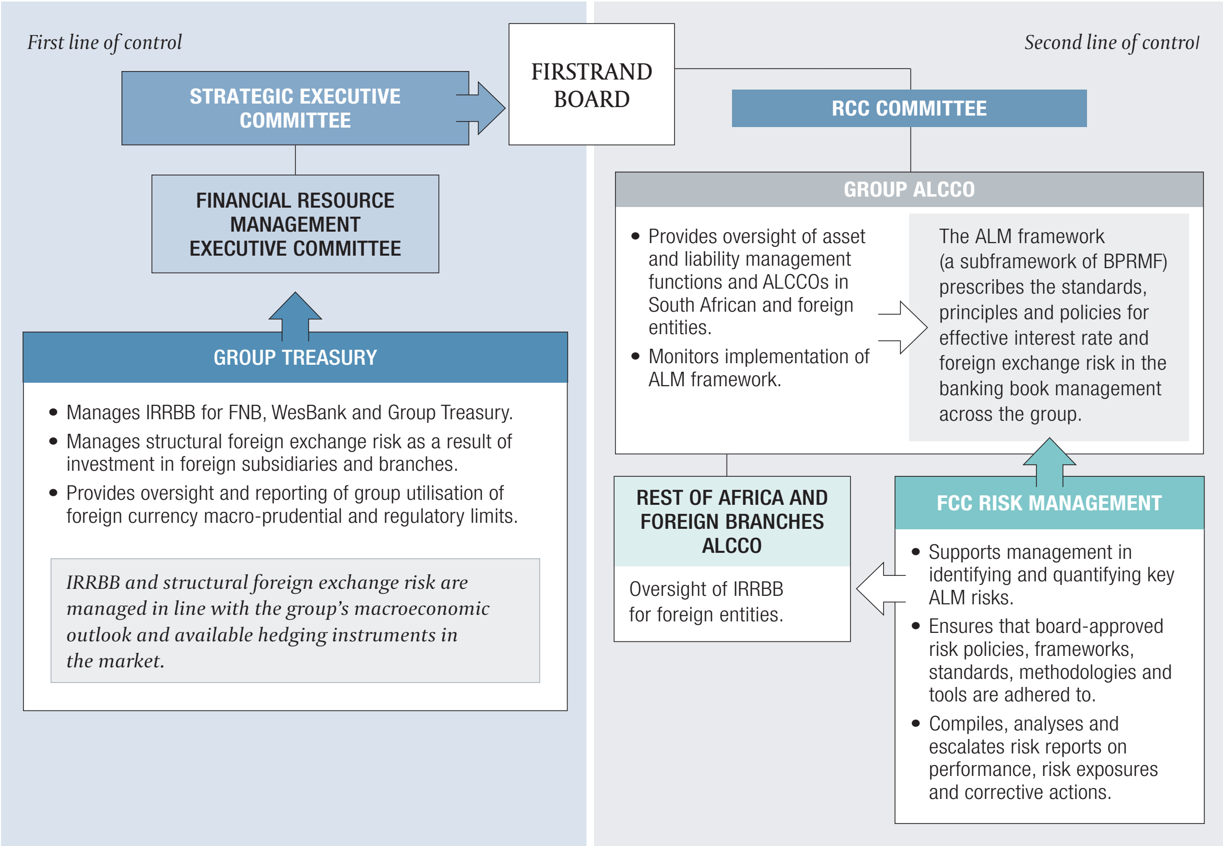
The group has a number of contracts, including derivatives which reference pound/dollar LIBOR which extend beyond 2021. The group has established a steering committee, consisting of key finance, risk, IT, treasury, legal and compliance personnel and external advisors, to oversee the group's pound/dollar LIBOR transition plan. This steering committee has put in place a transition project for affected contracts with the aim of minimising the potential disruption to business and mitigating operational and conduct risks and possible financial losses. With respect to derivative contracts, ISDA is currently reviewing its definitions in light of IBOR reform and the group expects it to issue standardised amendments to all impacted derivative contracts at a future date.

YEAR UNDER REVIEW AND FOCUS AREAS

YEAR UNDER REVIEW	RISK MANAGEMENT FOCUS AREAS
• The SARB decreased interest rates by a total of 300 bps between 1 July 2019 and 30 June 2020 – 250 bps of these cuts were in response to the COVID-19 crisis and associated lockdown. • To mitigate the negative impact that rate cuts would have on earnings, the group increased its endowment book hedges.	• The BCBS, through the task force for IRRBB, has published more robust regulations for IRRBB. The group is addressing these new requirements, which will be formally adopted on 1 June 2022. • Given current uncertainty about the level and direction of future interest rates, the group continues to actively manage endowment risk.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

IRRBB GOVERNANCE STRUCTURE



ASSESSMENT AND MANAGEMENT

FRBSA

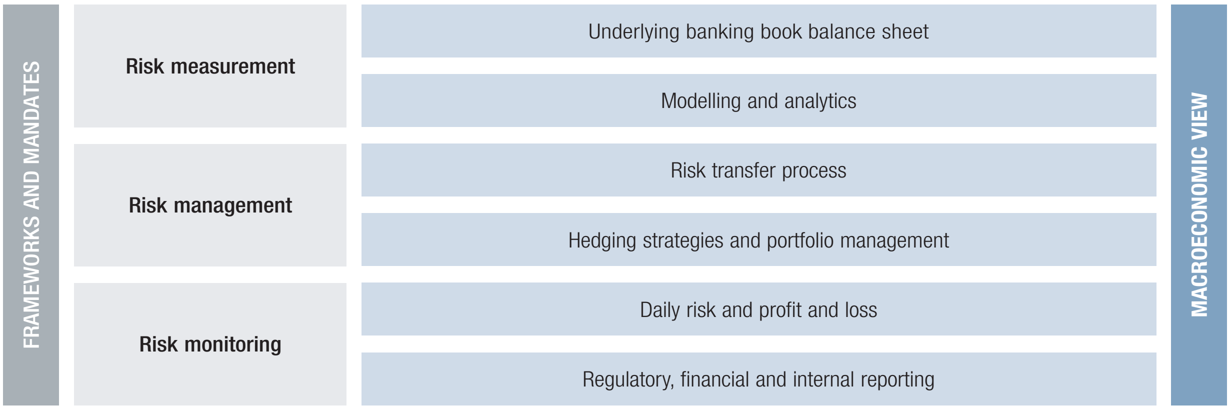
The measurement techniques used to monitor IRRBB include NII sensitivity/earnings risk and NAV/economic value of equity (EVE) sensitivity. A repricing gap is also generated to better understand the repricing characteristics of the balance sheet. In calculating the repricing gap, all banking book assets,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

The internal funds transfer pricing process is used to transfer interest rate risk from the operating businesses 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 a liquid market exists. Where possible, cash flow 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.

Foreign operations

Management of subsidiaries in the rest of Africa, Aldermore and the bank's foreign branches 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, NAV sensitivity 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 the economic value/NAV 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 and the long-term economic value of the bank. To achieve this, both earnings sensitivity and economic value sensitivity measures are monitored and managed within appropriate risk limits and appetite levels, considering the macroeconomic environment and factors which can 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 and behavioural adjustments are applied where relevant. The calculation assumes a constant balance sheet size and product mix over the forecast horizon. A pass-through assumption is applied in relation to non-maturing deposits, which reprice at the group's discretion. This assumption is based on historical product behaviour.

The following tables show the 12-month NII sensitivity for sustained, instantaneous parallel 200 bps downward and upward shocks to interest rates. The decreased sensitivity is attributable to the increase in hedges put in place to manage the margin impact of the capital and deposit endowment books as a result of interest rate cuts effected by the SARB to mitigate the financial stress brought about by the COVID-19 pandemic. Given current uncertainty about the level and direction of future interest rates, the endowment book remains actively managed.

Most of the group's NII sensitivity relates to the endowment book mismatch. The group's average endowment book was R274 billion for the year ended 30 June 2020. Total sensitivity is measured to rand rate moves in South Africa and to local currency moves in the subsidiaries in the rest of Africa, and Aldermore.

PROJECTED NII SENSITIVITY TO INTEREST RATE MOVEMENTS

	As at 30 June 2020		
	Change in projected 12-month NII		
R million	**FRBSA**	**Subsidiaries in the rest of Africa and the bank's foreign branches**	**FirstRand Group**
Downward 200 bps	**(2 730)**	**(916)**	**(3 646)**
Upward 200 bps	**1 846**	**381**	**2 227**

	As at 30 June 2019		
	Change in projected 12-month NII		
R million	FRBSA	Subsidiaries in the rest of Africa and the bank's foreign branches	FirstRand Group
Downward 200 bps	(3 678)	(757)	(4 435)
Upward 200 bps	3 118	370	3 488

Assuming no change in the balance sheet and no management action in response to interest rate movements, an instantaneous, sustained parallel 200 bps decrease in interest rates would result in a reduction in projected 12-month NII of R3 646 million. A similar increase in interest rates would result in an increase in projected 12-month NII of R2 227 million.

Economic value of equity

An EVE sensitivity measure is used to assess the impact on the total NAV 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 to varying degrees and is reflected in the NII margin more as an opportunity cost/benefit over the life of the underlying positions. 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 limits, appetite levels and current economic conditions.

The EVE shocks applied are based on regulatory guidelines and comprise 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 internal funds transfer pricing process, capture relevant open risk positions in the banking book. This measure does not take into account the unrealised economic benefit embedded as a result of the banking book products which are not recognised at fair value.

The following table:

- highlights the sensitivity of banking book NAV as a percentage of total capital; and
- reflects a point-in-time view, which is dynamically managed and can fluctuate over time.

BANKING BOOK NAV SENSITIVITY TO INTEREST RATE MOVEMENTS AS A PERCENTAGE OF TOTAL GROUP CAPITAL

	FRBSA		Group	
%	**As at 30 June 2020**	As at 30 June 2019	**As at 30 June 2020**	As at 30 June 2019
Downward 200 bps	**4.12**	1.98	**2.76**	1.35
Upward 200 bps	**(3.67)**	(1.77)	**(2.46)**	(1.20)

The increase in NAV sensitivity in the year under review is attributable to an increase in tactical hedges. The group has increased its endowment book hedge position relative to the prior year, in line with the macroeconomic house view.

Structural foreign exchange risk

INTRODUCTION AND OBJECTIVES

Foreign exchange risk is the risk of an adverse impact on the group's financial position or earnings or other key ratios as a result of movements in foreign exchange rates impacting balance sheet exposures.

The group is exposed to foreign exchange risk as a result of on-balance sheet transactions in a currency other than the rand, as well as through structural foreign exchange risk from the translation of its foreign operations' results into rand. The impact on equity as a result of structural foreign exchange risk is recognised in the foreign currency translation reserve balance, which is included in qualifying capital for regulatory purposes.

Structural foreign exchange risk as a result of net investments in entities with a functional currency other than rand is an unavoidable consequence of having offshore operations. It can be a source of both investor value through diversified earnings and unwanted volatility as a result of currency fluctuations. Group Treasury is responsible for actively monitoring the net capital invested in foreign entities, as well as the rand value of any capital investments and dividend distributions.

YEAR UNDER REVIEW AND FOCUS AREAS

YEAR UNDER REVIEW	RISK MANAGEMENT FOCUS AREAS
• Continued to strengthen principles for the management of foreign exchange positions and funding of the group's foreign entities. • Monitored the net open forward position in foreign exchange exposure against limits in each of the group's foreign entities.	• Continue to assess and review the group's foreign exchange exposures and enhance the quality and frequency of reporting.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

Reporting on and management of the group's foreign exchange exposure and macro-prudential limit utilisation is a function performed by Group Treasury as the clearer of all group currency positions. Group Treasury is also responsible for oversight of structural foreign exchange risk with reporting through to group ALCCO, a subcommittee of the RCC committee. Refer to the governance structure in the *Interest rate risk in the banking book* section.

ASSESSMENT AND MANAGEMENT

The ability to transact on-balance sheet in a currency other than the home currency (rand) is governed by in-country macro-prudential and regulatory limits. In the group, additional board limits and management appetite levels are set for this exposure. The impact of any residual on-balance positions is managed as part of market risk reporting (see *Traded market risk* section). Group Treasury is responsible for consolidated group reporting and utilisation of these limits against approved limits and appetite levels.

Foreign exchange risk in the banking book comprises funding and liquidity management, and risk mitigating activities. To minimise funding risk across the group, foreign currency transactions are matched, where possible, with residual liquidity risk managed centrally by Group Treasury, and usually to low levels (see *Funding and liquidity risk* section). Structural foreign exchange risk impacts both the current NAV of the group as well as future profitability and earnings potential. Economic hedging is undertaken where viable, given market constraints and within risk appetite levels. Where possible, hedge accounting is applied. Any open positions are included as part of market risk in the trading book.

NET STRUCTURAL FOREIGN EXPOSURES AND SENSITIVITY

The following table provides an overview of the group's exposure to entities with functional currencies other than rand and the pre-tax impact on equity of a 15% change in the exchange rate between the South African rand and the relevant functional foreign currencies. There were no significant structural hedging strategies in the year under review. The increases in dollar and pound capital are largely a result of the depreciation of the rand against those currencies over the period.

NET STRUCTURAL FOREIGN EXPOSURES

	As at 30 June 2020		As at 30 June 2019	
R million	**Exposure**	**Impact on equity from 15% currency translation shock**	Exposure	Impact on equity from 15% currency translation shock
Functional currency				
Botswana pula	**5 816**	**872**	4 648	697
US dollar	**10 033**	**1 505**	7 733	1 160
British pound sterling	**24 261**	**3 639**	18 873	2 831
Nigerian naira	**2 347**	**352**	1 696	254
Australian dollar	**32**	**5**	213	32
Zambian kwacha	**567**	**85**	697	105
Mozambican metical	**548**	**82**	421	63
Indian rupee	**915**	**137**	741	111
Ghanaian cedi	**1 619**	**243**	1 121	168
Tanzanian shilling	**285**	**43**	340	51
Common Monetary Area (CMA) countries*	**6 597**	**990**	6 939	1 041
Total	**53 020**	**7 953**	43 422	6 513

* *Currently Namibia, Eswatini and Lesotho are part of the CMA. Unless these countries decide to exit the CMA, rand volatility will not impact their rand reporting values.*

Equity investment risk

INTRODUCTION AND OBJECTIVES

Equity investment risk is the risk of an adverse change in the fair value of an investment in a company, fund or listed, unlisted or bespoke financial instruments.

