for the quarter ended 30 September 2016

Basel Pillar 3 disclosure

FIRSTRAND

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

INTRODUCTION

This quarterly Pillar 3 disclosure covers the operations of FirstRand Limited (FirstRand or the group) and complies with the Basel Committee on Banking Supervision's (BCBS) revised Pillar 3 disclosure requirements and the South African Reserve Bank (SARB) directive 11 of 2015.

OVERVIEW OF RISK WEIGHTED ASSETS

FirstRand applies the Basel framework to determine risk weighted assets (RWA). The framework consists of three pillars. This disclosure focuses on regulatory measures defined in Pillar 1, which requires banks to adopt specified approaches for measuring credit, market and operational risks and their associated resulting RWA and capital requirements. Pillar 2 covers the consideration of whether additional capital is required over and above Pillar 1 risk calculations. To promote transparency and effective risk management, Pillar 3 requires disclosure of exposures and associated RWA for each risk type and approach to calculating Pillar 1 capital requirements.

Risk measurement approaches

The following approaches are adopted by the group and its wholly-owned subsidiary, FirstRand Bank Limited (FRB) for the calculation of RWA.

Risk type	FRB's domestic operations	SARB approval date	Remaining FirstRand subsidiaries and FRB's foreign operations
Credit risk	Advanced internal ratings-based (AIRB) approach and the standardised approach for certain portfolios	January 2008	Standardised approach
Counterparty credit risk	Standardised method	May 2012	Current exposure method
Market risk in the trading book	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 operations:** ➲ The standardised approach (TSA) **FRIHL entities:** ➲ Basic indicator approach, TSA, AMA
Other assets	Standardised approach	January 2008	Standardised approach

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

** *All entities on the AMA and TSA for operational risk were included in the approval for use of AMA and TSA from January 2009; some entities were moved to FirstRand Investment Holdings (Pty) Ltd (FRIHL) with a subsequent legal entity restructure. All other entities in FRIHL remain on the BIA approach.*

The following table provides the RWA per risk type and associated minimum capital requirements.

OV1: OVERVIEW OF RWA

	RWA		Minimum capital requirements†
R million	September 2016	June 2016	September 2016
1. **Credit risk (excluding counterparty credit risk)***	**460 398**	462 235	**47 766**
2. – Standardised approach	**106 769**	106 563	**11 077**
3. – AIRB	**353 629**	355 672	**36 689**
4. **Counterparty credit risk*,****	**22 753**	21 378	**2 361**
5. – Standardised approach	**22 753**	21 378	**2 361**
6. – Internal model method	**–**	–	**–**
12. **Securitisation exposures in banking book**	**16 951**	17 496	**1 759**
13. – IRB ratings-based approach	**17**	57	**2**
14. – IRB supervisory formula approach	**2 830**	2 333	**294**
15. – Standardised approach/simplified supervisory formula approach	**14 104**	15 106	**1 463**
Total credit and counterparty credit risk	**500 102**	501 109	**51 886**
Other assets	**29 497**	29 402	**3 060**
11. **Settlement risk**	**–**	–	**–**
7. **Equity positions in banking book under market-based approach#**	**27 598**	27 993	**2 863**
16. **Market risk**	**19 897**	17 402	**2 064**
17. – Standardised approach	**4 462**	4 269	**463**
18. – Internal model approach	**15 435**	13 133	**1 601**
19. **Operational risk**	**110 143**	110 143	**11 427**
20. – Basic indicator approach	**8 754**	8 754	**908**
21. – Standardised approach	**19 611**	19 611	**2 035**
22. – Advanced measurement approach	**81 778**	81 778	**8 484**
23. **Amounts below the thresholds for deduction (subject to 250% risk weight)**	**16 263**	12 683	**1 688**
24. **Floor adjustment**	**–**	–	**–**
25. **Total**	**703 500**	698 732	**72 988**

* *June 2016 restated due to refinement of calculation methodology.*

** *The current exposure method and standardised method is applied to counterparty credit risk. The BCBS standard on the standardised approach for measuring counterparty credit risk exposures has not been implemented yet.*

The simple risk weighted method is applied to equity investment risk. The BCBS standard on equity investment in funds has not been implemented yet, rows 8 – 10 have, therefore, been excluded from this table.

† *Capital requirement calculated at 10.375% of RWA (excluding the bank specific individual capital requirement and add-on for domestic systemically important banks).*

The following table analyses significant RWA movements for the quarter.

RWA ANALYSIS

Risk type	Movement	Key drivers
Credit risk	↓	Volumes and exchange rate movements.
Counterparty credit risk	↑	Volumes and mark-to-market movements.
Market risk	↑	Volumes and mark-to-market movements.

CREDIT RWA

The calculation of credit RWA for FRB's domestic operations is based on internally developed quantitative models in line with AIRB. The three credit risk measures, namely probability of default (PD), exposure at default (EAD), and loss given default (LGD) are used along with prescribed asset class correlations 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.

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 amounts
1. **RWA as at 30 June 2016**	**355 672**
2. Asset size	**(1 039)**
3. Asset quality	**(536)**
4. Model updates	**–**
5. Methodology and policy	**(468)**
6. Acquisitions and disposals	**–**
7. Foreign exchange movements	**–**
8. Other	**–**
9. **RWA as at 30 September 2016**	**353 629**

Credit RWA remained broadly stable at R354 billion at 30 September 2016. Key movements in credit RWA for the quarter ending September 2016 included:

- A decrease due to asset size related to a portion of the WesBank book (joint venture and motor regions) being securitised, daily squaring off with banks, and reduction in exposure to corporate entities. These movements were offset by an increase in exposures to securities firms and growth in the retail book largely due to HomeLoans and Card exposures.
- RWA decrease in the asset quality line due to an increase in specific impairment provision on non-performing loans.
- A change in the exposure threshold used to classify exposures between SME retail and SME corporate stemming from an update to the Banks Act Regulations in July 2016. Due to the update, certain exposures from the SME corporate asset class migrated to the SME retail asset class. Net RWA decreased due to the change in the model applied for the exposure.

MARKET RWA

The internal model approach (IMA) for general market risk was approved by the SARB for the group's domestic trading units. Regulatory capital for domestic trading units is based on the internal Value-at-Risk (VaR) model supplemented with a stressed VaR (sVaR). VaR is calculated at the 99%, 10-day actual holding period level using data from the past 260 trading days and sVaR is calculated using a pre-defined 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 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 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.

The following flow statement explains the variations in the market RWA determined under IMA.

*MR2: RWA FLOW STATEMENT OF MARKET RISK EXPOSURES UNDER IMA**

R million	VaR	Stressed VaR	Total RWA
1. **RWA as at 30 June 2016**	**5 633**	**7 500**	**13 133**
2. Movement in risk levels	**3 715**	**(1 413)**	**2 302**
3. Model updates/changes	**-**	**-**	**-**
4. Methodology and policy	**-**	**-**	**-**
5. Acquisitions and disposals	**-**	**-**	**-**
6. Foreign exchange movements	**-**	**-**	**-**
7. Other	**-**	**-**	**-**
8. **RWA as at 30 September 2016**	**9 348**	**6 087**	**15 435**

** The group does not use the incremental risk charge and comprehensive risk measure approaches.*

The movement in market RWA for the quarter ended 30 September 2016 is due to an increase in market risk positions.