Equity investment risk in the group arises primarily from equity exposures from private equity and 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, Aldermore and FCC. These investments are, by their nature, core to the individual businesses' daily operations and are managed as such.

Ashburton Investments, the group's asset management business, also contributes to equity investment risk. This risk emanates from long-term and short-term seeding activities both locally and offshore. Short-term seeding of new traditional and alternative funds exposes the group to equity investment risk until the funds reach sufficient scale for sustainable external distribution. The timeline for short-term seeding is defined in the business cases for the funds and typically ranges between one and three years.

Long-term seeding is provided if there is alignment with the business strategy, the business case meets the group's internal return hurdle requirements, and the liquidity and structure of the funds imply that an exit will only be possible over a longer period, aligned with the interests of other investors in these funds. Long-term investments, such as investment in private equity and real estate, will only be exited at the end of the investment horizon of the funds. This maturity period typically ranges from five to eight years post investment in the fund.

Regulatory developments

The BCBS published the standard on *Capital requirements for banks' equity investments in funds* in December 2013, which requires banks' equity investment risk exposures in funds to be risk weighted using the following approaches with varying degrees of risk sensitivity:

- look-through approach;
- mandate-based approach; and
- fall-back approach.

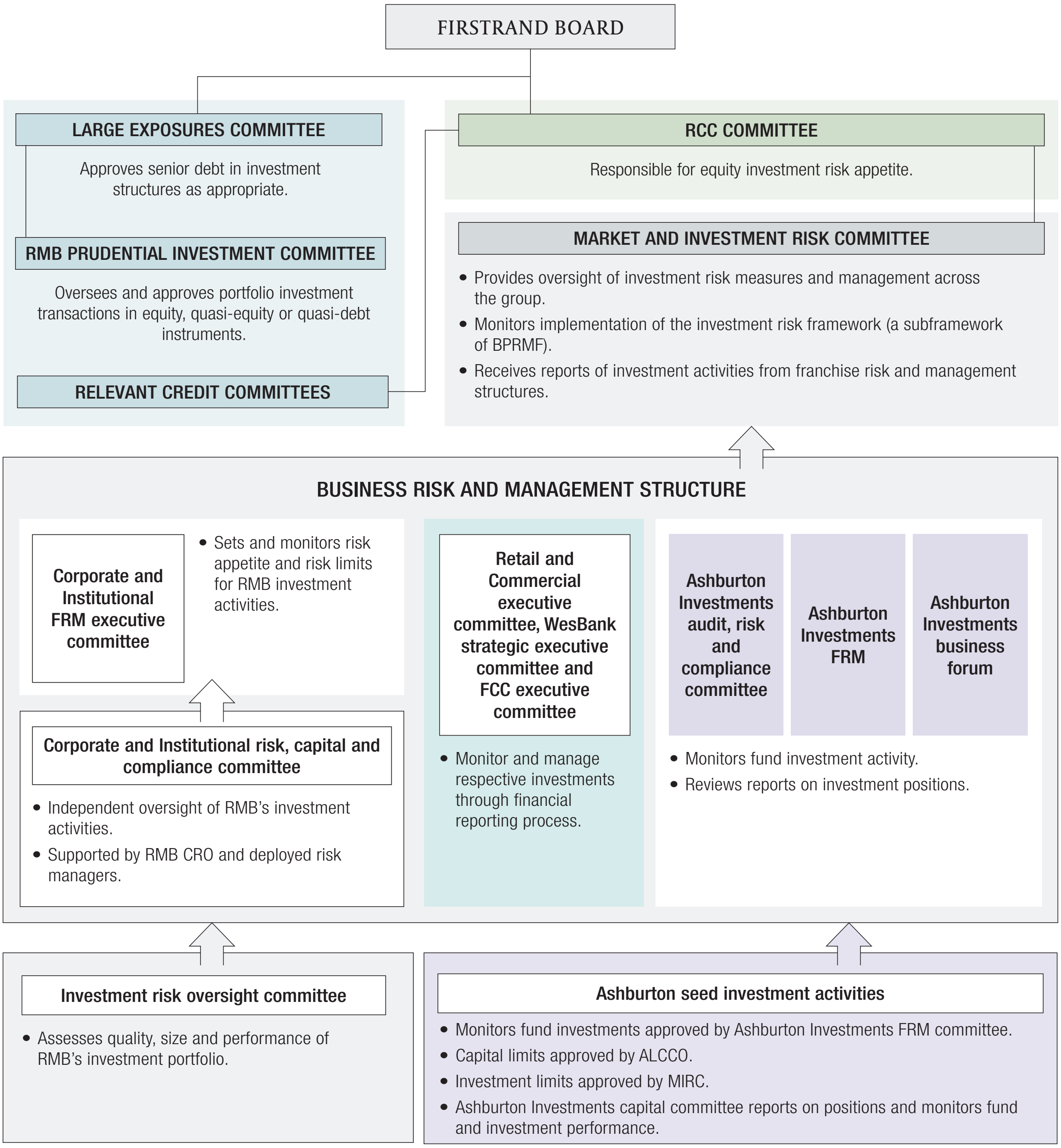
To ensure that banks have appropriate incentives to enhance the management of exposures, the degree of conservatism increases with each successive approach. The BCBS also incorporated a leverage adjustment to RWAs derived from the above approaches to appropriately reflect a fund's leverage. The proposed implementation date for this standard by the PA is 1 January 2021. The group is refining its processes to comply with the standard. The overall quality of the investment portfolio remains acceptable and is within risk appetite.

YEAR UNDER REVIEW AND FOCUS AREAS

YEAR UNDER REVIEW	RISK MANAGEMENT FOCUS AREAS
• The year under review was characterised by limited realisations and R1.8 billion of new investments were added to the private equity portfolio. • The outbreak of COVID-19 and the subsequent lockdown measures necessitated a significant increase in engagement with portfolio companies as they implemented various measures to protect the health and wellbeing of their staff and initiated business continuity plans. Portfolio companies also acted swiftly in implementing various initiatives to preserve cash and manage their liquidity requirements through the different lockdown levels. On balance, the private equity portfolio has performed well as management teams continually adapt to the challenging operating environment. • The unrealised value of RMB Private Equity's portfolio at 30 June 2020 was R3.3 billion (2019: R3.5 billion).	• Navigating the COVID-19 pandemic will remain a focus as portfolio companies better understand the shape of the economic recovery, whilst continuously assessing any change in demand patterns, evaluating the state of competitors and any long-lasting impacts on supply chain dynamics. As a result, the increased level of engagement with portfolio companies will be maintained for the foreseeable future. • Final preparations are being made in anticipation of the introduction of the BCBS standard for the treatment of equity investment in funds.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

EQUITY INVESTMENT RISK GOVERNANCE STRUCTURE



ASSESSMENT AND MANAGEMENT

Management of exposures

The equity investment risk portfolio is managed through a rigorous evaluation and review process from the 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 other investors. Where appropriate, the group seeks to take a number of seats on the company's board and maintains close oversight through monitoring of operations and financial discipline.

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, biannual reviews are performed for each investment and crucial parts of these reviews, such as valuation estimates, are independently peer reviewed.

Recording of exposures – accounting policies

All equity investments in scope of IFRS 9 are measured at fair value in the statement of financial position, with value changes recognised in profit or loss, except for those equity investments for which the entity has elected to present value changes in "other comprehensive income". There is no "cost measurement" exemption for unquoted equities.

If an equity investment is not held for trading, an entity can make an irrevocable election at initial recognition to measure it at fair value through other comprehensive income with only dividend income recognised in profit or loss. Despite the fair value requirement for all equity investments, IFRS 9 contains guidance on when cost may be the best estimate of fair value and also when it might not be representative of fair value.

Consistent with the group's accounting policies, the consolidated financial statements include the assets, liabilities and results of operations of all equity investments where the group has control of the relevant activities and the ability to use that control 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%, over which it has the ability to exercise significant influence, but 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 and stress testing

Risk exposures are measured in terms of 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 conditions. These stress tests are conducted at individual investment and portfolio level.

In the private equity portfolio, the group targets an investment profile that is diversified along a number of pertinent dimensions, such as geography, industry, investment stage and vintage.

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

Regulatory and economic capital

The simple risk weighted method under the market-based approach (300% for listed equities or 400% for unlisted equities) is applied with the scalar (where appropriate) for the quantification of regulatory capital. Under the Regulations, the risk weight applied to investments in financial, banking and insurance entities is 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.

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 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 VALUATIONS

The table below shows the equity investment risk exposure and sensitivity. The 10% sensitivity movement is calculated on the carrying value of investments, excluding those subject to the ETL process and including the carrying value of investments in associates and joint ventures.

FIRSTRAND INVESTMENT RISK EXPOSURE, SENSITIVITY AND CAPITAL REQUIREMENT

	As at 30 June 2020		
R million	**Publicly quoted investments**	**Privately held investments**	**Total**
Carrying value of investments	**21**	**11 125**	**11 146**
Per risk bucket			
250% – Basel III investments in financial entities	**–**	**4 679**	**4 679**
300% – Listed investments	**21**	**–**	**21**
400% – Unlisted investments	**–**	**6 446**	**6 446**
Latent revaluation gains not recognised in the balance sheet*	**–**	**5 646**	**5 646**
Fair value	**21**	**16 771**	**16 792**
Listed investment risk exposure included in the equity investment risk ETL process	**19**	**–**	**19**
Estimated sensitivity to 10% movement in market value on investment fair value of remaining investment balances			**243**
Cumulative gains realised from sale of positions in the banking book during the year			**427**
Capital requirement**	**7**	**4 098**	**4 105**

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

** *Capital requirement calculated at 10.50%. The minimum requirement excludes the bank-specific requirements, but includes the CCyB requirement. The difference to the BCBS base minimum (8%) relates to the buffer add-ons for Pillar 2A, CCyB and capital conservation as prescribed in the Regulations. The Pillar 2A and CCyB requirements were 0% at 30 June 2020.*

	As at 30 June 2019		
R million	Publicly quoted investments	Privately held investments	Total
Carrying value of investments	170	11 660	11 830
Per risk bucket			
250% – Basel III investments in financial entities	–	5 207	5 207
300% – Listed investments	170	–	170
400% – Unlisted investments	–	6 453	6 453
Latent revaluation gains not recognised in the balance sheet*	–	3 858	3 858
Fair value	170	15 518	15 688
Listed investment risk exposure included in the equity investment risk ETL process	170	–	170
Estimated sensitivity to 10% movement in market value on investment fair value of remaining investment balances			357
Cumulative gains realised from sale of positions in the banking book during the year			848
Capital requirement**	63	4 716	4 779

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

** *Capital requirement calculated at 11.680%. The minimum requirement excludes the bank-specific requirements, but includes the CCyB requirement. The difference to the BCBS base minimum (8%) relates to the buffer add-ons for Pillar 2A, CCyB and capital conservation as prescribed in the Regulations.*

FRBSA INVESTMENT RISK EXPOSURE, SENSITIVITY AND CAPITAL REQUIREMENT

	As at 30 June 2020		
R million	Publicly quoted investments	Privately held investments	Total
Carrying value of investments	4	1 262	1 266
Per risk bucket			
250% – Basel III investments in financial entities	–	180	180
300% – Listed investments	4	–	4
400% – Unlisted investments	–	1 082	1 082
Latent revaluation gains not recognised in the balance sheet*	–	–	–
Fair value	4	1 262	1 266
Listed investment risk exposure included in the equity investment risk ETL process	–	–	–
Estimated sensitivity to 10% movement in market value on investment fair value of remaining investment balances			126
Cumulative gains realised from sale of positions in the banking book during the year			–
Capital requirement**	1	529	530

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

** *Capital requirement calculated at 10.50%. The minimum requirement excludes the bank-specific requirements, but includes the CCyB requirement. The difference to the BCBS base minimum (8%) relates to the buffer add-ons for Pillar 2A, CCyB and capital conservation as prescribed in the Regulations. The Pillar 2A and CCyB requirements were 0% at 30 June 2020.*

	As at 30 June 2019		
R million	Publicly quoted investments	Privately held investments	Total
Carrying value of investments	170	1 604	1 774
Per risk bucket			
250% – Basel III investments in financial entities	–	503	503
300% – Listed investments	170	–	170
400% – Unlisted investments	–	1 101	1 101
Latent revaluation gains not recognised in the balance sheet*	–	–	–
Fair value	170	1 604	1 774
Listed investment risk exposure included in the equity investment risk ETL process	170	–	170
Estimated sensitivity to 10% movement in market value on investment fair value of remaining investment balances			160
Cumulative gains realised from sale of positions in the banking book during the year			3
Capital requirement**	63	692	755

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

** *Capital requirement calculated at 11.680%. The minimum requirement excludes the bank-specific requirements, but includes the CCyB requirement. The difference to the BCBS base minimum (8%) relates to the buffer add-ons for Pillar 2A, CCyB and capital conservation as prescribed in the Regulations.*

CR10: FIRSTRAND EQUITY POSITIONS IN THE BANKING BOOK UNDER MARKET-BASED APPROACH (SIMPLE RISK WEIGHT METHOD)

	As at 30 June 2020				
R million	On-balance sheet amount	Off-balance sheet amount	Risk weight	Exposure amount	RWA
Categories					
Exchange-traded equity exposures*	**21**	**–**	**300%**	**21**	**66**
Private equity exposures*	**6 446**	**–**	**400%**	**6 446**	**27 331**
Subtotal	**6 467**	**–**		**6 467**	**27 397**
Financial and insurance entities	**4 679**	**–**	**250%**	**4 679**	**11 696**
Total	**11 146**	**–**		**11 146**	**39 093**

* *RWA includes 6% scalar.*

	As at 30 June 2019				
R million	On-balance sheet amount	Off-balance sheet amount	Risk weight	Exposure amount	RWA
Categories					
Exchange-traded equity exposures*	170	–	300%	170	542
Private equity exposures*	6 429	24	400%	6 453	27 359
Subtotal	6 599	24		6 623	27 901
Financial and insurance entities	5 207	–	250%	5 207	13 018
Total	11 806	24		11 830	40 919

* *RWA includes 6% scalar.*

CR10: FRB EQUITY POSITIONS IN THE BANKING BOOK UNDER MARKET-BASED APPROACH (SIMPLE RISK WEIGHT METHOD)*

	As at 30 June 2020				
R million	On-balance sheet amount	Off-balance sheet amount	Risk weight	Exposure amount	RWA
Categories					
Exchange-traded equity exposures**	**4**	**–**	**300%**	**4**	**14**
Private equity exposures**	**1 083**	**–**	**400%**	**1 083**	**4 589**
Subtotal	**1 087**	**–**		**1 087**	**4 603**
Financial and insurance entities	**180**	**–**	**250%**	**180**	**450**
Total	**1 267**	**–**		**1 267**	**5 053**

* *Includes foreign branches.*
** *RWA includes 6% scalar.*

	As at 30 June 2019				
R million	On-balance sheet amount	Off-balance sheet amount	Risk weight	Exposure amount	RWA
Categories					
Exchange-traded equity exposures**	170	–	300%	170	541
Private equity exposures**	1 101	–	400%	1 101	4 670
Subtotal	1 271	–		1 271	5 211
Financial and insurance entities	503	–	250%	503	1 258
Total	1 774	–		1 774	6 469

* *Includes foreign branches.*
** *RWA includes 6% scalar.*

Insurance risk

INTRODUCTION AND OBJECTIVES

Insurance risk arises from the inherent uncertainties of liabilities payable under an insurance contract. These uncertainties can result in the occurrence, amount or timing of the liabilities differing from expectations. Insurance risk can arise throughout the product cycle and is related to product design, pricing, underwriting or claims management.

The risk arises from the group's third-party insurance operations housed in FirstRand Insurance Holdings Limited. Currently insurance risk arises from the group's long-term insurance operations, underwritten through its subsidiary FirstRand Life Assurance Limited (FirstRand Life), and short-term insurance operations, underwritten through its subsidiary FirstRand Short-term Insurance Limited (FirstRand STI).

FirstRand Life currently underwrites funeral policies, accidental death plans, risk policies, credit life policies (against FNB credit products) and health cash plans. FirstRand Life also writes linked-investment policies. There is, however, no insurance risk associated with these policies as these are not guaranteed. These policies are all originated through FNB.

FirstRand STI currently underwrites legal plans and warranty policies and is in the process of developing further short-term insurance products. These policies are also originated through FNB.

Funeral policies pay benefits upon death of the policyholder and, therefore, expose the group to mortality risk. The underwritten risk policies and credit life policies further cover policyholders for disability and critical illness, which are morbidity risks. Credit life policies also cover retrenchment risk. Health cash plans pay a benefit per day for each day that a policyholder is hospitalised. As a result of these insurance risk exposures, the group is exposed to catastrophe risk, stemming from the possibility of an extreme event linked to any of the above. Legal plans provide legal assistance or pay for legal fees on the occurrence of events as specified in the policies.

For all the above, the risk is that the decrement rates (e.g. mortality rates, morbidity rates, etc.) and associated cash flows are different from those assumed when pricing or reserving. These risks can further be broken down into parameter risk, random fluctuations and trend risk, which may result in the parameter value assumed differing from actual experience.

Policies underwritten by FirstRand Life and FirstRand STI are available through FNB's distribution channels. Some of these channels introduce the possibility of anti-selection, which also impacts the level of insurance risk.

YEAR UNDER REVIEW AND FOCUS AREAS

YEAR UNDER REVIEW	RISK MANAGEMENT FOCUS AREAS
• The focus was on the operational response to the national lockdown and increasing operational capacity to pay claims relating to inability to earn income. • Managing the impact of the COVID-19 pandemic. • Managing risk associated with growth in policies on the short-term insurance licence. • Progress in implementing the short-term insurance policy administration system.	• Managing insurance risk through the COVID-19 pandemic. • Embedding risk appetite. • Embedding risk management processes and tools for the comprehensive short-term insurance business.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

FirstRand Life and FirstRand STI are wholly-owned subsidiaries of FirstRand Insurance Holdings. FirstRand Life is an approved long-term insurer in terms of the Long-term Insurance Act. FirstRand STI is an approved short-term insurer in terms of the Short-term Insurance Act 53 of 1998.

FirstRand Insurance Holdings' board committees include an audit and risk committee, an asset, liability and capital committee, and a remuneration committee. The asset, liability and capital committee is responsible for:

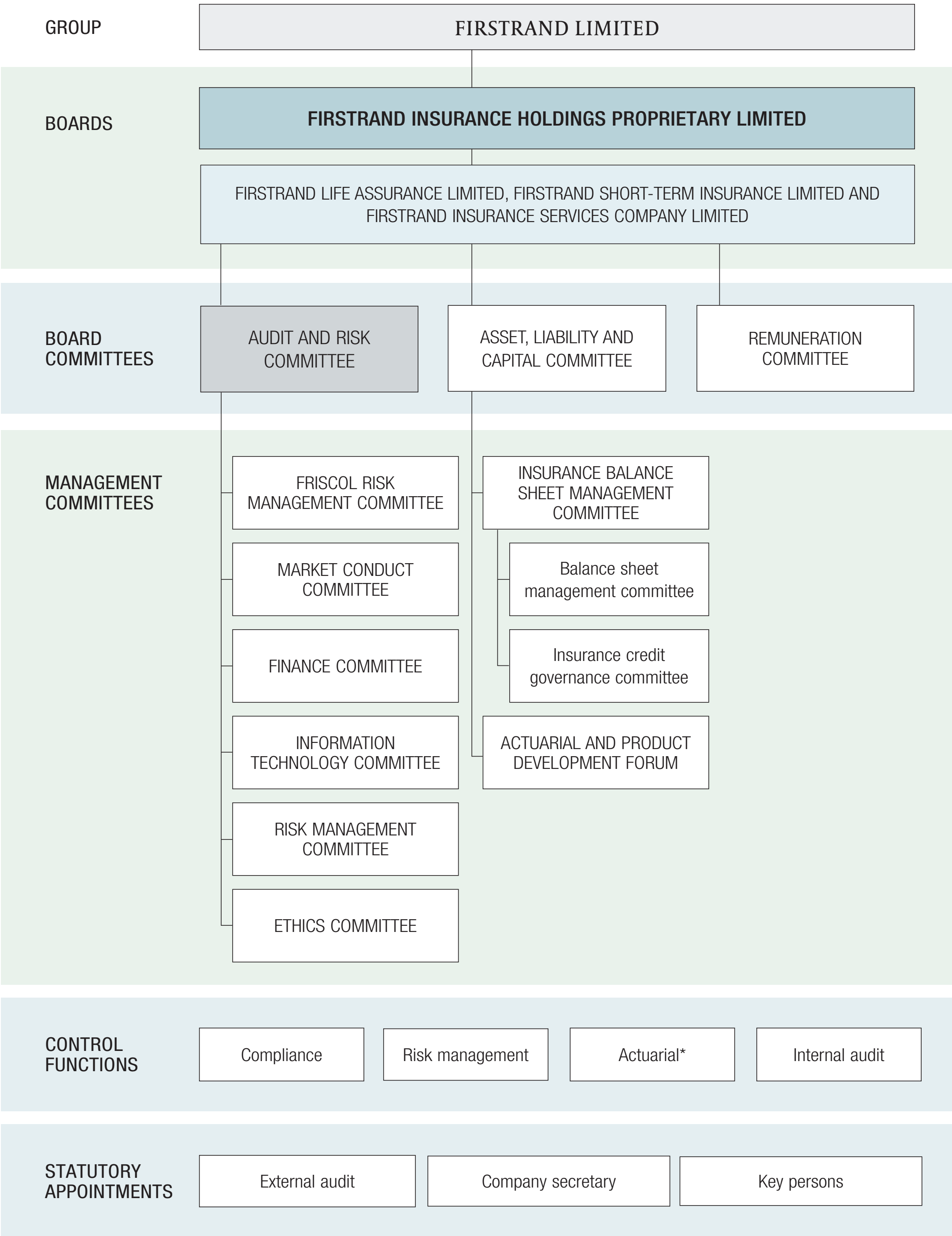
- providing oversight of the product suite;
- approving new products;
- financial resource management; and
- governance, and challenging inputs, models and results of pricing and valuations.

To ensure consistency within the group, FirstRand Life, FirstRand STI and FirstRand Insurance Holdings have the same board and common members in the group committees. Relevant group, and Retail and Commercial segment committees have oversight of and receive feedback from the appropriate FirstRand insurance committees.

An important component of the management of insurance risk is the control functions required to be set up, namely compliance, risk management, actuarial and internal audit.

The following diagram illustrates the insurance risk governance structures in FirstRand Insurance Holdings.

INSURANCE RISK GOVERNANCE STRUCTURE



* *FirstRand Insurance Services Company Limited is exempted from having an actuarial control function.*

ASSESSMENT AND MANAGEMENT

The group manages its insurance risk to be within its stated risk appetite. This is translated to risk limits for various metrics that can be monitored and managed.

The assessment and management of risk focuses on two main areas, namely:

- product design and pricing; and
- management of the in-force book.

Ensuring that insurance risk is priced correctly and understood is an important component of managing insurance risk. This is achieved through the following measures.

- Rigorous and proactive risk management processes to ensure sound product design and accurate pricing, including:
  - independent model validation;
  - challenging assumptions, methodologies and results;
  - debating and challenging design, relevance, target market, market competitiveness and treating customers fairly;
  - identifying potential risks;
  - monitoring business mix and mortality risk of new business; and
  - thoroughly reviewing policy terms and conditions.
- Risk policies sold to FNB's premium customer segment are underwritten. This allows underwriting limits and risk-based pricing to be applied to manage the insurance risk. Where specific channels introduce the risk of anti-selection, mix of business by channel is monitored. On non-underwritten products, insurance risk can be controlled through lead selection for outbound sales.
- The design of appropriate reinsurance structures is an important component of the pricing and product design to keep risk exposure within appetite.

The assessment and management of insurance risk of the in-force book uses the following methodologies, including advisory and mandatory actuarial methodologies.

- Insurance risk is managed through monitoring and reporting the frequency and severity of claims by considering incidence rates, claims ratios and business mix.
- For the life business, the actuarial valuation process involves the long-term projection of in-force policies and the setting up of insurance liabilities. This gives insight into the longer-term evolution of the risks in the portfolio. The short-term insurance liabilities comprise an outstanding claims reserve, an unearned premium reserve and an incurred but not reported reserve. Adequate reserves are set for future and current claims and expenses. Where actual benefits are different from those originally estimated, actuarial models and assumptions are updated to reflect this. This is fed back into the pricing process.
- There are also reinsurance agreements in place to mitigate various insurance risks and manage catastrophe risk.
- Asset/liability management is performed to ensure that assets backing insurance liabilities are appropriate and liquid.
- Stress and scenario analyses are performed to provide insights into the risk profile and future capital position.

The management of insurance risk is governed by several policies and there are processes, tools and systems in the business to assess and manage insurance risk.

The own risk and solvency assessment (ORSA) is defined as the entirety of the processes and procedures employed to identify, assess, monitor, manage and report on short- and long-term risks that FirstRand Insurance Holdings faces or might face, and to determine the own funds necessary to ensure that overall solvency needs are met at all times and are sufficient to achieve its business strategy. An ORSA report is produced annually.

CAPITAL

Capital for insurance activities is calculated on a regulatory basis (solvency and assessment management (SAM)) and an economic basis. Target levels for capital coverage are specified in the insurance risk appetite statement and have been met over the year under review. Capital is risk sensitive and is also used to understand the exposure to insurance risk.

Model risk

INTRODUCTION AND OBJECTIVES

The use of models causes model risk, which is the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports. Model risk can lead to financial losses, poor business and strategic decision-making, or damage to the group's reputation.

The group recognises two types of model risk:

Intrinsic model risk – the risk inherent in the modelling process, which cannot be directly controlled but can be appropriately mitigated. Examples of intrinsic model risk drivers include model complexity, availability of data and model materiality.

Incremental model risk – the risk caused by inadequate internal practices and processes, which can be actively mitigated through, for example, quality model documentation, robust governance processes and a secure model implementation environment.

A model is defined as a quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques and assumptions to process input data into quantitative estimates. A model generally consists of three components:

- information input component, which delivers assumptions and data to the model;
- processing component, which transforms inputs into estimates; and
- reporting component, which translates the estimates into useful business information.

Model risk exists as models may have fundamental errors and produce inaccurate outputs when assessed against the design objective and intended business use. Model risk may also arise as a result of model results being used incorrectly or inappropriately.

YEAR UNDER REVIEW AND FOCUS AREAS

YEAR UNDER REVIEW	RISK MANAGEMENT FOCUS AREAS
• Refined the group model risk management and reporting frameworks. • Developed a risk tolerance statement for model risk and implemented monitoring of model risk against this statement. • Completed the rollout of model risk management software for market risk valuation and curve construction models. • Embedded model risk data quality management and reporting in line with BCBS 239 standards. • Commenced rollout of model risk management software to credit risk application scorecards. • Commenced development of principles and frameworks for advanced analytics, including analytics making use of artificial intelligence and machine learning.	• Finalise and embed frameworks, standards, guidance and supporting governance structures for advanced analytics, including artificial intelligence and machine learning. • Extend the scope of model risk reporting beyond that required for BCBS 239 compliance.

An assessment was performed in light of the COVID-19 pandemic and the associated economic impacts to determine the extent of additional model risk introduced and to understand mitigating measures in place to address the additional risk.

The assessment concluded that whilst the impact of COVID-19 on the reliability of model outputs could be observed across the group, and particularly within models that make use of point-in-time behavioural and macroeconomic information, these impacts had been anticipated and proactively mitigated through frequent monitoring, recalibration and application of expert judgement. The actions taken were effective in limiting the risk of poor decisions being made on the basis of unsuitable model outputs.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

MODEL RISK GOVERNANCE STRUCTURE

FIRSTRAND BOARD

RCC COMMITTEE

Reviews reports on the adequacy and robustness of model risk management.

MODEL RISK AND VALIDATION COMMITTEE

- Considers and approves material aspects of model validation work including:
  - credit risk capital models, credit ratings and estimations;
  - IMA models for market risk;
  - AMA operational risk models; and
  - economic capital models.
- Monitors implementation of model risk management principles and model risk management framework for credit, market, operational and other risks.

The model risk management framework for credit, market, operational and other risks prescribes the roles and responsibilities across the model life cycle and risk-sensitive model governance and validation requirements.

RETAIL AND SME RETAIL CREDIT TECHNICAL COMMITTEE

WHOLESALE AND SME CORPORATE CREDIT TECHNICAL COMMITTEE

Review and approve credit risk models for:

- application and behavioural scorecards;
- provisioning and impairment;
- regulatory and economic capital; and
- stress testing.

MARKET RISK TECHNICAL COMMITTEE

Reviews and approves IMA market risk quantitative models, including models for instrument valuation, curve construction, and regulatory and economic capital.

OPERATIONAL RISK TECHNICAL COMMITTEE

Validates AMA capital model annually and performs additional validation of model changes.

OTHER RISK TECHNICAL COMMITTEE

Reviews and approves economic capital for business risk, other asset risk, model risk, insurance risk and post-retirement and medical aid risk.

GROUP TREASURY MODEL RISK TECHNICAL COMMITTEE

Reviews and approves Group Treasury models, including interest rate risk and foreign exchange risk in the banking book, liquidity risk, securitisation risk, funds transfer pricing and associated economic capital.

FINANCIAL CRIME TECHNICAL COMMITTEE

Reviews and approves all models used in the identification, assessment and management of financial crime risk.

ERM

Independent validation of credit risk, market risk and counterparty credit risk models, ownership of model risk management frameworks and production of model risk reports.

GIA

- Independent assurance of credit and market risk models.
- Independent validation of operational risk and economic capital models.

ASSESSMENT AND MANAGEMENT

The level of model risk related to a particular model is influenced by model complexity, uncertainty about inputs and assumptions, and the extent to which the model is used to make financial and strategic decisions. The risks, from individual models and in aggregate, are assessed and managed. Aggregated model risk is affected by interaction and dependencies among models, reliance on common assumptions, data or methodologies and any other factors that could adversely affect several models and their outputs simultaneously. As an understanding of the source and magnitude of model risk is key to effective management of the risk, model risk management is integrated into the group's risk management processes.

Various principles are applied in the model risk management process. Risk owners assess which of these principles are applicable to a specific model and determine levels of materiality for model evaluation and validation.

MODEL RISK MANAGEMENT PRINCIPLES

Data and systems	Development	Testing and validation	Monitoring	Governance
• Use systems that ensure data and reporting integrity. • Use suitable data. • Maintain master list of field data. • Implement appropriate system controls. • Assess data quality.	• Document model design, theory and logic which is supported by published research and industry practice. • Expert challenge of methods and assumptions. • Ensure appropriate conservatism.	• Provide independent validation. • Review documentation, empirical evidence, model construction assumptions and data. • Perform sensitivity analysis. • Perform stress testing. • Obtain independent assurance from GIA.	• Perform regular stress testing and sensitivity analysis. • Perform quantitative outcome analysis. • Perform backtesting and establish early warning metrics. • Assess model limitations. • Set and test error thresholds. • Test model validity.	• Provided by three lines of control. • Approve model risk management framework. • Ensure effective management. • Ensure approval committees with adequate skills. • Ensure appropriate documentation.

MODEL RISK MEASUREMENT

A scorecard with risk factors based on model risk management principles is used for model risk measurement and quantification of capital. Intrinsic model risk and incremental model risk are assessed and tracked separately, then combined to obtain overall model risk scorecards. The scorecard is tailored for each risk type by applying risk type specific weightings to each scorecard dimension and by refining the considerations for each dimension to be specific to that risk type.

Each regulatory capital and economic capital model is rated using the model risk scorecard and assigned an overall model risk rating of low, medium or high. These ratings are used to determine the model risk economic capital add-on multiplier, which is applied to the output of capital models to determine the amount of model risk economic capital to be held.

Tax risk

INTRODUCTION AND OBJECTIVES

Tax risk is defined as the risk of:

- *financial loss due to the final determination of the tax treatment of a transaction by revenue authorities being different from the implemented tax consequences of such a transaction, combined with the imposition of penalties;*
- *the sanction or reputational damage due to non-compliance with the various revenue acts; and/or*
- *the inefficient use of available mechanisms to benefit from tax dispensations.*

Accordingly, any event, action or inaction in the strategy, operations, financial reporting or compliance that either adversely affects the entity's tax or business position, or results in unanticipated penalties, assessments, additional taxes, harm to reputation, lost opportunities or financial statement exposure is regarded as tax risk.

FirstRand's long-term strategic objective is to deliver superior and sustainable economic returns to shareholders within acceptable levels of volatility and maintain balance sheet strength. The group's tax strategy is aligned with these principles. A variety of local and international taxes arise in the normal course of business, including corporate income taxes, employees' taxes, value-added taxes, securities transfer taxes, stamp duties, customs duties and withholding taxes, to name but a few.

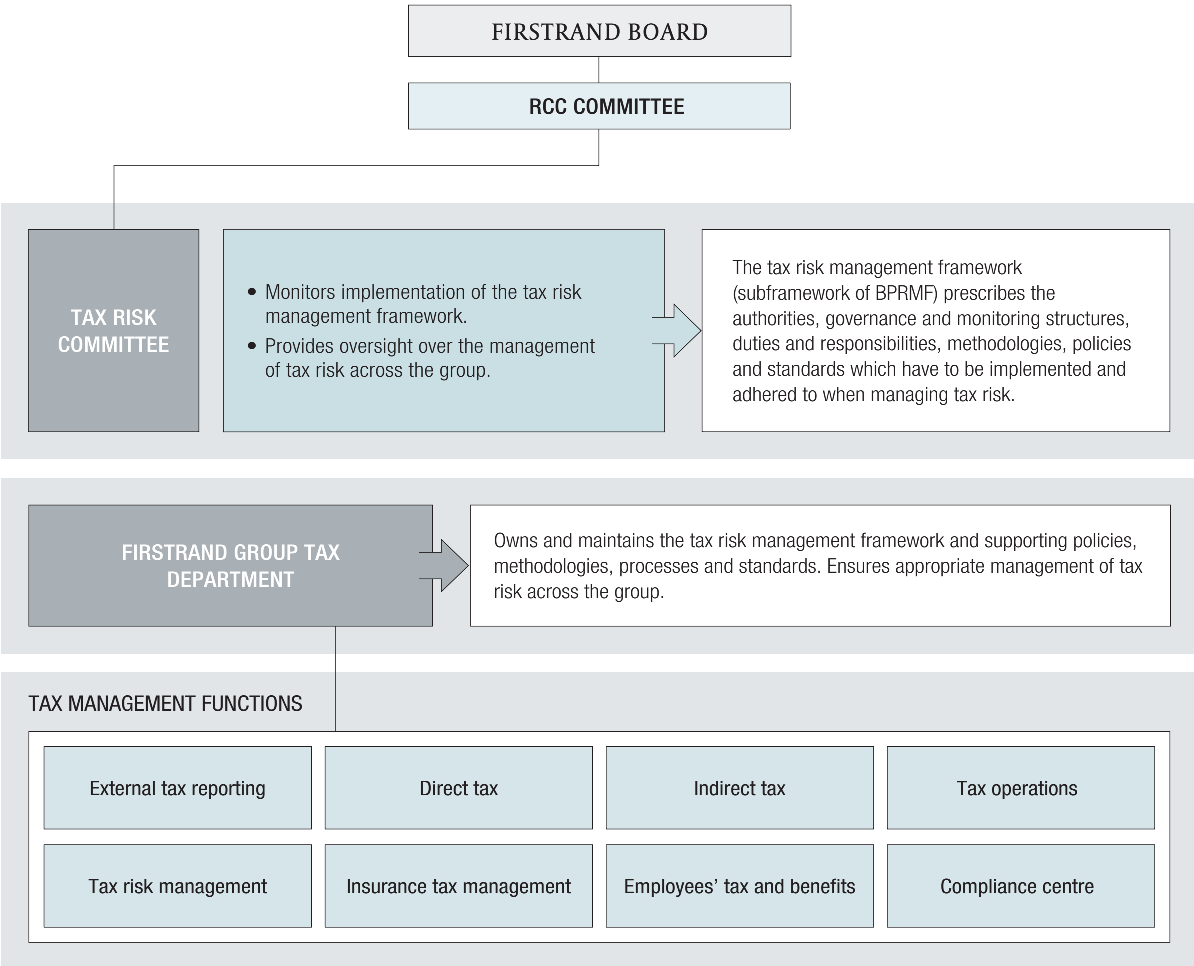
The FirstRand Group Tax (FRGT) department is mandated by the FirstRand tax risk committee to manage tax risks. FirstRand is committed to complying with all taxation laws and influencing tax policy, legislation and practice; to developing and implementing value-adding initiatives in a responsible manner; and to maintaining effective relationships with all stakeholders. It is imperative that the group demonstrates integrity in the way it conducts business, and FirstRand commits to being responsible and accountable in managing tax risk.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

The head of FRGT takes ultimate responsibility for tax risk management for all taxes on a group-wide basis. The responsibility at a business/entity level lies with the CEO and CFO of the relevant business or entity. They are responsible for keeping tax-related risks at an acceptable level. To enable the businesses/entities to fulfil their tax risk management responsibilities, FRGT has deployed a team of tax specialists to fulfil an advisory role regarding tax issues arising within the various businesses/entities.

Tax risks are reported periodically to the RCC committee, which is responsible for the management and monitoring of tax risks, and ultimately reported to the board, which is responsible for the group's business tax strategies and outcomes.

TAX RISK GOVERNANCE STRUCTURE



ASSESSMENT AND MANAGEMENT

Tax risk management is the systematic approach to proactively identify, evaluate, manage and report on tax risks and data quality risks (as far as the relevant tax data is under the control of FRGT) within the agreed and acceptable parameters to facilitate the group's tax strategy.

FRGT engages in efficient tax planning that supports business and reflects commercial and economic activity. The tax laws in all of the jurisdictions in which the group operates are fully complied with and, in so doing, the risk of uncertainty or disputes is minimised. Transactions between FirstRand entities are conducted on an arm's-length basis and in accordance with the current Organisation for Economic Cooperation and Development (OECD) principles. Where tax incentives or exemptions exist, FRGT seeks to apply them responsibly in the manner intended by governments and fiscal authorities. FirstRand establishes entities in jurisdictions suitable to hold its offshore operations, considering the business activities and the prevailing regulatory environments in those jurisdictions.

FirstRand seeks to build sustainable working relationships with governments and fiscal authorities, which are based on mutual respect. Where possible, FRGT works in conjunction with fiscal authorities to resolve disputes and engage with governments on the development of tax laws. FirstRand is committed to the principles of openness and transparency to build trust between the group and fiscal authorities and to align the group with the various systems of tax collection.

Tax risk management forms part of the group's overall internal control processes. Responsibility and accountability for FirstRand's tax affairs are clearly defined in the tax risk management framework.

The group is responsible for ensuring that policies and procedures which support the tax risk management framework are in place, monitored and used consistently in all operations and that the group's tax team has the skills and experience to implement these appropriately. In this regard, external tax risks arising from legislative and regulatory changes are actively managed, as well as internal tax risks, comprising compliance and operational risks. Management oversight also includes controls over compliance processes which are implemented, with their effectiveness being monitored on an ongoing basis.

REGULATORY ENVIRONMENT

The regulatory bodies which the group subscribes to and complies with are listed below.

BASA	FirstRand is a member of BASA, which has a tax committee that promotes discussions on tax issues relating to the various South African revenue acts, advocates for tax reforms, and ensures that the regulatory and supervisory framework addresses relevant issues.
South African Revenue Service (SARS)	The group complies with the accord that was signed between SARS and BASA to improve tax compliance.
UK Code of Practice on Taxation for Banks	The group subscribes to this code to ensure compliance of the bank's London branch and Aldermore with the law on tax matters in the UK.
Base Erosion and Profit Shifting (BEPS) recommendations	The group files country-by-country reports in accordance with the BEPS recommendations issued by the OECD to address weaknesses in the international tax system.
Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS)	FATCA and CRS submissions are made to SARS to aid in the exchange of information amongst financial institutions.
King IV	FirstRand endorses the holistic approach to corporate governance and the mindful application of the principles contained in King IV (2016). The board has satisfied itself that FirstRand has complied with these principles in all material respects throughout the year.

Operational risk

INTRODUCTION AND OBJECTIVES

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.

The group continuously evaluates and enhances existing frameworks, policies, methodologies, processes, standards, systems and infrastructure to ensure that the operational risk management practices are practical, adequate, effective, adaptable, and in line with business needs, regulatory developments and best practice, given existing and emerging risks.

OPERATIONAL RISK OBJECTIVES AND PROGRAMME

KEY OBJECTIVES

The group's objective is to build an effective and forward-looking operational risk management programme to support the group in the execution of its strategy in the context of current and emerging risk exposures.

- Digitise and simplify operational risk processes for greater efficiency, simplicity and business value.
- Prioritise risk management efforts on key areas through enhanced operational risk analysis.
- Provide forward-looking and dynamic operational risk management information for use in business decision-making.
- Enhance vendor risk management discipline.
- Develop a holistic approach to operational resilience using the processes developed and lessons learnt from the management of the COVID-19 pandemic.
- Enhance operational risk management awareness within the organisation.
- Assess the impact of operational risk-related regulatory developments and ensure compliance that results in business and risk management value.

OPERATIONAL RISK MANAGEMENT PROGRAMME COMPONENTS

- Establish, review and implement operational risk management framework and policies.
- Develop and maintain operational risk management tools and processes (including risk identification, assessment and quantification).
- Operational risk analytics and capital.
- Operational risk management IT systems and management information.
- Operational risk projects/initiatives.
- Operational risk governance and reporting.
- Operational risk management advisory and support services to business.

Year under review and focus areas

In the second half of the year, significant focus was placed on the group's operational resilience response to the COVID-19 pandemic to ensure minimal operational disruption. The operational resilience response was based on:

- the group's understanding of the COVID-19 pandemic;
- an impact analysis from health and safety, supply chain and business continuity perspectives;
- the need for compliance with new and rapidly changing regulations;
- internal policy, process and protocol development, and
- risk monitoring and reporting to internal and external stakeholders on an ongoing basis.

A variety of functions (with guidance and oversight provided by the operational risk management team), worked rapidly together to successfully transition the majority of the workforce to remote working arrangements during the various levels of government-imposed lockdowns and to ensure that appropriate health and safety protocols were put in place for critical employees working on-site during these lockdowns. In addition, there has been ongoing monitoring of compliance to defined policies, processes and protocols established for the purposes of COVID-19 in the workplace.

The maintenance of a robust control environment and change management discipline in the context of a rapidly changing business environment due to COVID-19 has been a key focus, with risk management involvement and input sought when controls, processes and systems required change and/or adaptation to enable an effective response to the pandemic.

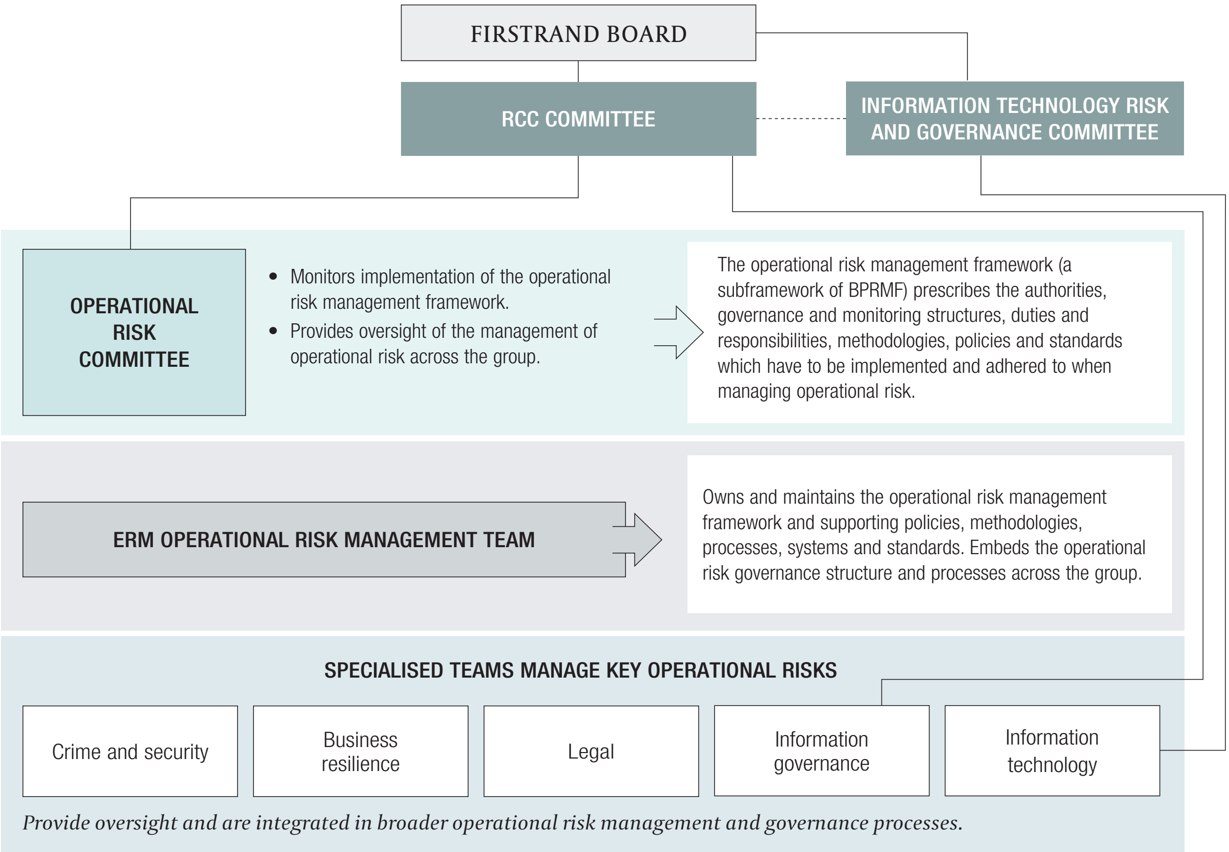
Despite the focus on the COVID-19 operational resilience response, the group managed to meet its business-as-usual commitments and maintain oversight of ongoing control improvement initiatives. The progress on these initiatives and impact on the operational risk profile are regularly tracked and reported at business and group level through management, combined assurance and risk governance processes and are considered as part of the operational risk appetite setting and risk scenario processes. Risk management programmes are reviewed and enhanced on a continuous basis to focus on identified key and emerging risks based on changes in the internal and external environments.

The principal operational risks currently facing the group are:

- **business continuity risk** due to the rapid spread of COVID-19;
- **cyber risk** (including information security), given the growing sophistication of cyber attacks both locally and globally, and the potential for cyber attacks brought about by the COVID-19 pandemic;
- **technology risk**, due to the pace of technology change and increasing digitisation;
- **vendor risk**, due to lack of direct control over external service providers and potential impact of COVID-19 on their ability to continue to deliver services;
- **people risk**, due to the effect of the COVID-19 pandemic on the physical and emotional wellbeing of employees over time, and potential employee non-adherence to health and safety protocols in the workplace; and
- **execution, delivery and process management risk** (risk of process weaknesses and control deficiencies) as the business adjusts to a new way of operating due to COVID-19, while still trying to grow and evolve under tough economic conditions.

YEAR UNDER REVIEW	RISK MANAGEMENT FOCUS AREAS
• Coordinated the group's rapid operational resilience response to the COVID-19 pandemic in light of the health risk and regulatory requirements. • Improved maturity in the application of the risk assessment methodology. • Established processes, guided and tracked group-wide actions and initiatives to comply with BCBS 239. • Improved the operational risk system functionality for enhanced risk information, process automation, reporting and analysis. • Embedded an efficient cloud computing and offshoring of data risk management programme within the group's operational risk appetite and in terms of regulatory requirements. • Improved IT risk management discipline. • Established the vendor risk management framework as a foundation for maturing vendor risk management discipline. • Process (business and operational risk) automation continued to reduce manual processes and improve controls. • Created awareness among the operational risk fraternity of risks and opportunities associated with digitisation. • Continued to review, test and align risk mitigation strategies to combat cybercrime and ensure that controls are adequate and effective. • Tested cyber incident response plans. • Refined processes and improved data quality and records management practices.	• Enhance and test scenario-based cyber incident response plans. • Embed a disciplined approach to the risk assessment and management of vendors across the vendor life cycle. • Leverage the group's data and digital capabilities optimally for efficient and effective operational risk identification, assessment, management and reporting. • Implement an updated risk taxonomy that takes cognizance of emerging and evolving risks as a combined assurance initiative. • Embed BCBS 239 compliance. • Prioritise operational risk management activities to support execution of strategy and strengthen key controls. • Continually assess the risks inherent in increasing digitisation and innovative business solutions and facilitate management thereof. • Align IT and related frameworks with changing business models and the technology landscape. • Focus on holistic operational resilience. • Improve information management capabilities and the control environment, and roll out awareness programmes on records management, data quality and data privacy management.

ORGANISATIONAL STRUCTURE AND GOVERNANCE



Vendor risk management is considered a key operational risk in respect of which appropriate governance structures are in the process of being established to assist the operational risk committee in the oversight of management of this risk type.

MEASUREMENT OF OPERATIONAL RISK

Basel approaches

FirstRand applies **AMA** for its domestic operations. Offshore subsidiaries and operations continue to use **TSA** for operational risk, and all previously unregulated entities that now form part of FRIHL, Ashburton Investments and Aldermore follow **BIA**.

Under **AMA**, FirstRand uses a sophisticated statistical model for the calculation of capital requirements, which enables a more accurate risk-based measure of capital for business units. Operational risk scenarios (covering key risks that, although low in probability, may result in severe losses) and internal loss data are direct 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 identification and assessments, and other pertinent information about relevant risk exposures. To ensure ongoing accuracy of risk and capital assessments, all scenarios are reviewed, supplemented and/or updated semi-annually, as appropriate.

The loss data used for risk measurement, management and capital calculations are 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.

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

Capital requirements are calculated for each business using the AMA capital model and then allocated to legal entities in the group based on gross income contribution ratios. This split of capital among 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 PA regulations. These capital calculations and allocations do not make use of any risk-based information.

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

- changes in the operational risk profile, as measured by the various operational risk tools and processes;
- emerging risks and the associated actual or potential impact on the operational risk profile;
- material effects of expansion into new markets, new or substantially changed products, systems or activities, as well as the closure of existing operations;
- changes in the control environment – the group targets a continual improvement in the control environment, but deterioration in effectiveness is also possible due to, for example, unforeseen increases in transaction volumes or pace of change;
- changes in organisational structure resulting in the movement of businesses and/or products from one business area to another; and
- changes in the external environment, which drive certain types of operational risk (e.g. the COVID-19 pandemic, rising civil protest actions, electricity supply shortages, increasing unemployment, etc.).

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 adhered to by the three lines of control model, which is 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 and facilitation, and coordination of operational risk management, measurement and governance processes. GIA, as the third line of control, provides independent assurance on 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 approach to the implementation of these tools is reviewed on an ongoing basis to ensure that business value is delivered. The most relevant of these are outlined in the following chart.

OPERATIONAL RISK ASSESSMENT AND MANAGEMENT TOOLS

PROCESS-BASED RISK AND CONTROL IDENTIFICATION AND ASSESSMENT

- The risk and control assessment per product/service based on key business processes.
- Integrated in day-to-day business and risk management processes.
- Used by business and risk managers to identify and monitor key risks and assess effectiveness of existing controls.

KEY RISK INDICATORS

- Used across the group in all businesses as an early warning risk measure.
- Highlight changing trends in exposures to specific key operational risks.
- Inform operational risk profiles which are reported periodically to the appropriate management and risk committees, and are monitored on a continuous basis.

INTERNAL/EXTERNAL LOSS DATA

- Capturing internal loss data is a well-entrenched discipline within the group.
- Internal loss data reporting and analyses occur at all levels with specific focus on root causes, process analysis and corrective action.
- External loss databases are used to learn from the loss experience of other organisations and are also an input into the risk scenario process.

RISK SCENARIOS

- Risk scenarios are widely used to identify and quantify low-frequency extreme-loss events.
- Senior management actively participates in the risk scenario thematic deep-dives and the overall scenario reviews.
- Results are tabled to the appropriate risk committees and are used as input into the capital modelling process.

FirstRand uses an integrated and reputable operational risk system in which all operational risk assessment and management tools have been automated to provide a holistic view of the outputs of the group's 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 (e.g. external card fraud) and are budgeted for appropriately. Business units minimise these losses by improving relevant business and control practices and processes. Operational risk events resulting in substantial losses occur less frequently. The group strives to minimise these and limit their frequency and severity within its risk appetite levels through appropriate risk mitigation. Operational losses are measured and reported against the agreed operational risk appetite levels on a regular basis and necessary reviews are conducted to establish root causes and put in place appropriate action plans to prevent or reduce the risk of recurrence to the extent possible.

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 programmes as described in the following diagram.

KEY SPECIALIST RISK AND MANAGEMENT PROCESSES

	BUSINESS RESILIENCE	LEGAL	IT
Management	• Operations should be resilient enough to withstand severe disruptions from internal failures or external events. • Business continuity strategies include regular review of business continuity plans (including disaster recovery plans) and testing. • Disruptions or incidents are assessed and reported to the relevant risk stakeholders.	• Creation and ongoing management of contractual relationships. • Management of disputes and/or litigation. • Protection and enforcement of property rights (including intellectual property). • Accounting for the impact of law or changes in the law as articulated in legislation or decisions by the courts.	• Protection of information systems against unauthorised access, destruction, modification and use. • Ensuring confidentiality, availability and integrity of systems that maintain, process, store and disseminate this information. • Systems are continuously assessed for vulnerabilities and reported to relevant risk and business stakeholders.
Committees and frameworks	• Business resilience steering committee (a subcommittee of the operational risk committee). • Practices are documented in the business resilience policy and standards.	• Compliance with legislation managed by RCRM. • Legal risk committee (subcommittee of operational risk committee), and subcommittees of the legal risk committee. • Legal risk management framework and subframeworks and policies.	• Information technology risk and governance committee (board committee). • IT governance framework, IT policies and information security policy.

	INFORMATION GOVERNANCE	CRIME AND SECURITY	RISK INSURANCE
Management	• Ensures that information is managed as a strategic asset to derive optimal value, whilst legal and ethical use of information is preserved. • Clears allocation of information accountability. • Ensures data quality is fit-for-purpose. • Manages vital records, information architecture and data privacy.	• Covers internal (employees) and external crime and physical security. • Contains criminal losses with enhanced controls and real-time detection models. • Mitigates the growing cybercrime threat with measures to improve resilience against cyber attacks through an integrated approach across multiple disciplines.	• Structured insurance risk financing programme in place for material losses from first-party risks. • Insurance refined through risk profile assessment, change in group strategy or markets. • Cover for professional indemnity, directors' and officers' liability, crime, public and general liability, assets, among others.
Committees and frameworks	• Information governance committee (subcommittee of the RCC committee). • Information governance framework and supporting domain policies. • Risk data aggregation and risk reporting framework.	• Crime and security function reporting to Retail and Commercial CRO with a group mandate. • Integrated crime management framework and protective security framework.	Cover through FRISCOL, the group's wholly-owned first-party insurance company.

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 programme is designed, where appropriate, to complement the risk management strategy to protect against the identified risks which can affect the group's financial performance or position and, therefore, negatively affect shareholder value.

The insurance risk programme is continually refined through ongoing assessment of changing risk profiles, organisational strategy and growth, and international insurance markets. The levels and extent of insurance cover is reviewed and benchmarked annually.

The group's insurance-buying philosophy is to self-insure as much as is economically viable in line with its risk appetite and to only protect itself against catastrophic risks through the use of third-party (re)insurers.

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. This protection extends across the group and into the subsidiaries in the rest of Africa and the UK where legislation allows. The group does not consider insurance as a mitigant in the calculation of capital for operational risk purposes.

Regulatory and conduct risk

INTRODUCTION AND OBJECTIVES

The group fosters a compliance culture which aims to follow both the spirit and the letter of applicable legislation and regulations. FirstRand therefore seeks to prevent its platforms from being abused for the purposes of financial crime. It will not accept wilful and deliberate non-compliance. In instances of unintended failures which result in non-compliance, the focus is on implementing remedial action.

> **Regulatory risk** refers to the risk of non-compliance together with related legal or regulatory sanctions, material financial loss or damage to reputation as a result thereof.
>
> **Conduct risk** includes risks associated with delivery of fair customer outcomes and the integrity and efficiency of financial markets, and touches every part of how the business conducts its affairs. From a regulatory perspective, conduct risk also refers to the risk of non-compliance with conduct standards and related requirements, as may be prescribed and/or expected from time to time, by regulatory and other related authorities.

Financial institutions operate on the basis of trust, and ethical conduct in the financial system is critical. Increasingly governments and regulators are implementing multiple policy and regulatory requirements to enforce standards and hold business leaders accountable for their actions. Therefore, the group expects ethical behaviour that contributes to its overall objective of prudent regulatory compliance and risk management. This is achieved through providing responsible financial products and services and treating customers fairly. The ethics and compliance culture embraces standards of integrity and ethical conduct which affect all stakeholders of the group, both internal and external.

Leadership is required to integrate ethics and conduct risk objectives into commercial strategies through a values-led approach with compliance as an outcome. For this reason, strategy, leadership and the intersect with culture and conduct are continuously evaluated.

FirstRand's RCRM function is tasked with the management of the group's regulatory, ethics and conduct risk. RCRM assists management in discharging their responsibility to comply with applicable regulatory requirements, and effectively and expeditiously resolve identified ethics, conduct and compliance issues.

REGULATORY AND CONDUCT RISK MANAGEMENT OBJECTIVE AND APPROACH

OBJECTIVE

Ensure business practices, policies, frameworks and approaches across the group are consistent with applicable laws and that regulatory and conduct risks are identified and proactively managed.

APPROACH

- Maintain an effective and efficient regulatory and conduct risk management framework with sufficient operational capacity to assess financial products and services against fair market conduct principles, and promote and oversee compliance with legislative and best practice requirements.
- Ensure appropriate policies, standards and processes are in place to mitigate the risk of abuse of the group's platforms for unlawful purposes.
- Promote training, learning and development to ensure a high level of understanding and awareness of legal and regulatory frameworks applicable to the group's business activities.
- Coordinate regulatory interactions with various regulators across multiple jurisdictions.

Compliance with laws and related regulatory requirements applicable to the group's operations is critical as non-compliance may result in serious consequences and lead to both civil and criminal liability, including penalties, claims for losses and damages, and restrictions imposed by regulatory authorities.

Applicable laws and other requirements include:

- Financial Sector Regulation Act, 2017
- Banks Act, 1990, and related Regulations
- Companies Act, 2008
- Competition Act, 1998
- Collective Investment Schemes Control Act (CISCA), 2002
- Financial Intelligence Centre Act (FICA), 2001
- Long-term Insurance Act, 1998
- Short-term Insurance Act, 1998
- Insurance Act, 2017
- Financial Advisory and Intermediary Services (FAIS) Act, 2002
- National Credit Act (NCA), 2005
- Consumer Protection Act, 2008
- Financial Markets Act (FMA), 2012
- Foreign Account Tax Compliance Act, 2010
- Protected Disclosures Act, 2000
- Protection of Personal Information Act (PoPIA), 2013
- Prevention and Combating of Corrupt Activities Act (PRECCA), 2004
- Currency and Exchanges Act, 1993 and Exchange Control Regulations, 1961
- National Payment System Act, 1998
- King Code of Governance Principles for South Africa, 2016 (King IV)
- Legislation and rules related to listed instruments on various exchanges
- Statutory codes of conduct, standards, joint standards and other subordinate legislation issued by, among others, the Financial Sector Conduct Authority (FSCA) and the PA

YEAR UNDER REVIEW AND FOCUS AREAS

YEAR UNDER REVIEW	RISK MANAGEMENT FOCUS AREAS
• COVID-19 demanded rapid action to address lockdown implications for customers and employees. Agile responses were required from business and risk functions to ensure the organisation could continue rendering essential services to customers whilst meeting regulatory requirements and expectations. This included product risk assessments for cash flow relief solutions to enable deployment to market and assist customers, addressing occupational health and safety requirements to ensure employee health and safety, and proactive regulator engagements at critical points as the situation evolved. • Multiple policy and regulatory instruments were issued by government and regulatory authorities. During the 2019/2020 period around 946 new regulatory instruments impacting financial institutions were published. • A large number of draft and final regulatory instruments were issued with reference to the implementation of the Twin Peaks system of financial regulation including matters relating to joint responsibilities, such as a framework for significant owners of financial institutions and the conduct standards for banks. • The AML/CFT control environment in South Africa and operations in the rest of Africa and India continued to be enhanced. • Risk assessments were performed to assess financial crime risk in the rest of Africa as well as anti-bribery and corruption risk, primarily in public sector related business areas. • Frameworks, policies and standards for currencies and exchange and data privacy were revamped. • Risk appetite statements and key risk indicators were revised for key regulatory functional areas. • Ongoing assessments of culture risk, the ethics barometer and other engagement assessments were reviewed. Enhancements were made to whistle-blowing and declaration of interests processes. • Ongoing training, communication and awareness initiatives on ethical culture, various regulatory and conduct requirements and developments took place. • No material regulatory sanctions and/or penalties were levied against regulated group entities during the year.	• Cooperation with regulatory authorities and other stakeholders, including the implementation and embedment of the requirements of the phase 2 requirements to the Financial Intelligence Centre Amendment Act and International Funds Transfer Reporting. • Ongoing focus on enhancing the risk-based approach to financial crime risk management. • South Africa was the subject of a Financial Action Task Force mutual evaluation and it is anticipated that the final report, once finalised, could impact financial crime risk management programmes. • The promotion of risk-informed and efficient utilisation of resources, including investments made in people, systems and processes, to effectively manage risks emanating from the increasing number of new and/or amended local and international regulatory requirements, including FICA, NCA, FAIS Act, FMA, Insurance Act, Conduct of Financial Institutions (CoFi) Bill, payment system related regulatory changes and PoPIA. • Focus on driving a customer-centric, business-led approach to treating customers fairly. • Continue to work closely with regulators and industry on the authenticated collections project, the main objective of which is to prevent debit order abuse. • Manage risks associated with illicit cross-border flows, and emerging financial crime threats and vulnerabilities arising from new threat vectors. • Continue to review market conduct maturity and associated platform developments, including implementation of conduct standards for banks and overseeing employee activity in financial markets via the group's personal account trading programme. • Strengthening anti-bribery and corruption risk management across the business. • Ongoing focus on the management of ethics and regulatory and reputational risks which may be introduced to the group by third parties. • Focus on the mitigation of emerging risks relating to digitisation, including the ethical use of data in alignment with information governance and data privacy programmes. • Drive PoPIA implementation readiness by June 2021 and embed General Data Protection Regulations (GDPR) compliance across businesses that are in scope. • Drive automation and scale the use of technology and advanced analytics for purposes of identifying regulatory and conduct risks, and the creation of bespoke interventions.

REGULATORY UPDATE

The group continually monitors the regulatory environment and responds appropriately to changes and developments.

Banking legislation

As a member of the BCBS, the SARB and PA are committed to ensuring that the South African regulatory and legislative frameworks relating to the prudential regulation and supervision of, among others, banks, banking groups, registered insurers and systemically important financial institutions remain compliant with international standards and best practice. Changes in international standards and requirements, such as the large volume of regulatory changes implemented subsequent to the 2008 global financial crisis, normally result in amendments to the South African prudential regulatory framework for banks and banking groups, most notably to the Regulations. As expected, the Regulations will, in line with the PA's communications to industry, during the ensuing period, be amended in accordance with both new and revised frameworks and requirements issued by the BCBS, a large number of which relate to implementation of Basel III post-crisis reforms. The purpose thereof is to ensure that, among others, the South African legal framework for the regulation and supervision of banks and banking groups remains relevant and current.

The Twin Peaks system of financial regulation

It is expected that the focus will remain on:

- the new regulatory framework for financial conglomerates;
- strengthening the regulation and supervision of financial institutions;
- updating and/or finalising of legal and regulatory frameworks aligned to specific Financial Sector Regulation Act mandates and regulatory strategies, most notably also in relation to financial stability and the conduct of financial institutions; and
- ongoing engagement between the SARB, financial sector regulators and industry in relation to financial stability, and further developing legal and regulatory frameworks in support thereof.

The FSCA issued the draft Conduct Standard for Banks for comment during 2019. The draft standards have subsequently been approved by Parliament. The standards will now form the basis of the FSCA's regulation of banks' conduct. The PA issued a number of regulatory instruments in response to the COVID-19 pandemic, including relief on prudential requirements relating to capital, liquidity risk and credit risk.

Insurance legislation

The FSCA issued the following exemption notices during the period under review:

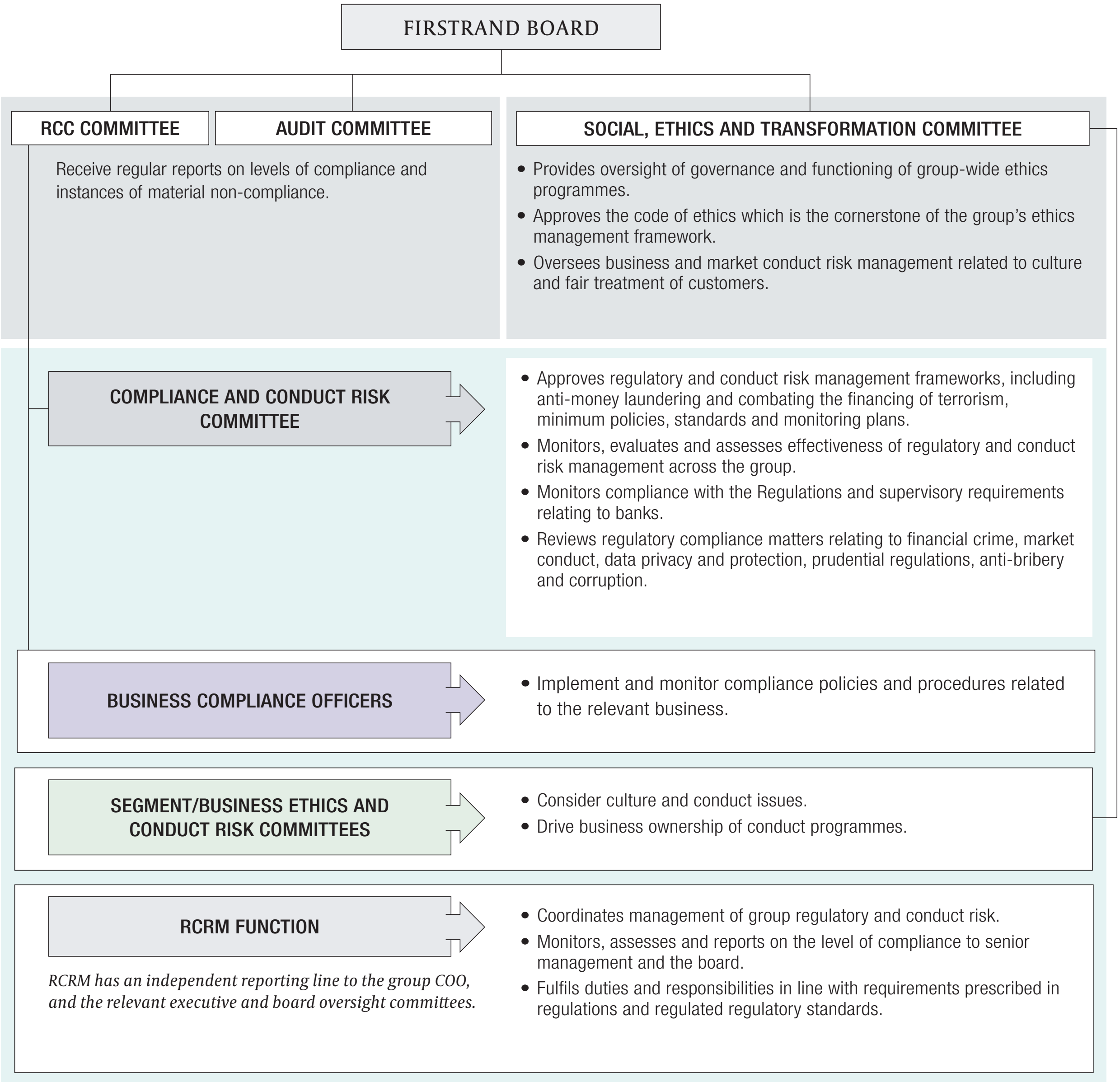
- exemption of independent intermediaries from certain requirements of the Regulations under the Long and Short-term Insurance Acts of 1998, insofar as they relate to receiving, holding or in any other manner dealing with premiums payable to a short-term and long-term insurer; and
- exemption of certain insurers from Rule 19 of the policy protection rules (long-term) and Regulation 3.9A of the Regulations under the Long-term Insurance Act, 1998, which exempts insurers that offer funeral policies from the replacement advice record requirements.

The FSCA also published the following communication in response to the COVID-19 pandemic:

- joint communication with the PA relating to supervisory actions that the PA and the FSCA implemented to alleviate the stress caused by COVID-19 on the insurance industry;
- the FSCA's expectations relating to premium collection in respect of assistance business (funeral) policies; and
- exemptions from certain requirements for short-term insurers and long-term insurers providing premium relief to their clients.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

REGULATORY AND CONDUCT RISK GOVERNANCE STRUCTURE



RCRM's mandate is to facilitate the management of compliance with statutes and regulations. To achieve this, RCRM has implemented appropriate governance arrangements, including structures, policies, processes and procedures, to identify and facilitate the management of regulatory and conduct risks. RCRM monitors the management of these risks and reports on the level of compliance to the board and regulators. These include:

- risk identification through determining which laws, regulations and supervisory requirements are applicable to the group;
- risk measurement and mitigation through the development and execution of risk management plans and related actions;
- risk monitoring and review of remedial actions through the monitoring centre of excellence;
- risk reporting; and
- providing advice on compliance and ethics-related matters.

Although independent of other risk management and governance functions, the RCRM function works closely with the group's business units, GIA, ERM, external auditors, internal and external legal advisors, human capital, industrial relations and the company secretary's office to ensure effective functioning of compliance processes.

FirstRand's board subcommittees, which oversee RCRM outcomes, periodically carry out effectiveness surveys with the objective to monitor the adequacy and effectiveness of the relevant functions. The board receives independent assurance on the effectiveness of RCRM from, among others, GIA, and receives feedback from regulatory authorities from time to time.

ASSESSMENT AND MANAGEMENT

REGULATORY DEVELOPMENTS AND RCRM FOCUS AREAS

PROTECTION OF PERSONAL INFORMATION

- In South Africa, PoPIA provides for privacy and protection of personal information held by the group in respect of employees, customers, suppliers and third parties.
- The effective date has been announced as 1 July 2020. The group continues to devote attention and resources to security safeguards, processing and purpose specification of personal information, quality of personal information held, customer notification and consent, third-party processing of personal information and complaints handling.
- Various privacy laws apply in the different jurisdictions in which the group operates, most notably GDPR.
- Ongoing monitoring of compliance to GDPR requirements.

FINANCIAL CRIME RISK MANAGEMENT

- The group's objective is to ensure compliance with the provisions of AML/CFT legislation, FICA and other requirements to enable an integrated financial crime risk management approach.
- The group's anti-bribery and corruption (ABC) programme seeks to prevent bribery and corruption in its operations and business dealings, and ensure compliance with local and global ABC regulatory requirements.
- Oversight of the ongoing management of the group's automated screening, monitoring and reporting tools, including the implementation of the goAML interface with the Financial Intelligence Centre.

MARKET CONDUCT

- The market conduct regulatory landscape continues to evolve rapidly. FirstRand continues to participate in industry and regulatory discussions regarding the Conduct of Financial Institutions Bill, consultation papers on the Retail Distribution Review, FAIS Act and Insurance Act amendments, OTC derivatives, the Financial Markets Review and other related regulatory developments.
- Key focus areas include product design, pricing, remuneration, customer education, financial products provided to low-income customers, unfair terms and conditions, unfair penalty fees, dormant accounts and debit order abuse.
- Ongoing monitoring and tracking of compliance with fit-and-proper requirements and a new debarment process.
- Ongoing focus on COVID-19-related cash flow solutions and credit life.

FINANCIAL SECTOR REGULATION ACT

- The implementation of the Twin Peaks system of financial regulation in 2018 has resulted in the creation of the PA and the FSCA to govern prudential regulation and market conduct, respectively. The SARB is now formally responsible for financial stability.
- The group continues to cooperate and collaborate with government, the regulatory authorities and relevant industry bodies in the consultation processes for the finalisation of financial sector laws, regulations and related regulatory instruments.

NATIONAL CREDIT ACT

- There is increased focus on the provision of credit, including affordability, interest, fees, record keeping and debt review.
- Driving the NCA compliance programme, including workshops and training.
- Coordinating regulatory liaison and engagement.
- Ongoing engagement with the regulator relating to topical credit risk areas.

ETHICS OFFICE

- Reinforcing a culture of integrity and ethical business practices remains key, especially in the new dispersed working environment.
- Awareness and utilisation of the whistle-blowing line as well as encouraging declarations of personal interests remains in focus.
- Application of ethics considerations in client desirability review processes.

Conduct risk management

CONDUCT RISK MANAGEMENT APPROACH

STRATEGY	CULTURE	Leading by example	Tone set at the top. Integration of conduct goals in business strategy.
OBJECTIVES AND GOALS	CONDUCT	Walking the talk	People, policies and standards.
ENABLERS	PLATFORM	Getting it done	Mature business processes and systems.
MEASUREMENT	MONITORING	Measuring what is managed	Adequate and effective conduct risk management.

In support of a sound risk culture, the group manages conduct risk programmes with appropriate levels of employee training and communication to ensure responsible conduct. The focus area programmes are outlined in the following table.

BUSINESS CONDUCT PROGRAMMES	MARKET CONDUCT PROGRAMMES
• Code of ethics.	• Retail market conduct.
• Supplier code of conduct.	• Wholesale market conduct.
• Conflict of interest management (including declarations of interest).	• Ethical trading in financial markets.
• Protected whistle-blowing.	• Credit and consumer protection practice.
• Leading light.	• Responsible competitive practices.
• Health and safety.	
• Personal account trading.	
• Client desirability reviews.	

PUBLIC POLICY AND REGULATORY AFFAIRS OFFICE

The public policy and regulatory affairs office facilitates the process through which the board maintains an effective relationship with both local and international regulatory authorities for the group's regulated subsidiaries, offshore branches and representative offices. The office also 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 senior management executives are aware of key developments relating to public policy, legislation and regulation pertinent to the group's business activities. It also supports the group's directors and executives to proactively identify and discuss emerging policy and regulatory issues which may require attention and risk mitigation from a group perspective. The office achieves its objectives by, amongst other things, establishing and maintaining relationships with government stakeholders and regulators and industry bodies in South Africa and other countries in which the group has a footprint.

This office reports directly to the head of RCRM and maintains close working relationships with the group COO, RCRM, ERM and business units where specific technical expertise resides.

Other risks

Strategic risk

Risk to current or prospective earnings arising from inappropriate business models, decisions or improper implementation of such decisions.

Any business runs the risk of choosing an inappropriate strategy or failing to execute its strategy appropriately. The group aims to minimise this risk in the normal course of business.

Strategic risk is not a readily quantifiable risk and not a risk that a company can or should hold a protective capital buffer against. 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 the strategic planning process. 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.

Business risk

INTRODUCTION AND OBJECTIVES

Business risk is defined as the risk to earnings, capital and sustainability from potential changes in the business environment as well as planned new business and expansion activities.

Business risk stems from:

- potential earnings volatility that is unrelated to other known, material and already-capitalised-for-risk types;
- potential lower than expected earnings, higher than expected operating costs, or both, from an inability to generate sufficient volumes, margin or fees to maintain a positive net operating margin in a volatile business environment; and
- the potential inability to execute on strategy according to the business plan in order for business entities to remain sustainable and well-capitalised on a standalone basis over the forecast horizon.

The group's objective is to develop and maintain a well-diversified portfolio that delivers sustainable earnings and minimises the probability of adverse, unexpected outcomes.

ASSESSMENT AND MANAGEMENT

The group has a business risk process which aims to create a group-wide shared definition and understanding, and to ensure business risk is appropriately identified, monitored, measured and embedded in the risk management activities.

The components of business risk include the following:

COMPONENT	DESCRIPTION
Volume, margin and fee changes	Related to the group's ability to generate a sufficient level of revenue to offset its operating costs.
New business and expansion activities	Risk of downside deviation from planned expansion activities, where franchise value is lower than expected due to lower revenues or higher costs than expected.
Changes in external environment	Related to external political, economic, customer, competition, market, technology, climate and regulatory changes in the environment the businesses operate in, such as, but not limited to, the impact of COVID-19.
Internal changes	Related to internal changes in strategy, organisational structure, business model, strategic processes or management.

BUSINESS RISK ASSESSMENT CYCLE

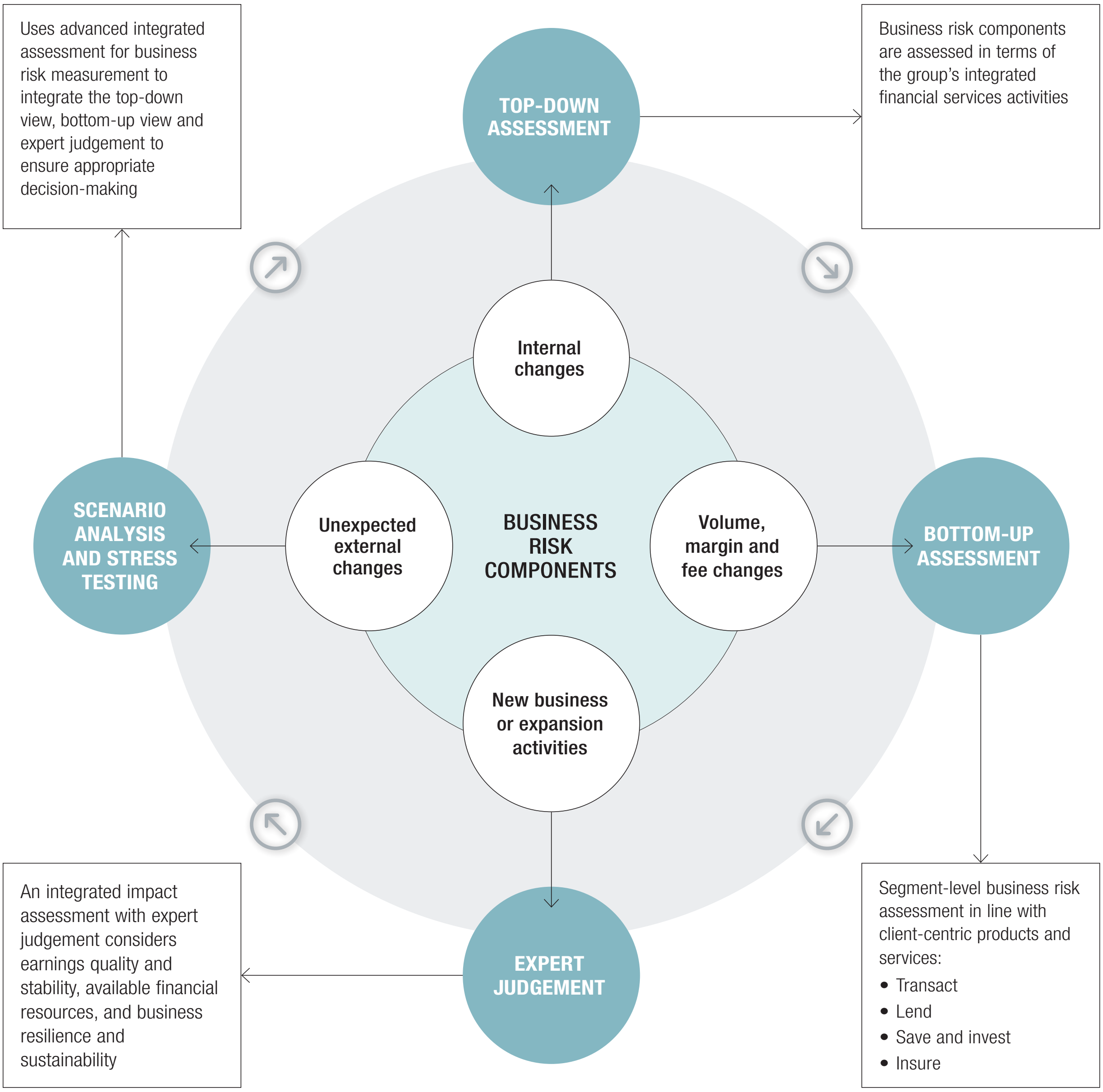
The business risk assessment and management cycle is based on a philosophy that allows integration, alignment and the avoiding/minimising of possible double counting of the components of business risk in the following processes:

- risk appetite;
- scenario analysis and stress testing; and
- economic capital.

This ensures that there are adequate and transparent processes with integrated tools for monitoring, assessment, measurement and mitigation of risk as well as capitalisation for exposure to unexpected losses. The processes and tools for monitoring business risk provide insight across different points of loss distribution to enable financial resource optimisation.

The components of business risk are considered in each step of the business risk cycle.

BUSINESS RISK IDENTIFICATION ASSESSMENT CYCLE



MEASUREMENT OF BUSINESS RISK CAPITAL

Business risk capital is quantified for economic capital purposes and is calculated for volume and margin changes, expansion activities and unexpected regulatory changes, and follows the guidelines of FirstRand's business risk framework. The business risk assessment cycle and approach are incorporated in internal and strategic planning processes supported by the group's management committees and governance structures.

Economic capital estimates for all components of business risk are reported internally to management and externally to the PA on a biannual basis with details of approach, models and methodologies included in the annual ICAAP submission.

The group has established processes to identify, manage and measure business risk exposures, which ultimately enable the quantification of business risk economic capital.

As at 30 June 2020, business risk economic capital accounted for approximately 3% of the total FirstRand economic capital base.

BUSINESS RISK MEASUREMENT AND MANAGEMENT PROCESS

1 DEFINITION AND IDENTIFICATION

The first step involves the tracking of key risk drivers and factors that could give rise to business risk. In assessing risk exposure from volume and margin changes, the group performs trend analysis of its revenue volatility, pre-tax operating margin, cost-to-income ratio and fixed-to-total cost ratio, and targets a portfolio of low earnings volatility and high-margin activities with a variable cost structure.

The risk inherent in expansion initiatives is managed through the execution of a robust business plan approval process. This includes in-depth scrutiny of business plans; due diligence (where relevant); understanding and documentation of risk drivers and risk factors; and analysis of root causes that could lead to additional unexpected capital injections; and frequent monitoring and reporting of execution variance against the plan.

Ongoing monitoring of:	Changes to the external environment (for example, COVID-19, environmental and climate-related changes, etc.); volume, margin and fee changes; and new business and expansion initiatives.

2 MEASUREMENT AND MANAGEMENT

Internal models are used to capture the increasing probability of unexpected losses from the remainder of material risks not captured, mitigated or capitalised for by other Pillar 1 and non-Pillar 1 risk types.

The risk exposure is modelled using fit-for-purpose models ranging from stochastic approaches, sensitivity assessment, scenario analysis and stress testing at different levels of the organisation. The outputs of risk measurement are used as input into the return and risk appetite framework and management decision-making.

Ongoing monitoring of:	Risk triggers, risk exposure, earnings quality, earnings resilience, cost structures and business model changes.

3 CAPITALISATION AND MANAGEMENT ACTIONS

FirstRand uses a combination of top-down and bottom-up models to quantify tail risk exposures which are capitalised for. These include risk exposure quantification models and objective qualitative overlay scenarios. In addition, factors proposed by experts for consideration are incorporated into the running of sensitivity assessments, scenario analyses and stress testing model impact assessments. The output of this process is presented to relevant committees for management action, including challenge and approval.

The group capitalises for absolute losses beyond risk appetite levels at a percentile to achieve a desired credit rating over a one-year time horizon.

Ongoing monitoring of:	Unexpected losses, earnings volatility, inflexible operating cost structures and unsustainable performance drivers.

4 CAPITAL ALLOCATION

The last step of the business risk management process involves capital allocation to business units where the risk exposure originates, where it can be controlled and managed, and action can be taken to align with group strategic objectives.

Ongoing monitoring of:	Increasing capital costs, operating costs that remain inflexible, and expected revenues continuing to be lower than expected costs on a forward-looking basis.

Reputational risk

The risk of reputational damage due to events such as compliance failures, pending litigations, underperformance or negative media coverage.

The group's business is inherently built on trust and close relationships with its clients. Its reputation is, therefore, built on the way in which it conducts business. The group protects its reputation by managing and controlling risks across its operations. Reputational risk can arise from environmental and social issues or as a consequence of financial or operational risk events. The group seeks to avoid large risk concentrations by establishing a risk profile that is balanced within and across risk types. 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, social and climate risk

Relates to environmental, social and climate risks which may impact or result from various other risk types.

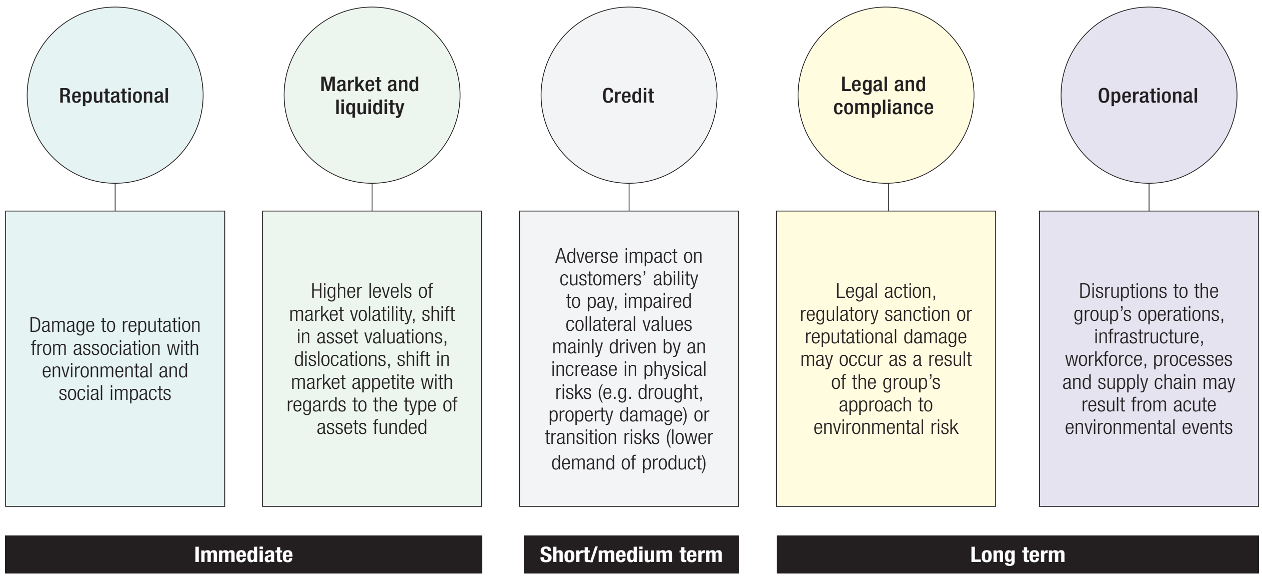
The group's environmental, social and climate risk management programme covers the following thematic focus areas:

1. WATER AND MARINE RESOURCES MANAGEMENT
2. BIODIVERSITY AND ECOSYSTEM MANAGEMENT
3. CIRCULAR ECONOMY WASTE MANAGEMENT
4. POLLUTION PREVENTION AND CONTROL
5. CLIMATE MITIGATION
6. CLIMATE ADAPTATION

FirstRand has formal governance processes for managing environmental and social risk. These include detailed lending due diligence environmental and social risk analysis programmes, programmes reviewing the impact of natural capital risks on the group's lending portfolios, and programmes for the management of direct operational environmental risk impacts. Environmental and social risk management processes are formally integrated into the group's risk governance process, which is supported by enterprise-wide social, conduct and ethics committees.

Environmental, social and climate risk is typically a cross-cutting risk issue and therefore cannot be managed in only one risk management function. The FirstRand environmental, social and climate risk management framework consists of an outline of programmes and initiatives which are designed to manage and mitigate the following areas and types of environmentally related risk.

RISK IMPACTS



Climate change is a defining issue of this century, with significant focus being placed on it at governmental, business and societal level. The group has a climate-related risk management programme which addresses governance, strategy, risk management, risk metrics, targets and risk disclosure.

As part of the development of a comprehensive group climate risk management programme, the following principles are considered:

- **Initial vision setting:** Leadership supports an enhanced focus on climate-related risk and opportunities, and supports the building and development of climate risk capacity in the group.
- **Risk-based prioritisation:** Resource allocation to develop climate risk capabilities is prioritised for areas with the highest potential impacts. Capacity has been made available across the group in technical areas, such as risk, credit, capital, Group Treasury and across all business segments.

The group's climate risk assessment considers the following objectives:

- protect the group's balance sheet and capital;
- include a climate filter in the credit risk management process;
- transparently disclose the group's climate exposure, vulnerability and opportunities; and
- actively seek green and climate financing opportunities to support clients' climate resilience.

FOUR MAIN CLIMATE RISK THEMES EXPECTED OVER THE NEXT 12 MONTHS

Environmentally sustainable loans and investments are becoming mainstream

- International finance institutions becoming more intentional in their investments and interrogation of climate risks.
- Banks and corporates becoming more intentional in terms of blue and green finance, including setting targets and the disclosure thereof.
- New product offerings to help clients manage their climate risks.

Investor focus on climate approach of the group and its carbon-intensive clients

- Enhanced climate-risk assessment of clients during the group's environmental and social risk analysis (ESRA) process.
- Increased scrutiny of climate-related risk disclosure.
- Interrogation of climate approach and disclosure at annual general meetings.

A greener restart to SA economy

- The restart of the South African economy presents an opportunity for FirstRand to assist with the transition to a more climate resilient and lower-carbon economy.

Environmental, social and governance financial resource management

- Evolving practice incorporating environmental and social considerations in the allocation of funds by international finance institutions and FirstRand.

The environmental, social and climate section of the report to society can be found on the group's website at www.firstrand.co.za/society/firstrand-contract-with-society/.

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 the *FSB Principles for Sound Compensation Practices*. In accordance with the requirements of Regulation 43 of the Regulations and the Pillar 3 standards, disclosure of the group's compensation policies, practices and performance are included in the remuneration committee report on pages 103 to 178 of the annual integrated report, which is published on FirstRand's website at www.firstrand.co.za/investors/annual-reporting/.

Index of Pillar 3 disclosure templates and Regulation 43

The following table provides a list of the Pillar 3 standard and Regulation 43 disclosure requirements and the respective page numbers where the information is provided in this disclosure.

Definitions

Additional Tier 1 (AT1) capital	NCNR preference share capital and AT1 capital instruments, as well as qualifying capital instruments issued out of fully consolidated subsidiaries to third parties less specified regulatory deductions.
Business performance and risk management framework (BPRMF)	Highlights the key principles and guidelines applied with respect to the effective management of risk across FirstRand Limited (FirstRand or the group) in the execution of business strategy.
Common Equity Tier 1 (CET1) capital	Share capital and premium, qualifying reserves and third-party capital, less specified regulatory deductions.
Credit loss ratio	Total impairment charge per the income statement expressed as a percentage of average advances (average between the opening and closing balance for the year).
Exposure at default (EAD)	Gross exposure of a facility upon default of a counterparty.
FRBSA	FRB excluding foreign branches.
Loss given default (LGD)	Economic loss that will be suffered on an exposure following default of the counterparty, expressed as a percentage of the amount outstanding at the time of default.
Net income after cost of capital (NIACC)	Normalised earnings less the cost of equity multiplied by average ordinary shareholders' equity and reserves.
Probability of default (PD)	Probability that a counterparty will default within the next year (considering the ability and willingness of the counterparty to repay).
Return on equity (ROE)	Normalised earnings divided by average normalised ordinary shareholders' equity.
Risk weighted assets (RWA)	Prescribed risk weightings relative to the credit risk of counterparties, operational risk, market risk, equity investment risk and other risk multiplied by on- and off-balance sheet assets.
Tier 1 ratio	Tier 1 capital divided by RWA.
Tier 1 capital	CET1 capital plus AT1 capital.
Tier 2 capital	Qualifying subordinated debt instruments plus qualifying capital instruments issued out of fully consolidated subsidiaries to third parties plus qualifying provisions less specified regulatory deductions.
Total qualifying capital and reserves	Tier 1 capital plus Tier 2 capital.

Abbreviations

AIRB	Advanced internal ratings-based approach
ALCCO	Asset, liability and capital committee
ALM	Asset and liability management
AMA	Advanced measurement approach
AML/CFT	Anti-money laundering and combating the financing of terrorism
AT1	Additional Tier 1
AVAs	Additional valuation adjustments
BASA	Banking Association of South Africa
BAU	Business as usual
BCBS	Basel Committee on Banking Supervision
BEPS	Base erosion and profit shifting
BIA	Basic indicator approach
BPRMF	Business performance and risk management framework
CAR	Capital adequacy ratio
CCF	Credit conversion factors
CCP	Central clearing counterparties
CCyB	Countercyclical buffer
CEM	Current exposure method
CET1	Common Equity Tier 1
CLF	Committed liquidity facility
CMA	Common Monetary Area
CRM	Credit risk mitigation
CRMF	Credit risk management framework
CRO	Chief risk officer
CRS	Common Reporting Standards
CSA	Credit support annexes
CVA	Credit value adjustment
D-SIB	Domestic systemically important bank
EAD	Exposure at default
EC	Economic capital
ECAI	External credit assessment institution
ECL	Expected credit loss
EEPE	Effective expected positive exposure
EL	Expected loss
EMTN	European medium-term note
ERM	Enterprise Risk Management
ESRA	Environmental and social risk analysis
ETL	Expected tail loss
EVE	Economic value of equity
FAIS Act	Financial Advisory and Intermediary Services Act
FATCA	Foreign Account Tax Compliance Act
FIC Act	Financial Intelligence Centre Act
FRGT	FirstRand Group Tax
FRM	Financial resource management
FSB	Financial Stability Board
FSCA	Financial Sector Conduct Authority
FSLAB	Financial Sector Laws Amendment Bill
GDPR	General Data Protection Regulations
GIA	Group Internal Audit
HQLA	High-quality liquid asset
IAA	Internal assessment approach
IBOR	Interbank Offered Rate
ICAAP	Internal capital adequacy assessment process
IFRS	International Financial Reporting Standards

IMA	Internal models approach
IRB	Internal ratings based
IRRBB	Interest rate risk in the banking book
ISDA	International Swaps and Derivatives Association
ISMA	International Securities Market Association
LCR	Liquidity coverage ratio
LECL	Lifetime expected credit losses
LGD	Loss given default
LIBOR	London Interbank Offered Rate
LTV	Loan to value
MIRC	Market and investment risk committee
MRVC	Model risk and validation committee
MVNO	Mobile virtual network operator
NAV	Net asset value
NCA	National Credit Act
NCD	Negotiable certificate of deposit
NCNR	Non-cumulative non-redeemable
NIACC	Net income after cost of capital
NII	Net interest income
NPLs	Non-performing loans
NSFR	Net stable funding ratio
OECD	Organisation for Economic Cooperation and Development
ORMF	Operational risk management framework
ORSA	Own risk and solvency assessment
OTC	Over-the-counter
PA	Prudential Authority
PD	Probability of default
PoPIA	Protection of Personal Information Act
PRA	Prudential Regulation Authority
PVA	Prudent valuation adjustments
RA	Resolution Authority
RBA	Ratings-based approach
RCC committee	Risk, capital management and compliance committee
RCRM	Regulatory and Conduct Risk Management
ROE	Return on equity
RWA	Risk weighted assets
S&P	S&P Global Ratings
SA	South Africa/South African
SA-CCR	The standardised approach to counterparty credit risk
SAM	Solvency assessment and management
SARB	South African Reserve Bank
SARS	South African Revenue Service
SFA	Supervisory formula approach
SMEs	Small and medium enterprises
SOFR	Secured overnight financing rate
SONIA	Sterling overnight index average
SPV	Special purpose vehicle
SSFA	Simplified supervisory formula approach
STI	Short-Term Insurance
sVaR	Stressed VaR
TSA	The standardised approach for operational risk
VAF	Vehicle asset finance
VAPS	Value-added products and services
VaR	Value-at-Risk

FirstRand

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